

## Credit Products/Europe New Issue

## Harbourmaster CLO 7 B.V.

### Ratings

Class (EURm)	Rating	CE <sup>1</sup> (%)	Rating Description
A1	576 AAA	36.0	Ultimate P & Timely I
A2	149 AAA	19.4	Ultimate P & Timely I <sup>2</sup>
A3	41 AA	14.9	Ultimate P & I
A4	38 A	10.7	Ultimate P & I
B1	38 BBB	6.4	Ultimate P & I
B2	21 BB	4.1	Ultimate P & I
C	62 NR	n.a.	n.a.

<sup>1</sup> Credit enhancement in the form of subordination only

<sup>2</sup> Please note that while class A1 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	Description
S1	Class B2	1.0	BB	Ultimate P
	Class C	1.0		
S2	Class A3	4.0	AA	Ultimate P
	Class C	1.0		
S3	Class B1	2.1	BBB-	Ultimate P
	Class C	0.9		
S4	Class A4	5.5	BBB+	Ultimate P & I <sup>1</sup>
	Class C	1.5		
S5	Class A4	3.0	A-	Ultimate P
	Class C	1.0		

<sup>1</sup> Coupon of 0.25% on the outstanding rated balance

### Analysts

#### Structured Finance

Charles-Henry Lecointe  
+44 20 7417 4336  
charles-henry.lecointe@derivatifitch.com

#### Andreas Wilgen

+44 20 7417 6332  
andreas.wilgen@derivatifitch.com

#### Asset Manager Ratings

Manuel Arrive, CFA  
+44 20 7862 4099  
manuel.arrive@derivatifitch.com

#### European Leveraged Finance

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

#### Performance Analytics

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

### Summary

This transaction is a securitisation of European senior secured and unsecured loans. Fitch Ratings has assigned ratings to the notes issued by Harbourmaster CLO 7 B.V. ("HM CLO 7" or "the issuer") as indicated at left. The issuer is a limited-liability company incorporated under the laws of the Netherlands. It has issued various classes of floating-rate notes (see table to the left) and will use the proceeds to purchase a EUR900 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 for a period of 5 years starting from the closing date ("the reinvestment period"). Unscheduled principal proceeds can be reinvested for a further 2 years, subject to compliance with certain criteria. As of the closing date, the issuer has purchased approximately 70% of the target portfolio, following which the portfolio will build to its target amount over a maximum of 270 days.

