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# Harbourmaster CLO 9 B.V.

**Ratings**

Class	(EURm)	Rating	CE <sup>1</sup> (%)	Rating Description
A1-T	254.10	AAA	30.26	Ultimate P & Timely I
A1-VF	269.50	AAA	30.26	Ultimate P & Timely I
A2	46.20	AAA	24.10	Ultimate P & Timely I <sup>2</sup>
B	50.05	AA	17.44	Ultimate P & I
C	30.80	A	13.33	Ultimate P & I
D	40.04	BBB	8.00	Ultimate P & I
E	19.25	BB	5.44	Ultimate P & I
F (sub)	60.06	NR	n.a.	n.a.
<b>Total</b>	<b>770.00</b>			

<sup>1</sup> Credit enhancement in the form of subordination only based on a target portfolio amount of EUR750.75m

<sup>2</sup> Please note that while class A1 remains outstanding, deferral of interest of the class A2 notes would not lead to enforcement. Notwithstanding, the expected rating Fitch has assigned to the class A2 notes addresses timely payment of interest.

NR: Not rated

**Combination Note**

Class	Components	(EURm)	Rating	Rating Description
S1	Class D and Class E	1.50 1.50	BBB-	Ultimate P Only

**Summary**

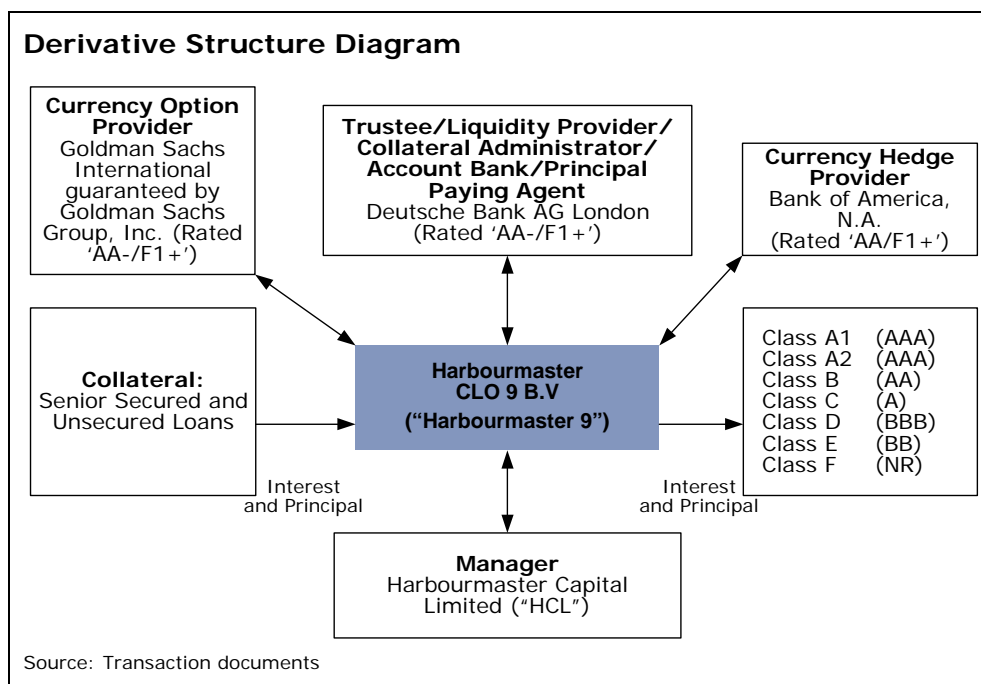
This transaction is a securitisation of mainly European senior secured and unsecured loans. Fitch has assigned final ratings to the notes issued by Harbourmaster CLO 9 B.V. ('Harbourmaster 9' or 'the issuer') as indicated above. The issuer is a limited-liability company incorporated under the laws of the Netherlands. It has issued various classes of floating-rate notes (see table above) and will use the proceeds to purchase a EUR750.75m 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 seven 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 writing of this report the portfolio was fully ramped up to a portfolio balance of EUR751.8m.

The ratings are based on 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 rating of the class S1 combo note addresses the ultimate payment of principal from funds (interest and principal) received from the respective components (see table above) by the legal maturity.

