Structured Credit
Europe
New Issue

Harbourmaster CLO 10 B.V.

CDO Analytics
Jan Bockelmann,
+44 20 7682 7302
jan.bockelmann@
derivativefitch.com

Scott Duggal, CFA
+44 20 7862 4011
scott.duggal@
derivativefitch.com

CAM Ratings
Manuel Arrive, CFA
+44 20 7862 4099
manuel.arrive
@derivativefitch.com

Performance Analytics
Jeffery Cromartie
+44 207 664 0072
jeffery.cromartie@
derivativefitch.com

Key Parties

Collateral Manager	Harbourmaster Capital Limited ('CAM -1')
Arranger	Bear Stearns International
Trustee	Deutsche Trust and Securities Services
Account Bank	Deutsche Bank AG, London branch (rated 'AA-/F1+)
Hedge Counterparties	Bank of America N.A. (rated AA/F1+) Dresdner Bank AG (rated A+/F1+)
Liquidity Facility Provider	Deutsche Bank AG, London branch (rated 'AA-/F1+)

Source: Transaction documents

Related Research

- *"Criteria for Cash Flow Collateralised Debt Obligations"*, 11 October 2006
- *"Global Rating Criteria for Collateralised Debt Obligations"*, 4 October 2006

Ratings[a]

Class	Par (EURm)	Legal Final Maturity	Rating	CE[c] (%)	Rating description
X	5	2024	AAA	n.a.[b]	Ultimate P & Timely I
A1	290	2024	AAA	42.0	Ultimate P & Timely I
A2	72	2024	AAA	27.6	Ultimate P & Timely I[d]
A3	24	2024	AA	22.8	Ultimate P & I
A4	41	2024	A	14.6	Ultimate P & I
B1	22	2024	BBB	10.2	Ultimate P & I
B2	9	2024	BB	8.4	Ultimate P & I
C (Sub.)	32.8	2024	NR	n.a.	n.a.
Total	**495.8**				

[a] As announced in Fitch's Rating Action Commentary titled *"Fitch Clarifies Position on New Issue CDO Ratings"*, published 6 November 2007, Fitch Ratings is currently in the process of reviewing its rating methodology and model assumptions for all new issue CDO ratings. Investors should be aware that Fitch is reassessing its analytic views which could impact existing ratings, including the ratings assigned to the securities in this new issue report.
[b] Class X note is not included in the CE calculation.
[c] Credit enhancement in the form of overcollateralisation only calculated on a portfolio of EUR500m.
[d] Please note that while class A1 remains outstanding, deferral of interest of the class A2 notes would not lead to enforcement. Notwithstanding, the final rating Fitch has assigned to the class A2 notes addresses timely payment of interest.

NR - Not rated.

This transaction is a securitisation of mainly European senior secured and unsecured loans. Derivative Fitch has assigned final ratings to the notes issued by Harbourmaster CLO 10 B.V. (Harbourmaster 10 or the issuer) as indicated above. The issuer is a limited-liability company incorporated under the laws of the Netherlands. It issued various classes of floating-rate notes (*see table above*) and used the proceeds to purchase a EUR500m portfolio of loans.

The portfolio will be managed by Harbourmaster Capital Limited (Harbourmaster or the manager) over the life of the transaction. However, amortising proceeds will only be reinvested for a period of five years starting from the closing date (the reinvestment period). Unscheduled principal proceeds can be reinvested for a further two years, subject to compliance with certain criteria. As of the closing date, the issuer has purchased or has committed to purchase 100% of the target portfolio.

The final ratings are based on available credit enhancement, which is provided through subordination, as well as excess spread and structural protection covenants. The final ratings on the X, A1 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, the final ratings address ultimate payment of principal and interest, including deferred interest, at maturity according to the terms of the notes.

Credit enhancement in the form of subordination for the class A1 notes totals 40.5%, and is provided by the class A2 (14.5%), the class A3 (4.8%), the class A4 (8.2%), the class B1 (4.4%), the class B2 (1.8%) and the equity notes (6.6%). Even though some of the EUR32.8m proceeds from the subordinated notes were used to pay certain initial expenses, the available credit enhancement is higher than indicated from the subordination (please see table above), as assets were purchased on average below par.

