

Credit Products/Europe
Presale Report

Harbourmaster Pro-Rata
CLO 2 B.V.

Expected Ratings*

Class (EURm)	Rating	CE ¹ (%)	Rating Description
A1VF	150.0 AAA	40.6	Ultimate P & Timely I
A1T	199.0 AAA	40.6	Ultimate P & Timely I
A2	120.0 AAA	20.2	Ultimate P & Timely I ²
A3	43.5 AA	12.8	Ultimate P & I
A4E	6.0 A	10.6	Ultimate P & I
A4F	6.75 A	10.6	Ultimate P & I
B1E	2.0 BBB	7.8	Ultimate P & I
B1F	14.5 BBB	7.8	Ultimate P & I
B2	17.5 BB	4.8	Ultimate P & I
C	42.75 NR	n.a.	n.a.

¹ Credit enhancement in the form of subordination only

² Please note that while class A1VF and A1T remain outstanding, deferral of interest of the class A2 notes would not lead to enforcement. Notwithstanding, Fitch's expected rating assigned to the class A2 notes addresses timely payment of interest.
NR: Not Rated

Combo Notes

Class	Components (EURm)	Par Rating	Rating Description
S1	B1F	10.50	BBB Principal Only
	C	4.50	
S2	A4F	6.75	BBB Principal Only
	B1F	4.00	
	C	4.25	
S3	B1E	2.00	BBB Principal Only
	B2	1.00	
S4	A4E	5.00	A- Ultimate P & I ¹
	C	1.00	

¹Coupon of 0.25% on the outstanding rated balance

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* Preliminary ratings do not reflect final ratings and are based on information provided by issuers as of DD MMMM YYYYDD MMMM YYYY. These preliminary ratings are contingent on final documents conforming to information already received. Collateral may be added or removed from the portfolio. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other offering material should be reviewed prior to any purchase.

■ Summary

This transaction is a securitisation of senior secured and unsecured loans, including revolving and delayed draw facilities. Fitch Ratings has assigned expected ratings to the notes to be issued by Harbourmaster Pro-Rata CLO 2 B.V. ("HM Pro-Rata CLO 2" or "the issuer") as indicated at left. The issuer is a limited liability company incorporated under the laws of the Netherlands. It will issue various classes of fixed- and floating-rate notes (see table to the left) and will use the proceeds to purchase a EUR587.5 million portfolio of loans. The portfolio will be actively managed by Harbourmaster Capital Limited ("Harbourmaster" or "the manager") over the life of the transaction. However, amortising proceeds will only be reinvested over the first seven years after closing ("the reinvestment period"). Unscheduled principal proceeds can be reinvested over the first nine years from closing, subject to compliance with certain criteria. As of the closing date, the issuer is expected to have purchased or committed to purchase [70%] of the target portfolio, following which the portfolio will build to its target amount over a maximum of 270 days.

