

European Structured Finance New Issue

Harbourmaster CLO 1 Ltd.

Ratings

EUR 429,000,000 Class A First Priority Secured Floating-Rate Notes due 2013.....	AAA
EUR 24,000,000 Class B Second Priority Secured Floating-Rate Notes due 2013.....	A
EUR 13,000,000 Class C Third Priority Secured Floating-Rate Notes due 2013.....	BBB
EUR 5,000,000 Class D Fourth Priority Secured Floating-Rate Notes due 2013.....	BB
EUR 5,000,000 Class M1 Subordinated Notes Secured Floating-Rate Notes due 2013	NR
EUR 27,000,000 Class M2 Subordinated Notes Secured Floating-Rate Notes due 2013.....	NR
EUR 10,000,000 Class S Combination Notes due 2013.....	NR

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Summary

HARBOURMASTER CLO 1 Ltd.'s ("Harbourmaster," or "the issuer") liabilities are assigned ratings as indicated at left.

The issuer is a company with limited liability, incorporated under the laws of Jersey for the sole purpose of acquiring the portfolio, entering into each of the transaction documents and issuing the notes. The portfolio will be managed by Harbourmaster Capital Limited ("the collateral manager") which will be advised by Euro Capital Structures ("ECS"). Harbourmaster will issue EUR503 million of various classes of floating-rate notes, investing the proceeds in a EUR 500 million portfolio of sub-participations in Euro-denominated sub-investment grade debt obligations. The portfolio to be acquired by the issuer will comprise of:

- i. sub-participations in senior secured loans acquired from Harbourmaster Loan Corporation B.V. (a bankruptcy remote entity incorporated under the law of the Netherlands) together with a security interest in the underlying loan in respect of which such sub-participations have been created;
- ii. sub-participations in senior secured loans acquired from any financial institution rated at least 'F1+'; or
- iii. synthetic securities linked to underlying loans and security referred to in (i) and (ii) above.

As of the closing date, the issuer expects to purchase approximately 75% of the target portfolio, and will have purchased 100% by the effective date 31st October 2001.

The issuer's assets will serve as collateral for all the rated classes of notes. The ratings are based on the quality and mixture of portfolio assets, which are acquired by the collateral manager, subject to the investment guidelines outlined in the collateral management agreement.

Capital Structure

Class	Mil	Coupon	Rating Description	Enhancement (%)
Class A Notes	429	3M EURIBOR + 55bps	Timely I & Ult. P	15.00%
Class B Notes	24	3M EURIBOR + 135bps	Ultimate P & I	10.00%
Class C Notes	13	3M EURIBOR + 220bps	Ultimate P & I	7.36%
Class D Notes	5	3M EURIBOR + 615bps	Ultimate P & I	6.36%
Class M1 Notes	5	Semi-annual residual	NR	
Class M2 Notes	27	Semi-annual residual	NR	
Total Capital	<u>503.00</u>			
Combination Notes	15.5	3M EURIBOR + 0bps	NR	

30 March 2001

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Ratings are also determined by the credit enhancement provided to the various levels of outstanding debt, which include support provided by subordinated notes and structural protection covenanted by the documents and excess spread. Investment restrictions limit the collateral manager's portfolio allocations with respect to risks to the portfolio, which include overall deterioration in the credit quality of the assets and excessive defaults on a significant portion of investments. These risks are mitigated by the portfolio guidelines, which require a minimum level of industry and country diversification, maximum obligor concentrations, a minimum weighted average loan and entity rating and average recovery rate, and the maintenance of minimum overcollateralisation and interest coverage ratios.

