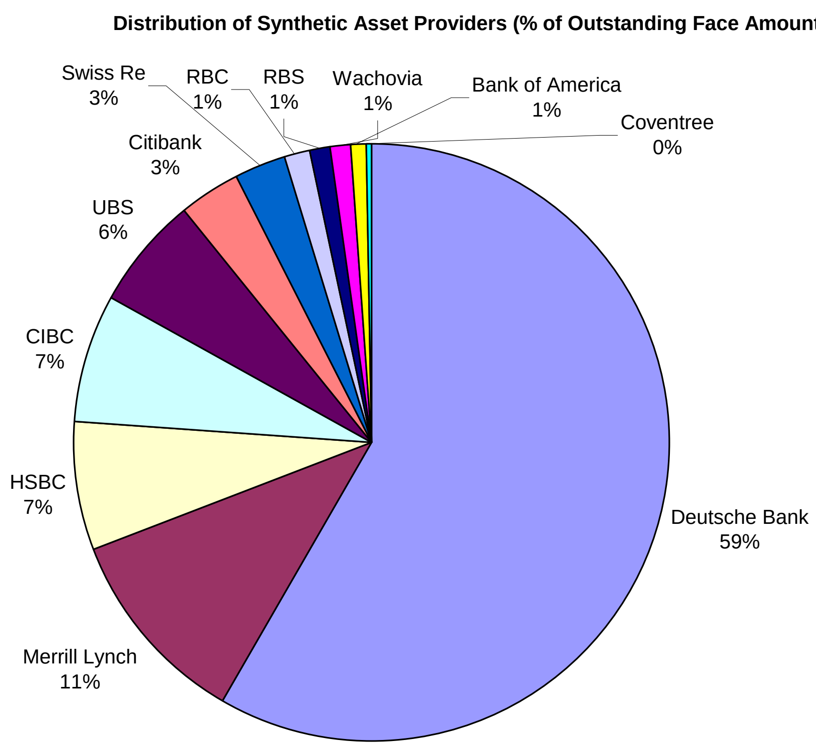
Deutsche Bank Squeeze Play on Canadian Non Bank ABCP Owners
May 23, 2008
Prepared by: Diane Urquhart, Independent Financial Analyst

Deutsche Bank dominates both the list of asset providers and liquidity providers to the 20 ABCP trusts under the CCAA Restructuring Plan.

Deutsche Bank has about 59% of the $22 billion face amount in 135 synthetic asset providers' contracts. Behind Deutsche Bank are Merrill Lynch at 11%, HSBC Bank at 7%, CIBC at 7%, and UBS at 6%. These five banks represent 90% of the face amount in the synthetic asset contracts within the 20 ABCP trusts under CCAA.

The remaining $10 billion of assets in the 20 ABCP trusts under CCAA have the asset provider listed as N/A. These are in 142 contracts and are designated as $1.9 billion of cash, $6.9 billion of traditional assets and $1.4 billion ineligible assets, as determined by JPMorgan, the financial adviser to the Pan Canadian Committee.

Figure 1: Distribution of Synthetic Asset Providers - JPMorgan Report on Restructuring Specific Contracts Source (% Face Amount)



Deutsche Bank dominates the list of liquidity providers backing the Series A ABCP in the 20 ABCP trusts under the CCAA Restructuring Plan. According to the Information to Noteholders dated March 12, 2008, Deutsche Bank was the signatory for 59% of the face amount of Series A of ABCP, followed by HSBC Bank at 13%, Merrill Lynch at 6%, Citibank at 4% and Swiss Re at 4%. The top five liquidity providers backed 86% of the face amount in the Series A of the ABCP under CCAA.