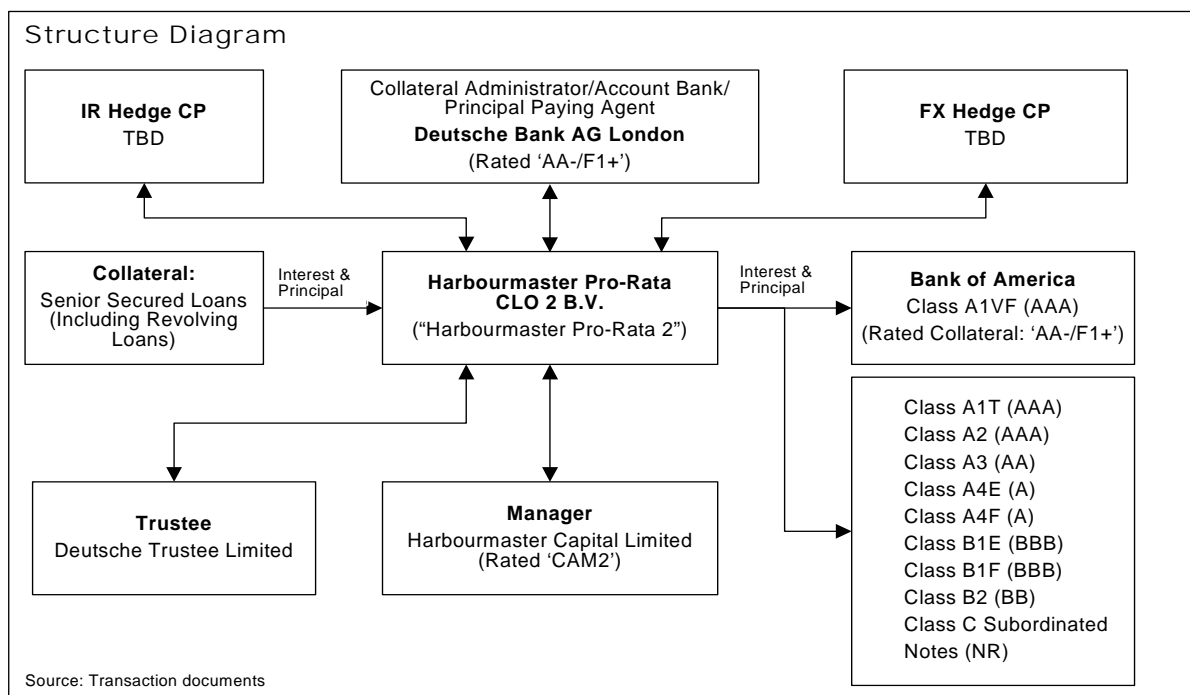
The expected ratings are based on the available credit enhancement, which will be provided through subordination, as well as excess spread and structural protection covenants. The expected ratings on the class A1VF, A1T (together the A1 notes) and A2 notes address ultimate repayment of principal at maturity and timely payment of interest when due according to the terms and conditions of the notes. For all other classes of notes (other than the class S combination notes), the expected ratings address ultimate payment of principal and interest, including deferred interest, at maturity according to the terms of the notes. The expected ratings assigned to the class S1, S2 and S3 combination notes address the ultimate payment of principal from funds received on their components (see table at left), while for the S4 combination notes, the expected rating addresses the ultimate payment of principal and interest at a coupon rate of 0.25% on the outstanding rated balance.

Credit enhancement for the class A1 notes in the form of subordination totals 40.6%, and is provided by the class A2 notes (20.4%), the class A3 notes (7.4%), the class A4 notes (2.1%), the class B1 notes (2.8%), the class B2 notes (3.0%) and the class C notes. Note that some of the EUR42.75m of the subordinated notes will be used to pay certain initial expenses of the issuer (including the funding of the foreign exchange ("FX") reserve) and will therefore not be available as subordination.

■ 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 Risk

All FX term loan exposure will be asset swapped with one of the hedging counterparties. Additionally, up to EUR88m of the portfolio notional may be drawn at any time in non-euro denominated revolving assets or delayed drawdown notes. Any drawing of a revolving or delayed draw asset will be matched by a corresponding drawing in the same currency on the multi-currency variable funding A1VF note. The residual FX risk remaining after this natural hedge stems from three main areas:

1. the margin income on the assets in excess of the payment required by the corresponding liability;
2. currency mismatch resulting from the default of a revolving or delayed draw asset drawn in a currency other than euros; and
3. a potential currency mismatch between drawings of a revolving asset and the corresponding A1VF funding during the amortisation of the portfolio.

To address the first issue, Fitch applied currency stresses within the cash flow modelling to the unhedged income. The second risk will be addressed in the transaction through a combination of redenomination of the A1VF note in euros and purchase of FX options upon default of an asset. The third is mitigated through the structure of the principal priorities of payment, the nature of the

underlying assets and certain reinvestment covenants (see *Foreign Exchange Risk*).

Bank of America as Initial A1VF Noteholder

The issuer relies on the class A1VF counterparty to provide funding for drawings of revolving and delayed draw assets. To mitigate this counterparty exposure, the A1VF noteholder must be rated at least 'A+/F1' and take action in case of a downgrade below this trigger level (see *Counterparty Risk*).

