STANDARD & POOR'S

STRUCTURED FINANCE

Publication Date: June 30, 2006

Cash CDO Of Leveraged Loans Presale Report

North Westerly CLO III B.V.

€409.8 Million Secured Floating-Rate Notes

Analyst: Vanessa Cecillon, London (44) 20-7176-3581, vanessa_cecillon@standardandpoors.com
Surveillance analyst: Mais Karim, London (44) 20-7176-3773, mais_karim@standardandpoors.com
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

This presale report is based on information as of June 30, 2006. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final credit ratings that differ from the preliminary credit ratings. For further ratings information, call Client Support Europe on (44) 20-7176-7176. Members of the media may contact the Press Office Hotline on (44) 20-7176-3605 or via media_europe@standardandpoors.com. Local media contact numbers are: Paris (33) 1-4420-6657; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Investors are invited to call the SF Investor Hotline on (44) 20-7176-3223.

Class	Prelim. Rating*	Prelim. amount (Mil. €)	Available credit support (%)	Interest	Legal final maturity
A	AAA	290.0	27.50	Six-month EURIBOR plus a margin	2022
B	AA	32.0	19.50	Six-month EURIBOR plus a margin	2022
C	A	17.0	15.25	Six-month EURIBOR plus a margin	2022
D	BBB	15.5	11.38	Six-month EURIBOR plus a margin	2022
E	BB	14.5	7.75	Six-month EURIBOR plus a margin	2022
Subordinated	NR	40.8	N/A	N/A	2022
Combination notes					
P**	NR	TBD	N/A	Fixed premium	2022
Q**	BBB	7.0	N/A	Fixed premium	2022
R**	NR	TBD	N/A	Fixed premium	2022

**The rating on each class of securities is preliminary as of June 30, 2006 and subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and principal on the class A notes and ultimate interest and principal on the class B, C, D, E, and Q notes.*
***The amounts of the combination notes are not included in the total issuance amount as they are drawn from other classes.*
NR—Not rated.
N/A—Not applicable.
TBD—To be determined.

Transaction Participants	
CDO manager	NIBC Bank N.V.
Arranger	NIBC Bank N.V.
Trustee	Deutsche Trustee Co. Ltd.
Collateral administrator	Deutsche Bank AG
Custodian	Deutsche Bank AG
Calculation agent	Deutsche Bank AG
Interest swap counterparty	To be determined
Currency swap counterparty	To be determined
Bank account provider	Deutsche Bank AG
Paying agent	Deutsche Bank AG

Supporting Ratings	
Institution/role	Ratings
Deutsche Bank AG as bank account provider	AA-/Stable/A-1+
Interest swap counterparty	An entity rated 'A-1+'
Currency swap counterparty	An entity rated 'A-1+'