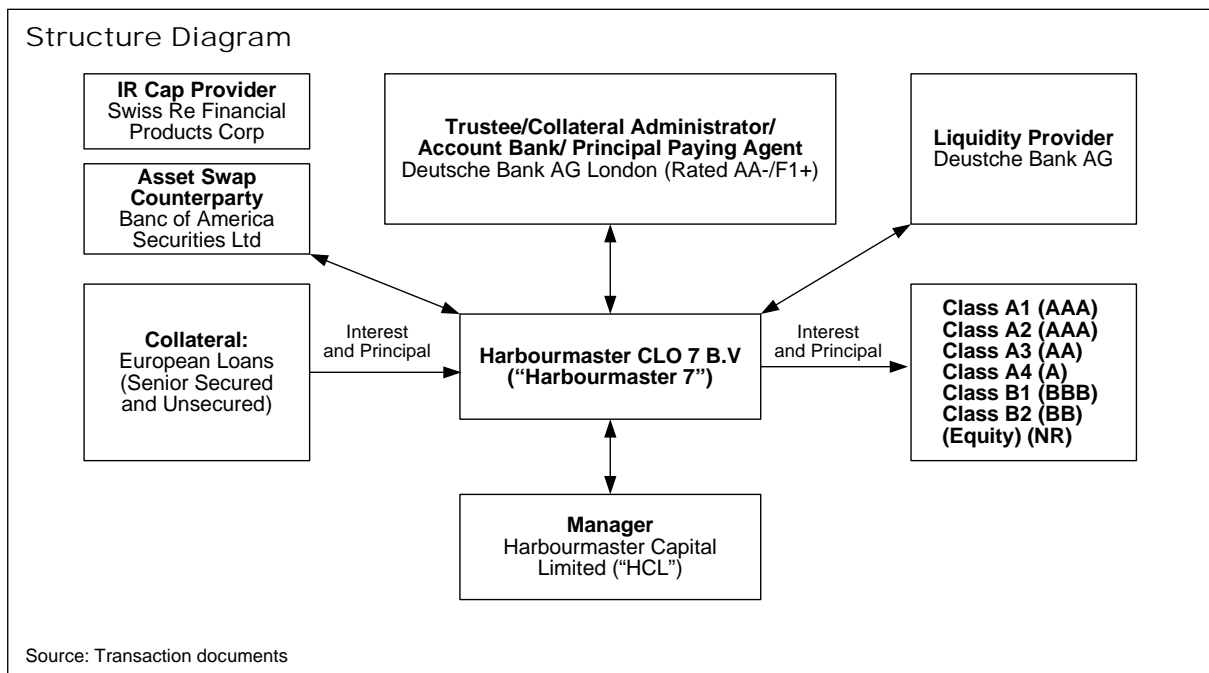
The ratings are based on the available credit enhancement, which will be provided through subordination, as well as excess spread and structural protection covenants. The ratings on the A1 and A2 notes address ultimate repayment of principal at maturity and timely payment of interest when due according to the terms and conditions of the notes. For all other classes of notes, the ratings address ultimate payment of principal and interest, including deferred interest, at maturity according to the terms of the notes. The ratings assigned to the class S1, S2, S3 and S5 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 rating addresses the ultimate payment of principal and interest at a coupon rate of 0.25% on the outstanding rated balance.

Credit enhancement in the form of subordination for the class A1 notes totals 36.0%, and is provided by the class A2 (16.6%), the class A3 notes (4.6%), the class A4 notes (4.2%), the class B1 notes (4.2%), the class B2 notes (2.3%) and the class C subordinated notes (4.1%). Note that some of the EUR62m proceeds from the subordinated notes will be used to pay certain initial expenses of the issuer 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, in line with Fitch's updated criteria (See "*Criteria for Use of Recovery Ratings in Collateralized Loan Obligations Ratings*", dated 13 September 2006).



### 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 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. Fitch has performed an on site review of Harbourmaster in November 2006 and will review Harbourmaster CAM rating and update the CAM report on that basis shortly.

### Treatment of 'CCC' Assets and Discounted Assets in the Overcollateralisation Tests

For the purpose of calculating the overcollateralisation ("OC") test ratios (which will divert interest and/or principal to repay the notes sequentially), any assets with a loan rating of 'CCC+' or below that form more than 7.5% of the portfolio balance will be accounted for at the lower of the market value and the assumed recovery amount, while discounted assets will be valued at their purchase price. Both treatments mean that the collateral portfolio value is more accurately reflected in the overcollateralisation test.

### ■ Structure

The notes are issued by HM CLO 7, 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: acquiring 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 contractual right over the portfolio of assets owned by the issuer.

### Deferral of Interest

Non-payment of interest on the class A1 – or, if that class is 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 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. 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*).

### Combination Notes

At closing, HM CLO 7 has issued the Class S1 to S5 combination notes ("combo notes") that comprise components of the rated notes as well as the class C subordinated, unrated notes. The interest and principal cash flows on the combo notes will be derived from the interest and principal cash flows on their respective components.