Credit enhancement in the form of subordination for the class A1 notes totals 30.26%, and is provided by the class A2 (6.15%), the class B (6.67%), the class C (4.10%), the class D

(5.33%), the class E (2.56%) and the class F subordinated notes (5.44%). Note that some of the EUR60.06m 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 Collateralised Loan Obligations Ratings*", dated 13 September 2006).

### Foreign Exchange Risk

From the closing date, the issuer may invest up to 40% of the portfolio notional into non-euro obligations denominated in an "applicable currency". These assets will either be swapped with one of the hedging counterparties (subject to minimum ratings), or naturally hedged (up to 35% of portfolio) if denominated in British pounds sterling (GBP) or US dollars (USD) by a corresponding drawing in the same currency on the multi-currency class A1-VF notes. However, in certain situations, this natural hedge will not fully cover the FX risk. The scenarios under which this may occur and the mitigants to such risks are described below in the section, *Hedging of Foreign Exchange 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, which was affirmed in November 2006, 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 (See page 11).

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

For the purpose of calculating the class A overcollateralisation (OC) test ratio (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

### Key Information

#### Portfolio Characteristics

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

**Total Portfolio:** EUR750.75m

**Max. Weighted-Average Life (WAL):** Nine years (six at the end of the reinvestment period)

**Reinvestment Period:** Seven years

**Weighted-Average Rating Factor (Dependent on Matrix Scenario):** (See page 9)

#### Structure

**Collateral Manager:** Harbourmaster Capital Limited

**Currency Options Provider:** Goldman Sachs International (guaranteed by Goldman Sachs Group Inc. (rated AA-/F1+))

**Currency Swap Counterparty:** Bank of America, N.A., rated 'AA/F1+'

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

**A1-VF Noteholder:** Various (must be rated at least 'A+/F1')

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

**Trustee:** Deutsche Trust and Securities Services

for at the lower of the weighted-average (WA) market value and the WA assumed recovery amount. Discounted assets will be valued at their purchase price for all OC tests. Both treatments mean that the collateral portfolio value is more accurately reflected in the OC test.

## Structure

The notes have been issued by Harbourmaster 9, 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, the liquidity facility agreement and issuing the notes to finance the purchase of the assets. All the rated notes have a contractual right over the portfolio of assets owned by the issuer.

### Hedging of Foreign Exchange Risk

From the closing date, the issuer may invest up to 40% of the portfolio notional into non-euro obligations. Assets that are solely denominated in EUR, GBP or USD can be naturally hedged by a corresponding drawing in the same currency on the multi-currency class A1-VF notes up to a maximum of 35% (equivalent to the size of the A1-VF notes) and through the use of "out-of-the-money" FX options purchased upfront. For assets denominated in other currencies or GBP and USD exposures over and above 35%, the issuer will enter into form approved asset swap transactions, which cover for FX risks upon default, amortisation and prepayment. The asset manager may also choose to enter into asset swap transactions for GBP and USD exposure at any time rather than matching the funding by a corresponding drawing of the A1-VF note.

The use of the multi-currency class A1-VF notes does not fully eliminate the FX risks in the transaction. Therefore the understanding of the residual FX risks and the hedges in place to mitigate those risks is important thus they are listed below:

1. **Non-euro asset to liability notional mismatch upon default:** As soon as a non-euro default occurs, a currency mismatch is created as the remaining non-euro assets are not sufficient to cover the class A1-VF notes. The repayment of the non-euro class A1-VF notes is thus subject to FX risks as euro proceeds converted at the then prevailing spot rate may be required for repayment of this liability. This risk may be managed via a number of routes, including the sale or purchase of assets in such

relevant currency to cure the mismatch or through the process of redenomination if the mismatch exceeds 5% (subject to a minimum GBP4m or USD8m). Fitch's analysis and the corresponding cash flow modelling focused on the latter. For example, in circumstances of an unfavourable FX environment of depreciating euro, the redenomination process will incur a cost that needs to be covered by the structure and hedging mechanisms in place. To cover any redenomination costs that may occur in scenarios of depreciating euro, the manager will exercise or sell "out-of-the-money" FX options or use principal and/or interest proceeds as applicable. The net effect is that the structure bears the residual FX risk stated above, with severe FX moves covered via the exercise and/or sale of options.