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 HM Pro-Rata CLO 2, a bankruptcy-remote special purpose vehicle incorporated under the laws of the Netherlands. Its activities are limited to those directly related to its primary purpose; the acquisition of the collateral, entering into, among others, the collateral management agreement with Harbourmaster and the liquidity facility agreement with Deutsche Bank AG, London branch ("Deutsche Bank", rated 'AA-(AA minus)/F1+'), and issuing the notes to finance the purchase of the assets. All the rated notes will have a

Key Information

Portfolio Characteristics

Type of Assets: Mainly senior secured leveraged loans

Total Portfolio: EUR587.5m

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

Reinvestment Period: Seven years after the effective date

Weighted-Average Rating Factor (Dependent on Matrix Scenario): 25.0 – 30.0

Structure

Collateral Manager: Harbourmaster Capital Limited

Arranger and Book Runner: Bank of America N.A. (rated ‘AA-(AA minus)/F1+’)

F/X Hedging Counterparty: TBD

Liquidity Provider: Deutsche Bank AG, London branch (rated ‘AA-(AA minus)/F1+’)

Collateral Administrator: Deutsche Bank AG, London branch

Initial A1VF Noteholder: Bank of America N.A.

Trustee: Deutsche Trustee Company Limited

contractual right over the portfolio of assets owned by the issuer.

Up to EUR150m may be invested in revolving or delayed drawdown assets. Any drawing in these revolving assets will be matched by a corresponding drawing in the multi-currency variable funding class A1VF note. For so long as revolving assets are outstanding, the class A1VF note may be repaid, but the A1VF commitment must at all times be at least as high as the aggregate commitment amounts of the revolving assets.

Due to FX volatility, the value of the exposures to obligors may appreciate or depreciate versus the euro. To reduce the impact of such volatility, the issuer is obliged to comply with the following three covenants:

1. drawings in a non-euro currency in revolving and delayed drawdown assets may not exceed EUR88m;
2. the aggregate undrawn amount of the revolving and delayed drawdown assets may not exceed the unfunded amount of class A1VF plus any excess FX reserve balance; or

3. the aggregate commitment of the revolving and delayed drawdown assets exceeds the class A1VF commitment plus any excess FX reserve balance.

The issuer is obliged to manage a breach of one of these covenants within 30 business days, after which a sale of an asset or rating agency confirmation on any other method to be employed to solve this issue needs to be sought. However, the nature of revolving assets in being partially drawn for most of their duration and also prepaying and paying down once a year reduces this risk.

Foreign Exchange Risk

Up to EUR88m may be invested in term loans denominated in a currency other than euro. These non-euro term loans will be asset swapped with one of the FX hedging counterparties that need to comply with Fitch’s counterparty requirements (see *Counterparty Risk*). Term loans may be denominated in euros, British pounds sterling, Danish kroner, US dollars, Canadian dollars, Swiss francs, Swedish kroner and Norwegian kroner, which are “applicable currencies”.

Additionally, up to EUR88m of the portfolio notional may be drawn at any time in non-euro denominated revolving or delayed drawdown assets. 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.

Any drawing of a revolving or delayed draw asset will be matched by a corresponding drawing in the same currency (unless hedged otherwise) on the multi-currency variable funding A1VF note. Some residual FX risk remaining after this natural hedge stems from three main areas:

1. the margin income on the assets in excess on the payment required by the corresponding liability;
2. currency mismatch resulting from the default of a revolving or delayed draw asset drawn in a currency other than euros; and
3. a potential mismatch between drawing of a revolving asset and the corresponding A1VF funding during the amortisation of the portfolio.

1. Unhedged Excess Margin Income

The issuer is only exposed to FX volatility on the asset margin in excess of the payment of the A1VF liability. This FX exposure was included in Fitch’s cash flow analysis by applying FX stresses to the unhedged excess margin.