## Key Information

### Portfolio Characteristics

**Type of Assets:** Mainly senior secured leveraged loans

**Total Portfolio:** EUR900m

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

**Reinvestment Period:** five years

**Weighted Average Rating Factor (Dependent on Matrix Scenario):** 24.5 – 30

### 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+’)

**Interest Rate Cap Provider:** Swiss Re Financial Products Corporation (guaranteed by Swiss Reinsurance Company, rated ‘AA-’)

**Currency Hedge Provider:** Bank of America, N.A., rated ‘AA-/F1+’

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

**Collateral Administrator:** Deutsche Bank AG, London branch

**Trustee:** Deutsche Trustee Company Limited

The ratings assigned to the S1, S2, S3 and S5 combination notes address the ultimate repayment of principal, while for the S4 combination notes, the rating addresses the ultimate payment of principal and interest at a coupon rate of 0.25% on the outstanding rated balance.

### Class C Subordinated Notes Call Option

On any payment date after the end of the non-call period, the issuer, acting on behalf of at least 66.67% of the class C noteholders, may call the transaction provided that all the rated notes and 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.

### ■ 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 7 B.V. Offering Circular

### 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.

The semi-annual and annual interest-smoothing will require some interest proceeds to be deposited in the semi-annual/annual interest-smoothing account up to the next payment date if

- The proportion of annually paying loans exceeds 5% and more than 25% of these loans are paying interest in one quarter; or
- the proportion of semi-annually paying loans exceeds 25% and more than 80% of these loans are paying interest in one quarter.

The provider of the liquidity facility is Deutsche Bank AG, London branch (‘AA-/F1+’). If 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 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 EUR15,000,000 and cannot be drawn after a breach of any OC tests.

### Account Bank and Eligible Investments

The issuer holds monies in the principal and interest account with Deutsche Bank as the account 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 euro;
- 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 following payment date.

#### Interest Rate and Currency Hedging

At closing, the issuer has entered into an interest cap agreement to support the transaction in an environment of rising interest rates. Under the cap agreement, a payment will be made to the issuer if the three-month EURIBOR increases above 5.50% per annum (the strike rate). The payment due to the issuer will be the product of: a) the difference between the three-month EURIBOR and the strike rate; b) the EUR90m notional of the cap agreement; and c) the day count fraction. The interest rate cap agreement starts at closing and will terminate on the payment date falling in June 2009.

The interest rate cap provider must have a minimum rating of 'F1' and 'A' from Fitch, or must otherwise be acceptable to the agency.

A maximum of 15% of the portfolio may be invested in assets denominated in currencies other than euro during the life of the transaction. The issuer will then enter into asset swaps with the Asset Swap Counterparty, so as to hedge the currency risk arising from such assets. 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: Swap Criteria*", dated 13 September 2004 and available at [www.derivativefitch.com](http://www.derivativefitch.com)).

In particular, if the currency hedge counterparty is downgraded below 'A+/F1' ('A/F1' for the interest hedge counterparty), 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, which include a minimum issuer default rating or IDR (as opposed to an asset rating) of at least 'B- (B minus)' from Fitch.

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

#### Ramp-Up Period

As of the closing date, the issuer has purchased or committed to purchasing approximately 70% of the target portfolio; the issuer will purchase the remainder over the following 270 days. As some of the proceeds will continue to be held in cash, the interest received on the assets may fall short of the interest due on the notes (negative carry cost). The collateral manager must ensure that sufficient cash flow from the assets and liquidity are available 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 sell assets whose value has appreciated since purchase to lock in the profit. Furthermore, it 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 five years following the closing date (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.

## WARF/WAS/WARR Guideline

WARF*	24.50	25.50	26.50	27.50	28.00	28.50	29.00	29.50	30.00
Min WARR* (%)									
	WA Spread* (bp)								
74.0	1.79	1.88	1.96	2.03	2.06	2.08	2.10	2.13	2.16
72.0	1.79	1.88	1.96	2.03	2.06	2.08	2.11	2.20	2.27
70.0	1.79	1.88	1.99	2.14	2.19	2.23	2.31	2.40	2.48
69.0	1.80	1.94	2.07	2.24	2.30	2.34	2.42	2.51	2.58
67.5	1.92	2.06	2.22	2.40	2.47	2.51	2.60	2.69	2.75
65.0	2.11	2.26	2.45	2.64	2.71	2.76	2.86	2.96	3.04

\* Excluding defaulted assets

Source: Harbourmaster CLO 7 B.V. Offering Circular

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.

