

Deutsche Bank
Corporate Banking & Securities
Customized Loan Exposure through CLOs
Deutsche Bank Market Overview
Chris D'Auria Co-Head of CLO New Issue

[REDACTED]

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Overview
Section 1

Executive Summary

Deutsche Bank Securities Inc ("DB") is pleased to provide an overview of the Collateralized Loan Obligation ("CLO") market opportunity

Bank loans strategies have grown in popularity due to the unique features of the loan asset class (ie: senior secured status, attractive cash coupons and floating rate)

At present, these assets yield roughly 4-6%, with inherent downside protection arising from senior security.
attractive risk-adjusted return

Some investors access loans on an unlevered basis through products such as mutual funds

Other investors recognize that the yield and stability of bank loans offer a prime opportunity to apply leverage to generate higher absolute returns

Experience shows that term, non-recourse, non-mark-to-market financing is the most secure way to leverage these assets

The most established method of attaining this type of leverage is via a structured financing or CLO structure, which has been employed for securitizing loans since the early 1990s

CLOs have performed well through the downturn delivering at least double digit returns in most cases(1)(2)

CLOs have gone from a niche part of the market to an accepted asset class for investors seeking risk adjusted returns and yield with an investment thesis which fits the current economic market and environment. As such, loans offer an

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may result in the loss of your entire investment.

(2) Based on a subset of CLOs arranged by DB

The CLO Structure and Why it Exists

Overview

|| In essence, a CLO is nothing more than a finance company set up to purchase and manage a pool of primarily senior secured bank loans

|| Like a finance company, the loan assets are financed by raising senior debt and junior capital or equity from investors in the capital markets

|| Senior debt tranches rated AAA-BB benefit from credit enhancement

|| Equity benefits from term-non recourse, non mark-to-market financing provided by senior tranches

|| All investors benefit from monthly reporting and 3rd party oversight from trustees, rating agencies and accountants

|| CLO equity can be an attractive alternative for today's market environment
– Equity like returns generated by exposure to senior secured bank loans
– Target returns of [10-15]%(1) delivered primarily through quarterly distributions

– A CLO, by simply following a loss avoidance strategy, will allow term, non-recourse, non mark-to-market leverage to enhance the returns on a loan portfolio

– Aggressive company growth, equity multiple growth, or even macro economic growth are not required to generate returns

|| Investors can customize their leverage profile by combining different classes of the CLO's notes

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Leveraged Loan Overview
Section 2

Loans – A Unique Asset Class

Corporate Capital

Structure

Senior Secured Loans /

Revolving Credit Facility

Senior Secured Loans

■ The most senior debt obligation in the capital structure of non-investment grade companies, explicitly secured by claims on the

company's assets to provide superior rights in the event of default

Senior Unsecured Bonds

■ Interest is paid prior to bond coupons and stock dividends

■ Covenants can preserve cash to protect against credit deterioration

■ Generally shorter maturity than bonds

■ Benefit from

– Floating rates

– LIBOR floors

■ Over the long term, historical recovery rates have been 70% for senior secured loans

Trailing 12-Month Recovery Rate

100

Subordinated Bonds

Equity

10

20

30

40

50

60

70

80

90

0

US Senior Secured Loans

US Senior Unsecured Bonds

All Subordinated Bonds

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Source: Moody's Monthly Default Report, Jan 2014

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Feb-01

Jul-01

Dec-01

May-02

Oct-02

Mar-03

Aug-03

Jan-04

Jun-04

Nov-04

Apr-05

Sep-05

Feb-06
Jul-06
Dec-06
May-07
Oct-07
Mar-08
Aug-08
Jan-09
Jun-09
Nov-09
Apr-10
Sep-10
Feb-11
Jul-11
Dec-11
May-12
Oct-12
Mar-13
Aug-13
Jan-14

Large, Recognizable Companies Issuing Loans
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Active and Transparent Markets for Loan Collateral

|| Leveraged loans trade actively across the investment banks

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Speculative Grade Defaults
(US Trailing 12-month Issuer-Weighted)

|| Speculative grade defaults have dropped to near historical lows, and are projected to remain low based on positive fundamentals and technicals

Moody's Default Rate (Quarterly)(1)

10.00%

12.00%

14.00%

16.00%

0.00%

2.00%

4.00%

6.00%

8.00%

Moody's Default Rate (Quarterly)

US Baseline Forecast

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(1) Source: Moody's Monthly Default Report – Jan 2014

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Corporate Balance Sheets Have Been Bolstered in
Recent Years

|| The chart below shows the maturity wall as it appeared at the end of 2012
and 2014 as of 2/7

|| A substantial portion of the maturity wall has been refinanced and pushed
out past 2016