2. Currency Mismatch at Default

Due to the non-euro denominated exposures, any default will result in an FX exposure on the liability

side that has no longer an equivalent on the asset side. As a result, there is the possibility that during the workout process any recoveries may be eroded by FX devaluation. This is addressed within the transaction by a combination of redenomination of the A1VF note in euros and purchase of FX options upon default of an asset. If a non-euro revolving or delayed drawdown asset defaults, the A1VF note will be redenominated in an amount equivalent to the expected loss of the defaulted asset (1 minus the Expected Recovery Rate). When the recoveries materialise they will be used to repay the corresponding currency liability. The remaining FX risk on the proportion of the A1VF interest payable, which is not covered by corresponding non-euro income during the workout, will be hedged through cross currency swaps or alternative FX hedging methods.

To protect against FX risk arising from the potential variability of the expected recovery rate on such defaulted obligations, “out of the money” FX options will be purchased. The purchase of these FX options is funded from the foreign exchange reserve account that at closing will be credited with an amount of EUR[1.0]m. As such, the reserve has been sized to fund purchases of options in applicable currencies and certain other currencies, “drawable currencies”, during the life of the transaction.

3. Potential FX Mismatch During the Amortisation Period

During the amortisation of the transaction following the reinvestment period, a currency mismatch between drawing of a revolving asset and the corresponding A1VF funding can potentially occur. Such a currency mismatch requires that the non-euro revolving assets amortise significantly more slowly than the euro revolving assets and all term loans. This risk is mitigated by the specific principal priorities of payment in which FX proceeds received are used to repay the corresponding liability, the specific nature of the underlying assets and a covenant that non-euro revolving assets can only be reinvested for five years (six years for euro revolvers) as opposed to seven years for term loans.

Deferral of Interest

Non-payment of interest on the class A1VF and A1T notes and, if redeemed, the then most senior tranche, constitutes an event of default under the notes. In this event, the trustee, at its discretion or at the request of 75% of the senior noteholders, may declare that all outstanding notes are due and payable. In such a scenario, the trustee would take appropriate actions (at its discretion or the request of 75% of the senior noteholders) that may include the liquidation of the collateral.

While the class A1 notes are 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*).

Combination Notes

At closing, HM Pro-Rata CLO 2 will issue the class S1 to S4 combination notes that comprise components of the rated notes 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 expected ratings assigned to the S1, S2 and S3 combination notes address the ultimate repayment of principal from funds received from the components (interest and principal) as measured by the rated balance. For the S4 combination notes, the expected rating addresses the ultimate repayment of principal as measured by the rated balance and ultimate payment of interest at a coupon rate of 0.25% on the outstanding rated balance at each payment date.

Once the rated balance of one of the class S combination notes has been reduced to zero, Fitch will deem the rated balance to have been received and at its discretion may not maintain a rating on this class S combination note beyond that time.

Class C Call Option

On any payment date after the end of the non-call period, the issuer, acting on behalf of at least 50% of the class C noteholders, may call the transaction providing that all the rated notes have been repaid in full. This would result in principal proceeds being applied to redeeming any outstanding notes in order of priority.

■ Counterparty Risk

Bank of America as A1 VFN Noteholder

The issuer relies on the class A1VF counterparty to provide funding for drawings of revolving and delayed draw assets. Should the rating of the A1VF noteholder fall below the required ratings of ‘A+/F1’, then the A1VF noteholder 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 A1VF counterparty; or

- take any such other action (including posting of collateral) as agreed with the rating agencies at the relevant time

Sub-Participation Agreements

The issuer may enter into sub-participations up to an amount equal to 20% (subject to the rating of the counterparty) of the portfolio notional. These sub-participations in senior secured loans will be acquired from financial institutions rated at least 'A'. The maximum exposure to any single counterparty will depend on that counterparty's rating, as shown in the bivariate risk table below. Sub-participations expose the issuer to counterparty risk; however, this is mitigated by the minimum rating of 'A' on these counterparties as well as specific counterparty and portfolio limitations that are outlined in the bivariate risk table below.

