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Cash CDO Of Leveraged Loans Presale Report

Harbourmaster CLO 11 B.V.

€485.15 Million Fixed- and Floating-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Interest	Legal final maturity
X	AAA	6.00	N/A	Fixed	2024
A1	AAA	270.00	46.0	Three-month EURIBOR plus a margin	2024
A2	AAA	80.00	30.0	Three-month EURIBOR plus a margin	2024
A3	AA	35.00	23.0	Three-month EURIBOR plus a margin	2024
A4	A+	50.00	13.0	Three-month EURIBOR plus a margin	2024
B	BBB-	24.00	8.2	Three-month EURIBOR plus a margin	2024
C	NR	20.15	N/A	Excess interest	2024

*The rating on each class of securities is preliminary as of May 9, 2008, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and principal on the notes.

NR—Not rated.

N/A—Not applicable.

EURIBOR—European interbank offered rate.

Transaction Participants	
CDO manager	Harbourmaster Capital Ltd.
Arranger	Dresdner Bank AG, London branch
Trustee	BNY Corporate Trustee Services Ltd.
Collateral administrator	Bank of New York, NY, London branch
Custodian	Bank of New York, NY, London branch
Liquidity facility provider	To be determined
Interest swap counterparty	To be determined
Currency swap counterparty	To be determined
Bank account provider	Bank of New York, NY, London branch
Paying agent	Bank of New York, NY, London branch

Supporting Ratings	
Institution/role	Ratings
The London branch of Bank of New York, NY as bank account provider	AA-/Positive/A-1+
Liquidity facility provider	An entity rated at least 'A-1'
Currency hedging provider	An entity rated at least 'A-1'

Transaction Key Features	
Expected closing date	June 2008
CDO asset type	Loans
Structure type	Cash
Portfolio composition	Portfolio of senior secured and unsecured loans
Purpose of transaction	Arbitrage
Rating approach	Statistical
Portfolio management type	Managed
Level of management	Fully managed
Liability structure	Fully funded
Collateral description	Leveraged loans
Reinvestment period (years)	4
Ramp-up period (months)	3
End of noncall period	September 2012
Portfolio weighted-average rating	B+
Weighted-average maturity of assets (years)	6.7
Default measure (DM) (%)	4.25
Variability measure (VM) (%)	2.80
Correlation measure (CM)	2.10
Minimum coupon (%)	2.30
Minimum weighted-average recovery rate (%)	To be determined
Size of trading bucket (annual %)	20

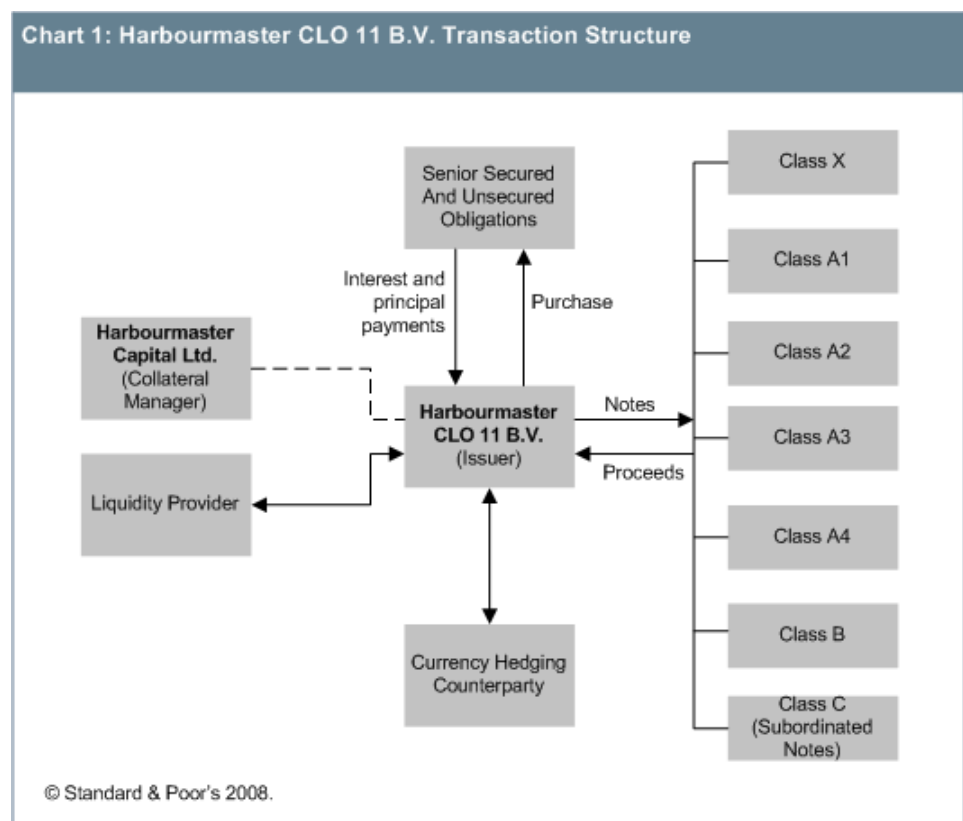
Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the €465 million fixed- and floating-rate notes to be issued by Harbourmaster CLO 11 B.V. Harbourmaster CLO 11 will also issue €20.15 million of unrated notes.