Figure 2: Distribution of Liquidity Providers - Information to Noteholders Page 54 Source

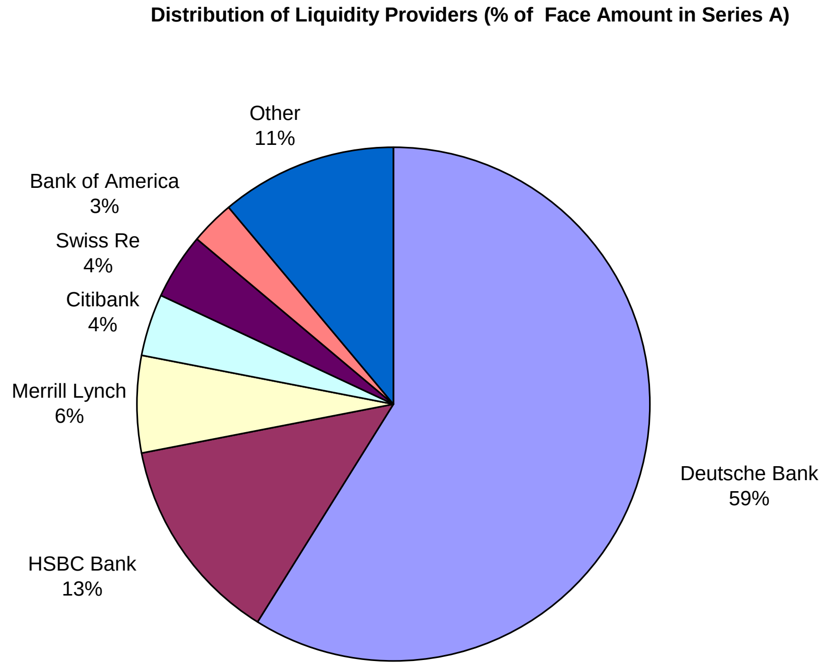
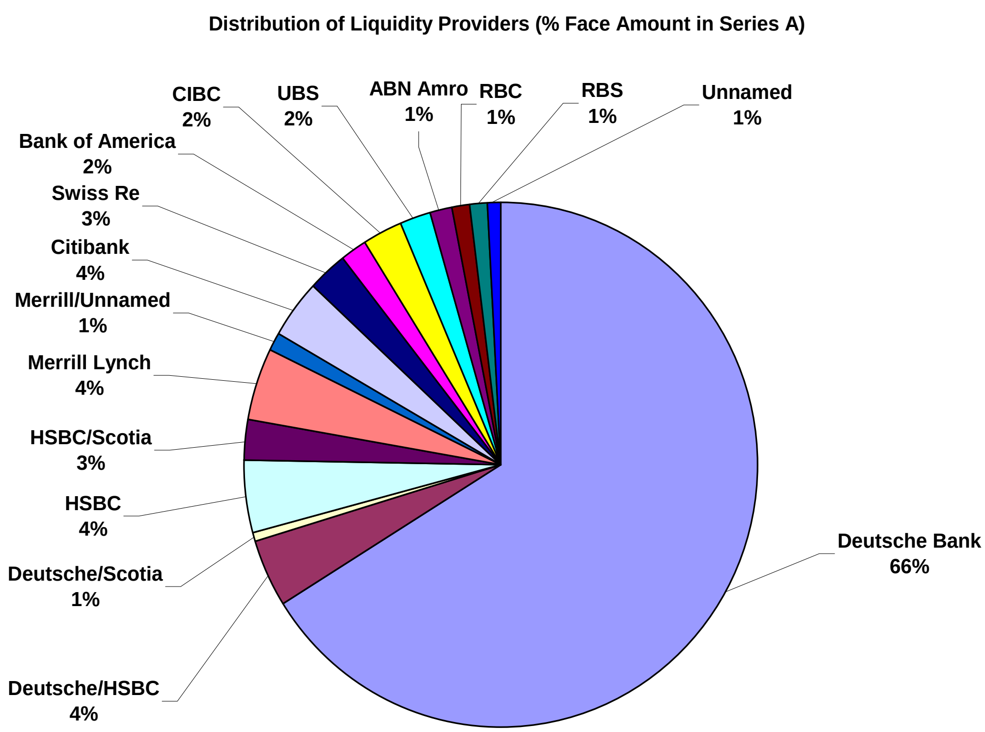


