

Credit Products/Europe
New Issue

Harbourmaster Pro-Rata
CLO I B.V.

Ratings

Class (EURm)	Rating	CE ¹ (%)	Rating Description
Senior CDS	530 NR	37.6	n.a.
A1	160 AAA	18.8	Ultimate P & Timely I ²
A2	35 AA	14.7	Ultimate P & I
A3	32 A-	10.9	Ultimate P & I
B1	28 BBB	7.6	Ultimate P & I
B2	26 BB	4.6	Ultimate P & I
C	60 NR	n.a.	n.a.

¹ Credit enhancement in the form of subordination only

² Please note that while the Senior CDS remains outstanding, a deferral of interest under the class A1 notes would not lead to enforcement. Notwithstanding, Fitch's rating assigned to the class A1 notes addresses timely payment of interest.

NR: Not Rated

Combo Notes

Class	Components (EURm)	Par Rating	Rating Description
S1	B1 C	2.5 0.8	BBB Ultimate P

Analysts

Structured Finance

Galen Moloney
+44 20 7417 3519
galen.moloney@fitchratings.com

Andreas Wilgen
+44 20 7417 6332
andreas.wilgen@fitchratings.com

Asset Manager Ratings

Manuel Arrive, CFA
+44 20 7862 4099
manuel.arriven@fitchratings.com

European Leveraged Finance

Pablo Mazzini
+44 20 7417 3540
pablo.mazzini@fitchratings.com

Performance Analytics

Andrew Higham
+44 20 7417 6326
andrew.higham@fitchratings.com

■ Summary

This transaction is a securitisation of senior secured and unsecured loans, including revolving and delayed draw facilities. Fitch Ratings has assigned final ratings to the notes issued by Harbourmaster Pro-Rata CLO I B.V. ("HM Pro-Rata CLO 1" or "the issuer") as indicated at left.

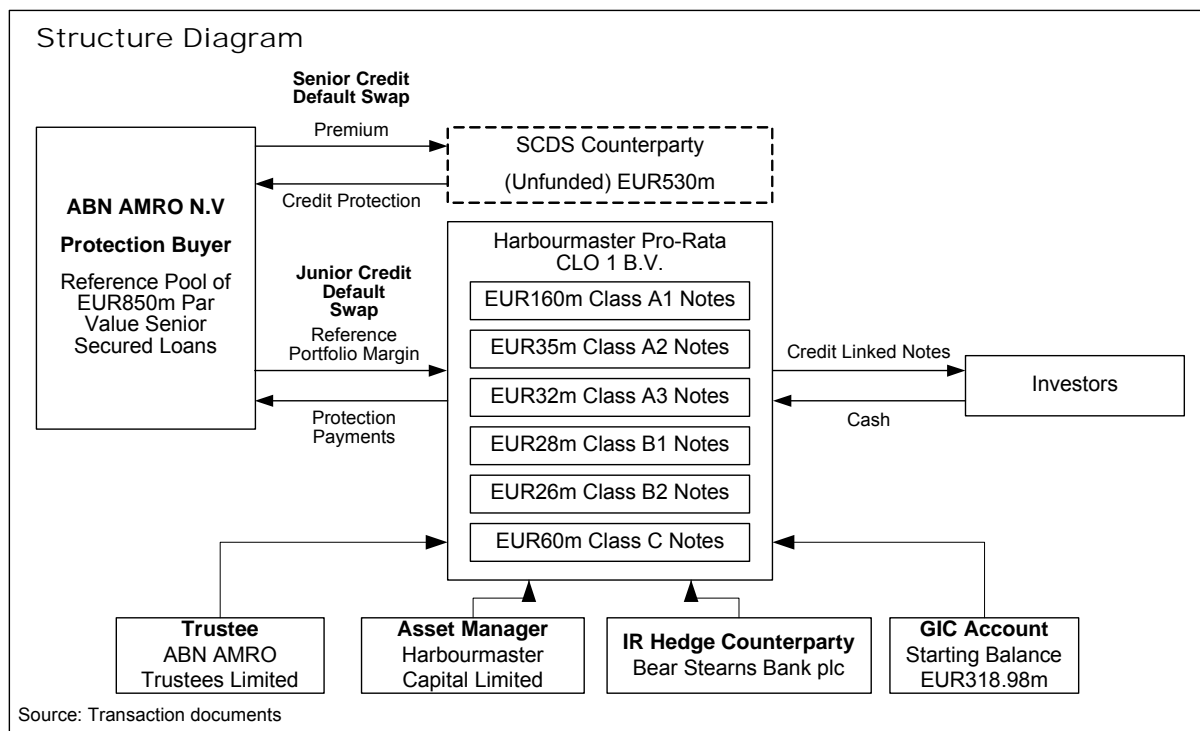
The senior credit default swap ("SCDS") and all the classes of credit-linked notes are backed by a credit default swap ("CDS") between the issuer and ABN AMRO Bank N.V. ("ABN AMRO", rated 'AA-(AA minus)/F1+'), which is the swap counterparty. Through this, the issuer receives a premium from the swap counterparty in exchange for loss protection on a reference portfolio of senior secured and unsecured loans, which ABN AMRO has granted in across a variety of jurisdictions.

The net proceeds from the sale of the notes are deposited in a guaranteed investment contract account ("GIC") with a starting balance of EUR318.98m, which serves as collateral for the notes. As of the closing date, the issuer has referenced or committed to reference 70.3% of the target portfolio, following which the portfolio will build to its ceiling amount over a maximum of 270 days.

The reference portfolio will be actively managed by Harbourmaster Capital Limited ("Harbourmaster") over the life of the transaction. However, amortising proceeds will only be actively reinvested up to the payment date falling in December 2012 ("the reinvestment period"). Unscheduled principal proceeds can be reinvested up to the payment date falling in March 2015.