Additionally, Fitch looks to the experience of the collateral manager's advisor, the investment manager

Portfolio Guidelines

(% as of effective Date)

Portfolio diversification

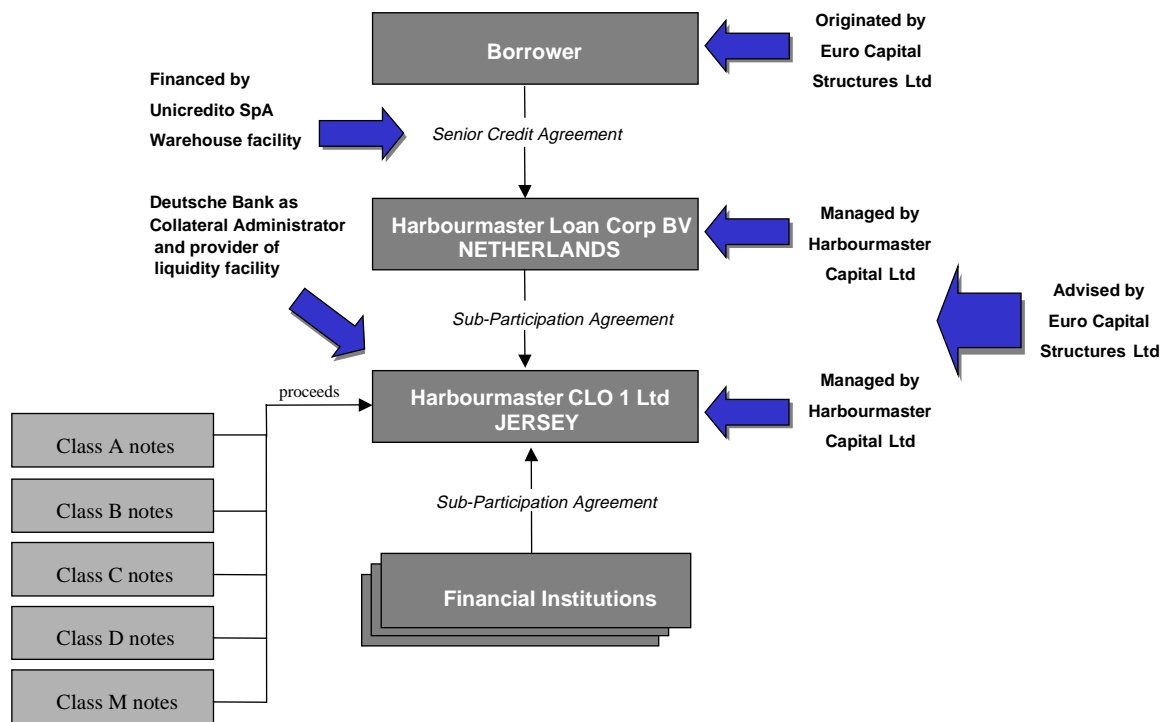
Maximum Single Obligor Concentration	3.5
Maximum concentration of obligors located in the US and Canada	10.0
Maximum synthetic securities relating to obligors currently in the portfolio	7.0
Maximum concentration of obligors in one Fitch industry	10.0
Max percentage of synthetic securities and subparticipations from financial institutions	50.0
Maximum participation with a single financial institution (rated 'AA-/F1+' or above)	10.0
Obligation of or guaranteed by the following countries:-	
Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the U.S	

Portfolio Profile Tests

Minimum weighted average Fitch loan rating factor	47.0 (BB-)
Minimum rating of underlying loan	B+
Minimum weighted average Fitch entity rating factor	52.2 (B)
Minimum rating of underlying entity	B-
Minimum Weighted Average Fitch Recovery Rate	75.0
Minimum Fitch Recovery Rate on any one loan	50.0
Percentage of portfolio with recovery rates below 60%	8.0
Minimum Weighted Average Margin	2.2
Maximum Weighted Average Loan Life (years)	7.0

ECS. For further information on the agency's rating methodology, see research "Rating Criteria for European Arbitrage Collateralised Debt Obligations" dated June 5 2000, available on www.fitchratings.com.

All rated notes will be secured over the assets of the issuer and have a stated, legal final maturity of 30th April 2013. Interest in respect of the notes will be payable quarterly in arrears. All the Classes of notes will make quarterly interest payments in arrears beginning July 31st, 2001. The Class A notes survived their respective stress scenarios with timely payment of interest throughout the transaction and full repayment of principal at maturity. In their respective stress tests, the Class B, C and D notes realised ultimate payment of full and compensating interest and principal at maturity.



Credit enhancement for the Class A First Priority notes totals 14.7% and will be provided by the Class B Second Priority notes (4.77%), Class C Third Priority notes (2.58%), Class D Fourth Priority notes (0.99%), Class M Subordinated notes (6.36%) and excess spread.