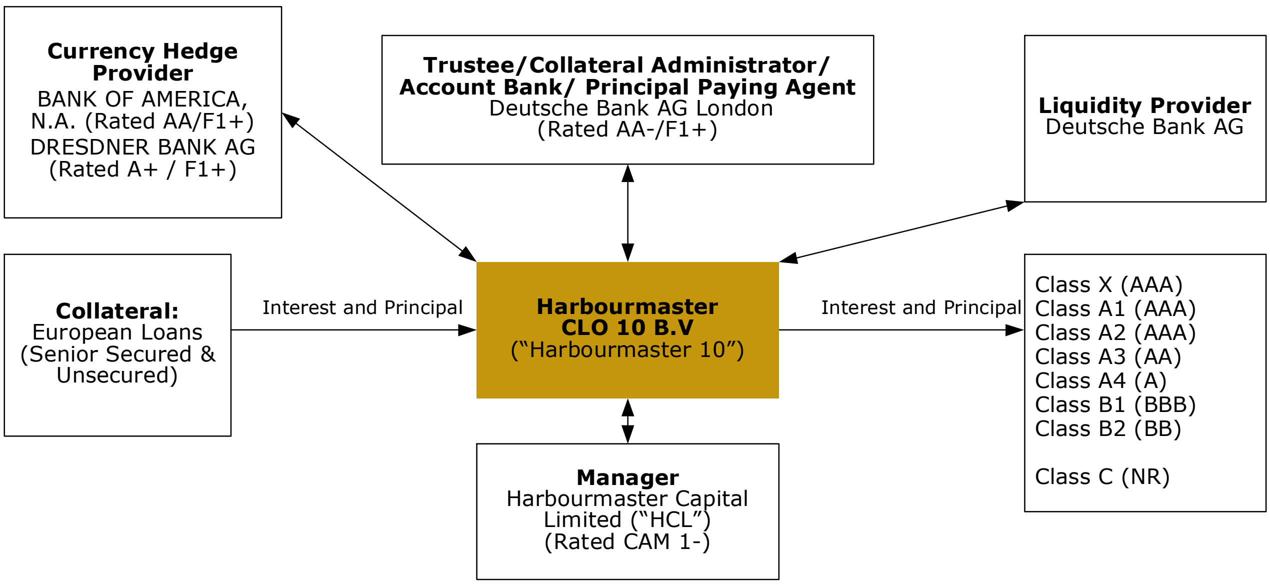
Credit Committee Highlights

- **Asset-Specific Rating and Recovery Rates**: each asset was analysed by Fitch's European Leveraged Finance group (ELF) prior to its inclusion in the portfolio. ELF assigns and maintains issuer ratings and asset-specific recovery rates, in line with Fitch's updated criteria (see "*Criteria for Use of Recovery Ratings in Collateralised Loan Obligations Ratings*", dated 13 September 2006).
- **Collateral Asset Manager Rating**: Fitch assigned Harbourmaster Capital Management Limited a CDO Asset Manager Rating of '1 minus' ('CAM1-') for leveraged loans in October 2007, based on the manager's strong credit underwriting skills and workout experience. This rating was factored into the analysis by adjusting the rating default rate (RDR) produced by VECTOR according to Fitch's CDO rating criteria.
- **Current Portfolio**: the current portfolio is fully ramped up to a par value of EUR500 and is composed of 100% senior secured loans. It has 62 corporate entities with a weighted average rating factor of 26.0, commensurate with a weighted average rating of 'B+'/'B'. The weighted average recovery rate is 81.5%, the weighted average price is 96.79% (note, in Fitch analysis all obligors are treated as PAR assets) and the weighted average spread is 230bps.

Transaction Structure

The notes were issued by Harbourmaster CLO 10 B.V., a bankruptcy-remote SPV incorporated under the laws of the Netherlands. Its activities are limited to those directly related to its primary purpose: acquiring the collateral; entering into, among others, the collateral management agreement with Harbourmaster; the liquidity facility agreement; and issuing the notes to finance the purchase of the assets. All the rated notes will have a contractual right over the portfolio of assets owned by the issuer.

Derivative Structure Diagram



Source: Transaction documents

- **Deferral of Interest:** non-payment of interest on class X or A1 (including scheduled principal amortisation for the class X) – or, if those classes are redeemed, the then most senior tranche – will constitute an event of default under the notes. In this event, the trustee, at its discretion or at the request of the controlling 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 the controlling noteholders, which may include liquidation of the collateral.