The ratings are based on the available credit enhancement, which will be provided through subordination, excess spread and structural protection covenants, the credit quality of the swap counterparty and the credit quality of the GIC counterparty. The rating on the class A1 notes addresses the ultimate repayment of principal at maturity and timely payment of interest when due according to the terms of the notes. For all other classes of notes (other than S1), the ratings address ultimate payment of principal and interest, including deferred interest, at maturity according to the terms of the notes. The rating assigned to the class S1 combination note addresses the ultimate payment of principal from funds received on their components (see table at left).

Credit enhancement for the class A1 notes in the form of subordination totals 18.8%, and is provided by the class A2 notes (4.1%), the class A3 notes (3.8%), the class B1 notes (3.3%), the class B2 notes (3.1%) and the class C notes. Note that some EUR22m of the par amount of the subordinated notes has been used to pay certain initial expenses of the issuer (including the funding of the foreign exchange ("FX") reserve) and is therefore not available as subordination.



Following a credit event on a loan in the reference portfolio, the reference obligation will, where possible, be physically delivered by the CDS counterparty to the issuer. In return, the issuer will liquidate a portion of the GIC contract commensurate with the initial purchased amount being the initial price applied to the principal amount of such obligation and pay this across to the swap counterparty under the CDS. Through this transaction, Harbourmaster can trade to make trading gains and also to trade out of credit-risk or credit-impaired positions. As such, the CDS will also be used to pass trading profits and losses through to the issuer. The latter will be funded by liquidating a portion of the GIC account commensurate with the loss incurred.

■ Credit Committee Highlights

Asset-Specific Rating and Recovery Rates

Each asset will be analysed by Fitch's European Leveraged Finance Group ("ELF") prior to its inclusion in the portfolio. ELF will assign and maintain issuer ratings and asset-specific recovery rates. The portfolio will be managed to a weighted-average recovery rate ranging from 67.5% to 78.0%.

Foreign Exchange Revaluations

Due to FX volatility, the value of underlying exposures to underlying obligors may appreciate or depreciate versus the euro. Where the value of exposures depreciates, this is treated as extra reinvestment capacity for the issuer. Where the value of exposures appreciates, an increase in the reference

notional amount will occur and the manager must try and manage this breach such that the sum of the GIC account plus the SCDS balance is equal to or greater than the sum of the aggregate reference notional amount of the portfolio plus the balance of the principal ledger. The manager will do this by using the balance standing to the credit of the principal ledger (an amount that would otherwise be reinvested), and through the sale of assets. Fitch carried out an analysis of these sales at predetermined advance rates to ascertain the impact on the structure.

Use of Options to Hedge Recovery Risk

As the issuer may take delivery of a non-euro denominated obligation and subsequently go through the work-out period, there is a risk that over that period any recoveries may be eroded by FX devaluation of the base currency versus the euro. As such, an FX reserve is set up at close sized to cover the purchase of options to cover the residual FX risk on delivery of a defaulted obligation. Where an asset is delivered due to restructuring, the issuer will enter into an asset swap, the cost of which will be covered under the weighted-average spread test unless otherwise agreed with Fitch. Any FX hedge counterparty must have a minimum rating of 'F1' and 'A+' from Fitch or must otherwise be acceptable to the agency.

Restructuring Liquidity Risk

Fitch's default rates capture failure to pay and bankruptcy. As restructuring is also being captured as a credit event in this transaction, there is the risk

Key Information

Portfolio Characteristics

Type of Assets: mainly senior secured leveraged loans

Total Portfolio: EUR850m

Max. Weighted Average Life (“WAL”): Eight years (seven at the end of the reinvestment period)

Reinvestment Period: Up to the payment date falling in December 2012

Weighted-Average Rating Factor (dependent on Matrix scenario): 25.0 – 30.0

Structure

Collateral Manager: Harbourmaster Capital Limited

Arranger and Book Runner: Bear Stearns International Limited (a wholly-owned subsidiary of Bear Stearns Companies Inc. rated ‘A+/F1+’) and ABN AMRO Bank N.V., London branch (rated ‘AA-(AA minus)/F1+’)

Liquidity Provider: ABN AMRO Bank N.V., London branch (rated ‘AA-(AA minus)/F1+’)

Collateral Administrator: ABN AMRO Bank N.V., London branch (rated ‘AA-(AA minus)/F1+’)

Interest Rate Hedging Counterparty: Bear Stearns Bank plc (not rated)

Interest Rate Hedging Guarantee Counterparty: Bear Stearns Companies Inc. (rated ‘A+/F1+’)

Trustee: ABN AMRO Trustees Limited

of a shortfall on the GIC at certain times. This is due to the GIC having to be liquidated to settle assets delivered in the case of the occurrence of a credit event. Fitch carried out analysis to ensure that at all time over the life of the transaction there are funds available in the GIC account to settle such assets.

Cash Settlement under the CDS

The prime method of settlement is through delivery of the defaulted item. However, if this and the physical delivery or a subparticipation is not possible, the position may be cash settled. This may introduce the possibility of the structure suffering a market value loss. There are certain mitigants to the risk of suffering this loss, however, namely that the process may take up to a year, during which the CDS counterparty will try to get bids above the higher of the rating agencies’ recovery rates.

Eligible Currencies

Fitch carried out its analysis on the size of the FX reserve (see “Credit Analysis” for more details), and on sales due to FX revaluations based on the inclusion of certain currencies. However, owing to their nature, revolvers may be drawn in a wider range of currencies. The currencies which are likely to be drawn are covered in the sizing of an FX reserve used to purchase options in a select number of currencies. Any other currencies, which are theoretically drawable are the subject of an aggregate limit of EUR21.25m. When the drawn amount of the revolver exceeds this limit, the manager needs to trade to bring this balance back in compliance according to the reinvestment criteria. It should be noted that there is also a natural hedge through the way revolvers are structured, namely that as the drawn portion of a revolver appreciates versus the base currency, the undrawn portion of the revolver is reduced commensurately.