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 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 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 portfolio profile tests are satisfied both before and after making the purchase;
- all the coverage tests are satisfied both before and after making the purchase;
- the expected maturity of the new asset is no longer than the expected maturity of the asset that it replaces.

## Portfolio Guidelines

Minimum Obligor Issuer Default Rating	B-(B Minus)
Max per Obligor rated B+ or Lower (EURm)	22.5
Max per Obligor rated BB- or Above (EURm)	27.0
Max Senior Unsecured (EURm)	45.0
Max per Industry (EURm)	135.0
Three Largest Industries (EURm)	315.0
Max US and Canada (EURm)	135.0
Max Non-EUR loans (EURm)	135.0
Max Debtor In Possession Loans (%)	5.0
Maximum chains of Sub-Participations (EURm)	45.0
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 7 BV Offering Circular

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 WAS and the minimum WARR, as shown in the table above.

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.

### ■ Collateral Manager

Harbourmaster is a Dublin-based specialist asset management company dedicated to the management of primarily senior secured loans through the Harbourmaster programme (nine CLOs issued since March 2001). 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 17 staff, including 9 portfolio managers and research analysts, and five administration personnel, all dedicated to the Harbourmaster programme. As at 31 October 2006, CDO assets under management ("AUM") totalled EUR5.2bn.

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.

## Coverage Tests

	Trigger Value (%)	Definition
Class A2	112.0	Par coverage amount divided by the sum of the class A1, A2 notional
Class A3	108.0	Par coverage amount divided by the sum of the class A1, A2, A3 notional
Class A4	106.0	Par coverage amount divided by the sum of the class A1, A2, A3, A4 notional
Class B1	103.5	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1 notional
Class B2	101.0	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1, B2 notional
<b>Interest Coverage Test</b>		
Class A2	105.0	Interest coverage numerator divided by the interest due to the class A1 and A2 notes on the following payment date
<b>Additional Coverage Test</b>		
AC Test	102.0	Par coverage amount divided by the sum of the class A1, A2, A3, A4, B1 and B2 notional

Source: Harbourmaster CLO 7 BV Offering Circular

This rating reflects Harbourmaster's extensive experience as one of the longest established CLO managers in Europe, its leading competitive position, resulting superior access to collateral highly documented credit research practices supporting stable investment strategies, substantial experience in distressed debt workout and solid track record.

In 2006, Harbourmaster has continued its strong organic growth (AUM has grown by 55% since 31 December 2005), while expanding its staffing, consolidating its internal processes and infrastructure and maintaining its credit discipline. Indeed, in addition to three credit analysts, HCM has hired two seasoned professionals with over 10 year experience in restructuring and structuring respectively. The further integration of Wall Street Office software into Harbourmaster's procedures has enhanced the control environment and administration processes. Finally, the performance of Harbourmaster CLOs has been strong, both for debt and equity holders. In July 2006, Harbourmaster CLO1 was called, demonstrating Harbourmaster ability to generate strong performance over five years: the ratings of all tranches were stable and a 16.8% Internal rate of return was generated over the period.

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 and available at [www.derivativefitch.com](http://www.derivativefitch.com). In addition,

Fitch has performed an on site review of Harbourmaster in November 2006 and will review Harbourmaster CAM rating and update the CAM report on that basis shortly.

### Replacement of the Manager

Harbourmaster, as the manager, could be replaced "without cause" at the request of 75% of each class of notes outstanding, or "for cause" at the request of the majority of the noteholders of the controlling class by aggregate principal amount.

Among others, a "for cause" replacement would occur when on any measurement date falling on or after the effective date, the class A2 OC ratio is equal to or less than 95%.

### ■ 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 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 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.