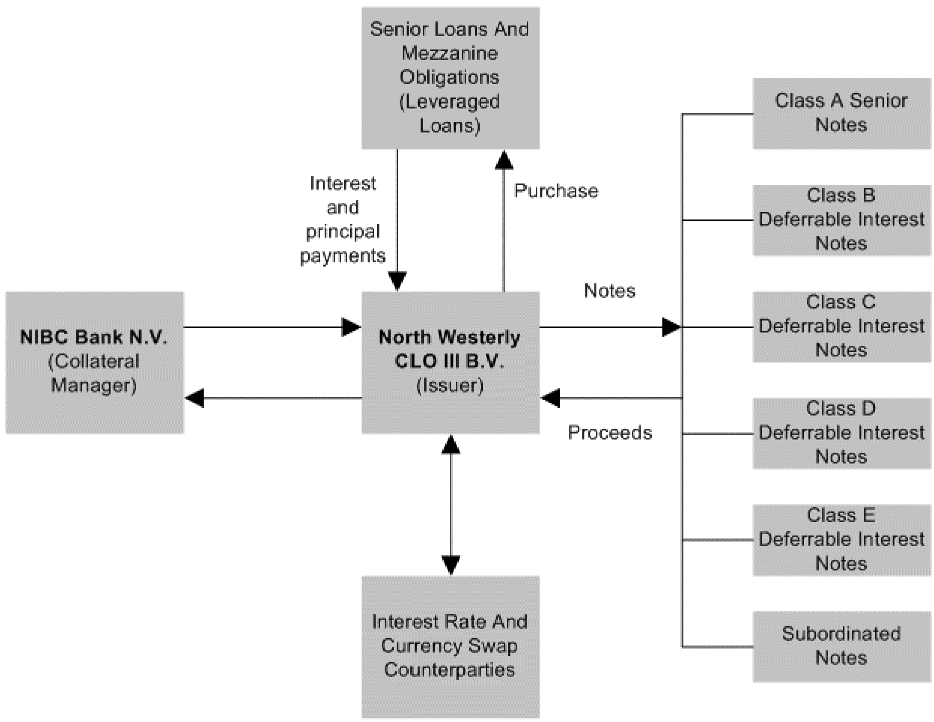
Transaction Key Features	
Expected closing date	July 2006
CDO asset type	Loans
Structure type	Cash
Portfolio composition	Corporate names
Purpose of transaction	Arbitrage
Rating approach	Statistical
Portfolio management type	Managed
Level of management	Fully managed
Liability structure	Fully funded
Collateral description	Leveraged loans
Reinvestment period (years)	6
Ramp-up period (days)	365
End of noncall period (years)	4
Expected portfolio weighted-average rating	B+
Weighted-average maturity of assets (years)	11.0
Default measure (DM) (%)	2.40
Variability measure (VM) (%)	1.79
Correlation measure (CM)	1.32
Base case minimum coupon (bps)	275
Base case minimum weighted-average recovery rate (%)	50
Size of trading bucket (annual %)	25

Transaction Summary

Preliminary credit ratings are assigned to the €369 million secured floating-rate notes to be issued by North Westerly CLO III B.V. At the same time, €40.8 million unrated notes will be issued. A proportion of the rated notes will be combined to form combination notes.

At closing, North Westerly III will issue the notes. It will use the proceeds to pay all upfront fees and expenses, and then acquire a portfolio of senior secured debt obligations, second secured debt obligations, and unsecured debt obligations. The portfolio will be managed by NIBC Bank N.V. The manager can exercise discretionary trades during the six-year reinvestment period but is restricted to reinvesting only unscheduled proceeds and proceeds from the sale of credit-risk and credit-improved obligations thereafter (see chart 1).

Chart 1
North Westerly CLO III B.V.
Transaction Structure



North Westerly III is a Dutch SPE that is expected to comply with Standard & Poor's bankruptcy-remoteness criteria. Its activities will be limited to acquiring the portfolio, issuing the notes, and engaging in certain related activities.

Notable Features

This is the third CLO managed by NIBC Bank. It follows North Westerly I B.V., which closed in June 2003, and North Westerly II B.V., which closed in September 2004. The maximum weighted-average life of the portfolio will be 11 years. The maximum weighted-average life of the portfolio can be extended by two years once during the transaction, at the option of the manager.

Strengths, Concerns, And Mitigating Factors

Strengths
• The portfolio manager is an experienced participant in the asset class and has invested in leveraged loans on behalf of the bank and managed other two CLOs. • The transaction has a number of structural enhancements to benefit the senior and mezzanine noteholders. These tests include the 'CCC+' rated haircut, the discount purchase haircut, and the class E direct-pay feature, which is enforced upon breach of the class E coverage test. • The portfolio is expected to be diversified across 10 countries and 25 industries. • Ratings on leveraged loans have been shown to be relatively stable over the past four years.