Bivariate Risk Table

Fitch Rating	Per Counterparty (%)	Aggregated (%)
AAA	20.0	20.0
AA+	10.0	20.0
AA	10.0	15.0
AA-	10.0	10.0
A+	5.0	5.0
A	2.5	2.5

Source: Harbourmaster Pro-Rata 2 Preliminary Offering Circular

Sub-participations with the A1VF noteholder are excluded from the limits of the bivariate risk table above, but subject to a required rating of 'A+/F1'. A downgrade of the A1VF noteholder below the required rating requires it within 30 calendar days to at its own costs either:

- 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 under the sub-participation; or
- take any such other action (including posting of collateral) as agreed with the rating agencies at the relevant time.

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 is Deutsche Bank AG, London branch. In the event that Deutsche Bank is downgraded below 'F1', it will be required either to find a replacement counterparty or

guarantor within 30 calendar days or to deposit any undrawn commitment under the liquidity facility in a standby liquidity account.

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 EUR15,000,000 and cannot be drawn after a breach of any OC tests other than the class A1VF OC test.

Account Bank and Eligible Investments

The issuer will hold monies in the principal and interest account, which will be held with Deutsche Bank. If Deutsche Bank is downgraded below 'AA-(AA minus)/F1', the issuer must find a replacement account bank with a minimum rating of 'AA-(AA minus)/F1' within 30 days.

The issuer may also invest available funds in eligible securities, so long as:

- they are denominated in the currency of the receipts;
- they are rated 'AAA' and/or 'F1+' by Fitch; and
- maturity is prior to the following payment date.

Currency Hedging Counterparties

The issuer will enter into asset swaps for term loans denominated in currencies other than euros. Additionally, the issuer will enter into FX options and may enter into cross-currency swaps or other hedging instruments upon default of a non-euro denominated asset.

Any FX hedging counterparty will be subject to replacement conditions that comply with Fitch's swap criteria. (See "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*", dated 13 September 2004 and available at www.fitchratings.com).

In particular, if the hedge counterparty is downgraded below 'A+/F1', it must within 30 calendar days and at its own expense take one of the following actions:

- find a replacement counterparty or guarantor with the minimum ratings sought by Fitch; or
- post collateral in favour of the issuer that satisfies Fitch's swap criteria.

■ The Reference Portfolio

The collateral comprises primarily senior secured loans or sub-participations of senior secured loans entered into with highly rated financial institutions (see *Counterparty Risk*). Each asset must comply with the eligibility criteria at the time of inclusion

that includes a minimum issuer default rating (as opposed to an asset rating) of at least 'B- (B minus)' from Fitch.

Fitch's ELF group will assign a private shadow rating to any asset not publicly rated prior to their inclusion in the portfolio at closing or thereafter. ELF will assign and maintain issuer default ratings and asset-specific recovery ratings. These will be used to determine the compliance with the weighted-average rating factor ("WARF") and the weighted-average recovery rate ("WARR") tests (see *WARF/WARR/WAS Matrix*).

Revolver

The issuer has the ability to purchase senior secured revolving or delayed drawdown collateral obligations of up to EUR150m. These assets will be taken at their committed amount for the purpose of the portfolio profile tests such as the WARF, WARR and weighted-average spread ("WAS") test as well as for the portfolio guidelines.

Ramp-Up Period

As of the closing date, it is expected that the issuer will have purchased or committed to purchase [70%] of the target portfolio; the remainder of the portfolio will be purchased 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 assets may potentially fall short of the interest due on the notes (negative carry cost). The collateral manager must ensure sufficient cash flow from the assets 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, sell defaulted or credit-impaired assets. This feature gives the manager 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 sell assets whose value has appreciated since purchase to lock in the profit. Furthermore, the manager may 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, except accrued interest sold, which is counted as interest proceeds.

The issuer is entitled to reinvest collateral proceeds received from the redemption, maturity or sale of assets during the seven years following the effective

date (reinvestment period). 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, or if not met, at least maintained or improved. Unscheduled principal receipts (including sales proceeds) 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 notes in order of seniority.

Following the reinvestment period, scheduled principal collections will be used to redeem the notes in order of seniority. Unscheduled principal collections may still be reinvested for another two years, but the expected maturity of the new asset cannot be longer than the expected maturity of the asset that it replaces and all tests have to be in compliance.