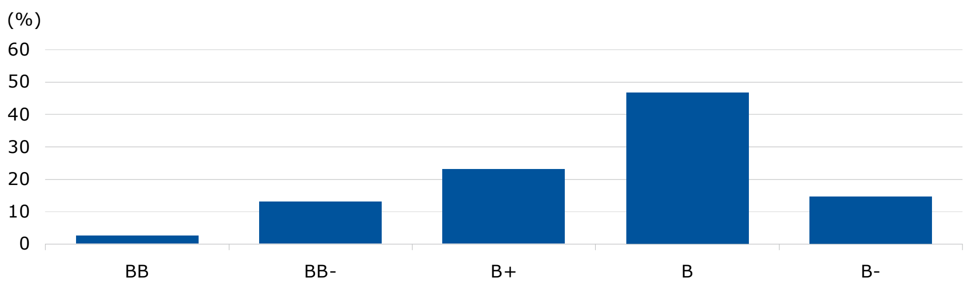
While the class A1 notes are outstanding, deferral of interest on any of the subordinated notes will not constitute an event of default. For the class A2 notes, such amounts will be paid, when available at subsequent payment days. Notwithstanding, the final rating Fitch has assigned to the class A2 notes addresses timely payment of interest. For all other classes of notes, such amounts will be added to the outstanding principal amount of the relevant tranche and will be considered in the calculation for the OC tests (see *Structural Protection*).

- **Class C Call Option:** on any payment date after the end of the non-call period, the issuer, acting on behalf of the majority of the equity noteholders, may call the transaction, provided that all the rated notes and applicable senior fees can be repaid in full. This would result in principal proceeds being applied to the redemption of any outstanding notes, in order of priority.
- **Class X Note:** the class X floating-rate note ranks pari passu with the class A1 note in the priorities of payment. The issuer pays an amount per period, which comprises an interest and principal element, with the principal outstanding amortising by a pre-defined principal payment schedule over the note's five year life. The class X note is not included in the credit enhancement calculation, primarily because it is excluded from the OC test calculation and does not benefit from excess spread diversion.

Collateral

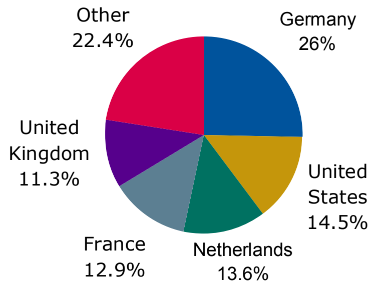
The collateral comprises primarily senior secured loans or sub-participations of senior secured loans entered into with highly rated financial institutions (see *Counterparty Risk*). Each asset must comply with the eligibility criteria at the time of inclusion, which include a minimum issuer default rating (IDR) - as opposed to an asset rating - of at least ‘B-’ from Fitch. The current portfolio is fully ramped to a par value of EUR500m and is composed of 100% senior secured loans. It has 62corporate entities with a weighted average rating factor of 26.0, commensurate with a weighted average rating of ‘B+’/‘B’. The weighted average recovery rate is 81.5 and the weighed average price is 96.79% (note, in Fitch’s analysis all obligors are treated as PAR assets). The assets are all floating-rate obligations, and the weighted-average spread over Euribor is approximately 230bp. The main pool characteristics are represented graphically below:

Fitch Rating Distribution



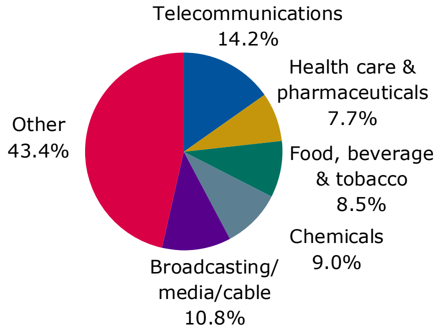
Source: Fitch, portfolio as of closing

Fitch Country Distribution



Source: Fitch, portfolio as of 9 November 2007

Fitch Industry Distribution



Source: Fitch, portfolio as of closing

Fitch's ELF group assigned or will assign a shadow rating to any asset not publicly rated prior to its inclusion in the portfolio. IDR and asset-specific recovery ratings will be used to determine the compliance with the weighted-average rating factor (WARF) and the weighted-average recovery rate (WARR).