2. **Currency mismatch upon failure of the coverage tests:** If one of the coverage tests is in breach, the class A1 notes will be paid pro rata. This introduces FX risk, as the issuer may be forced to pay a portion of the class A1 notes with principal proceeds denominated in a different currency that may have to be converted at the spot rate. Further to this, such pro rata pay-down creates an ongoing currency mismatch to be managed and reduced via the redenomination process outlined above.
3. **Due interest on the class A1-VF notes:** Between the time when a currency mismatch in the structure occurs and the cure of the mismatch through, for example, a redenomination of the multi-currency notes, non-euro payments owed to the portion of non-euro revolving notes may not be matched by the income generated by the non-euro assets. In this situation, the interest payment of the class A1-VF notes is subject to FX risk as euro proceeds may have to be converted at the spot rate to pay the due interest of this note. This effect is most severe in a scenario where the non-euro interest rate increases and when the euro depreciates. This risk is partly born by the structure and partly addressed through the use of FX options that can provide a source of income when the euro depreciates.
4. **Amortisation:** Following the reinvestment period, a currency mismatch can occur depending on the distribution of amortisation to the class A1-VF notes. However, in this transaction, if no coverage tests are breached, the principal proceeds received are used to repay the corresponding liability denominated in the same currency. This payment strategy keeps the class A1-VF notes balanced with the portfolio currency buckets.
5. **GBP and USD depreciating:** In a situation where the euro appreciates against the USD and/or GBP, the relative income in euro terms generated by the non-euro bucket is reduced, which limits the availability of excess spread that protects the rated tranches. This has been addressed within the cash flow modelling of the transaction by applying Fitch's standard FX stresses.

The efficiency of the hedging strategy, the redenomination mechanism and the use of FX options were captured in Fitch's cash flow modelling, incorporating the relevant currency stresses, and thus the structure mitigates all the above issues sufficiently in order to reach the stated ratings.

### Deferral of Interest

Non-payment of interest on class A1 – or, if that class is 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, including accrued interest when available at subsequent payment days. Notwithstanding, the 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*).

### Combination Notes

Harbourmaster 9 has issued the class S1 combination note (“combo notes”) that is comprised of components from the class D and E 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. The rating of this combo note addresses the ultimate payment of principal from funds (interest and principal) received from the respective components by the legal maturity.

### Class F Subordinated Notes Call Option

On any payment date after the end of the non-call period in April 2011, the issuer, acting on behalf of the majority of the class F 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.

### Reclassification of Principal as Interest

Harbourmaster 9 provides that principal may be classified as interest subject to compliance with the following criteria that are in place to mitigate a potential negative impact for the noteholders:

- o the principal balance is greater than or equal to the target par after such reclassification; and
- o the Additional Coverage Test calculated using both the current and initial class E balance is greater than or equal to its initial level (see Coverage Tests) after such transfer.

## 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 9 B.V. Final 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.

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 or annually paying loans exceeds 25% and more than 75% 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 other than to pay the break costs of the class A1-VF notes.

### **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**

The issuer will enter into asset swap transactions for all non-euro denominated obligations not funded by a corresponding drawing under the A1-VF notes. More specifically, loans in currencies other than euros, GBP and USD will be hedged through perfect asset swap transactions. The perfect asset swap transactions may be with several counterparties and the documentation will be subject to form approval by the rating agencies. Additionally, the issuer will enter into FX options with one of the hedging counterparties, subject to the rating requirements. In particular, 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.fitchratings.com](http://www.fitchratings.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.

### **Synthetic Securities**

The issuer may invest in synthetic securities referencing corporate obligations subject to the eligibility criteria. In the case of a synthetic security, the issuer will be exposed to the respective counterparty, which will be addressed by specific counterparty requirements and

portfolio limitations. Moreover, unfunded synthetic securities will be subject to a minimum counterparty rating of 'A/F1' while funded synthetic securities have minimum counterparty requirements of 'A+/F1'.