Figure 3: Distribution of Liquidity Providers - JPMorgan Report on Restructuring Specific Contracts Source



I get a higher 66% of face amount for the liquidity agreements backing the Series A ABCP attributed to Deutsche Bank, when I examine the 106 asset contracts associated with all the Series A, Series A Ineligible Assets, Series A-1 and Series A-1 Ineligible Assets and I assign Deutsche Bank as liquidity provider in every case where it is the asset provider as disclosed in the JPMorgan Report on Restructuring dated March 14, 2008. Ernst & Young, the Court Monitor, supplied a report to the court dated May 2, 2008, which provided a list of the liquidity providers by trust, which was supplementary to the Information to Noteholders dated March 20, 2008.

I cannot explain why the pie chart shown in Figure 2 from the Information to Noteholder dated March 20, 2008 provides somewhat different % for the liquidity providers than what I get by adding up the face amounts of the specific asset contracts backing the various Series A-related ABCP shown in Figure 3. Page 54 of the Information to Noteholders dated March 20, 2008 says there is $16 billion of liquidity agreements backing Series A, whereas my examination of the contracts shows that there is $20 billion of Series A–related ABCP face amount as noted in Figure 4. It appears that the discrepancy between Figure 2 and Figure 3 liquidity provider percentages relates to what Series A types are included in the analysis.

Figure 4: Number and Face Amount of Asset Contracts Backing Series A-Related ABCP from JPMorgan Report on Restructuring dated March 4, 2008

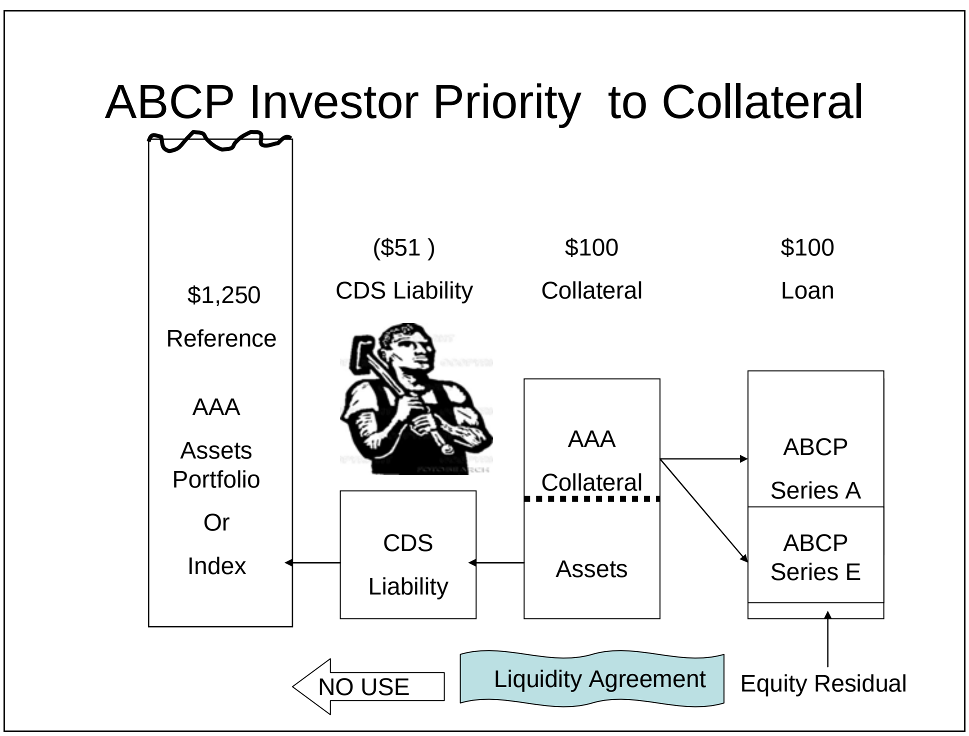
Notes:

	#	$ Notional
Series A	82	17,456,291,782
Series A - Ineligible	17	2,017,292,369
Series A-1	6	692,299,004
Series A-1 Ineligible	1	82,052,065
Total Series A & A-1	106	20,247,935,220

The Information Memorandum for Non Bank ABCP Noteholders at p.50 says, "one or more of the Asset Providers may also have transacted with an ABCP Conduit in its capacity as a Liquidity Provider." Early in my research on Non Bank ABCP, Mark Maybank of Canaccord told me that 99% of banks who were the liquidity agreement signatories, were the same banks that were the counterparties to the credit default swaps in the same trusts.

These banks are on both sides of the equation, as an asset provider, who is counterparty to credit default swaps, and as a liquidity provider, who is the signatory for the “no use” liquidity agreement backing the Series A of the ABCP in the same trust. There needs to be concern that Deutsche Bank is the liquidity provider for up to 66% of the Series A-related ABCP, while it is also the asset provider in the asset contracts assigned to the Series A-related ABCP. As illustrated in Figure 5, Deutsche Bank was in a position of being able to make a margin call for more cash and then to call for default with the right to seize the trusts' collateral assets in order to pay for their default damages under their credit default swap contract. These banks knew that they would walk from their "no use" liquidity agreement and gain access to the trust's collateral of top rated assets that had been funded by the ABCP owners. These bank counterparties would then control the triggering of the crisis for the Non Bank ABCP owners in Canada, if there was widening of credit spreads due to deteriorating credit conditions. At the same time, these banks would know that their own interests were extremely well protected in their ability to walk away from their liquidity agreements and to execute their first call on the top quality collateral assets within the trust.

Figure 5: Schematic of ABCP Trust and Its Material Agreements



The original Information Memorandum never publicly disclosed the names of the international and Canadian bank counterparties that are specific to each of the 20 trusts in CCAA. The specific banks, who provided liquidity agreements, except for one who requests to be unnamed, are all provided for each trust on pages 34 to 50 of the Information to Noteholders. Why were the international and Canadian banks that are the counterparties to the credit default swaps not listed in the same place under the specific trusts on pages 34 to 50 of the Information to Noteholders? We do not see the asset providers and liquidity providers being the same banks, without doing detailed cross-checking or having insiders' knowledge. The asset providers and liquidity providers being the same banks only became clearly displayed to the Non Bank ABCP owners in the May 5, 2008 supplementary report filed in the Ontario court by Ernst & Young, the Court Monitor.

The leveraged credit default swaps produced substantial premiums within the trust that were part of the unjust enrichment that the trust sponsors took. These credit default contracts were also very attractively priced for the international banks, who paid incredibly low premiums to acquire their effective "squeeze play" insurance coverage of their credit defaults on reference credit portfolios.

The following statement in the Information Memorandum is disingenuous.

On page 17, it says, "This leveraged exposure supports a return on the synthetic asset sufficient for the Conduit to pay a market return to its ABCP investors on its ABCP with the required rating (e.g. R-1 (high)).

Figure 6 shows the marked-to-market losses estimated by JPMorgan at March 4, 2008, attributed to each of the Asset Providers. The aggregate marked-to-market loss for the 20 ABCP trusts under CCAA as of that date is -$16.4 billion. The five asset providers most responsible for this loss to Canadian ABCP owners are Deutsche Bank at -$8.2 billion, Merrill Lynch -$2.0 billion, UBS at -$1.3 billion, CIBC at -$1.2 billion and HSBC Bank at -$1.0 billion. These five worst asset providers represent 84% of the aggregate loss to Canadian ABCP owners.