Portfolio Guidelines

Minimum Instrument Rating for Loans	B-(B Minus)
Max per Obligor (EURm)	14.5
Max per Obligor rated BB- or Above (EURm)	17.5
Max Senior Unsecured (EURm)	30.0
Max Per Industry (EURm)	88.0
Three Largest Industries (EURm)	205.0
Max Revolver and Delayed Draw Commitment (EURm)	150.0
Max Drawn of Revolvers and Delayed Drawdown in non-EUR currency (EURm)	88.0
Max non-Euro Loans (Excl. Revolvers) (EURm)	88.0
Max US and Canada (EURm)	58.0
Max non-European (Other Than US and Canada) (EURm)	88.0
Max Additional Drawable Currency Drawn Revolvers and Delayed Draw Facilities (EURm)	17.5
Max Debtor In Possession Loans (EURm)	30.0
Maximum Weighted-Average Life (in Years) During the First Two Years of the Transaction	9
Maximum Weighted-Average Life (in Years) at the End of the Reinvestment Period	7

Source: Harbourmaster Pro-Rata 2 Preliminary Offering Circular

At the time of inclusion, new loans must comply with both the specific eligibility criteria for individual assets and the portfolio criteria (see *Portfolio Guidelines* table above). If any of the portfolio criteria is breached prior to the inclusion of a new asset, the purchase of such asset must maintain or improve that specific portfolio criterion. Deutsche Bank, 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 tests). The portfolio criteria are designed to limit the

WARF/WAS/WARR Guideline

WARF*	WA Spread* (bp)									
	25.00	26.00	26.50	27.00	27.50	28.00	28.50	29.00	29.50	30.00
Min WARR* (%)										
67.5	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
70.0	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
72.0	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
74.0	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
76.0	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
78.0	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

* Excluding defaulted assets

Source: Harbourmaster Pro-Rata 2 Preliminary Offering Circular

issuer's exposure to certain risks while allowing some flexibility in areas in which the asset manager has expertise.

The maximum WARF is subject to the minimum WAS, and the minimum WARR, as shown in the table above.

The WAS test is calculated inclusive of revolving and delayed drawdown facilities, which are included at their committed amount as if they would be fully drawn. Additionally, a minimum commitment fee test that covers the commitment of the revolver has also been included, which is set at 0.35%.

The maximum weighted-average life ("WAL") for the portfolio should not exceed nine 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 (seven 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, 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.

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 75% of the noteholders (based on an aggregate balance of all outstanding notes) without cause, or "for cause" at the request of the majority by aggregate principal amount of the noteholders of the controlling class.

Among others, a "for cause" 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 excess spread) to be used to redeem the rated notes and make up any principal losses in the collateral portfolio.

The structural protection is based on OC and interest coverage ("IC") tests, which are described in more detail under *Financial Covenants*. The structure includes an OC test for each tranche of notes, calculated by dividing the aggregate value of the assets (par value plus principal collection amounts) by the outstanding amount of the relevant tranche plus outstanding amounts of any senior-ranking tranche. Defaulted assets are accounted for at the

Coverage Tests

	Trigger Value (%)	Definition
Class A1VF	180.00	A1 VF Par Coverage Amount divided by the sum of the class A1VF Notional (includes Funded and Unfunded Amounts)
Class A2	114.01	Par Coverage Amount divided by the sum of the class A1, A2 Notional (Funded Only)
Class A3	106.68	Par Coverage Amount divided by the sum of the class A1, A2, A3 Notional (Funded Only)
Class A4	105.89	Par Coverage Amount divided by the sum of the class A1, A2, A3, A4 Notional (Funded Only)
Class B1	104.48	Par Coverage Amount divided by the sum of the class A1, A2, A3, A4, B1 Notional (Funded Only)
Class B2	101.09	Par Coverage Amount divided by the sum of the class A1, A2, A3, A4, B1, B2 Notional (Funded Only)
Interest Coverage Test		
Class A4	110.0	Interest Coverage Numerator divided by the Interest due to class A1, A2, A3 and A4 notes on the following payment date
Additional Coverage Test		
AC Test	103.81	Par Coverage Amount divided by the sum of the class A1, A2, A3, A4, B1 and B2 Notional

Source: Harbourmaster Pro-Rata 2 Preliminary Offering Circular

lower of their market value and the recovery amount (recovery rate multiplied by the par value).