- **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 sell assets whose value has appreciated since purchase to lock in the profit. Furthermore, they may trade up to 20% of the aggregate collateral balance during any calendar year at their 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 five years following the closing date (the reinvestment period). Reinvestment is subject to compliance with the portfolio guidelines and the coverage tests described under *Structural Protection*. With regard to the reinvestment of scheduled principal receipts and sale proceeds from defaulted collateral, all coverage tests must be met. Unscheduled principal receipts (including sales proceeds for non-defaulted assets) may be invested even if the test is breached where, following reinvestment, the test value would be improved or at least maintained.

Available principal receipts can only be held for three payment periods, after which such funds either have to be reinvested or used to redeem the notes in order of seniority.

On the date of the reinvestment, each reference obligation must satisfy each of the stipulated eligibility criteria, including:

- it must have a minimum rating of at least 'B-';
- the collateral obligation is not at the time it is purchased, within the reasonable commercial judgement of the manager, considered to be a defaulted collateral obligation, a current pay obligation or a credit impaired collateral obligation;
- the relevant loan provides for payment of interest on a floating-rate basis;
- the relevant loan is not convertible into or exchangeable for equity and is not a margin stock; and
- the collateral obligation in respect of each loan has a final repayment date falling on or prior to the legal maturity in 2024.

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 so long as the following criteria are met:

- the ratings of the class A1 notes have not been downgraded below their initial level;
- all the requirements of the portfolio profile tests are satisfied, both before and after the purchase;
- all the coverage tests are satisfied, both before and after the purchase; and
- the expected maturity of the new asset is no longer than the expected maturity of the asset that it replaces.

Portfolio Guidelines

Minimum instrument rating for loans	B-
Maximum per obligor (EUR m) – rated B+ or lower	12.5
Maximum per obligor (EUR m) – rated BB- or higher	15.0
Maximum senior unsecured loans (EUR m)	25.0
Maximum per industry (EUR m)	75.0
Three largest industries (EUR m)	175.0
Maximum US and Canada (EUR m)	75.0
Maximum non-euro loans (EUR m)	75.0
Maximum debtor in possession loans (%)	5.0
Maximum sub-participations (%)	20.0
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 CLO 10 Prospectus

At the time of their inclusion, new loans must comply both with the specific eligibility criteria for individual assets and the portfolio criteria (see *Portfolio Guidelines* table above). If any of the portfolio criteria are breached before the inclusion of a new asset, the purchase of the asset must either maintain or improve that specific portfolio criterion. Deutsche Bank, in its role as collateral administrator, will monitor compliance before 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 issuer's exposure to certain risks while allowing some flexibility in areas in which the asset manager has expertise.

The maximum WARF will be subject to the minimum weighted average spread (WAS) and the minimum WARR.

Fitch CAM 1 Matrix

	Weighted Average Rating Factor									
	24.5	25.5	26.5	27.0	27.5	28.0	28.5	29.0	29.5	30.0
Min Fitch Weighted Average Recovery Rate (%)	Minimum Weighted Average Spread (bp)									
76.00	196	205	211	214	216	219	223	225	229	232
74.00	206	211	218	222	225	228	232	235	240	244
72.00	212	219	227	231	235	239	244	245	249	256
70.00	219	228	237	241	244	247	252	261	268	274
69.00	223	232	241	246	250	252	260	270	276	282
68.00	228	237	244	252	258	264	269	278	285	291
67.00	232	241	251	259	266	272	277	286	293	299
66.00	237	247	259	267	274	280	284	293	301	307

Source: Harbourmaster CLO 10 Prospectus

The maximum weighted average life (WAL) of 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.

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 on the basis of 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. 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 4 October 2006 and available at www.fitchratings.com).

  The issuer ratings for the individual assets will be 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 - as defined by the portfolio criteria - which were run through the VECTOR model. One of the tested scenarios was a WARF of 26.5 (see table below for VECTOR RDRs). The WARR tested was 72% tiered to 57% at the 'AAA' level and the initial WAS run was 227bp.

Vector Results for a WARF 26.5 Portfolio with a WARR of 72%

Rating	Rating default rate (RDR) (%)	Weighted-average recovery rate (%)
AAA	52.60	57.00
AA	50.26	62.00
A	46.21	67.00
BBB	36.50	72.00
BB	31.97	72.00

Source: Fitch

Fitch has given credit for Harbourmaster's strong credit underwriting and workout experience, as reflected in the assigned asset manager rating of 'CAM1-' (see *Collateral Manager*). This was factored into the analysis by reducing the RDR produced by VECTOR as outlined below.