The issuer is a Dutch-domiciled SPE that is expected to comply with Standard & Poor's bankruptcy-remoteness criteria at closing. Its activities will be limited to acquiring the portfolio, issuing the notes, and carrying out certain related activities.

At closing, Harbourmaster CLO 11 will issue the notes, the proceeds of which, net of any upfront costs and expenses, will be used to acquire a portfolio of senior secured and senior unsecured leveraged loans with a par value of €500 million.

The structure of the transaction is shown in chart 1.



The portfolio will be managed by Harbourmaster Capital Ltd. (HCL). This will be the 15th transaction it has originated and the 13th currently under its management. The transaction is expected to be ramped at closing with the target balance being acquired over three months.

The manager is expected to exercise its discretion in acquiring and selling assets over the four-year reinvestment period subject to trades being limited to 20% of the portfolio balance in any calendar year. At the end of the reinvestment period, the manager will be allowed to sell credit risk assets, and appreciated and defaulted assets, subject to the proceeds being used to sequentially pay down the notes.

The manager can reinvest sale proceeds, scheduled proceeds, and unscheduled proceeds during the reinvestment period subject to compliance with the reinvestment criteria. These include maintaining and improving the coverage tests and the portfolio profile tests. HCL can reinvest unscheduled proceeds for two years after the end of the reinvestment period, subject to the portfolio profile and coverage tests being in compliance before and after the reinvestment, and the maturity of the new asset being no longer than that of the asset it replaces.

The notes will mature on the maturity date although their expected life is shorter. The issuer may redeem the notes early in certain circumstances (see "*Redemption Of The Notes*"), at the discretion of the trustee, or if a majority of the controlling class of noteholders requests it following an event of default.

Notable Features

In this transaction, the portfolio manager will invest in senior secured and senior unsecured loans. Subordinated and mezzanine loans will not be eligible for inclusion in the portfolio. Furthermore, any currency risk arising from noneuro assets will be perfectly hedged.

This transaction is the 15th in the Harbourmaster program.

Strengths, Concerns, And Mitigating Factors

Strengths

- HCL has experience in the senior secured loan market. It has originated over €14 billion senior secured and unsecured loans since its inception in 2000. It has €7.5 billion of assets under management.
- At least 95% of the portfolio will comprise senior secured loans. This asset class has shown relative rating stability over the past couple of years.
- The manager will reinvest any unused proceeds to acquire further assets even once the target par amount has been reached.

Concerns

- The portfolio criteria do not restrict the manager from investing in assets that pay interest less frequently than the frequency at which interest is paid on the liabilities. This could lead to a liquidity stress on the transaction if assets in the portfolio are skewed so as to pay in one period.
- Up to 20% of the portfolio can comprise non-euro-denominated assets, creating a potential currency mismatch with the euro-denominated liabilities.
- After the reinvestment period, HCL will be able to reinvest using unscheduled principal proceeds and proceeds from the sale of credit-improved and credit-impaired obligations and defaulted securities.

Mitigating factors

- A liquidity facility has been established to smooth accrued but unpaid interest and the issuer will set up an interest-smoothing account to mitigate any interest rate period mismatch.
- As a condition to purchasing non-euro-denominated obligations, the manager must enter into an asset-specific swap with a counterparty rated 'A-1', to protect the investors against foreign-exchange (FX) risk.
- The manager has experience in the asset class and has shown a consistently good record in sourcing assets in the primary market.

Collateral Pool Characteristics

Charts 2 and 3 show the portfolio the manager has provided to Standard & Poor's and on which it has based its analysis. The closing portfolio, which is currently 90% ramped up, may differ from the theoretical portfolio. As of the effective date it is likely to differ from the characteristics shown in charts 2 and 3.