Concerns
• Leveraged loans are experiencing high levels of prepayments, with managers holding cash balances that often exceed 10% while they seek replacement assets. This can affect the interest earned on the portfolio and hence the excess spread available in the transaction. • The transaction is expected to be only 60% ramped up at closing, with the manager committed to acquire the balance during the next 365 days. • The manager may designate unused proceeds to be paid through the interest priority of payments after the effective date, upon receiving Standard & Poor's confirmation of the ratings on the notes.

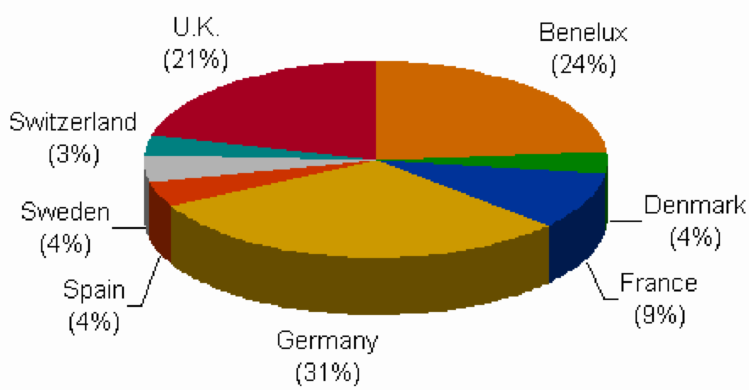
Mitigating factors
• The manager has maintained below-average cash balances in its first and second transactions, illustrating its ability to regularly source replacement collateral. The manager can also source a wide spectrum of eligible assets, including collateral denominated in various currencies (subject to entering into a corresponding hedge) and synthetic securities. • The ratings on the notes will need to be affirmed within 30 days of the ramp-up period. If Standard & Poor's does not affirm the ratings, the manager must use all available funds to pay down the notes in sequential order until the ratings are affirmed. Finally, the transaction includes an interest reserve that will allow the manager to meet any liquidity shortfalls during the ramp-up period. • The manager is restricted to paying unused proceeds (up to a maximum 1% of the target par amount) down the interest priority of payments. Furthermore, the manager may only disburse these funds through the interest priority of payments if the disbursement would not lead to a breach of the coverage tests and the target par amount.

Collateral Pool Characteristics

The portfolio is expected to comply with a set of portfolio profile tests (see table 1). Charts 2 and 3 show the geographic and industry distribution within the expected portfolio on the effective date.

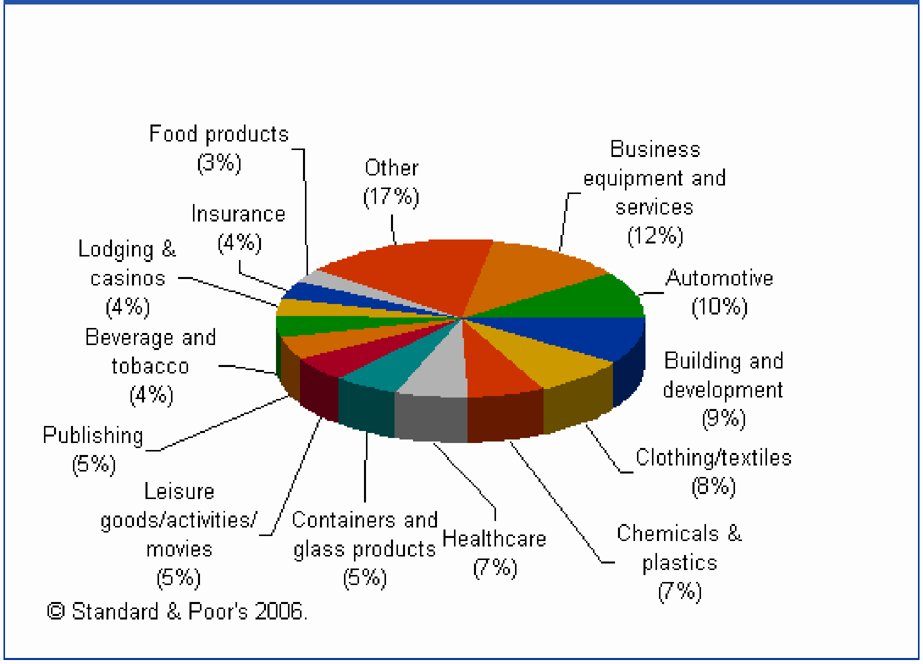
Table 1	
Portfolio Profile Tests	(%)
Senior secured debt obligations (minimum)	80.0
Second secured debt obligations (maximum)	20.0
Unsecured debt obligations (maximum)	7.5
CDOs from any single obligor (maximum)	2.5
Noneuro obligations (maximum)	35.0
Fixed-rate collateral debt obligations (maximum)	5.0
CDOs rated 'CCC+' or less (maximum)	5.0
Revolving and/or delayed drawdown collateral obligations (maximum)	3.0
Securities lending agreements (maximum)	5.0
Synthetic securities or participations (maximum)	20.0
Current pay obligations (maximum)	5.0
Discount obligations (maximum)	7.5
CDOs with a stated maturity falling after the maturity date (maximum)	2.5
Excluded noneuro obligations (maximum)	5.0
CDOs that have their principal place of business in the U.S. (maximum)	10.0