### **A1-VF Noteholders**

The issuer relies on the A1-VF noteholders to make payments when drawn upon the revolving facility. Moreover, the issuer may also reserve part of the facility's undrawn amounts against unfunded credit default swap (CDS) transactions. To mitigate this counterparty exposure, the issuer needs to take within 30 calendar days one of the following actions should the rating of the A1-VF noteholders fall below the required ratings of 'A+/F1':

- 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 A1-VF counterparty; or
- take any such other action (including posting of collateral) as agreed with the rating agencies at the relevant time.

## **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-' 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).

### **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 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 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.

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.

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 2023.

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; and
- the expected maturity of the new asset is no longer than the expected maturity of the asset that it replaces.

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#### Portfolio Guidelines\*

Minimum Instrument Rating for Loans	B-
Maximum Per Obligor (EUR) – up to 5 obligors can represent EUR22,500,000 each	18,750,000
Maximum Senior Unsecured Loans (EUR)	37,500,000
Maximum Per Obligor of Senior Unsecured Loans (EUR)	11,250,000
Maximum Per Industry (EUR)	112,500,000
Maximum Per Three Largest Industries (EUR)	262,500,000
Maximum US and Canada (EUR)	154,000,000
Maximum Non-euro Obligations (EUR)	308,000,000
Maximum Debtor In Possession Loans (%)	5.0
Maximum Chains of Sub-Participations (EUR)	37,500,000
Maximum Sub-Participations & Synthetic Securities (%)	20.0
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	6

\* For the purpose of the portfolio guidelines the principal balances of collateral obligations are included at the initial exchange rate or the asset swap rate where applicable.

Source: Harbourmaster CLO 9 B.V. Final Prospectus

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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 below. For the purpose of the WAS test non-euro obligations are included at the current spot exchange rate while for all other tests the initial exchange rate will be used. Should the managers CAM rating be upgraded to CAM1 a different matrix will be applicable.

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**WARF/WAS/WARR Guideline**


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<b>WARF*</b>	<b>24.50</b>	<b>25.50</b>	<b>26.50</b>	<b>27.50</b>	<b>28.00</b>	<b>28.50</b>	<b>29.00</b>	<b>29.50</b>	<b>30.00</b>
<b>Min WARR* (%)</b>									
				<b>WA Spread* (bp)</b>					
80	1.78	1.84	1.89	1.90	1.91	1.95	2.00	2.03	2.10
79	1.79	1.85	1.90	1.91	1.93	1.98	2.02	2.05	2.13
78	1.79	1.85	1.91	1.92	1.94	2.00	2.04	2.07	2.15
77	1.80	1.86	1.92	1.94	1.97	2.03	2.09	2.15	2.21
76	1.80	1.86	1.93	1.96	2.00	2.06	2.13	2.22	2.27
75	1.81	1.87	1.95	2.01	2.05	2.11	2.18	2.26	2.32
74	1.81	1.87	1.97	2.06	2.10	2.16	2.23	2.30	2.37
73	1.84	1.91	2.04	2.11	2.18	2.25	2.32	2.39	2.47
72	1.86	1.94	2.10	2.16	2.25	2.34	2.40	2.48	2.56
71	1.89	2.01	2.15	2.26	2.33	2.41	2.48	2.56	2.63
70	1.91	2.07	2.20	2.35	2.40	2.48	2.56	2.63	2.70
69	1.99	2.15	2.29	2.45	2.52	2.63	2.67	2.76	2.83
68	2.06	2.22	2.37	2.53	2.59	2.69	2.75	2.85	2.91
67	2.13	2.28	2.44	2.61	2.66	2.75	2.83	2.93	2.98
66	2.19	2.34	2.53	2.74	2.81	2.91	3.02	3.12	3.20
65	2.24	2.39	2.61	2.86	2.95	3.07	3.21	3.31	3.42

\* Excluding defaulted assets

Source: Harbourmaster CLO 9 B.V. Final Prospectus

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The maximum weighted-average life (WAL) of the portfolio should not exceed nine years during the first year of the transaction, stepping down to six years at the end of the reinvestment period.

## 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 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.

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 E OC test would redirect interest proceeds from funds remaining after the payment of deferred interest on the class E 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 E 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 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 A 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 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.