ABN AMRO as CDS Counterparty

As in a standard CLO certain of the noteholders benefit from the advantages of diverted interest through structural mechanisms, in this transaction the relevant interest manifests itself through the CDS. As such certain of the notes, being the A3, B1 and B2 notes rely on the CDS counterparty and in particular its margin payment. If the CDS counterparty is downgraded below ‘F1’, posting of collateral equivalent to two periods of interest will be required. A further downgrade below ‘BBB+/F2’ requires posting of collateral to cover any deemed excess spread. As the second trigger level has been set at ‘BBB+’ there is an inherent cap on the rated notes such that the rating on the A3 notes is capped at ‘A-(A minus)’.

Collateral Asset Manager Rating

Fitch assigned Harbourmaster Capital Management Limited a CDO Asset Manager Rating of 2 (“CAM2”) for leveraged loans in September 2004 that was affirmed in November 2005, based on the manager’s strong credit underwriting and workout experience. This rating was factored into the analysis by reducing the rating default rate (“RDR”) produced by VECTOR according to Fitch’s CDO rating criteria.

■ Structure

The notes will be issued by Harbourmaster Pro-Rata CLO I B.V., a bankruptcy-remote special purpose vehicle (“SPV”) incorporated under the laws of the Netherlands. Its activities are limited to those directly related to its primary purpose: entering into the CDS referencing the portfolio, entering into, among others, the collateral management agreement with Harbourmaster and the liquidity facility

agreement with ABN AMRO, and issuing the notes to fund the initial balance of the GIC account. All the rated notes will have a contractual right over the GIC account and other assets owned by the issuer.

At closing, ABN AMRO will enter into a CDS with the issuer for reimbursement of losses on the reference portfolio. Following a credit event on a loan in the reference portfolio, ABN AMRO will, where possible, deliver the defaulted obligation or offer a sub participation in the loan to the issuer. Failing this, the collateral manager will endeavour to determine a suitable bid within one year of the occurrence of the credit event and cash settle. A suitable bid is one that is above the higher recovery rate assigned by the rating agencies.

Credit events are defined as:

- bankruptcy;
- failure to pay, after the longer of any grace period and 90 days, any amount due; and
- restructuring the affected amount being greater than EUR10m.

Under the CDS, the CDS counterparty will pay:

- all margin received on the underlying reference portfolio;
- all commitment fees received from reference obligations that are revolving or delayed draw facilities;
- any sales proceeds relating to accrued interest other than purchased accrued interest;
- any other fees, including syndication fees, relating to the underlying reference obligations; and
- any trading gains including discounts.

Under the CDS, the issuer will pay:

- ABN AMRO funding and operating costs;
- cash payment for delivered obligations, plus the interest earned at the GIC rate on the delivered amount since the last payment date;
- cash payment on cash settlement of a credit event; and
- any trading losses including premia.

At closing, the net proceeds of the notes will be deposited in a GIC account, initially with ABN AMRO. Credit protection payments are made through making withdrawals from the GIC account. Withdrawals will be made on the occurrence of:

- delivery of assets on the occurrence of a credit event and the subsequent payment that will need to be made under the CDS;

- a cash settlement under the CDS where it is not possible to physically deliver the asset under the CDS; and
- a loss being made on the sale of an asset or the maturity of an asset purchased at a premium, such liquidation being made under the terms of the CDS.

The GIC account benefits from amounts being deposited from time to time on the occurrence of:

- a profit being made due to the sale of an asset or the maturity of an asset purchased at a discount;
- the diversion of interest due to the breach of one of the coverage tests; and
- Recoveries on delivered assets.

The transaction works under the basic premise that at all times the balance of the GIC account plus the SCDS will be equal to or greater than the aggregate reference notional amount of the portfolio plus any uninvested amounts in the principal ledger. As such, the noteholders and the SCDS counterparty will at no stage be open to leverage beyond that captured in Fitch's analysis.

Deferral of Interest

Non-payment of interest on the class A1 notes (if redeemed, the then-most senior tranche), constitutes an event of default under the notes, in all cases, so long as the SCDS has been reduced to zero. In this event, the trustee, at its discretion or at the request of the SCDS counterparty so long as the SCDS is outstanding or if the SCDS has been written down to zero 75% of the senior noteholder, may declare that all outstanding notes are due and payable. In such a scenario, the trustee would take appropriate action (at its discretion or the request of 75% of the senior noteholders) that may include the liquidation of the GIC account.

While any of the SCDS or the senior notes is outstanding, deferral of interest on any of the subordinated notes does not constitute an event of default. Such amounts will be added to the outstanding principal amount of the relevant tranche and will be considered in the calculation of the overcollateralisation ("OC") tests (see "*Structural Protection*").

Early Redemption of the Notes

The notes may be redeemed early on the occurrence of the following:

- Under an event of default, including (but not limited to):
 - non-payment of interest on the SCDS or the notes;

- the Class A1 Overcollateralisation Test level is equal to or lower than 100%;
 - non-payment of principal; or
 - insolvency proceedings being brought against the issuer.
- At the option of the class C noteholders, this can only be carried out provided the bids received on the underlying portfolio are sufficient to ensure that the SCDS is de-referenced in full and that all rated notes are paid back in full
 - Upon the termination of the CDS agreement
 - At the option of the CDS counterparty on the occurrence of a regulatory event: the CDS counterparty will ensure that all the rated notes and the class C notes are redeemed at 100% including any accrued interest and interest that has been capitalised
 - On the termination of the GIC agreement.