It is interesting to note in Figure 7 that Deutsche Bank had a clear strategy to be an asset provider and a liquidity provider for the Series A ABCP. The loss as a result of the "no use" liquidity agreement" signed by Deutsche Bank is -$7.9 billion, which is almost all of the -$8.2 billion loss attributable to Deutsche Bank on all Series of ABCP. The loss attributed to Deutsche Bank's walking away from its liquidity agreements was 67% of the loss on the Series A Non Bank ABCP that occurred due to the marked-to-market damage on net assets backing Series A. The remaining one third of marked-to-market losses on Series A ABCP is widely dispersed amongst the remaining liquidity providers: with Merrill Lynch, Swiss Re, HSBC Bank, Citibank, CIBC and UBS each responsible for loss of between $0.4 billion to $0.9 billion.

Figure 6: Marked-to-Market Losses Attributed to Asset Providers

JPMorgan Marked-to-Market Analysis - March 4, 2008
All Series

Providers	# All Asset Providers	$ Notional	$ Marked-to-Market	$ Difference
ABN Amro	0	0	0	0
Bank of America	2	200,000,000	186,876,458	(13,123,542)
CIBC	21	1,546,085,674	340,621,973	(1,205,463,701)
Citi	7	750,000,000	107,532,208	(642,467,792)
Coventree	3	68,957,000	41,171,277	(27,785,723)
Deutsche Bank	40	13,005,773,665	4,805,822,984	(8,199,950,681)
HSBC	12	1,574,999,889	566,318,355	(1,008,681,534)
Merrill Lynch	20	2,390,860,000	394,015,610	(1,996,844,390)
RBC	3	314,699,835	115,362,968	(199,336,867)
RBS	2	230,000,000	161,502,589	(68,497,411)
Swiss Re FP	4	624,997,823	34,676,888	(590,320,935)
UBS	17	1,341,360,000	69,699,697	(1,271,660,303)
Wachovia	4	218,144,882	160,930,076	(57,214,806)
N/A	142	9,833,869,728	8,706,700,180	(1,127,169,549)
Total	277	32,099,748,496	15,691,231,261	(16,408,517,235)

Notes

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Series A	82	17,456,291,782
Series A - Ineligible	17	2,017,292,369
Series A-1	6	692,299,004
Series A-1 Ineligible	1	82,052,065
Total Series A & A-1	106	20,247,935,220
Series B - Ineligible	7	264,120,452
Series E	108	8,505,334,789
Series E - Ineligible	9	699,832,402
Series E - Class E	6	711,524,821
Series E-1	5	99,052,327
Series E-1 Ineligible	8	332,953,519
Series F	20	885,000,000
Series F - Ineligible	2	25,000,000
Series FRN1	1	10,000,000
Series 2001-1	1	210,125,000
Series L1	1	43,203,647
Series L8	1	13,245,810
Series Liquidity Liability	2	52,420,510
Grand Total	277	32,099,748,496

Figure 7: Marked-to-Market Losses Attributed to Liquidity Providers

JPMorgan Marked-to-Market Analysis - March 4, 2008
Series Subject to Liquidity Agreements

Providers	# Liquidity Providers	$ Notional	$ Marked-to-Market	$ Difference
ABN Amro	2	299,289,919	99,082,200	(200,207,719)
Bank of America	4	318,089,544	300,753,040	(17,336,504)
CIBC	10	493,009,400	52,393,239	(440,616,162)
Citi	6	732,837,333	161,522,859	(571,314,474)
Deutsche Bank	43	12,821,930,679	4,897,336,552	(7,924,594,127)
Deutsche Bank-2	5	572,257,377	524,701,733	(47,555,644)
Deutsche/Scotia	3	125,061,150	110,305,749	(14,755,401)
Deutsche/HSBC	3	828,801,357	828,637,482	(163,875)
HSBC	5	881,250,000	332,890,404	(548,359,596)
HSBC-2	1	27,124,000	27,115,385	(8,615)
HSBC/Scotia	3	522,046,678	521,880,864	(165,814)
Merrill Lynch	6	865,000,000	0	(865,000,000)
Merrill/Unnamed	2	211,556,879	210,747,711	(809,168)
RBC	2	239,699,835	60,730,052	(178,969,783)
RBS	1	184,000,000	129,202,071	(54,797,929)
Swiss Re FP	4	549,998,525	24,961,375	(525,037,151)
UBS	2	391,360,000	16,298,576	(375,061,424)
Unnamed	4	184,622,544	181,526,294	(3,096,250)
Total	106	20,247,935,220	8,480,085,583	(11,767,849,636)