### Coverage Tests

	Trigger versus Actual Value* (%)	Definition
Class A	117.6 vs. 131.76	Par coverage amount divided by the sum of the class A1, A2 notional
Class B	110.1 vs. 121.12	Par coverage amount divided by the sum of the class A1, A2, B notional
Class C	107.8 vs. 115.38	Par coverage amount divided by the sum of the class A1, A2, B, C notional
Class D	103.5 vs. 108.70	Par coverage amount divided by the sum of the class A1, A2, B, C, D notional
Class E	101.7 vs. 105.75	Par coverage amount divided by the sum of the class A1, A2, B, C, D, E notional

### Interest Coverage Test

Class A	120.0	Interest coverage numerator divided by the interest due to the class A1 and A2 notes on the following payment date
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### Additional Coverage Test

	102.7 vs. 105.75	Par coverage amount divided by the sum of the class A1, A2, B, C, D, E notional
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### 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 7.5% 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 A OC test only), note that the loan rating for senior secured loans is generally higher than the issuer rating.

For the purpose of the coverage tests proceeds from non-euro obligations and the balance of the A1-VF note are included using the current spot exchange rate or the asset swap rate where applicable.

\* Actual OC test values are based on a target portfolio balance of EUR750.75m

Source: Harbourmaster CLO 9 B.V. Final Prospectus

The structure also includes an additional coverage test, calculated in the same way as the class E 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 (30% of the available funds) and used to accelerate redemption of the class E notes (30%). After the reinvestment period, 30% of the available funds will be used to redeem the notes in order of seniority and 30% to accelerate the redemption of the class E notes.

All coverage tests are calculated using the current spot rate for obligations hedging via a corresponding drawing under the VFN in order to accurately reflect current obligor exposures.

## 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](http://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 27.5 (see table below for VECTOR RDRs). The expected WARR tested was 70% tiered to 55% at the 'AAA' level and a WAS of 235bp.

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#### Vector Results for a WARF 27.5 portfolio with a WARR of 70% (%)

Rating	Rating Default Rate (RDR)	Weighted-Average Recovery Rate
AAA	54.95	55.00
AA	52.64	60.00
A	48.57	65.00
BBB	39.09	70.00
BB	34.42	70.00

Source: Fitch

Fitch has given credit for Harbourmaster's strong credit underwriting and workout experience, as reflected in the assigned asset manager rating of '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

For example, if the RDR is 50% at the 'A' level, the reduction will be applied as follows:

$$48.57\% \times (1 - 5.0\%) = 46.14\%$$

### Cash Flow Analysis

Fitch 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, FX and interest rate stresses, forming a total of 243 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](http://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.

## 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](http://www.fitchresearch.com). Further information on this service is available at [www.fitchratings.com](http://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 EUR770m

Class	Rating	Size (EURm)	CE <sup>3</sup> (%)	PMT Freq	Basis	Spread/Coupon (%)	First IPD	Maturity	ISIN
A1-T	AAA <sup>1</sup>	254.10	30.26	Quarterly	Euro Floater	0.22	22 Oct 2007	8 May 2023	XS0296310856
A1-VF	AAA <sup>1</sup>	269.50	30.26	Quarterly	Euro Floater	n.a.	22 Oct 2007	8 May 2023	n.a.
A2	AAA <sup>1,2</sup>	46.20	24.10	Quarterly	Euro Floater	0.33	22 Oct 2007	8 May 2023	XS0296311581
B	AA	50.05	17.44	Quarterly	Euro Floater	0.44	22 Oct 2007	8 May 2023	XS0296312126
C	A	30.80	13.33	Quarterly	Euro Floater	0.65	22 Oct 2007	8 May 2023	XS0296312639
D	BBB	40.04	8.00	Quarterly	Euro Floater	1.55	22 Oct 2007	8 May 2023	XS0296313017
E	BB	19.25	5.44	Quarterly	Euro Floater	3.55	22 Oct 2007	8 May 2023	XS0296313108
F	N.R.	60.06	n.a.			excess			XS0296313280

<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

<sup>3</sup> Credit enhancement in the form of subordination only based on a target portfolio amount of EUR750.75m

### Combination Note

Class	Rating	Size (EURm)	Type of Rating	Component Class	Component Amount (EURm)	Component Rating	Maturity	ISIN
S1	BBB-	3.0	Ultimate P	D	1.5	BBB	8 May 2023	XS0296317273
				E	1.5	BB		