Foreign Exchange Reserve

At closing, an amount of EUR6.5m will be deposited as an FX reserve. This reserve will be used to purchase options that will be used to mitigate the risk of defaulted assets being delivered in certain currencies other than Euro. The reserve has been sized to ensure that recoveries on such defaulted assets will not be eroded by FX depreciation. Term loans may be denominated in the following currencies, euros, pounds sterling, Danish kroner, US dollars, Canadian dollars, Swiss francs, Swedish kroner, and Norwegian kroner, which are “applicable currencies”. Revolvers may be denominated in applicable currencies as a base currency however due to their nature they may be drawn in any currency freely convertible to an applicable currency. As such the reserve has been sized to deal with the applicable currencies and certain other currencies, “drawable currencies”. The risk of revolvers being drawn in currencies other than drawable currencies is covered through a drawn limit of EUR21.25m above which the manager must trade such the limit is brought back into compliance, in accordance with the reinvestment criteria.

Combination Notes

At closing, HM Pro-Rata CLO 1 issued the class S1 combination note that comprises components of the class B1 note as well as the class C subordinated, unrated notes, as shown on the front page of this report. The interest and principal cash flows on the combo notes will be derived from the interest and principal cash flows on their respective components.

Fitch’s rating assigned to the S1 combination notes addresses the ultimate repayment of principal from funds received from the components (interest and principal) as measured by the outstanding rated

balance. If the rated balance is reduced to zero, the rating will be deemed to be fulfilled and may be withdrawn.

■ Counterparty Risk

The CDS Counterparty

Should the rating of the CDS counterparty fall below ‘A/F1’, then the CDS counterparty will within 30 calendar days:

- find a replacement counterparty with the required rating of ‘A/F1’;
- find a guarantor with the required rating of ‘A/F1’ willing to guarantee the obligations of the CDS counterparty; or
- pay in advance the next two periods of premium anticipated to be payable under the CDS.

In addition, should the rating of the CDS counterparty fall below ‘BBB+/F2’ then the CDS counterparty will within 30 calendar days:

- find a replacement counterparty with the required rating of ‘A/F1’;
- find a guarantor with the required rating of ‘A/F1’ willing to guarantee the obligations of the CDS counterparty; or
- post cash collateral as agreed with Fitch so that the collateral will cover the excess spread deemed to be generated through the correct functioning of structural features such as the OC and interest coverage (“IC”) tests.

Interest Rate Hedging

At closing, the issuer entered into an interest-rate cap agreement and an interest swap agreement with Bear Stearns Bank plc (guaranteed by Bear Stearns Companies Inc. – rated ‘A+/F1+’). Under the cap agreement, a payment will be made to the issuer if three-month Euribor increases above 5.00% per annum (the strike rate). The payment due to the issuer will be the product of: (a) the difference between three-month Euribor and the strike rate; (b) the notional of the cap agreement; and (c) the day-count fraction. The interest rate cap agreement will terminate on the payment date falling in September 2012.

Under the swap agreement, the issuer will pay Euribor flat and receive a fixed rate of 3.147% for the first period in return. The fixed rate will increase over the life of the transaction up to 4.3458% on the payment date in September 2012, the maturity of the swap.

The net effect of the IR cap and IR swap is support for the transaction in an environment of flat or

falling interest rates and to limit the negative impact of rising interest rates.

The interest rate cap provider must maintain a minimum Short-term rating of 'F1' and a Long-term rating of 'A' from Fitch or must otherwise be acceptable to the agency.

In the event the hedge provider is downgraded below 'A+/F1' ('A' for the IR hedge provider), a replacement will need to be found, subject to Fitch's swap criteria (see "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*", dated 13 September 2004 and available at www.fitchratings.com). Specifically, the counterparty must, within 30 calendar days and at its own expense, take one of the following actions:

- find a replacement counterparty or guarantor, which has the minimum ratings sought by Fitch;
- post collateral in favour of the issuer that satisfies Fitch's swap criteria; or
- if downgraded below 'BBB+/F2', when posting collateral will no longer be an option, a replacement counterparty or guarantor must be found.

The GIC Counterparty

Should the rating of the GIC counterparty fall below 'A+/F1' then the GIC counterparty will within 30 calendar days:

- find a replacement counterparty willing to enter into a new GIC agreement on the same economic terms; or
- find a guarantor willing to guarantee the obligations of the GIC counterparty under the GIC agreement.

If neither of these options is possible, then the GIC counterparty will take such other action as agreed with Fitch.

ABN AMRO Bank as Sub-Participation Counterparty

Where it is not possible for the CDS counterparty to deliver the obligation on the occurrence of a credit event, the issuer may enter into a sub-participation agreement with the CDS counterparty or another counterparty. As such, the issuer may have exposure to the CDS counterparty or other financial institutions in the form of sub-participations that is mitigated by minimum rating requirements of these counterparties. Also, the sub-participation counterparty may have to represent the issuer on the occurrence of a credit event as the lender of record. However the manager will have the right to instruct

the sub-participation counterparty when it comes to voting matters.

Liquidity Facility and Interest-Smoothing Account

The liquidity facility and the interest-smoothing accounts held with the account bank mitigate potential timing mismatches between the frequency of interest payments on the liabilities (quarterly) and the assets, which could be semi-annual or annual.

The provider of the liquidity facility and the account bank is ABN AMRO. In the event that ABN AMRO is downgraded below 'F1', it will deposit any undrawn commitment under the liquidity facility in a standby liquidity account with a bank with the required Account Bank rating.

Under the liquidity facility agreement, the issuer can draw funds up to any accrued but unpaid interest in respect of the assets (excluding defaulted assets) to meet its payment obligations under the notes. The liquidity facility is capped at EUR6.0m and can not be drawn after a breach of any OC test.

Account Bank and Eligible Investments

The issuer will hold monies in the principal and interest account, which will be held with ABN AMRO. If ABN AMRO is downgraded below 'F1', the issuer must find a replacement account bank with a minimum rating of 'F1' within 30 days.