Notes:

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The National Bank and Deutsche Bank are owners of the conduit sponsor, Metcalfe & Mansfield Alternative Investments Corporation, through their co-ownership of its parent company, Quanto Financial Corporation. This is disclosed in The Montreal Gazette article, “National Bank in a Delicate Situation,” written by Don MacDonald on September 30, 2007 and in the excerpt from the Apsley Trust DBRS Report below in Figure 8. The Montreal Gazette article reports: "The managing directors of National Bank Financial's structured finance division, Alain Pelchat and Mathieu Lafleur-Ayotte, left the bank to run Quanto [owner of Metcalfe & Mansfield Alternative Investments Corporation]. But a tight relationship with the bank continued. The National Bank and Deutsche Bank Canada took minority stakes in the new company, which is controlled by Redfern Equity Capital Partners, whose shareholders include Pelchat and Lafleur-Ayotte."

Figure 8: Apsley Trust DBRS Report with Description of Metcalfe & Mansfield Ownership

Credit Rating Report

Apsley Trust

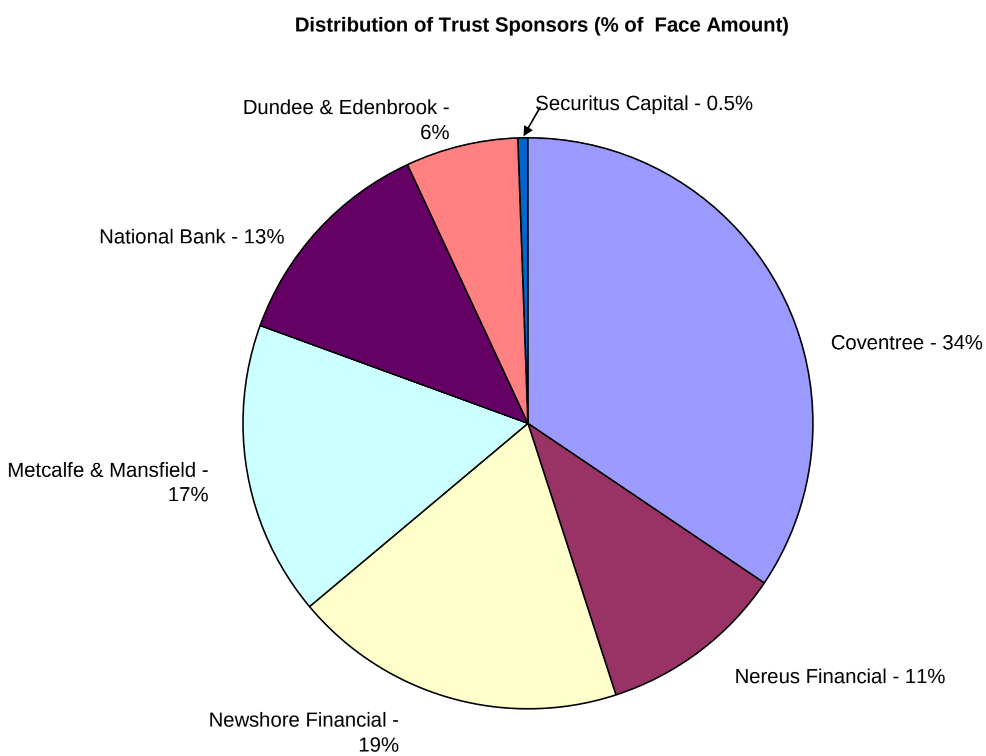
Report Date: November 28, 2005
Press Released: November 28, 2005