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 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 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 A2 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 will be 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 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 up to 50% of interest proceeds to purchase additional collateral during the reinvestment period (50% of the available funds) and accelerate redemption of the class B2 notes (50%). After the reinvestment period, 50% of the available funds will be used to redeem the notes in order of seniority and 50% 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 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

## 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 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 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:

(+) 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);

(-) amounts due from the issuer to the counterparty under the interest rate and foreign currency hedging agreements.

### *Additional Coverage Test*

Ranks after the class B2 OC test in the interest waterfall. This test will redirect up to 50% of interest proceeds, which will be reinvested in additional collateral during the reinvestment period (50% of the available funds) and used to accelerate the redemption of the class B2 notes (50%). After the reinvestment period, 50% of the available funds will be used to redeem the notes in order of seniority and 50% to accelerate the redemption of the class B2 notes.

based on equity studies performed by Fitch (see "Global Rating Criteria for Collateralised Debt

*Obligations*”, dated 4 October 2006 and available at [www.derivativefitch.com](http://www.derivativefitch.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 (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 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.

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#### 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

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For example, if the RDR is 50% at the ‘AAA’ level, the reduction would be applied as follows:

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

#### 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, as described in Fitch’s “*Criteria for Cash Flow Collateralised Debt Obligations*”, dated 11 October 2006 and available at [www.derivativefitch.com](http://www.derivativefitch.com). Fitch assumed that recoveries were realised 24 months after default. In total, 9 scenarios were run for each of the 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.derivativefitch.com](http://www.derivativefitch.com). Further information on this service is available at [www.derivativefitch.com](http://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 EUR925m

Class	Rating	Size (EURm)	CE (%)	PMT Freq	Basis	Spread/ Coupon (%)	1 <sup>st</sup> IPD	Maturity	ISIN
A1	AAA <sup>1</sup>	576.0	36.0	Quarterly	Euro Floater	0.23	Mar 2007	Sept 2022	XS0273833516
A2	AAA <sup>1,2</sup>	149.0	19.4	Quarterly	Euro Floater	0.33	Mar 2007	Sept 2022	XS0273887363
A3	AA	41.0	14.9	Quarterly	Euro Floater	0.40	Mar 2007	Sept 2022	XS0273889229
A4	A	38.0	10.7	Quarterly	Euro Floater	0.60	Mar 2007	Sept 2022	XS0273890664
B1	BBB	38.0	6.4	Quarterly	Euro Floater	1.45	Mar 2007	Sept 2022	XS0273891639
B2	BB	21.0	6.1	Quarterly	Euro Floater	3.75	Mar 2007	Sept 2022	XS0273893502
Sub	N.R.	62.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	XS0273894732

<sup>1</sup> Timely payment of interest rating

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

### Combination Notes

Class	Rating	Size (EURm)	Type of Rating	Component Class	Component Amount (EURm)	Component Rating	Maturity	ISIN
S1 Combo	BB	2.0	Ultimate P	B2	1.0	BB	Sept 2022	XS0273895200
				C	1.0	NR		
S2 Combo	AA	5.0	Ultimate P	A3	4.0	AA	Sept 2022	XS0273896273
				C	1.0	NR		
S3 Combo	BBB-	3.0	Ultimate P	B1	2.1	BBB	Sept 2022	XS0273896943
				C	0.9	NR		
S4 Combo	BBB+ <sup>3</sup>	7.0	Ultimate P & I <sup>3</sup>	A4	5.5	A	Sept 2022	XS0273897917
				C	1.5	NR		
S5 Combo	A-	4.0	Ultimate P	A4	3.0	A	Sept 2022	XS0273900992
				C	1.0	NR		