Credit for CAM1- Asset Manager Rating

Notes rating	RDR reduction (%)
AAA	5.0
AA	8.0
A	10.0
BBB	12.5
BB	17.0

Source: Fitch

For example, if the RDR is 46.21% at the 'A' level, the reduction will be applied as follows:

46.21% x (1 - 10.0%) = 41.49%

- ***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 timings and interest rate stresses, forming a total of nine scenarios for each of the hypothetical portfolios in respect of WARF/WAS/WARR, as described in Fitch's "*Criteria for Cash Flow Collateralised Debt Obligations*", dated 11 October 2006 and available at www.derivativefitch.com. Recoveries were assumed to be realised 24 months after default.

  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.

Counterparty Risk

- **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. 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	20.0
AA-	7.5	15.0
A+	5.0	10.0
A	5.0	10.0

Source: Harbourmaster CLO 10 Prospectus

- **Liquidity Facility and Interest-Smoothing Account:** the liquidity facility and the interest-smoothing accounts held with the account bank will mitigate potential timing mismatches between the frequency of interest payments on the liabilities (quarterly) and the assets, which could be semi-annual or annual. Any mismatches will first be cured with drawings under the liquidity facility. In case the liquidity facility can no longer be drawn, the issuer will be required to deposit enough interest proceeds in the semi-annual/annual interest-smoothing accounts up to the next payment date in order to distribute the interest proceeds evenly over the year.

  The provider of the liquidity facility is still to be confirmed. If the liquidity facility provider 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 the amount of 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 EUR10,000,000 and cannot be drawn after a breach of any OC tests.

- **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 '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, so long as:

- they are denominated in euros;
- they are rated 'AAA' and/or 'F1+' by Fitch (or 'AAA/V1+' in the case of money market funds); and
- the maturity is prior to the next payment date.

- **Currency Hedging Counterparties:** some of the portfolio may be invested in assets denominated in currencies other than euro. The currency risk arising from such assets will be hedged by the issuer through asset swaps with a counterparty that has yet to be determined. Any currency hedge provider must at all times have a minimum rating of 'F1' and 'A'.

Any hedging counterparty will be subject to replacement conditions that comply with Fitch's swap criteria (see "*Counterparty Risk in Structured Finance Transactions: Hedge Criteria*", dated 1 August 2007 and available at www.fitchratings.com).

In particular, if the currency 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; or
- post collateral in favour of the issuer that satisfies Fitch's hedge criteria.

Structural Protection

In addition to the protection provided by subordination, the noteholders 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 below. The structure includes an OC test for each tranche of rated notes, calculated by dividing the aggregate value of the assets (par value plus principal collection accounts) by the outstanding amount of the relevant tranche, plus the outstanding amounts of any senior-ranking tranche. Defaulted assets are accounted for at the lower of their market value and the assumed recovery amount (recovery rate multiplied by the par value).

The class A1 and A2 notes will 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 and A2 notes as well as interest and principal due on the class X notes.

If 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 the tests are in compliance again. For example, a breach of the class B2 OC test would redirect interest proceeds from funds remaining after the payment of deferred interest on the class B2 notes in the interest waterfall, up to the amount necessary to satisfy the test. If interest proceeds are not sufficient to cure the breach of the OC test, principal proceeds available after the payment of interest on the class B2 notes in the principal waterfall will be redirected to repay the notes in order of priority, up to the amount necessary to satisfy the test.

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

Coverage Tests

	Trigger versus actual value[a] (%)	Definition
Class A2	123.12 vs. 138.12	Par coverage amount divided by the sum of the class A1, A2 notional
Class A3	119.53 vs. 129.53	Par coverage amount divided by the sum of the class A1, A2, A3 notional
Class A4	111.60 vs. 117.10	Par coverage amount divided by the sum of the class A1, A2, A3, A4 notional
Class B1	107.86 vs. 111.36	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1 notional
Class B2	106.07 vs. 109.17	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1, B2 notional
Interest coverage test		
Class A2	107.00	Interest coverage numerator divided by the interest due to the class X, A1 and A2 notes and the principal due to the class X notes on the following payment date
Additional coverage test		
	106.37 vs. 109.17	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1, B2 notional

Aggregate collateral balance

For the purpose of the aggregate collateral balance, assets are included at their par value except for:

- defaulted assets: included at the lower of their market value and the recovery amount (asset-specific recovery rate multiplied by the par value);
- discounted assets (assets purchased at 90% and below): included at the purchase price (until the market value is above 95% for 30 business days); and
- the excess of 5% of the aggregate collateral balance of assets with a loan rating 'CCC+' and below will be included at the lower of the recovery amount and the 'CCC' average market value (for the purpose of the class A2 OC test only) - note that the loan rating for senior secured loans is generally higher than the issuer rating

[a] Actual OC test values are based on a target portfolio balance of EUR500m

Source: Harbourmaster CLO 10 Prospectus

For the purpose of calculating the class A2 OC ratio, the proportion of assets on which the loan rating (as opposed to the issuer rating) is 'CCC+' and below that exceeds 5% of the portfolio will be accounted for at the lower of the WA market value and the WA 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 will be 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 it, which would be breached first. This test will redirect interest proceeds only, which will be reinvested in additional collateral during the reinvestment period (75%) and used to accelerate redemption of the class B2 notes (25%). After the reinvestment period, 75% of the available funds will be used to redeem the notes in order of seniority and 25% will be used to accelerate the redemption of the class B2 notes.

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.derivativefitch.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 EUR495.8m

Class	Rating	Size (EURm)	CE[3] (%)	PMT freq	Basis	Spread/ coupon (%)	Ist IPD	Maturity	ISIN
X	AAA[1]	5	n.a.	Quarterly	3 mth Euribor	0.70	May 6, 2008	2013	XS0331132935
A1	AAA[1]	290	42.0	Quarterly	3 mth Euribor	0.60	May 6, 2008	2024	XS0331138890
A2	AAA[1,2]	72	27.6	Quarterly	3 mth Euribor	0.95	May 6, 2008	2024	XS0331143973
A3	AA	24	22.8	Quarterly	3 mth Euribor	1.50	May 6, 2008	2024	XS0331156108
A4	A	41	14.6	Quarterly	3 mth Euribor	2.65	May 6, 2008	2024	XS0331171081
B1	BBB	22	10.2	Quarterly	3 mth Euribor	4.50	May 6, 2008	2024	XS0331161017
B2	BB	9	8.4	Quarterly	3 mth Euribor	7.25	May 6, 2008	2024	XS0331162684
C	NR	32.8		Quarterly			May 6, 2008	2024	XS0331165273

[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] Credit enhancement in the form of subordination only based on a target portfolio amount of EUR500m

Key Information

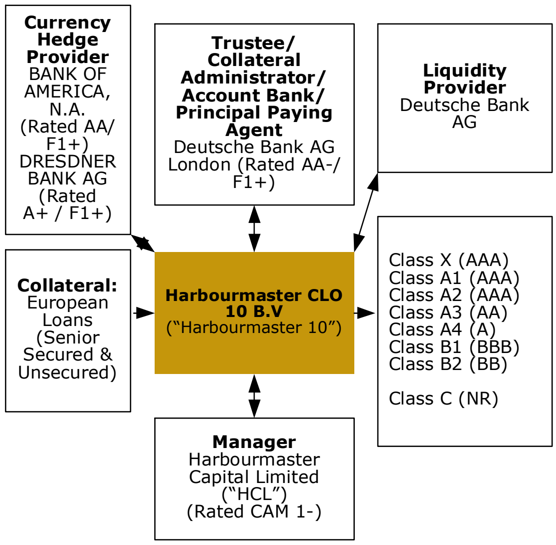
Purpose	Arbitrage
Location of assets	Europe
Structure	Pass-through sequential
Portfolio composition	Primarily European senior secured leveraged loans
Location of SPV	Netherlands
Asset manager rating	CAM 1-
Primary analyst	jan.bockelmann@derivativefitch.com
Secondary analyst	scott.duggal@derivativefitch.com
Performance analyst	jeffery.cromartie@derivativefitch.com

Role	Party (trigger)
Account bank	Deutsche Bank AG, London Branch
Collateral administrator	Deutsche Bank AG, London Branch
Arranger	Bear Stearns International
Issuer	Harbourmaster CLO 10 B.V.
Asset manager	Harbourmaster Capital Management
Trustee	Deutsche Trust and Securities Services
Initial hedge counterparty	Bank of America N.A.
Initial hedge counterparty	Dresdner Bank AG
Liquidity facility provider	Deutsche Bank AG, London Branch