Christina Ongoma/Jamie Feehley
416-593-5577 x2267/x2312
congoma@dbrs.com

Metcalfe & Mansfield Capital Corporation is a subsidiary of the Quanto Financial Corporation group, a private Canadian financial institution with offices in Montréal, Toronto, and Calgary, and representatives in Vancouver and Winnipeg. The principal shareholders of the Quanto Financial Corporation group are National Bank Financial Inc., Deutsche Bank Canada, and Redfern Equity Capital Partners. The company acts as financial services agent to a number of Canadian asset-backed commercial paper conduits, acting directly for Whitehall Trust and Foundation Trust and, under a sub-delegation agreement with National Bank Financial, for Fusion Trust, MMAI-I Trust, Ironstone Trust, and Silverstone Trust. As of November 29, 2005, these conduits funded over $8.0 billion in assets in the Canadian debt market. More information on Metcalfe & Mansfield Capital can be found at the company's website located at: www.mmcapitalcorp.com.

Figure 9 shows that Metcalfe & Mansfield, co-owned by Deutsche Bank, was the sponsor for 17% of the total face amount of Non Bank ABCP sold to Canadians. As a co-owner of Metcalfe and Mansfield, it is not possible that Deutsche Bank executives were uninformed about how the Non Bank ABCP trusts were designed by the Canadian sponsors and how the product was sold by them through the Canadian securities dealers to the Canadian investing public.

Figure 9: Distribution of Trust Sponsors – DBRS Newsletter November 6, 2007 Source

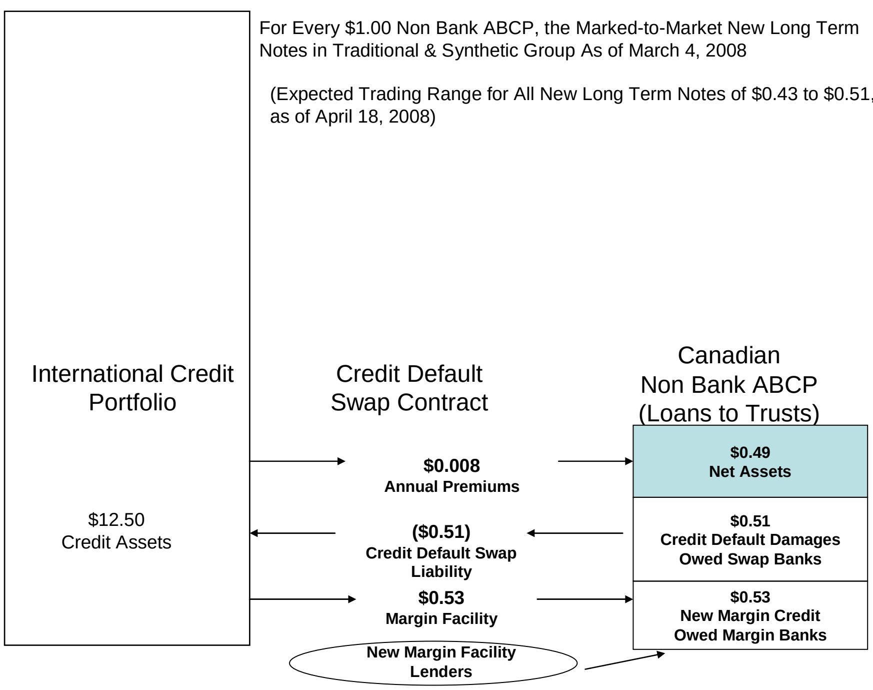


The JPMorgan Report on Restructuring dated March 14, 2008 at page 9 says: "as of March 4, 2008 the average mid-market indicative valuation of the Leveraged Super Senor credit default swaps in the affected conduits (as a percentage of collateral) was approximately 30% (i.e. down 70% from par)

This means that the JPMorgan Report says credit default swap damages owed to the bank synthetic asset providers is -$0.70 for every dollar of face amount of collateral assets backing these contracts. The -$0.70 damages is on the worst day so far at March 4, 2008, when the LSS CDS interest rate spread hit a peak of 71 basis points as shown in the interest rate spread chart for LSS DDS indices on page 8.