Chart 2: Geographic Distribution



© Standard & Poor's 2006.

Chart 3: Industry Distribution



Overcollateralization And Interest Coverage

Table 2 shows par and interest coverage tests.

Table 2: Par And Interest Coverage Tests		
Class	Overcollateralization required at effective date (%)	Interest coverage required at effective date (%)
A	125.9	130
B	114.2	130
C	109.0	115
D	106.8	110
E	103.4	102
Reinvestment test	105.6	—

Hedging

Interest rate exposure

Up to 5% of the outstanding portfolio can be fixed-rate collateral. This restriction is lifted if the manager enters into relevant hedge agreements. Any hedge agreements would be subject to Standard & Poor's confirmation.

Currency exposure

Up to 35% of the outstanding portfolio can consist of non-euro-denominated collateral. On acquiring a non-euro-denominated asset, the issuer must enter into a perfect asset swap to hedge the currency exposure. If a perfectly hedged asset defaults, the hedge will remain in place for a specified period to allow the recoveries to be converted into the base currency. If this specified period is less than three years, Standard & Poor's will apply a haircut to the assumed recovery rates of noneuro assets to reflect the reduced work-out period. Noneuro assets can remain unhedged for up to six months, subject to certain conditions.

Cash Flow Assumptions/Payment Of Interest, Principal, And Contingent Payments

Credit analysis

Standard & Poor's CDO Evaluator system is an integral part of the methodology for the rating and surveillance of CDO transactions. Through a Monte Carlo methodology, it evaluates the credit quality of a portfolio, taking into consideration the credit rating, size, and maturity of each asset and the correlation between each pair of assets. The credit quality of the portfolio is presented in terms of a probability distribution for potential default rates. From this distribution, CDO Evaluator derives a set of scenario default rates that identify, for each credit rating, the maximum level of portfolio defaults a CDO tranche should be able to withstand without defaulting.

Cash flow analysis

The cash flow analysis evaluated by Standard & Poor's used specific interest rate stress scenarios and a variety of default patterns.

The analysis showed that the structure will enable the issuer to pay timely interest and principal on the class A notes and ultimate payment of interest and principal on the remainder of the notes. Nonpayment of timely interest on the class B, C, D, and E notes (as a result of interest and principal proceeds not being available) will only constitute an event of default under these notes if they are the most senior class outstanding.

Transaction Management

Collateral manager

NIBC Bank will act as the collateral manager on behalf of the issuer. This is the third CLO managed by NIBC Bank. The first transaction, North Westerly CLO I, was launched in 2003, followed by North Westerly CLO II in 2004.