The issuer may also invest available funds in eligible securities, which must be:

- rated 'AAA' and/or 'F1+' by Fitch;
- euro-denominated; and
- mature prior to the following payment date.

■ The Reference Portfolio

The collateral comprises senior secured and unsecured loans including revolving and delayed draw facilities. Up to EUR42.5m may consist of unsecured loans and up to EUR42.5m can be invested in Debtor In Possession ("DIP") loans. Each asset must comply with the eligibility criteria at the time of inclusion and, with the exception of DIP loans, must have an issuer rating (as opposed to an instrument rating) of at least 'B-(B minus)' from Fitch. The minimum rating requirement is not applicable to DIP loans owing to their specific nature. However, the agency believes that the extra risk is mitigated by the portfolio concentration limitation (i.e. EUR42.5m) and obligor concentration limit (i.e. EUR21.25m).

Fitch's ELF group will privately rate any assets not publicly rated prior to their inclusion in the portfolio at closing or thereafter.

Ramp-Up Period

As of the closing date, the issuer will have referenced or asked the CDS counterparty to commit to purchase on its behalf 70.3% of the target portfolio. The remainder of the portfolio will be referenced by the issuer over the following 270 days. As some of the proceeds will continue to be held in cash, the interest received on the underlying reference portfolio may potentially fall short of the interest due on the notes (negative carry cost). The collateral manager must ensure sufficient cash flow from the underlying reference portfolio and available liquidity to cover scheduled interest distributions on the notes. The period between the closing date and the effective date, the ramp-up period, may be shorter than 270 days insofar as the portfolio guidelines are satisfied.

Sales and Reinvestment

The collateral manager may, at any time, instruct the CDS counterparty to sell defaulted or credit-impaired assets. This feature gives the flexibility to mitigate losses in a high-default environment and allows for the possible avoidance of potential defaults on assets the manager determines to be at significant credit risk. In addition, the manager may also instruct the CDS counterparty to sell assets whose value has appreciated since purchase to lock in the profit. Furthermore, the manager may instruct the CDS counterparty to trade up to 20% of the aggregate collateral balance during any calendar year at its full discretion. Any sales proceeds (including purchased interest) are classified as principal, bar accrued interest sold, which is counted as interest proceeds. Within two days of receipt, proceeds are paid across under the CDS.

Where, due to currency appreciation, the value of the aggregate reference notional amount of the portfolio plus any uninvested principal proceeds exceeds the sum of the balance of the GIC account and the SCDS notional, the manager must, after pursuing other methods of curing this breach (such as applying principal proceeds yet to be reinvested), instruct the CDS counterparty to sell assets on its behalf to bring the base equation back into compliance.

The issuer is entitled to instruct the CDS counterparty to reinvest principal proceeds received from the redemption, maturity or sale of assets in the underlying reference portfolio during the six years following the effective date (reinvestment period) on its behalf. Reinvestment is subject to the portfolio guidelines and the coverage tests described under

"*Structural Protection*". With regard to the reinvestment of scheduled principal receipts, all coverage tests must be met. Unscheduled principal receipts may be invested despite the test being breached if, following reinvestment, the test value is improved or at least maintained.

Following the ramp-up period, available principal receipts can only be held for three payment periods, after which such funds either have to be reinvested or be used to redeem the SCDS and the notes in order of seniority. Following the reinvestment period, and after the SCDS has been reduced to zero, the issuer will liquidate the GIC account in an amount commensurate with the scheduled principal collections as instructed by the CDS counterparty to redeem the notes in order of seniority. The issuer may instruct the CDS counterparty to reinvest unscheduled principal collections up to the payment date in March 2015, but the weighted-average life test and all other tests have to be in compliance.

At the time of their referencing, new loans must comply with both the specific eligibility criteria for individual assets and the portfolio criteria (see "*Portfolio Guidelines*" table below). If any of the portfolio criteria is breached prior to the referencing of a new asset, the referencing of this asset must maintain or improve that specific portfolio criterion.

Portfolio Guidelines

Minimum Instrument Rating for Loans	B-(B minus)
Max per Obligor (Save for 4 Obligors Which Can be 25.5) (EURm)	21.25
Max Senior Unsecured (EURm)	42.5
Max Per Industry (EURm)	127.5
Three Largest Industries EURm)	297.5
Max Revolvers and Delayed Drawdown (EURm)	170
Max Non-Euro Loans (Excl. Revolvers) (EURm)	127.5
Max US and Canada (EURm)	85
Max Non-European (Other Than US and Canada) (EURm)	127.5
Max Non-Additional Drawable Currency Drawn Revolvers and Delayed Draw Facilities (EURm)	21.25
Max DIP Loans (EURm)	42.5
Maximum Weighted-Average Life (in Years) During the First Two Years of the Transaction	8
Maximum Weighted Average Life (in Years) at the End of the Reinvestment Period	7

Source: Harbourmaster Pro-Rata CLO I BV Prospectus

ABN AMRO, in its role as collateral administrator, will monitor compliance prior to the inclusion of new assets, which may occur between payment dates (this would require recalculation of the OC test). The portfolio criteria are designed to limit the issuer's exposure to certain risks while allowing some flexibility in areas in which the investment adviser has expertise.

WARF/WAS/WARR Guideline

WARF*	25.00	26.00	26.50	27.00	27.50	28.00	28.50	29.00	29.50	30.00
Min WARR* (%)										
					WA Spread* (bp)					
67.5	220	234	241	247	252	255	261	268	273	279
70.0	210	220	225	230	235	239	244	252	256	262
72.0	202	212	216	221	225	228	233	238	242	249
74.0	194	204	208	213	217	220	224	228	230	235
76.0	186	196	200	204	208	210	214	218	221	225
78.0	178	187	191	195	199	201	205	209	211	215

* Excluding defaulted assets
Source: Harbourmaster Pro-Rata CLO I BV Prospectus

The maximum weighted-average rating factor (“WARF”) is subject to the minimum weighted-average spread (“WAS”), and the minimum weighted-average recovery rate (“WARR”), as shown in the table above.