<sup>3</sup> Rated coupon of 0.25% on the outstanding rated balance

### Key Information

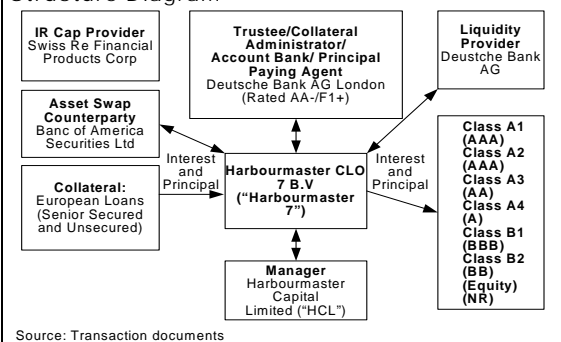
<b>Purpose</b>	Arbitrage	<b>Role</b>	Party (Trigger)
<b>Location of Assets</b>	Europe	<b>Account Bank</b>	Deutsche Bank AG, London Branch ('F1')
<b>Structure</b>	Pass Through, Sequential	<b>Collateral Administrator</b>	Deutsche Bank AG, London Branch
<b>Portfolio Composition</b>	Primarily European Senior Secured Leveraged Loans	<b>Lead Manager</b>	Bear Stearns International Limited
<b>Location of SPV</b>	Netherlands	<b>Issuer</b>	Harbourmaster CLO 7 B.V.
<b>Asset Manager Rating</b>	'CAM 2'	<b>Asset Manager</b>	Harbourmaster Capital Limited
<b>Primary Analyst</b>	charles-henry.lecointe@fderivativefitch.com	<b>Trustee</b>	Deutsche Trustee Company Limited
<b>Secondary Analyst</b>	andreas.wilgen@fderivativefitch.com	<b>Currency Hedge Provider</b>	Bank of America, N.A. (AA-/F1+) <sup>1</sup>
<b>Performance Analyst</b>	andrew.higham@fderivativefitch.com	<b>IR Hedge Counterparty</b>	Swiss Re Financial Products Corporation, guaranteed by Swiss Reinsurance Company (A)
		<b>Liquidity Facility Provider</b>	Deutsche Bank AG, London Branch ('F1')
		<b>Credit Enhancement Type</b>	Subordination, Excess Spread

### Structural Information

A2 OC Test	112.0% – Class A1 and A2
A3 OC Test	108.0% – Class A3 and Above
A4 OC Test	106.0% – Class A4 and Above
B1 OC Test	103.5% – Class B1 and Above
B2 OC Test	101.0% – Class B2 and Above
Additional Coverage	102.0% – Class B2 and Above
A2 IC Test	105.0%* – Class A2 and Above
Revolving Period	Up to the payment date falling in Dec 2011
Closing Date	22 November 2006
Min Obligor Issuer Default Rating	B-
Effective Date	September 2007 or before

\* Applicable after Effective Date

### Structure Diagram



### Collateral

Pool Characteristics	Eligibility Criteria/Portfolio Tests		
Current Principal Balance (EURm)	646.3	Target Principal Balance (EURm)	900.0
Current WAL (Years)	6.4	Max WAL (Years)	8
Largest Industry (Broadcasting/Media/Cable) (EURm)	122.2	Max Largest Industry (EURm)	135.0
Three Largest Industries (Broadcasting/Media/Cable, Telecommunications, Chemicals) (EURm)	305.5	Max Three Largest Industries (EURm)	315.0
Non-EUR Loans (EURm)	18.9	Max Non-EUR Loans (EURm)	135.0
US & Canada (EURm)	51.2	Max US & Canada (EURm)	135.0
DIP Loans (EURm)	nil	Max DIP Loans (%)	5.0
Sub-Participations (EURm)	46.9	Max Sub-Participations (%)	20.0
Senior Unsecured (EURm)	nil	Max Senior Unsecured (EURm)	45.0
WARF	25.6	Max WARF	Dependent on Matrix
WARR (%)	84.1	Min WARR	Dependent on Matrix
WA Spread (Floating) (bps)	2.63	Min WA Spread (bps)	Dependent on Matrix

Source: Transaction documents

Harbourmaster CLO 7 B.V.: November 2006

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