NIBC Bank was founded in 1946 by the Dutch government as De Nationale Investeringsbank N.V. and was owned by two of Europe's largest pension funds, ABP and PGGM via the holding company NIBC N.V. In August 2005, the ultimate shareholders of NIBC N.V. sold the company to an international consortium led by private equity firm JC Flowers & Co LLC.

NIBC Bank's leveraged finance activities are carried out by three different departments within the bank:

- Leveraged finance, a department of the corporate finance business unit with offices in London, Frankfurt, and The Hague. It focuses on arranging, underwriting, and participating in the senior debt and mezzanine tranches of leveraged finance transactions in a range of industries across Europe.
- Intermediate capital, a department of the principal investments business unit with offices in London and The Hague. It focuses on arranging and underwriting mezzanine tranches of leveraged finance transactions in the greater Benelux region.
- Collateral management, a department of NIBC Credit Management within the investment management business unit, is responsible for NIBC Bank's third-party leveraged finance activities. To help avoid conflicts of interest, the collateral management department was set up as a separate unit, independent from the bank's other leveraged finance businesses. Located in London, the department is responsible for the North Westerly program and leveraged product components in other funds and vehicles under management.

NIBC Bank's leveraged finance activities are monitored by a dedicated loan management team with offices in London and The Hague.

Sales and reinvestment of collateral

The collateral manager is permitted to sell any security if:

- It is a defaulted obligation;
- It is a credit-risk obligation;
- It is a credit-improved obligation; and
- If it is a defaulted equity security.

The collateral manager is also allowed, at any time during the reinvestment period, to sell securities that do not meet the conditions listed above if the total volume of these sales in any given calendar year does not exceed 25% of the aggregate principal balance of the portfolio.

During the reinvestment period, all principal proceeds can be used for the acquisition of substitute obligations or to pay down the notes. After the reinvestment period, all scheduled proceeds will be used to pay down the notes but unscheduled proceeds may, at the discretion of the manager, be reinvested in substitute securities that satisfy certain criteria. Proceeds from defaulted obligations may only be reinvested during the reinvestment period and while the transaction passes the coverage tests. If the transaction does not pass the coverage tests, any recoveries will be used to redeem the notes.

The proceeds from the sale of credit-risk or defaulted obligations can be reinvested in new collateral with an aggregate principal amount that is equal to or greater than these proceeds. The proceeds from credit-improved obligations can be reinvested in new collateral with an aggregate principal balance that is equal to or greater than the principal balance of the obligation sold.

The collateral quality tests include Standard & Poor's Trading Model Test, the weighted-average spread test, the weighted-average maturity test, and the weighted-average recovery rate test.

The collateral manager will be permitted to sell and/or purchase securities, provided that certain conditions are satisfied. After the end of the ramp-up period, the manager must ensure that the collateral coverage tests, collateral quality tests, and portfolio concentration limits are satisfied before selling or purchasing a collateral debt security. If the tests were not satisfied immediately before reinvestment, the manager must ensure they are maintained or improved. However, the transaction does not need to comply with the coverage tests when reinvesting the principal sale proceeds of credit-risk obligations or defaulted obligations, and it does not need to comply with Standard & Poor's CDO Trading Model Test when reinvesting principal sale proceeds from credit-risk obligations.

Redemption Of The Notes

The notes will be redeemed at their principal amount outstanding on the maturity date. The notes may be redeemed earlier under the following circumstances:

- At the option of the subordinated noteholders. The notes may be redeemed early if two-thirds of the subordinated noteholders vote for early redemption after the noncall period or following a relevant tax event, and if the expected net proceeds from the liquidation of the collateral would be sufficient to redeem the rated notes at par plus accrued interest.
- Upon failure to appoint a replacement collateral manager. Following the termination of the collateral manager, whether with or without cause or following the resignation of the manager, a new collateral manager must be appointed within 150 days. If a replacement manager is not found, then the transaction will terminate and the notes will be redeemed unless noteholders of the controlling class vote for the transaction to continue without a collateral manager or the expected proceeds from the liquidation of the collateral are not sufficient to redeem the rated noteholders at their principal amount outstanding.
- Upon breach of coverage tests. Following a breach of the coverage tests, interest proceeds and, if required, principal proceeds will be used in accordance with the priority of payments to redeem the notes.
- Following effective date rating withdrawal or reduction. Following an effective date downgrade or rating withdrawal, unused proceeds and, if required, interest and subsequently principal proceeds will be used to delever the notes until Standard & Poor's confirmation is received.
- Redemption at the option of the collateral manager. During the reinvestment period, the collateral manager may choose to use principal proceeds to redeem the notes.
- Redemption after the end of the reinvestment period. After the end of the reinvestment period, any scheduled principal proceeds will be used to redeem the notes sequentially. The manager may choose to use unscheduled principal proceeds and any proceeds from the sale of credit-improved or credit-risk obligations to redeem the notes, instead of acquiring additional collateral.

The notes will also be redeemed at par together with accrued interest following an event of default under the transaction. The notes will be paid down using the proceeds from liquidating the collateral.

Combination Notes

A proportion of the rated notes will be combined to form the combination notes. Each combination note class will consist of two or more components. This transaction is expected to have the following combination note class (see table 3).

Table 3: Combination Notes*

Class	Rating	Principal amount (Mil. €)	Components	Interest (%)
Q	BBB	7.0	50% class D and 50% class E notes	1

**There are two additional unrated classes of combination notes.*

The combination notes are structured to be consistent with Standard & Poor's rating approach to combination notes. The class Q notes will be redeemed by applying on each payment date the principal and interest due on the combination note components to pay down the class Q notes principal amount outstanding until the notes are redeemed to €1 outstanding. Thereafter, all remaining payments to the class Q notes will be paid as a residual upside.

The notes pay a coupon of 1%. Additionally, a residual coupon will be deferred and paid if there are available funds once the notes have been written down to the nominal amount of €1. Failure to pay this residual coupon will not constitute an event of default under the combination notes. Standard & Poor's rating addresses the ultimate repayment of principal. Standard & Poor's rating does not address any residual payments to the combination notes.

Key Performance Indicators

Key portfolio statistics include the annualized weighted-average portfolio default rate (the default measure), the standard deviation of the portfolio default rate, and the correlation measure (see table 4).

Table 4: Performance Indicators	
Default measure (DM) (%)	2.40
Variability measure (VM) (%)	1.79
Correlation measure (CM)	1.32
Minimum weighted-average spread (bps)	2.75
Minimum weighted-average recovery rate (%)	50.00

The default measure encompasses all assets in the portfolio, including defaulted securities and cash, and it reflects the actual maturity of the assets.

The standard deviation of portfolio default rate describes the degree of variability of the portfolio default rate from its expected value. It incorporates the effects of relative concentration of the assets and the correlation between assets. It reflects the effective diversity of the portfolio, which is directly applicable in estimating the probability of different default rates.

The correlation measure describes the correlation between assets. From this measure, one may derive the contribution of correlation to the standard deviation of portfolio default rates. As is often the case, a relatively low correlation measure can lead to a significant increase in the standard deviation of the portfolio default rate.

Criteria Referenced

- "*CDO Spotlight: General Cash Flow Analytics for CDO Securitizations*" (Published on Aug. 25, 2004).
- "*Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount*" (published on Feb. 26, 2004).
- "*Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded*" (published on Dec. 17, 2003).
- "*Global Cash Flow and Synthetic Criteria*" (published on March 21, 2002).
- "*Global CBO/CLO Criteria*" (published on June 1, 1999).
- "*Criteria Regarding Legal Opinions in the Context of CDOs*" (published on May 12, 2003).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).

Related Articles

- "*Rating Transitions 2005: Activity More Muted But Upgrades Still Dominate In European Structured Finance*" (published on Jan. 11, 2006).
- "*Global ROC Report*" (published monthly).
- "*European CDOs of Leveraged Loans Review*" (published quarterly).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.