Collateral

The rated debt securities are secured by sub-participation in a diversified portfolio of mostly sub-investment grade loans. All loans have to be explicitly or shadow-rated by Fitch and assigned an expected recovery rate. During the first six months of the ramp-up period until 31st October 2001 the unused proceeds from the notes will be paid into the Unused Proceeds Account pending further investment in additional collateral obligations satisfying the portfolio guidelines and eligibility criteria. For mismatches in interest payment dates a liquidity line of EUR 10 million has been established which is to be provided by Deutsche Bank or other F1+ rated banks.

The issuer sub-participates in underlying loans (or syndicated loans) either from Harbourmaster Loan Corporation B.V. (“HLC”) under a Master sub-participation agreement or from qualifying institutions with at least an ‘F1+’ rating. The sub-participation must be 100% of the underlying loan in

respect of which the sub-participation has been granted. Synthetic securities up to 7% of the portfolio related to specific obligors already part of the portfolio can also be acquired. The aggregate of the sub-participations via qualifying institutions and synthetic securities must not exceed 50% of the collateral balance. The issuer is subject to certain limitations on eligible collateral based on the portfolio guidelines (see page 2 – Portfolio Guidelines).

The portfolio guidelines are designed to limit the issuer’s exposure to certain risks while allowing some flexibility in areas of the collateral manager’s expertise. Every acquired loan or loan sub-participation and synthetic security will be assigned a credit rating that will be communicated to the collateral manager. This loan rating is based on the entity rating and the expected recovery rate on the entity’s specific senior secured obligation. Fitch assigns a recovery rate to each obligation. The rating assigned to the loan can therefore be several notches above the entity rating based on the expected recoveries. The agency will rate all loans included in the portfolio to date and post closing. The collateral manager is restricted to investments with a minimum Fitch individual recovery rate of 50% and a minimum Fitch weighted average recovery rate of 75%. Minimum loan and entity ratings are on an asset specific and weighted average basis (see portfolio guidelines above).

The collateral manager, Harbourmaster Capital Limited, expects to invest the note proceeds in sub-participations of senior secured loans and synthetic securities as mentioned above. The transaction term can be subdivided into the three following periods:

- 1) Ramp-up period until the effective date 31 October 2001

During this period the portfolio investments are made according to eligibility criteria in order to fulfil the portfolio guidelines on the effective date. To ensure sufficient income from the obligations during the ramp up period, the weighted average minimum coupon for investments during this period is 2.5%. A liquidity facility will be provided to cover interest payment mismatches.

- 2) First reinvestment period until 30 April 2006.

During this period proceeds from sub-participations and synthetic securities in respect of matured or prepaid loans are reinvested in loans that meet the portfolio guidelines. Proceeds will not be reinvested if a coverage test is breached. In this case the proceeds are used to pay timely interest and principal on the notes according to the priorities of payment. The minimum weighted average coupon for the portfolio will be maintained at 2.2% during this period.

- 3) Second reinvestment period from 1 May 2006 until 30 April 2010

During this period reinvestments can only be made from the proceeds of unscheduled principal payments or mandatory prepayments on the loan obligations.

All the underlying loans will amortise or redeem before the final maturity date of the notes 30 April 2013. The transaction is non-callable during the first reinvestment period, excluding the payment date falling five years from closing date. In the remaining seven years of the transaction, the issuer may call the transaction at the request of at least 75% of the subordinated (Class M) noteholders. This would result in the principal proceeds being applied to redeem the outstanding notes in order of priority. The subordinated noteholders may request this option be exercised on any payment date after the end of the non-call period.

■ Investment Manager

Fitch's due diligence process included an in-depth evaluation of the investment manager, ECS, which advises the collateral manager. This consisted of an on-site review of its operations, interviews with key personnel, and a review of ECS's asset management experience and performance.

ECS was formed in July 1999 with major equity support from Fiat and UniCredito Italiano. One of the main objectives of the firm was to manage European arbitrage CLOs (collateralised loan obligations).