The WAS test is calculated inclusive of revolving and delayed drawdown facilities. As the portfolio may include partially drawn revolving and delayed drawdown facilities, a minimum commitment fee test has also been included, which is set at 0.35%.

The maximum WAL for the portfolio should not exceed eight years during the first two years of the transaction, stepping down to seven years at the end of the reinvestment period.

■ Collateral Manager

Harbourmaster is a Dublin-based specialist asset management company dedicated to the management of primarily senior secured loans through the Harbourmaster programme (six CLOs issued since March 2001). The company was founded in 2000 by the two current principals. It currently consists of 17 staff, including 10 portfolio managers and research analysts (including two experienced professionals hired in April 2006), and five administration personnel, all dedicated to the Harbourmaster programme. As of 31 December 2005, CDO assets under management totalled more than EUR4.3bn.

The ‘CAM2’ rating of Harbourmaster, was assigned in September 2004 and affirmed in November 2005, is based on an ordinal rating scale between ‘1’ and ‘5’, with ‘1’ being the best.

The rating reflects Harbourmaster’s extensive experience in the management of European leveraged loans, its commitment to the CLO business, strong competitive position, consistent investment strategy, superior access to collateral, substantial experience in distressed debt workout and solid track record, albeit in a currently benign credit environment.

A more detailed description of the company and Fitch’s CAM ratings can be found in the CDO Asset

Manager Report for Harbourmaster Capital Management Ltd, dated 11 November 2005, available on www.fitchratings.com. Moreover Fitch has updated its rating criteria for CDO asset managers (see “*Reviewing and Rating CDO Asset Managers*”, dated 27 January 2006).

Replacement of the Manager

Harbourmaster, as the manager, could be replaced at the request of SCDS counterparty so long as the SCDS is outstanding and by 75% of the noteholders (based on an aggregate balance of all outstanding notes) without cause, or “cause for” at the request of 50% of the noteholders of the controlling class, subject to the appointment of a successor.

Among others, a “cause for” replacement would include any two of the key personnel (as defined in the Collateral Management Agreement) ceasing to be involved in the managerial activities of Harbourmaster without the appointment of a suitable replacement.

■ Structural Protection

In addition to the protection provided by subordination, the noteholders will benefit from structural mechanisms that will allow interest proceeds (including diverted interest) to be used to redeem the SCDS and the rated notes and make up any principal losses in the collateral portfolio.

The structural protection is based on OC and IC tests, which are described in more detail under “*Financial Covenants*”. The structure includes an OC test for the SCDS and each tranche of notes, calculated by dividing the aggregate value of the referenced assets (par value plus principal collection amounts) by the outstanding amount of the relevant tranche plus outstanding amounts of any senior-ranking tranche and the SCDS. Defaulted assets are accounted for at the lower of their market value and the recovery amount (which is the lower of the ratings agencies assigned recoveries).

The class SCDS and A1 notes also benefit from an IC test that monitors whether expected interest due from the referenced assets (plus interest on the

Overcollateralisation Test

	Trigger Value (%)	Definition
Class A1	111.5	Par coverage amount divided by the sum of the SCDS and the class A1 notional
Class A2	108.0	Par coverage amount divided by the sum of the SCDS and the class A1, and A2 notional
Class A3	106.0	Par coverage amount divided by the sum of the SCDS and the class A1, A2 and A3 notional
Class B1	104.0	Par coverage amount divided by the sum of the SCDS and the class A1, A2, A3 and B1 notional
Class B2	102.0	Par coverage amount divided by the sum of the SCDS and the class A1, A2, A3, B1 and B2 notional

Interest Coverage Test

Class A IC Test	101.0	Interest coverage numerator divided by the interest due to the SCDS and the class A1 notes on the following June 2007 payment date
-----------------	-------	--

Additional Coverage Test

Add OC Test	102.75	Par coverage amount divided by the sum of the SCDS and the class A1, A2, A3, B1 and B2 notional
-------------	--------	---

Source: Harbourmaster Pro-Rata CLO I BV Offering Circular

various accounts) will be sufficient to cover interest due on the SCDS and the class A1 notes.

In the event that the OC or IC tests are not satisfied, the issuer must use interest and principal proceeds (to the extent of the shortfall) to reduce the balance of the SCDS and pay down the outstanding notes in order of priority until such tests are in compliance again. For interest being redirected due to a breach of the OC and IC tests to amortise the senior CDS, the interest is deposited in the GIC account and the senior CDS is reduced by the same amount. For example, a breach of the class B2 OC test would redirect interest and principal proceeds from funds remaining after the payment of deferred interest on the class B2 notes in the interest and principal waterfalls, up to the amount necessary to satisfy the test.

The calculation of the OC test takes into account discounted assets (see definition of discounted assets in “*Financial Covenants*”), which are taken at their purchase price. This ensures that the OC test more accurately reflects the actual value of the collateral portfolio.

For the purpose of calculating the class A1 OC ratio, the proportion of assets on which the loan rating (as opposed to the issuer rating) is ‘CCC+’ and below that exceeds 7.5% of the portfolio is accounted for at the lower of the market value and the recovery

Financial Covenants

Par Coverage Amount

Par value of the assets (excluding the par value of discounted assets; the par value of defaulted assets and (in the case of the A1 OC test only) the excess ‘CCC’ par value):

+ for discounted assets, the product of (i) the purchase price and (ii) the par value;

+ for defaulted assets, the lower of the market value and the product of (i) the recovery rate and (ii) the par value;

+ (in the case of the A1 OC test only) for the excess ‘CCC’ proportion, the lower of (i) the market value and (ii) the product of the par value and the weighted-average recovery rate.