The class A1, A2, A3 and A4 notes also benefit from an IC test that monitors whether expected interest due from the collateral (plus interest on the various accounts) will be sufficient to cover interest due on the class A1, A2, A3 and A4 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 pay down the outstanding notes in order of priority until such tests are in compliance again. 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 A1VF/A2 OC ratio, the proportion of assets on which the loan

Financial Covenants

Par Coverage Amount

Funded par value of the assets (excluding the par value of discounted assets; the par value of defaulted assets and (in the case of the A1VF and A2 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 A1VF and A2 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 and commitment fees received plus interest due but unpaid on the next payment date made:

(+) scheduled interest on the balances of the accounts held with the account bank;

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

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 (65% of the available funds) and to accelerate the redemption of the class B2 notes (35%). After the reinvestment period, 65% of the available funds will be used to redeem the notes in order of seniority and 35% to accelerate the redemption of the class B2 notes.

A1VF Par Coverage Test

The A1VF par coverage compares the A1VF par coverage amount (total commitment amount of all assets plus adjustments above) with the total commitment of the class A1VF. In case of a breach of this test, principal proceeds and/or interest proceeds will be diverted to be invested in additional collateral (during the reinvestment period) or eligible collateral (after the reinvestment period).

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

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 be reinvested in additional collateral during the reinvestment period (65% of the available funds) and to accelerate redemption of the class B2 notes (35%). After the reinvestment period, 65% of the available funds will be used to redeem the notes in order of seniority and 35% to accelerate the redemption of the class B2 notes.

Finally, the transaction includes a specific coverage test for the class A1VF notes. This test compares the A1VF par coverage amount (including the total commitment amount of all assets) with the total funded and unfunded amount available for the A1VF notes. This test will redirect principal proceeds and/or interest proceeds in case of a breach to be invested in additional collateral (during the reinvestment period) and to be invested in eligible collateral (after the reinvestment period). The purpose of this test is to ensure that the subordination available to the class A1VF noteholder does not deteriorate in case the revolving assets amortise significantly slower than the term loans. The likelihood of such a scenario is reduced by the specific nature of the underlying assets and a covenant that non-euro revolving assets can only be reinvestment for five years (six years for euro revolvers) as opposed to seven years for term loans.

■ 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 section entitled *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 50% at the 'AAA' level, the reduction would be applied as follows:

$$50\% \times (1 - 2.5\%) = 48.75\%$$

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 []% to []%.

RDR Hurdle Default Rates

(%)	Depends on WARF/WAS/ WARR Spread Combination
AAA	[] – []
AA	[] – []
A-	[] – []
BBB	[] – []
BB	[] – []

Source: Fitch

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.

■ Cash Flow Arbitrage Deal

Europe/CDO

Capital Structure – Total Issuance EUR602m

Class	Rating	Size (EURm)	CE (%)	PMT Freq	Basis	Spread/Coupon (%)	1 st IPD	Maturity	ISIN
A1VF	AAA ¹	150.00	40.6	Quarterly	Euro Floater	[] ³	Feb 2006	Nov 2022	[]
A1T	AAA ¹	199.00	40.6	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
A2	AAA ^{1,2}	120.00	20.2	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
A3	AA	43.50	12.8	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
A4E	A	6.75	10.6	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
A4F	A	6.00	10.6	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
B1E	BBB	2.00	7.8	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
B1F	BBB	14.50	7.8	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
B2	BB	17.50	4.8	Quarterly	Euro Floater	[]	Feb 2006	Nov 2022	[]
Sub	N.R.	42.75	n.a.						

¹ Timely payment of interest rating

² Please note that while the class A1 notes remain outstanding, a deferral of interest under the class A2 notes would not lead to enforcement.