This transaction is the first European CLO backed by sub-participations in or synthetic securities referable to 100% euro-denominated senior secured leveraged loan collateral. Unicredito Italiano Group (rated 'AA-/F1+') which is the main equity owner of ECS, is providing the warehouse facility and is investing in the Class M-2 notes of this transaction.

The ECS team consists of nine members with six dedicated to this transaction. Senior team members have extensive experience in one or both the leveraged loan and/or securitisation markets. However, distressed debt experience within this team is relatively limited, in common with a number of other European asset managers. Fitch notes that ECS senior individuals are investing own funds of EUR 1mln in the equity tranche, and their remuneration structure is reliant on the performance of this transaction.

ECS proposes to be a long-term participant in the European arbitrage CDO (collateralised debt obligations) market and expects to organise further similar transactions. Its strategy is to achieve superior returns whilst preserving capital and to this end it maintains a buy and hold strategy for assets. When investing in assets it tries to avoid certain industries that it has identified as not consistent with these objectives.

The ECS approach to the loans is to complete an initial screening on a macro basis, assessing the industry, turnover, pricing and historic volatility of earnings. Once this has been completed, an analyst, focusing on specific industries, undertakes an additional review to ensure the asset meets internally set credit rating score. This is followed by an in-depth credit assessment by the analyst and includes coverage of key areas such as financial, industry, legal and structural risks alongside the risk/return and relative value considerations. External credit

assessment by Fitch is also required as part of the approval process and must be obtained prior to internal approval. All credits require a unanimous investment committee approval prior to purchase.

Each loan is continually reviewed, monitored and discussed at weekly meetings, as is the performance of the overall portfolio. Much emphasis is placed on the review process to ensure problem accounts are identified at an early stage and the risk of loss is minimised.

Whilst Fitch acknowledges the short history of the asset manager, the individuals dedicated to this CLO have good credit experience. In the previous 18 months that the agency has been working with ECS, it has come to the conclusion that ECS possesses satisfactory experience, systems and procedures to manage the portfolio within the parameters covenanted to by the collateral management agreement and implied by the ratings.

Structural Protection

Overcollateralisation and Interest Coverage Tests

Financial covenants and a cumulative loss test have been established in the collateral management agreement to maintain minimum levels of overcollateralisation and interest coverage for the various layers of rated debt (*see table on Cumulative Loss Test and Financial Covenants*).

The overcollateralisation ratios are calculated by dividing the aggregate value of the underlying loans (sum of performing loans, recoveries on defaulted loans and any balances outstanding) by the respective levels of notes outstanding (of the respective class and the classes senior to the relevant class of notes). The interest coverage ratios are determined by dividing the total amount of interest proceeds from the underlying loans for a given period by the sum of interest payments due on the various notes outstanding during the same period.

In the event an overcollateralisation or interest coverage test is not satisfied, the issuer must use interest proceeds, and to the extent necessary principal proceeds according to the order of priority of payments, to redeem outstanding notes in order of priority until such tests are in compliance. For example, if the Class A overcollateralisation test fails, subordinate interest payments are diverted from the Class B, C and D notes to redeem the senior notes

Financial Covenants (from Effective Date*) (%)

	Overcollateralisation Test	Interest Coverage Test
Class A First Priority	110.0	120.0
Class C Third Priority	102.0	110.0
Class D Fourth Priority**	101.5/125.0**	110.0

*The OC and IC ratios are lower before the portfolio is fully ramped up.

**as long as the cumulative loss test is satisfied the OC test of at least 101.5% applies.

in order of priority until the overcollateralisation test is back into compliance.

The portfolio is also redeemed upon certain events. If at the effective date the portfolio does not satisfy the portfolio guidelines the issuer shall seek confirmation from Fitch that such failure will not adversely affect any rating assigned to the notes. If such confirmation is not obtained the unused proceeds will be redeemed in accordance with the priority of payments.

Further, during the first reinvestment period, proceeds from scheduled or unscheduled principal payments under the loans which cannot be reinvested according to the portfolio guidelines shall be used to redeem the notes in accordance with priorities of payments.

Legal Structure

The notes are issued by Harbourmaster CLO 1 Ltd., a bankruptcy remote special purpose vehicle (“SPV”) based in Jersey. Its activities are limited to those directly related to its primary purpose, namely, entering into sub-participation agreements with either HLC, a further bankruptcy remote vehicle based in the Netherlands or financial institutions or acquire synthetic securities in such sub-participated loans.