Discounted Assets

Any assets for which the purchase price at the time of acquisition by the issuer was less than 90% of par. An asset ceases to be a discounted asset if the average market value over the last 30 days prior to the determination date is higher than 95% of par.

Excess ‘CCC’ Proportion

The proportion of assets in excess of 7.5% of the portfolio notional for which the loan rating is ‘CCC+’ or below. Note that the loan rating for senior secured loans is generally higher than the issuer rating.

Interest Coverage Numerator

The interest received plus interest due but unpaid on the next payment date made up margin paid across under the CDS and interest generated by the GIC:

(+) any payments due to the issuer under the interest rate hedge agreement;

(-) amounts due as senior fees and expenses (including the senior management fee);

(-) amounts due by the issuer to the counterparty under the interest rate hedge agreement.

Additional Coverage Test

Ranks after the class B2 OC test in the interest waterfall. This test will redirect interest proceeds only; to be reinvested in additional collateral during the reinvestment period (80% of the available funds) and to accelerate the redemption of the class B2 notes (20%). After the reinvestment period, 80% of the available funds will be used to redeem the notes in order of seniority and 20% to accelerate the redemption of the class B2 notes.

amount. Please note that for secured loans, the issuer rating is usually lower than the loan rating. For the remaining OC tests, ‘CCC’ assets are taken at par value.

Finally, the structure also includes an additional coverage test, calculated in the same way as the class B2 OC test but ranking junior to the latter, which would be breached first. This test will redirect interest proceeds only, to reference additional collateral during the reinvestment period (80% of the available funds) and to accelerate redemption of the class B2 notes (20%). After the reinvestment period, 80% of the available funds will be used to redeem the notes in order of seniority and 20% to accelerate the redemption of the class B2 notes.

■ Credit Analysis

The credit analysis followed a two-step process. In the first step, the Fitch Default VECTOR model (“VECTOR”) was run to determine the hurdle default rates for each rating level. The model was run on a number of hypothetical worst-case portfolios, which were created according to the portfolio eligibility criteria.

In the second step, the structural protection (OC and IC tests) and excess spread were analysed in a custom-built cash flow model assuming different levels of draw on the revolving and delayed draw facilities. The resulting breakeven default rates (which show the maximum default rate a tranche could withstand without loss) for each tranche and rating level were compared to the hurdle rates produced by VECTOR. For a tranche to pass, the hurdle rate had to be below the breakeven default rate.

Fitch Default VECTOR Model

VECTOR is Fitch’s main quantitative portfolio analysis tool. The model simulates the joint default behaviour for a portfolio of credit exposures, taking into account an asset’s specific default probability (“DP”) and asset correlation. The underlying methodology is based on the structural form model, which holds that a company defaults if the value of its assets falls below the value of its liabilities. The DP, which is used to compute the default threshold for each asset, is derived from the issuer rating and historical default studies. Asset correlations are based on equity studies performed by Fitch. (see “Global Rating Criteria for Collateralised Debt Obligations”, dated 13 September 2004 and available on www.fitchratings.com).

The issuer ratings for the individual assets are provided by Fitch’s ELF group, which will analyse each loan prior to its inclusion in the portfolio. ELF

will also provide specific recovery rate assumptions for each asset.

A specific worst-case portfolio was created for each WARF/WAS/WARR combination (see “The Reference Portfolio”) as defined by the portfolio criteria, which were run through the VECTOR model.

Fitch has given credit for Harbourmaster’s strong credit underwriting and workout experience, as reflected in the recently assigned asset manager rating of ‘CAM2’ (see “Collateral Manager”). This was factored into the analysis by reducing the RDR produced by VECTOR as outlined below.

Credit for CAM2 Asset Manager Rating

Notes Rating	RDR Reduction (%)
AAA	2.5
AA	4.0
A	5.0
BBB	8.0
BB	12.0

Source: Fitch

For example, if the RDR is 30% at the ‘AAA’ level, the reduction would be applied as follows:

$$30\% \times (1 - 2.5\%) = 29.25\%$$

The following table gives Fitch’s hurdle default rates for each tranche that are dependent on the WARF /WAS/WARR spread combination. For example, for the AA tranche, the RDR ranges from 46.8% to 52.7%.

RDR Hurdle Default Rates

(%)	Depends on WARF/WAS/WARR Spread Combination
AAA	51.0 - 56.7
AA	46.8 - 52.7
A-	42.1 - 47.9
BBB	38.5 - 44.2
BB	21.0 - 37.4

Source: Fitch

Due to currency appreciation, the senior CDS counterparty and noteholders may be exposed to risk on a portfolio that is greater than the initial portfolio of EUR850m.

The manager covenants to resolve this through using available principal proceeds and instructing ABN AMRO to sell referenced assets to reduce the magnitude of the breach of the following equation:

SCDS + GIC account \geq Aggregate Reference Notional Amount of the Reference Portfolio + Uninvested Principal proceeds.

As these sales will not be within the realm of those a manager would make voluntarily and those within the 20% discretionary trading bucket, there is the possibility that these could incur market value losses.

Fitch, in its analysis, assumed a given level of amortisation and prepayments that could ease the need for these forced sales. This notwithstanding, Fitch ascertained that certain sales would have to be made. Fitch used its market value methodology to determine the losses that would be suffered under each note stress. These losses were in turn added to the stresses used in the cash flow phase of Fitch's analysis of this transaction.

Regarding the delivery of defaulted assets that are not denominated in euros, the transaction will benefit from a reserve of EUR6.5m that has been put in place to purchase the relevant options. Fitch's analysis on whether the reserve balance was sized correctly focussed on the notional size on which the options would be based. This was based on the worst case 'AAA' RDR of 56.7%. Fitch's analysis also focused on the potential deliverable currency that displayed the most severe volatility versus euros, namely the US dollar.