### 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	Issuer	Harbourmaster CLO 9 B.V.
Location of SPV	Netherlands	Asset Manager	Harbourmaster Capital Limited
Asset Manager Rating	'CAM 2'	Trustee	Deutsche Trust and Securities Services
Primary Analyst	scott.duggal@derivativefitch.com	FX Hedge Counterparty	Bank of America, N.A., rated 'AA-/F1+' and Goldman Sachs Group, Inc. rated 'AA-/F1+'
Secondary Analyst	andreas.wilgen@derivativefitch.com	A1-VF Counterparty	Various ('A+/F1')
Performance Analyst	christiane.kuti@derivativefitch.com	Liquidity Facility Provider	Deutsche Bank AG, London branch
		Credit Enhancement Type	Subordination, Excess Spread

### Structural Information

A OC Test	117.6% – Class A1 and A2
B OC Test	110.1% – Class B and Above
C OC Test	107.8% – Class C and Above
D OC Test	103.5% – Class D and Above
E OC Test	101.7% – Class E and Above
Additional Coverage Test	102.7% – Class E and Above
A IC Test	120.0%* – Class A2 and Above
Revolving Period	Up to the Payment Date Falling in April 2014
Closing Date	May 2007
Min Rating	B-
Effective Date	February 2008 or before

\* Applicable after Effective Date

### Collateral

Pool Characteristics as per effective date	Eligibility Criteria/Portfolio Tests
Current Principal Balance (EURm)	751.8 Target Principal Balance (EURm) 750.75
Current WAL (Years)	6.69 Max WAL (Years) 9
Largest Industry (Broadcasting, Media & Cable (EURm)	106.2 Max Largest Industry (EURm) 112.5
Three Largest Industries (EURm)	260.5 Max Three Largest Industries (EURm) 262.5
Non-EUR Loans (EURm)	281.1 Max Non-EUR Loans (EURm) 308.0
US & Canada (EURm)	127.9 Max. US & Canada (EURm) 154.0
DIP Loans (%)	0% Max DIP Loans (%) 5.0
Sub-Participations & synthetic securities (%)	2.1% Max Sub-Participations & synthetics (%) 20.0
Senior Unsecured (EURm)	0 Max Senior Unsecured (EURm) 37.5
WARF	25.77 Max WARF Dependent on Matrix
WARR (%)	79.84 Min WARR Dependent on Matrix
WA Spread (Floating) (bps)	231 Min WA Spread (bps) Dependent on Matrix

Source: Transaction documents

# Harbourmaster Capital Management Limited

## European Leveraged Loans CDO Asset Manager Profile

26 March 2007

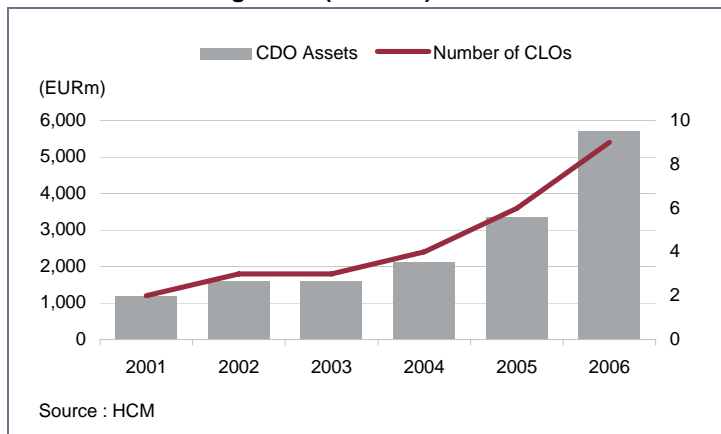
Harbourmaster Capital Management Ltd (HCM) is a Dublin-based specialist asset management company dedicated to the management of primarily senior secured loans through the Harbourmaster programme. The company, founded in 2000 by the two current principals, is owned by management (51%) and a consortium consisting of RIT Capital Partners and Clearbrook (49%). It currently has 22 staff, all dedicated to the Harbourmaster programme.

HCM's CAM2 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. HCM's CAM rating, affirmed in November 2006 does not reflect the recent changes in the organisation. Derivative Fitch will review HCM's CAM rating in November 2007.