³ Commitment fee of 10bp for the undrawn portion

Key Information

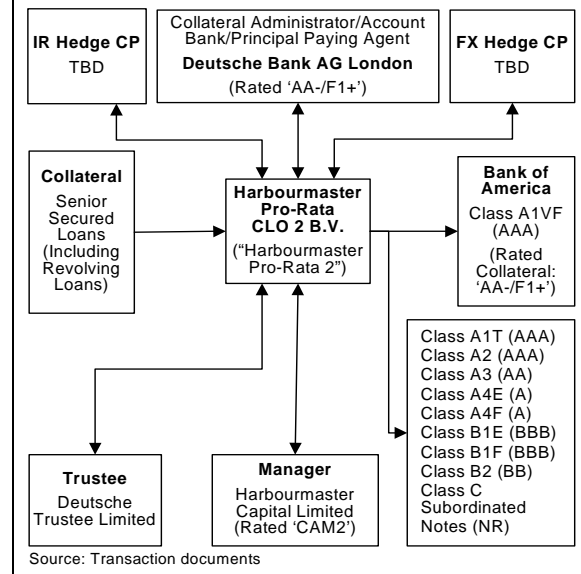
Purpose	Arbitrage	Role	Party (Trigger)
Location of Assets	Europe	Account Bank	Deutsche Bank AG, London Branch ('F1')
Structure	Pass through, sequential	Collateral Administrator	Deutsche Bank AG, London Branch
Portfolio Composition	Primarily European senior secured leveraged loans	Lead Manager	Bank of America N.A.
Location of SPV	Netherlands	Issuer	Harbourmaster Pro-Rata CLO 2 B.V.
Asset Manager Rating	'CAM 2'	Asset Manager	Harbourmaster Capital Limited
Primary Analyst	andreas.wilgen@fitchratings.com	Trustee	Deutsche Trustee Company Limited
Secondary Analyst	scott.duggal@fitchratings.com	FX Hedge Counterparty	TBD
Performance Analyst	andrew.higham@fitchratings.com	Initial A1VF noteholder	Bank of America N.A. ('A/F1')
		Liquidity Facility Provider	Deutsche Bank AG, London Branch ('F1')
		Credit Enhancement Type	Subordination, Excess Spread

Structural Information

A1VF OC Test	180.00% – Class A1VF
A2 OC Test	114.01% – Class A1 and A2
A3 OC Test	106.68% – Class A3 and Above
A4 OC Test	105.89% – Class A4 and Above
B1 OC Test	104.48% – Class B1 and Above
B2 OC Test	101.09% – Class B2 and Above
Additional Coverage	103.81% – Class B2 and Above
A 4 IC Test	110.0%* – Class A4 and Above
Revolving Period	7 Years
Expected Closing Date	[] August 2006
Min Rating	B-
Effective Date	[] 2007 or before

* Applicable after Effective Date

Structure Diagram



Collateral

Pool Characteristics	Eligibility Criteria/Portfolio Tests
Current Principal Balance (EUR)	[] Target Principal Balance (EUR) 587,500,000
Current WAL (Years)	[] Max WAL (Years) 9
Largest Industry () (EUR)	[] Max Largest Industry (EUR) 88.0
Three Largest Industries (EUR)	[] Max Three Largest Industries (EUR) 205.0
Revolver & Delayed Draw Commitment (EUR)	[] Max Revolver & Delayed Draw Commitment (EUR) 150.0
Non-EUR Drawing of Revolvers (EUR)	[] Max Non-EUR Drawing of Revolvers (EUR) 88.0
Non-EUR Term Loans (EUR)	[] Max Non-EUR Term Loans (EUR) 88.0
DIP Loans (EUR)	[] Max DIP Loans (EUR) 30.0
Senior Unsecured	[] Max Senior Unsecured 30.0
WARF	[] Max WARF Dependent on Matrix
WARR (%)	[] Min WARR Dependent on Matrix
WA Spread (Floating) (bps)	[] Min WA Spread (bps) Dependent on Matrix

Source: Transaction documents

Harbourmaster Pro-Rata CLO 2 B.V.: July 2006

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