Chart 2: Distribution By Asset Type

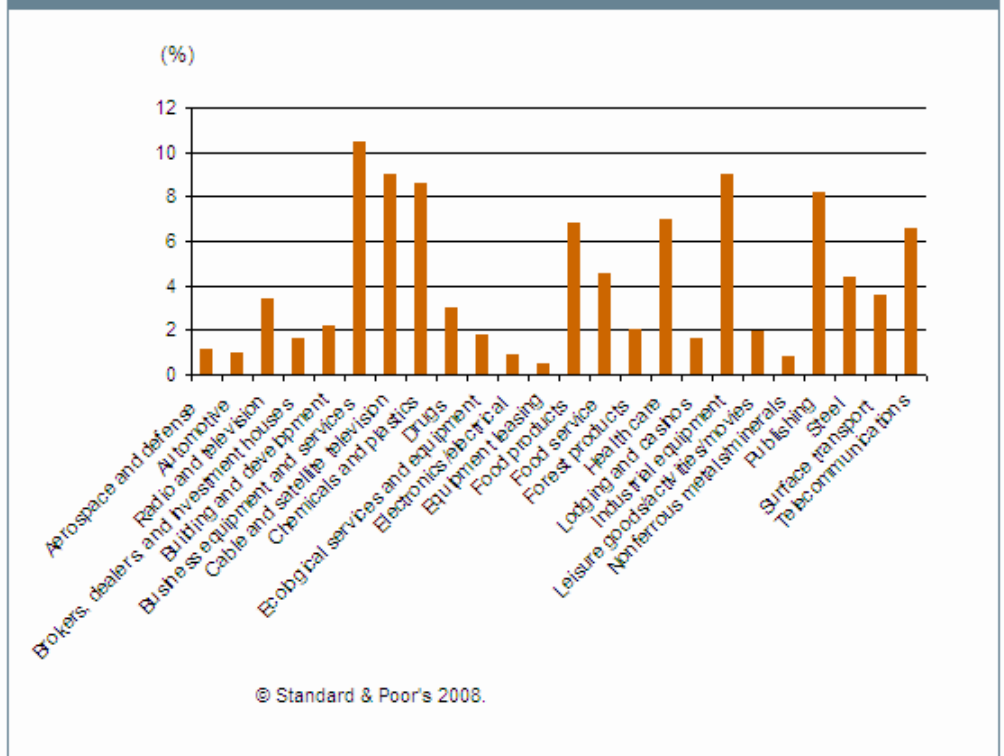
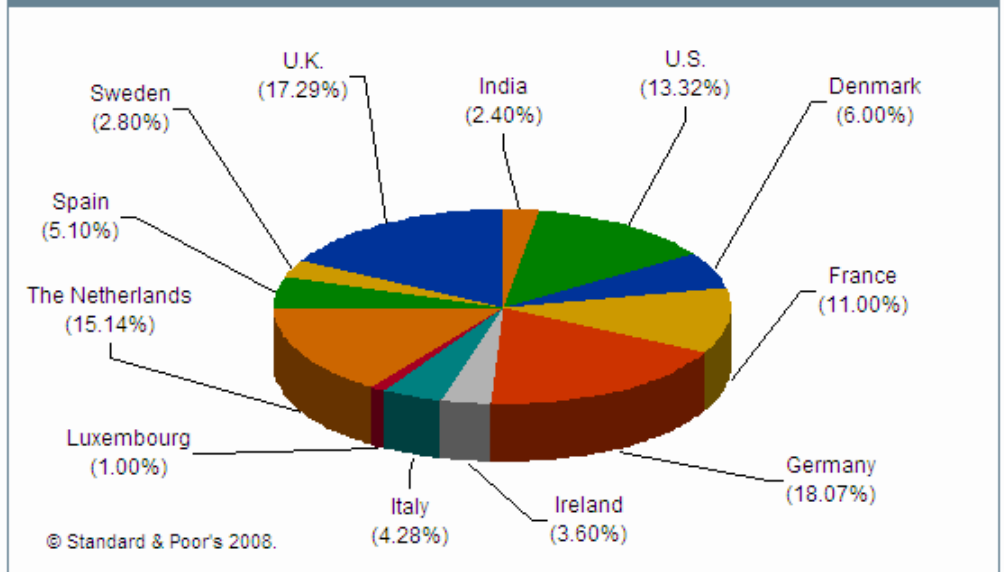


Chart 3: Geographic Distribution



Overcollateralization And Interest Coverage

Table 1 shows the overcollateralization and interest-coverage tests for this transaction.