Structural Information

A2 OC test (%)	123.12
A3 OC test (%)	119.53
A4 OC test (%)	111.60
B1 OC test (%)	107.86
B2 OC test (%)	106.07
Additional coverage test (%)	106.37
A2 IC test (%)	107.00
Revolving period	5 Years
Closing date	06 December 2007
Min rating	B-

Simplified Structure Diagram



Source: Transaction documents

Collateral

Pool characteristics		Eligibility criteria/portfolio tests	
Current principal balance (EURm)	500	Target principal balance (EURm)	500
Current WAL (years)	6.2	Max WAL (years)	8
Largest industry (EURm)	74.0	Max largest industry (EURm)	75.0
Three largest industries (EURm)	168.8	Max three largest industries (EURm)	175.0
Non-EUR loans (EURm)	44.2	Max non-EUR obligors (EURm)	75.0
US and Canada (EUR m)	66.3	Maximum US and Canada (EUR m)	75.0
Sub-participations (EURm)	0	Max sub-participations (%)	20.0
Senior unsecured (EURm)	0	Max senior unsecured (EURm)	25.0
WARF	26.0	Max WARF	Dependent on matrix
WARR (%)	81.5	Min WARR	Dependent on matrix
WA spread (floating) (bp)	230	Min WA spread (bp)	Dependent on matrix

Source: Transaction documents

DerivativeFitch

DerivativeFitch

CAM 1–

European Leveraged Loans CDO Asset Manager Rating

Corporate Information

Harbourmaster
Capital Management Ltd
O'Connell Bridge House, D'Olier Street
Dublin 2
www.hcm.ie

Corporate Contact and CDO Contact

Alan Kerr
+353 1 436 0107
alan.kerr@harbourmaster.com

Mark Moffat
+353 1 436 0124
mark.moffat@harbourmaster.com

Corporate Structure

Year Founded: 2000
Business form: Ltd.
Registration: The Financial Regulator,
Parent: Harbourmaster Capital Ltd

Employees: 35
Management : 4
Portfolio Managers: 6
Credit: 16
Administration : 10

Derivative Fitch Analyst Contacts

Manuel Arrive, CFA
+44 (0) 20 7862 4099
manuel.arrive@derivativefitch.com

Alastair Sewell
+44 (0) 20 7417 6286
alastair.sewell@derivfativefitch.com

December 20, 2007

Harbourmaster Capital Management Limited

European Leveraged Loan CDO Asset Manager Profile

Harbourmaster Capital Management Ltd (HCM) is a Dublin-based specialist asset management company dedicated to the management of primarily senior secured loans through the Harbourmaster programme. The company, founded in 2000 by the two current principals, is owned by management (51%) and a consortium consisting of RIT Capital Partners and Clearbrook (49%). It currently has 35 staff, all dedicated to the Harbourmaster programme.

HCM's 'CAM1-' rating reflects the company's extensive experience as one of the longest established and largest European CLO managers, resulting in superior access to collateral, highly documented credit research practices supporting stable and consistently adhered to credit discipline, substantial experience in distressed debt workout and a solid track record throughout the credit cycle.

European Leveraged Loan CDOs Under Management

Name	Closing	Structure	Primary Asset	Original Size (EURm)
Harbourmaster CLO 3	Aug 02	Cash Flow	European Senior Secured Leveraged Loans	429.6
Harbourmaster CLO 4	Sept 04	Cash Flow	European Senior Secured Leveraged Loans	498.9
Harbourmaster CLO 5	Jul 05	Cash Flow	European Senior Secured Leveraged Loans	749.6
Harbourmaster CLO 6	Nov 05	Cash Flow	European Senior Secured Leveraged Loans	499.7
Harbourmaster Pro Rata 1	Apr 06	Cash Flow	(Pro Rata) European Senior Secured Leveraged Loans	851.6
Harbourmaster Pro Rata 2	Jul 06	Cash Flow	(Pro Rata) European Senior Secured Leveraged Loans	587.5
Harbourmaster CLO 7	Nov 06	Cash Flow	European Senior Secured Leveraged Loans	903.7
Harbourmaster CLO 8	Dec 06	Cash Flow	European Senior Secured Leveraged Loans	502.7
Harbourmaster CLO 9	May 07	Cash Flow	European Senior Secured Leveraged Loans	770.0
Harbourmaster Pro Rata 3	Jul 07	Cash Flow	(Pro Rata) European Senior Secured Leveraged Loans	612.0
Global Senior Loan Index Fund 1 B.V.	Dec 07	Cash Flow	European Senior Secured Leveraged Loans	650.0
Harbourmaster CLO 10	Dec 07	Cash Flow	European Senior Secured Leveraged Loans	500.0
Total				**7,555.3**

NB: Harbourmaster CLO 1 was called in July 06 at a 16.8% internal rate of return, and Harbourmaster CLO 2 was called in March 07 at a 12.1% internal rate of return, both realised over a greater than five year period.