U.S. Maturity Wall based on S&P LSTA Leveraged Loan Index – 2012 vs. 2014

\$250

2014 as of 2/7

2012 YE

\$200

\$150

\$100

\$50

\$0

2014

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2015

2016

2017

Source: S&P LLI Index Maturity Breakdown on February 7, 2014

2018

2019

2020

2021

2022

12

Billions

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CLO Overview
Section 3

Demystifying CLOs Collateral

Senior Secured Loans to [BB / B] rated corps
Product Inception

Early 1990's
Performance of Equity Classes

17.5% average IRR on DB arranged US CLO equity (arranged between 2004 and 1st half 2007)

130% - 197% of dividends to equity holders
Ratings Stability of Debt Classes

79% of AAAs maintained rating of AA- or better (2005 - 2007 vintage) (2)
Performance through the Crisis

Diversification

Only six transactions out of the 650 US cash-flow CLOs outstanding in mid 2008 actually experienced events of default (three of which were subsequently cured) (2)

No losses for investors holding notes rated A and above(3) (4)

~100 - 150 credits across 20 - 30 industries
Transparency and Reporting

Loans traded and priced

Trustee reports with detailed collateral data
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(2) US CLOs Benefit from improved Corporate Credit and Strengthened Deal Structures, Moody's, Sep 12, 2011.

(3) Moody's and LSTA – Risk Retention and its Impact on CLOs via SEC. June 13, 2011. <http://www.sec.gov/comments/s7-14-11/s71411-65.pdf>.

(4) "Collateral Crises" – Gary Norton, FDIC. http://www.fdic.gov/bank/-analytical/cfr/2011/sept/Gorton_Presentation.pdf

CL0 – Simple and Transparent Structure Used
Since Early 1990s

|| In essence, a CL0 is nothing more than a finance company set up to purchase and manage a pool of primarily senior secured bank loans

|| Like a finance company, the loan assets are financed by raising senior debt and junior capital or equity from investors in the capital markets

|| Senior debt tranches rated AAA – BB benefit from credit enhancement

|| Equity benefits from term-non recourse, non mark-to-market financing provided by senior tranches

|| All investors benefit from monthly reporting and 3rd party oversight from trustees, ratings agencies and accountants

Assets

Securitization Structure

Liabilities

\$400 mm Asset Pool

Collateral Manager

Collateral Manager

Portfolio

90% -100%

Bank Loans

Rated BB/B

L + 325 - 425 coupon

Initial Rating

Ongoing Monitoring

R Rating

ating

Agencies

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Trustee

Trustee

Accountants

Monitoring Function

BBB 5%

BB 4%

B 2%

Equity 8%

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Periodic Audits

AA 14%

A 7%

L + 220 bps

L + 310 bps

L + 415 bps

L + 625 bps

L + 725 bps

Management
CLO Issuer
AAA 60%
L + 158 bps
Weighted Avg.
Cost of Debt:
L + 225bps
-

CL0 Issuance from 1999 to 2007

Consolidation and regulatory change throughout the 1990's and 2000's caused the loan market to shift from a bank dominated market to a market where CL0s play a key role.

CL0 Issuance from 1999 – 2007

120
100
80
60
40
20
0
1999
2000
2001
2002
2003
2004
2005
2006
2007

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Source: S&P LCD CL0 Activity as of Feb 2014. S&P CL0 Databank as of Feb 2014
CL0 issuance for March 2008 excludes 3 Market Value vehicles restructured to cash flow.

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Issuance (\$bns)

CLO Collateral Performance during the Crisis(1)

CLO Managers Outperform with Lower Defaults

0%
2%
4%
6%
8%
10%
12%
U.S. CLO Managed Defaults
U.S. Loan Index Defaults
111%
114%
117%
120%
123%
126%
129%
132%
CLO Senior OC Levels - Median
CLO Caa Bucket Levels
CLO WARF Levels

10.0%
12.0%
14.0%
0.0%
2.0%
4.0%
6.0%
8.0%
2200
2300
2400
2500
2600
2700
2800
2900

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Source: Moody's Global Structured Finance Collateral Performance Review & S&P LCD LLI Index Default Rates as of Jan 2014

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Life to Date Performance of Equity in
DB Structured CLOs(1)

|| 17.5% average IRR
on DB arranged US
CLO equity (arranged
between 2004 and 1st
half 2007)

|| 130% - 197% of
dividends to equity
holders

DB Structured CLO Equity Performance (Based on Current Trading Value of
Equity)(2)