Table 1: Overcollateralization And Interest Coverage				
Class	Overcollateralization required at effective date (%)	Expected overcollateralization at closing (%)	Interest coverage required at effective date (%)	Expected interest coverage at closing (%)
A1/A2	130	142.86	105	140.07
A3	122	129.87	N/A	N/A
A4	109	114.94	N/A	N/A
B	105	108.93	N/A	N/A
Interest diversion trigger	106.25	108.93	N/A	N/A
<i>N/A—Not applicable.</i>				

Hedging

At closing, the issuer may enter into an interest cap agreement. Under the terms of this cap agreement, if the three-month EURIBOR rate increases above a pre-specified level during the first four years, then the interest rate cap provider must make a floating-rate payment to the issuer equal to the difference between the pre-agreed level and the three-month EURIBOR rate, multiplied by the current notional amount of the agreement and the elapsed period. The interest rate floor provider must have a minimum short-term rating of 'A-1' and long-term rating of 'A'.

The portfolio may be invested in noneuro assets and the issuer is expected to enter into a currency hedging agreement for these assets with a counterparty yet to be determined. Any currency hedging provider must have a short-term rating of 'A-1'.

Liquidity Facility Agreement

The liquidity facility provider will provide the issuer with a 364-day revolving liquidity facility. This facility will enable the issuer on a payment date to draw an amount equal to the aggregate of all accrued and unpaid interest owing to the issuer from the assets that has not been received on this payment date. The liquidity facility will be up to €9.3 million.

The issuer will repay all interest and principal for any advances drawn under the liquidity facility on the payment date immediately following the drawdown date and in accordance with the priority of payments.

Cash Flow Assumptions/Payment Of Interest, Principal, And Contingent Payments

Standard & Poor's CDO Evaluator system is an integral part of the methodology for the rating and surveillance of CDO transactions. Through the Monte Carlo methodology, CDO Evaluator evaluates the credit quality of a portfolio, taking into consideration the credit rating, size, and maturity of each asset and the correlation between each pair of assets. The credit quality of the portfolio is presented in terms of a probability distribution for potential default rates. From this distribution, CDO Evaluator derives a set of scenario default rates that identify, for each credit rating, the maximum level of portfolio defaults a CDO tranche should be able to withstand without defaulting.

Transaction Management

Collateral manager

HCL, the collateral manager, is a limited liability company incorporated in Jersey. Harbourmaster Capital Management Ltd. (HCM), a limited liability company incorporated in Ireland and established in November 2001, will advise HCL. HCM was previously the collateral manager of Euro Capital Structures Ltd., which was established

in July 1999. HCM currently employs 35 professional staff to focus on the Harbourmaster program.

The collateral manager focuses on leveraged loans and currently has €7.5 billion of assets under management.

Sales and reinvestment of collateral

The collateral manager will be able to sell any security if:

- It is a defaulted obligation;
- It is considered appreciated collateral; or
- It is considered credit-impaired.

The collateral manager will also be permitted to sell any securities at any time, provided that those sales do not exceed 20% of the portfolio balance in any calendar year.

The manager may reinvest all sale proceeds during the reinvestment period subject to compliance with a set of criteria. After the reinvestment period, however, all sale proceeds will be used to redeem the notes sequentially and in accordance with the priority of payments.

HCL may reinvest unscheduled principal proceeds for two years after the reinvestment period, provided the portfolio profile and coverage tests are in, and remain in, compliance and the new asset has a maturity no longer than the asset it replaces.

The reinvestment criteria require the manager to reinvest assets as long as these assets comply with the eligibility criteria. The portfolio profile tests include Standard & Poor's CDO Trading Model test. This test must be met, or, if is not met before reinvestment, it should be maintained or improved. Similarly, the coverage tests must also be maintained or improved following any reinvestment. To reinvest scheduled proceeds, the coverage tests must be in compliance.

Redemption Of The Notes

The issuer will redeem the notes on their maturity date, but is scheduled to redeem them before that.

Optional redemption

The issuer may redeem the notes may early at the option of the subordinated noteholders after the end of the noncall period or earlier if certain tax events have occurred. This optional redemption may occur only if the proceeds from liquidating the collateral are sufficient to redeem the rated notes at par, plus accrued interest

Early redemption

The issuer may also redeem the notes may early through interest and principal proceeds if the coverage tests are breached, and through unused proceeds if the portfolio tests are not met on the effective date. The manager can hold cash balances for a limited time only and must use any proceeds that have not been reinvested over a pre-defined period to pay down the notes. It is expected that the documentation will provide that all proceeds will be reinvested by the end of the second payment date following receipt of those funds. Finally, the issuer will redeem the notes from any scheduled, unscheduled, and sale proceeds received after the end of the reinvestment period. However, the manager can reinvest unscheduled proceeds for two years after the end of the reinvestment period, subject to compliance with the tests.