### Corporate Information

Harbourmaster Capital Management Ltd Custom House, Plaza 3, IFSC Dublin 1, Ireland www.hcm.ie	Corporate Contact: Alan Kerr +353 1436 0107 alan.kerr@hcm.ie  Year Founded: 2000 Business form: Ltd. Registration: The Financial Regulator, Parent: Harbourmaster Capital Ltd	Employees: 22 Management : 5 Portfolio Managers/ Analysts: 10 Administration : 7
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### CLOs Under Management (Dec end)



### CLOs Under Management as of December 2006

Name	Closing	Structure	Primary Asset Type	Current Size (EURm)
Harbourmaster CLO 2	Nov 01	Cash Flow	European Senior Secured Leveraged Loans	686.0
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
<b>Total</b>				<b>5,709.3</b>

NB: Harbourmaster CLO 1 was called in 7/06.

### Strengths

- Market presence resulting in superior access to collateral
- Strong control environment
- Depth of credit research practices
- Disciplined and stable investment strategies
- Substantial workout experience and expertise.

### Challenges and Mitigants

- To finalise the implementation of Wall Street Office and re-engineer administration processes. Only the compliance module remains to be implemented.

## Descriptive Profile and Category Scores

### Company and Management Experience, 1.50

- 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). Alan Kerr (six years company tenure and 12 years industry experience) is co-managing director of HCM. In February 2007, HCM hired Mark Moffat as Managing Director<sup>1</sup> and co-head of the business.
- Since October 2005, shareholders of Harbourmaster Capital Limited (HCL) have been Rothschild Investment Trust 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.
- In 2006, HCM consolidated its leading market position, issuing EUR2.4bn of notes and closing its first two pro rata CLOs.

### Staffing, 1.50

- HCM employs 22 people, divided between the Portfolio Management (headed by Anna-Marie Horgan), Credit Research (headed by Fiona O'Connor) and Cash Management and Compliance functions (headed by Katrin Goldbeck).
- HCM has maintained depth of staffing resources to match business growth (three senior hires in 2006) while increasing specialisation of roles in the front office.
- Staff turnover remains low, indicative of the team's long-term commitment and compensation and retention structures.
- In January 2007, Fiona O'Connor, former Head of the French & German Acquisition Finance Team at Bank of Ireland, joined HCM as Head of Credit.
- In March 2007, HCM made another senior hire when Mark Moffat, former Head of Debt and Equity Capital Markets and CDOs at Bear Stearns in Europe, joined HCM as Managing Director<sup>1</sup> and co-head of the business with Alan Kerr.

### Procedures and Controls, 1.50

- HCM has a robust control framework for its size, based on task segregation, second level of controls and management reporting.
- Well documented procedures provide detailed coverage of critical processes.
- The further integration of Wall Street Office into HCM's procedures (conducted in 2006), has strengthened the effectiveness of controls, while reducing operational risks.

### Portfolio Management, 1.50

- 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, enhanced in 2006 by the ability to invest on a pro rata basis.
- 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 level.

### CDO Administration, 1.75

- 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 Wall Street Office (WSO) system.
- Transaction set-up and modelling were enhanced in 2006, not only by WSO, but by proprietary cash flow models built for each CLO.

### Technology, 1.75

- WSO was acquired in 2005. Once the compliance module has been validated in Q1 2007, the implementation will be complete.
- HCM uses complementary Excel-based front office applications for portfolio and risk management (including compliance monitoring).
- The former administration processes will continue to be run on spreadsheets in parallel to WSO, until the system is fully operational.

### CDO Performance, 1.75

- All the Harbourmaster CLOs have always been in compliance with their portfolio profile and coverage tests.
- No < 'CCC+' loans. There are currently no defaults across the Harbourmaster Programme.
- CLO2 combo note was upgraded in 2006. All Harbourmaster CLOs have been consistently affirmed throughout their lives.
- CLO1, called in July 2006 at 100.5, realised 16.8% internal rate of return. Annualised return since inception exceeds targeted long-term return on all other CLOs.

## 1.61 Overall CAM Score

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<sup>1</sup> Subject to Regulatory approval

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