As of January 31, 2014

35%
30%
25%
24.40%
22.10%
18.10%
20%
15%
12.84%
11.22%
10%
8.39%
5%
12.12%
13.37%
17.91%
16.10%
18.97%
17.55%
18.31%
15.79%
18.69%
18.75%
16.50%
16.34%
22.41%
29.65%
0%

CLO Issue Date

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Source: Intex, DB Trading – As of January 31, 2014. Each bar represents an
individual CLO arranged by DB

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(2) IRRs based on realized cash distributions to equity plus an assumed sale price at the current equity mark to market

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Life to Date IRR

CLO 1

CLO 2

CLO 3

CLO 3

5

CLO 4

CLO 5

CLO 5

CLO 6

CLO 7

CLO 1

CLO 8

CLO 9

CLO 11

CLO 10

CLO 12

CLO 11

CLO 13

CLO 12

CLO 13

CLO 14

CLO 15

CLO 16

CLO 17

CLO 20

CLO 18

CLO 19

CLO 20

CLO 10

CLO 1

Post-Crisis CLO Issuance –
Investors Recognize the Performance
CLO Issuance 2008 – 2014

100
120
20
40
60
80
0

CLO Issuance Projection

\$97.01
\$88.94
\$82.60
\$50.00
\$52.59
\$13.33

1
deal
1999
\$14.56

1
deal
2000
\$9.13

3
2001
\$12.14
3

2002
1994
CLOs, Prime Funds,
Hedge Funds & HY
Funds

17%
\$12.14
10
2003

\$25.49
50
deals
2004

\$54.15
70
deals
2005

92
deals
2006
162
deals

2007

\$13.53

25

deals

2008

\$0.83

2009

Composition of Buyers in the Leveraged Loan Market

Securities Firms

1%

Securities Firms

1%

\$4.05

10

2010

\$12.33

28

deals

2011

Q412

118

deals

2012

172

deals

2013

\$5.58

11

2014

Foreign/Domestic

Banks

5%

Finance Companies

1%

Insurance Companies

5%

Insurance Companies

6%

Finance Companies

5%

Foreign/Domestic

Banks

71%

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CLOs, Prime Funds,

Hedge Funds & HY

Funds

88%

Source: S&P LCD CLO Activity as of December 31, 2012, S&P CLO Databank as of February 13, 2014.

CLO issuance for March 2008 excludes 3 Market Value vehicles restructured to cash flow.

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Issuance (\$bns)

New Issue CLOs – 2014 vs. 2007

Tranche Subordination

Class / Rating

A (AAA)

B (AA)

C (A)

D (BBB)

E (BB)

Feb 2014 Deal

38.2%

25.8%

17.7%

12.2%

7.8%

2007 Deal

31.5%

24.0%

18.0%

13.0%

8.0%

Covenant

Non-Call Period

Reinvestment Period

Final Maturity

Time Between Pricing and Closing

Deal Specifics

2014 Range

~2 years

4– 5 years

11 – 12 years

4 – 6 weeks

2007 Averages

3 – 5 years

6 – 7 years

14 - 16 years

4 – 6 weeks

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Source: S&P LCD CLO Databank

2013 deal subordination refers to Ares XXVI which priced on March 1, 2013.

2007 deal subordination refers to Ares XII which priced in Fall of 2007.

Default Rates

Moody's Default Rate (Quarterly)(1)

16.00%

Moody's Default Rate (Quarterly)

14.00%

12.00%

10.00%

8.00%

6.00%

4.00%

2.00%

0.00%

US Baseline Forecast

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(1) Source: Moody's Monthly Default Report – Jan 2014

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Sep-99

Jan-00

May-00

Sep-00

Jan-01

May-01

Sep-01

Jan-02

May-02

Sep-02

Jan-03

May-03

Sep-03

Jan-04

May-04

Sep-04

Jan-05

May-05

Sep-05

Jan-06

May-06

Sep-06

Jan-07

May-07

Sep-07

Jan-08

May-08

Sep-08

Jan-09

May-09

Sep-09

Jan-10

May-10

Sep-10

Jan-11
May-11
Sep-11
Jan-12
May-12
Sep-12
Jan-13
May-13
Sep-13
Jan-14
May-14
Sep-14
Jan-15

CLO Assets: New Issue Loan Spreads

|| New Issue Loan Spreads are Relatively Wide

S&P LCD New Issue B+/B Spreads(1)

L+200

L+250

L+300

L+350

L+400

L+450

L+500

L+550

L+600

Dec -99

Dec -00

Dec -01

Dec -02

Dec -03

Dec -04

Dec -05

Dec -06

Dec -07

Dec -08

Dec -09

Dec -10

Dec -11

Dec -12

Dec -13

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(1) Source: Standard & Poor's LCD Lending Quarterly Q4-13.