Mandatory redemption

The notes may be accelerated at the trustee's discretion or, if so required, by a majority vote by the controlling class following an event of default. Events of default include, but are not limited to, failure to pay interest on the most senior class outstanding or failure to pay principal on any class of notes.

Key Performance Indicators

Key among portfolio statistics are the annualized weighted-average portfolio default rate (the default measure), the standard deviation of the portfolio default rate, and the correlation measure. The default measure encompasses all portfolio assets, including defaulted securities and cash, and it reflects the actual maturity of the assets.

The standard deviation of portfolio default rate describes the degree of variability of the portfolio default rate from its expected value. It incorporates the effects of relative concentration of the assets and the correlation between assets. It also reflects the effective diversity of the portfolio, which is directly applicable in estimating the probability of different default rates.

The correlation measure describes the correlation between assets. From this measure, one may derive the contribution of correlation to the standard deviation of portfolio default rates. As is often the case, a relatively low correlation measure can lead to a significant increase in the standard deviation of the portfolio default rate.

As outlined in "*Cash flow analysis*", Standard & Poor's models the transaction on the basis of the minimum covenanted spread and recovery rates. It also closely monitors the minimum weighted-average spread and minimum weighted-average recovery rate as performance indicators.

Asset-Specific Recovery Rates And Recovery Ratings

In 2006, Standard & Poor's introduced into its CDO analysis the option of using recovery rates derived from its corporate recovery ratings for all assets assigned those ratings. Standard & Poor's refined the approach in 2007 by adding a more granular recovery rating scale.

The collateral manager has chosen to use the recovery rating approach in Harbourmaster CLO 11 and is currently one of only two European managers to use this approach to date. For assets that do not have a recovery rating, Standard & Poor's uses recovery rates from its standard tiered recovery rate tables. Based on the expected portfolio at closing, it initially expects the collateral manager to maintain a minimum Standard & Poor's weighted average recovery rate for each class of rated notes: 66% for the class A1 and A2 notes, 69% for the class A3 notes, 73% for the class A4 notes, and 76% for the class B notes. During the reinvestment period, the minimum Standard & Poor's weighted average recovery rates will be subject to Standard & Poor's test matrix.

Criteria Referenced

- "*Recovery Ratings Are Extended to European Unsecured Speculative-Grade Corporate Debt*" (published on March 19, 2008).
- "*Updated Global Recovery Rates For Use in Cash Flow CDOs*" (published on July 23, 2007).
- "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" (published on May 8, 2007).
- "*CDO Spotlight: Update To General Cash Flow Analytics Criteria For CDO Securitizations*" (published on Oct. 17, 2006).
- "*CDO Spotlight: Using Standard & Poor's Recovery Ratings In Cash Flow CDOs*" (published on Oct. 17, 2006).
- "*Issues in Rating Combination Notes in Cash Flow CDOs*" (published March 4, 2004).
- "*CDO Spotlight: General Cash Flow Analytics for CDO Securitizations*" (published on Aug. 25, 2004).
- "*Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount*" (published on Feb. 26, 2004).
- "*Standard & Poor's Global Interest Rate and Currency Swap Counterparty Rating Criteria Expanded*" (published on Dec. 17, 2003).
- "*Global Cash Flow and Synthetic Criteria*" (published on March 21, 2002).

- "*Global CBO/CLO Criteria*" (published on June 1, 1999).
- "*Criteria Regarding Legal Opinions in the Context of CDOs*" (published on May 12, 2003).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).

Related Articles

- "*European CDO Outlook 2008—Difficult Times Lie Ahead*" (published on Jan. 31, 2008).
- "*Transition Study: European Structured Finance Ratings Stable In 2007, But Pockets Of Weakness Emerged*" (published on Jan. 25, 2008).
- "*European Structured Finance Performance Outlook 2008—Economic Weakening And Credit Squeeze Could Hurt Asset Performance*" (published on Jan. 25, 2008).
- "*Arbitrage And Balance-Sheet Structures Define German SME CLO Landscape*" (published on Dec. 19, 2007).
- "*The Fundamentals Of Structured Finance Ratings*" (published on Aug. 23, 2007).
- "*Structured Finance Glossary Of Securitization Terms 2007*" (published on June 11, 2007).
- "*Global ROC Report*" (published monthly).
- "*European CDOs Of Leveraged Loans Review*" (published quarterly).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. These reports are also available on Standard & Poor's CDO Interface at www.cdointerface.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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