HLC’s principal purpose is to acquire senior secured loans by way of assignment or subparticipation, borrowing money under the warehouse facility’s liquidity line provided by UniCredito Italiano SpA. The warehouse facility refinances itself through securitisation of the loan assets. HLC is managed by the collateral manager, which in turn is advised by ECS. The issuer has no legal or beneficial ownership interest in the underlying loans.

To mitigate counterparty risk of the financial institutions, from which the issuer has acquired sub-participations, a downgrade trigger has been put in place. The selling financial institutions are required to be rated 'F1+' by Fitch. In the event of a downgrade below 'F1+', the respective entity must be replaced by another 'F1+' rated institution. For this, the borrower's consent may be needed.

The counterparty risk in respect of the sub-participation acquired by the issuer from HLC is, mitigated by the issuer acquiring a security interest in the underlying loans, in respect of which, such sub-participation has been granted.

HLC will refinance all its loan obligations through SPVs that will be issuers in further CLOs. Fitch's due diligence of the legal structure is still subject to the review of the relevant documentation in this transaction.

Portfolio Stress Tests

As part of the rating process, Fitch performed computer cash flow modelling that stressed a hypothetical portfolio pursuant to the issuer's investment guidelines. The models assumed the most aggressive portfolio mix permitted under the collateral management agreement while maintaining a weighted average rating entity rating of 'B' or Fitch Rating factor of '52.2' and a weighted average recovery rate of 75%.

The stress scenarios applied Fitch's standard methodology of defaults and recovery rates for each debt rating and asset type respectively. The default rates listed in the table below were applied to a fully ramped up portfolio. Since the maximum weighted

Default Rates

(%)

Debt Rating	Default Frequency for stress test
'AAA'	46.98
'A'	34.74
'BBB'	28.62
'BB'	25.56

average life of the collateral is seven years, Fitch adjusted the default rates by taking 90% of the agency's 10-year default probabilities.

The stress scenarios included front-loaded, back-loaded, and base case tests, which varied the timing of asset defaults. The front-loaded test stressed the asset portfolio over the first five years of the transaction at 33%, 25%, 16%, 13% and 13% of aggregate defaults

(realised as a percentage of the fully ramped-up collateral balance). The back-loaded stress test applied a 'B' level default rate evenly over the first nine years of the transaction and continued at a higher default percentage until maturity. In the back-loaded stress test, all default percentages apply to the outstanding collateral balances. The default frequencies resulting from the application of the Fitch single obligor test were distributed over the first five years of the transaction in the same way as the front-loaded test. The number of obligors defaulted vary according to the stress scenario. For the purpose of this test, a stressed weighted average recovery rate was assumed.

The cash flow models assumed that the defaulted investments would realise minimum recovery rate of 50% (8% of the portfolio is allowed to be below 60%) and a weighted average recovery rate of 75%. Fitch assumed recoveries are realised 30 months following default.

The recovery rates are based on the agency's expertise in this sphere. A recovery rate is assigned to each specific loan before it is added to the asset portfolio. (see recovery grid in "Rating Criteria for European Arbitrage Collateralised Debt Obligations", dated 5 June 2000 and 'UK Secured Loan Recovery Study', dated January 2000).

The models showed that the capital structure supported the Fitch default and recovery methodology. The Class A notes survived their respective stress scenarios with timely payment of interest throughout the transaction and full repayment of principal at maturity. In their respective stress tests, the Class B, C and D notes realised ultimate payment of full and compensating interest and principal at maturity.

Surveillance

Fitch will monitor the performance of the issuer as long as the rated debt is outstanding. As part of the ongoing surveillance, it will receive monthly reports that provide detailed information of the total capitalisation of the issuer, individual investments and adherence to investment restrictions, and calculations of the overcollateralisation and interest coverage tests. Fitch also updates the shadow ratings of each of the underlying assets on a semi-annual basis. It will also review semi-annual audited financial statements. In addition, the agency will engage in annual follow up due diligence visits with the investment manager.

Surveillance information will be available at www.fitchratings.com.

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