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CL0 Funding: AAA CL0 Spreads

AAA Spreads

L+100

L+110

L+120

L+130

L+140

L+150

L+160

L+170

L+164

L+160

L+152

L+150

L+147

L+142

L+132

L+125

L+134

L+125

L+116

L+132

L+152

1Q11 2Q11 3Q11 4Q11 1Q12 2Q12 3Q12 4Q12 1Q13 2Q13 3Q13 4Q13 1Q14

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Source: S&P LCD CL0 Activity as of February 13, 2014. S&P CL0 Databank as of February 13, 2014.

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Creating a CLO
Section 4

Keys for Strategic CLO Equity Investors

Investment Goals

|| Desired Tenor / min non call period

|| Desired leverage / risk return profile

Portfolio / Structure Selection

Portfolio / Structure Selection

|| Desired borrower base /distribution- broadly syndicated vs. middle market loans

|| Industry and sector allocations

|| Portfolio diversification

|| Manager portfolio management style

|| Ability to reprice and or refinance liabilities

Manager Selection

Manager Selection

|| Track record of delivering for equity investors

|| Manager reputation with CLO debt investors

|| Manager's experience and skill working within the CLO structure

|| Manager's access to new issue assets

|| Manager's ability to warehouse or work with trading desk to source assets

|| CLOs and strategic investors are important to the manager

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Sample \$400mm Broadly Syndicated CLO –

Summary

Capital Structure

Class of Notes

Class A Notes

Class B Notes

Class C Notes

Class D Notes

Class E Notes

Class F Notes

Equity

TOTAL

Initial Portfolio Assumptions

1st Lien Senior Secured Loans (%)

2nd Lien / Senior Unsecured Loans

Senior Secured / Unsecured Bonds

WAL

WARF

Diversity

Weighted Average Spread

Portfolio Price

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Target(4)

[98.5]%

[1.5]%

N/A

[5.9] years

[2650]

[65]

[3.95]%(5)

[100.4]%

(1) WAL calculated based on a 20% CPR, 0% CADR and run to maturity with reinvestments into 5.5-yr bullet maturity assets

(2) From the Closing Date

(3) Prepayments and sale proceeds from credit risk assets may be reinvested after the end of the Reinvestment Period, subject to certain conditions

(4) Targeted levels are the expected Effective Date levels only and no representation is made that these targeted levels will equal the actual characteristics on the Effective Date

(5) Excludes LIBOR Floors

(6) 20% of cashflows over 12% IRR hurdle

26

[8.0] years

[2700]

[60]

[3.90]%

Rating

(S&P/Moody's)

[AAA]/[Aaa]

[AA]/[A]/[BBB]/[BB]/[B]/NR

Size(\$)
[249,000,000]
[55,000,000]
[28,000,000]
[20,750,000]
[18,250,000]
[6,400,000]
[36,460,000]
[413,860,000]
Test
Min.
[90.0%]
Max. [10.0%]
Reinvestment Period(2)(3)
Legal Final Maturity(2)
Expected Ramp-Up Period(2)
Payment Frequency
Senior/Junior/Incentive
Management Fees per annum
[4.1] years
[12.1] years
[3] months
[Quarterly]
[0.20% / 0.25% /20%(6)]
Size (%)
[60.0]%
[13.3]%
[6.7]%
[5.0]%
[4.4]%
[1.5]%
[9.1]%
[100.0]%
Transaction Assumptions(2)
Expected Closing
Non-Call Period(2)
WAL
(yrs)(1)
[6.3]
[7.4]
[7.5]
[8.1]
[8.6]
[8.9]
N/A
Coupon
L + [1.50]%
L + [2.00]%
L + [2.80]%
L + [3.50]%
L + [4.85]%