Strengths

- One of the three largest and longest established European CLO managers.
- Market presence resulting in superior access to collateral.
- Strong control environment supported by comprehensive procedures.
- Highly documented credit intensive research practices.
- Disciplined and stable investment strategies.
- Superior CLO performance over a six-year track record.
- Substantial workout experience and expertise.

Challenges and Mitigants

- To maintain a solid track record in more difficult market conditions. HCM has already demonstrated superior performance through the cycle.

Company and Management Experience — '1- (minus)'

- The company was founded in 2000 by the two current principals, Fabio Salvalaggio and Stewart Wilkinson (20 and 15 years experience in leveraged/structured finance, respectively).
- Managing directors, Alan Kerr (seven years company tenure and 13 years industry experience) and Mark Moffat (who joined in February 2007 with 17 years industry experience) are co-heads of the business.
- Shareholders of Harbourmaster Capital Limited (HCL) are RIT Capital Partners plc and Clearbrook Capital Partner LLP (49%), HCM's principals (24.5% each) and HCM directors (2%).
- HCM's business model has focused on the management of CLOs of European senior secured loans since 1999.
- HCM is a rapidly growing and profitable company, as reflected by sound financials

DerivativeFitch

Harbourmaster Capital Management Limited

Staffing – '1- (minus)'

- HCM employs 35 people, divided between the portfolio management, credit research and portfolio administration functions.
- Throughout its history, HCM has consistently maintained breadth and depth of staffing resources to match business growth.
- The 21 new hires in 2007 bolstered the team in all functions and in particular at the senior management level.
- In 2007, HCM achieved an effective specialisation of roles both in the front and middle office, reflective of a matured organisation.
- Staff turnover remains low, indicative of the team's long-term commitment, compensation and retention structures.

Procedures and Controls – '1- (minus)'

- While it does not have a separate risk or control function, HCM has a robust internal control environment, based on task segregation, second level of controls and management reporting.
- Well documented procedures provide detailed coverage of critical processes.
- The complete integration of Wall Street Office (WSO) into HCM's procedures has strengthened the effectiveness of controls, while reducing operational risks.

Portfolio Management – '1- (minus)'

- HCM adheres to a strict and stable credit discipline, resulting in superior selectivity (52% rejection rate).
- A pre-screening committee evaluates investment opportunities according to strictly defined criteria. The subsequent in-depth due diligence is documented in an investment proposal submitted to the credit committee and ratified by HCM and HCL boards.
- HCM has excellent access to collateral due to market presence and superior relations with arranging banks.
- The ongoing monitoring of the CLO portfolios and the 145 individual loans is formalised at weekly and monthly reviews.
- In line with its "buy and hold" approach, HCM leverages its superior workout competencies and experience, acquired both at the institutional and individual levels.

CDO Administration – '1- (minus)'

- HCM has developed intensive CLO and loan administration capabilities. These are based on effective workflows with counterparties and a close trustee oversight, and bolstered by the roll-out of the WSO system. However, Fitch notes that portfolio managers are increasingly involved in administrative tasks (e.g. reconciliation, trustee interface).
- Transaction set-up and modelling were enhanced in 2006, not only by WSO, but by proprietary cash flow models and other portfolio manager applications built for each CLO.

Technology – '1- (minus)'

- WSO was acquired in 2005, and full implementation was completed in Q3 2007.
- HCM uses complementary Excel-based front office applications for portfolio and risk management (including compliance monitoring), which are fed by a central database.
- WSO and Front Office applications are reconciled in a comprehensive and timely manner.

Performance – '1- (minus)'

- All the Harbourmaster CLOs have always been in compliance with their portfolio profile and coverage tests.
- No 'CCC+' or lower rated loans. There are currently no defaults across the Harbourmaster programme.
- All Harbourmaster CLOs have been consistently affirmed throughout their lives.
- Annualised return since inception exceeds targeted long-term return on all CLOs.
- New issue reports and additional performance information on all Harbourmaster CLOs is available at www.derivativefitch.com .