Taking these two inputs and applying market standard pricing models led Fitch to conclude that the reserve was sized correctly to deal with a 'AAA' level of defaults in a volatile currency.

Cash Flow Analysis

Fitch has adapted its cash flow model to reflect the specific structural protection provided in this transaction (see "*Structural Protection*"). The model was run for different default times and interest rate stresses, as described in Fitch's "*Global Rating Criteria for Collateralised Debt Obligations*", dated 13 September 2004 and available on www.fitchratings.com). The model was also run assuming different levels of draw on the revolving and delayed draw facilities. Recoveries were assumed to be realised 30 months after default. In total, nine scenarios were run for each of the four hypothetical portfolios in respect of WARF/WAS/WARR.

The analysis showed that the protection provided for each of the tranches would be sufficient to withstand the default hurdles/losses produced by the VECTOR model for the individual rating assigned to each tranche.

■ Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing surveillance.

■ Harbourmaster Pro-Rata CLO I B.V.

Europe/CDO

Capital Structure – Total Issuance EUR871m

Class	Rating	Size (EURm)	CE (%)	PMT Freq	Basis	Spread/Coupon (%)	1st IPD	Maturity	Reg S ISIN
SCDS	NR	530	37.6	Qtrly	Premium	0.10	07 Dec 06	Dec 2021	XS0253960735
A1	AAA ¹	160	18.8	Qtrly	Euro Floater	0.34	07 Dec 06	Dec 2021	XS0253961386
A2	AA	35	14.7	Qtrly	Euro Floater	0.42	07 Dec 06	Dec 2021	XS0253963168
A3	A-	32	10.9	Qtrly	Euro Floater	0.65	07 Dec 06	Dec 2021	XS0253963754
B1	BBB	28	7.6	Qtrly	Euro Floater	1.60	07 Dec 06	Dec 2021	XS0253964307
B2	BB	26	4.6	Qtrly	Euro Floater	4.50	07 Dec 06	Dec 2021	XS0253960735
C	N.R.	60	n.a.						

¹ Timely payment of interest rating

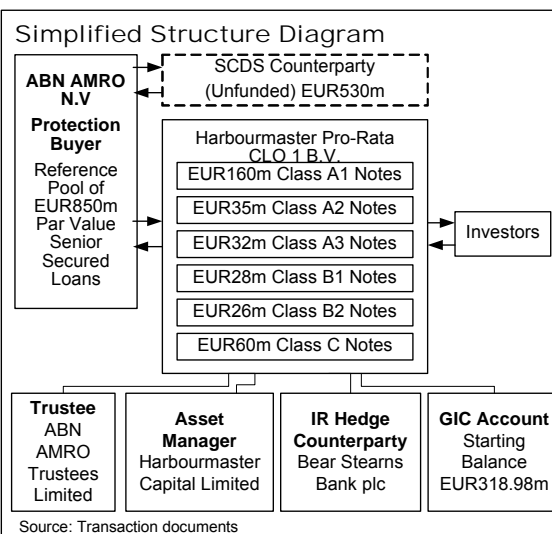
Key Information

Purpose	Arbitrage	Role	Party (Trigger)
Location of Assets	Europe	Account Bank	ABN AMRO Bank NV. ('F1')
Structure	Pass through, sequential	Collateral Administrator	ABN AMRO Bank NV.
Portfolio Composition	Senior secured loans plus unsecured loans including revolving and delayed draw facilities	Lead Manager	Bear Stearns + ABN AMRO
Location of SPV	Netherlands	Issuer	Harbourmaster Pro-Rata CLO I BV
Asset Manager Rating	'CAM 2'	Asset Manager	Harbourmaster Capital Limited
Primary Analyst	galen.moloney@fitchratings.com	Trustee	ABN AMRO Trustees Limited
Secondary Analyst	andreas.wilgen@fitchratings.com	GIC Provider	ABN AMRO Bank NV ('A+/F1')
Performance Analyst	andrew.higham@fitchratings.com	CDS Counterparty	ABN AMRO Bank NV, ('A/F1') post interest, ('BBB+/F2') post collateral.
		IR Hedge Counterparty	Bear Stearns Bank plc ('A/F1')
		Credit Enhancement Type	Subordination Plus Excess Spread

Structural Information

A1 OC Test	111.50% – Hard – Class A1 and SCDS
A2 OC Test	108.00% – Hard – Class A2 and above
A3 OC Test	106.00% – Hard – Class A3 and above
B1 OC Test	104.00% – Hard – Class B1 and above
B2 OC Test	102.00% – Hard – Class B2 and above
Additional Coverage	102.75% – Class B2 and above
A IC Test	101.00%*
Revolving Period	Up to the payment date falling in December 2012
Expected Closing Date	31 May 2006
Min Rating	B-
Effective Date	01 March 2007 or before

* Applicable after June 2007



Collateral

Pool Characteristics	Eligibility Criteria/Portfolio Tests		
Current Principal Balance (EUR)	597.5	Target Principal Balance (EUR)	850,000,000
Current WAL (Years)	5.2	Max WAL (Years)	8
Aggregate Notional Unsecured (EUR)	0	Max Unsecured (EUR)	42.5
Aggregate Notional Revolving/Delayed Draw Facility (EUR)	116.4	Max Revolving/Delayed Draw Facility (EUR)	170
Aggregate Notional DIP (EUR)	0	Max DIP (EUR)	42.5
WARF	26.7	Max WARF	Dependent on Matrix
WA Spread (bps)	2.36	Min WA Spread (bps)	Dependent on Matrix
WARR (%)	79.2	Min WARR	Dependent on Matrix
Largest Industry (Telecommunication) (EUR)	88.8	Max largest Industry	127.5
Top Three Largest Industries	227.2	Max Top Three Industries	297.5

Source: Transaction documents

Copyright © 2006 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.
Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.