L + [5.55]%

N/A

L + [2.01]%

Yield

L + [1.58]%

L + [2.20]%

L + [3.10]%

L + [4.15]%

L + [6.25]%

L + [7.25]%

N/A

L + [2.25]%

Q1,2014

[2.1] years

Sample BSL CLO – Equity Return Profile
 20%
 Equity Returns Under 6 Year Call Scenario
 15%
 10%
 5%
 0%
 0%
 -5%
 Per Annum Default Rate
 -10%
 Equity Returns
 Call Year
 Call at 4.0
 Call at 5.0
 Call at 6.0
 Call at 7.0
 Run till Maturity
 Deutsche Bank
 Corporate Banking & Securities
 0.00%
 [14.5]%
 [16.0]%
 [16.8]%
 [16.5]%
 [15.3]%
 1.00%
 [12.1]%
 Constant Annual Default Rate
 2.00%
 [9.1]%
 [13.8]% [11.0]%
 3.00%
 [5.7]%
 [7.6]%
 [14.6]% [12.0]% [8.5]%
 [14.3]% [11.7]%
 [13.2]% [10.4]%
 [8.1]%
 [6.5]%
 4.00%
 [2.0]%
 [3.7]%
 [4.3]%
 [3.3]%
 [0.6]%
 5.00%
 6.00%
 [-2.1]% [-6.7]%
 [-0.9]% [-6.2]%
 [-0.8]% [-6.9]%

[-2.6] % [-10.1] %

[-7.1] % [-18.0] %

See Appendix for Modeling Assumptions

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1%

2%

3%

4%

5%

6%

IRR

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Modeling Assumptions
Appendix I

Certain BSL Modeling Assumptions

The targets, models and analyses contained herein are based on certain assumptions as to future events and conditions that are inherently uncertain, unpredictable and subject to substantial change. No representation is

made by DB, the manager or any other person as to the reasonableness of the targets, models, analysis or assumptions contained herein. Furthermore, no representation is made as to, and investors should not rely on, the targets, models, analysis or assumptions provided herein as indicative of the actual performance of a CLO transaction. Actual results will vary, perhaps materially, from the targets, models, analysis and assumptions contained herein. Investors should consider the targets, models, analysis and information presented here in light of the underlying assumptions contained herein to reach their own conclusions as to the reasonableness of those assumptions and to evaluate the targets, models and analysis on the basis of those considerations. There is no assurance that all assumptions have been considered. Changes to and/or consideration of different or additional assumptions could have a material impact on the results indicated. Certain of the assumptions are as follows:

a)

[70]% recovery for senior secured 1st lien loans and [40]% recovery for 2nd lien loans.

b) The initial target portfolio consists of [98.4]% senior secured first lien term loans, [1.6]% 2nd lien loans ([100.0]% floating-rate assets).

c)

Reinvestments in additional collateral during the reinvestment period are assumed to consist of [95.0]% 1st lien loans and [5.0]% 2nd lien loans with an average [3.75]% / [7.50]% spread, [1.00]% floor and [99.50]% purchase price.

d) After the end of the reinvestment period, prepayments are reinvested in additional collateral with the same characteristics as above in (c) with a WAL that is equal to or less than the WAL of the assets which prepaid.

e) All reinvestments are assumed to be in [5.5]-year bullet maturity loans as long as WAL test ([8.0] years) is satisfied. Once WAL test limit is no longer satisfied, reinvestments are made in loans that maintain compliance with this test until the maturity date of such loans is less than [2.0] years, at which point all reinvestments are halted. An additional constraint prevents loans from having a maturity date beyond the legal final of the transaction.

f)

The portfolio is assumed to be [50]% ramped-up at closing (fully ramped within the first [3] months assuming a linear ramp).

g) Annual management fees:

-

-

-

Senior management fee:

Subordinated management fee:

Incentive management fee:

[15]bps

[30]bps

[20]% of equity cashflows over a realized IRR hurdle of [12]%

h) Assumed on-going annual administrative fees and expenses: [2]bps plus \$[250,000] (administrative expenses cap).

i)

j)

Forward Libor curve as of [26-Feb-2014] close (1st period Libor of [0.2489]%).

CADR stands for "Constant Annual Default Rate." The principal amount of defaulted obligations in any quarterly collection period is assumed to equal one-fourth of the stated CADR multiplied by the beginning balance of collateral.

k) CPR stands for "Constant Prepayment Rate." The principal amount of prepayments in any quarterly collection period is assumed to equal one-fourth of the stated CPR multiplied by the ending balance of collateral (without regard to such prepayments).

l)

CPR of floating-rate collateral obligations is assumed to be [25]% per annum. Assets are assumed to prepay at par.

m) Assumed [6] month default holiday on both initial and reinvested assets. Assumed instantaneous recoveries.

n) Assets are assumed to be called at par.

o) The floating rate assets within the target portfolio ramped as of the Effective Date are assumed to have the following Libor floor distribution:

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-

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No Libor floor

0.75% Libor floor

1.00% Libor floor

1.25% Libor floor

1.50% Libor floor

1.75% Libor floor

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Corporate Banking & Securities

[3.6]%

[9.5]%

[66.1]%

[17.3]%

[2.6]%

[1.0]%

p) Additional assumptions are available upon request.

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