In Figure 10, I show the situation at March 4, 2008 for all the ABCP in the synthetic and traditional asset category. The credit default damage for this entire category is -$0.51, lower than the $-0.70 damages noted in the text of the JPMorgan Report for the LSS trades, because the synthetic and traditional asset category also has $9 billion of traditional assets in it that are not as damaged as the LSS CDS assets of $17 billion on March 4, 2008.

Figure 10: Average Marked-to-Market Valuation of Traditional & Synthetic Assets Category - JPMorgan Report on Restructuring Source

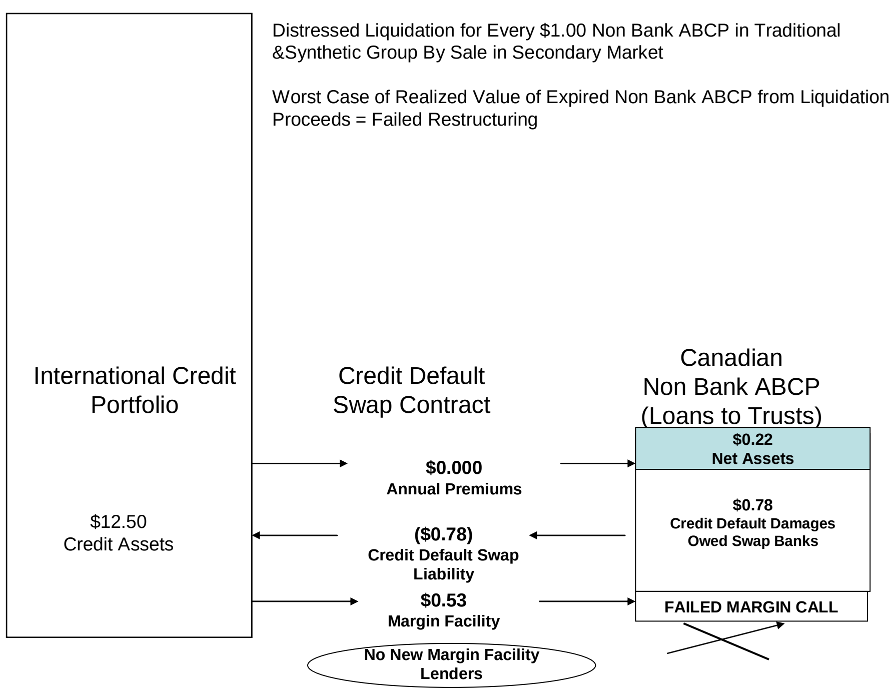


What concession has Deutsche Bank made?

The concession of the international banks under the CCAA Restructuring Plan is to concede their right to current margin calls that would replenish the cushion of collateral assets above the debt owed to them to an average of 44% from the 20% it was at on March 4, 2008. Also, the international banks agreed to adopt a second margin call trigger process that made the prospects for a future margin call highly unlikely. The latter concession means that the international banks have not only agreed to not seize collateral assets now, but also not likely to seize collateral assets during the nine year life of the new long term notes. The CCAA Restructuring Plan changed the timing of the international banks' right to seize collateral assets, until the end of the long term notes' maturity and its rights would practically be restricted to the actual default damages in their reference credit portfolios at that time. The changes in the margin triggers and collateral provisions in the CCAA Restructuring Plan, plus the new margin credit facility, allows the trusts to avoid not meeting the margin calls entitled under current contracts and enables the trust ABCP owners to avoid liquidation now.

In Figures 11, I show the distressed liquidation scenario for the ABCP traditional and synthetics assets category, where the CDS contracts have liabilities at their top limit of -100%, and all the collateral assets tied to these CDS contracts are seized and liquidated for the benefit of the bank CDS counterparties.

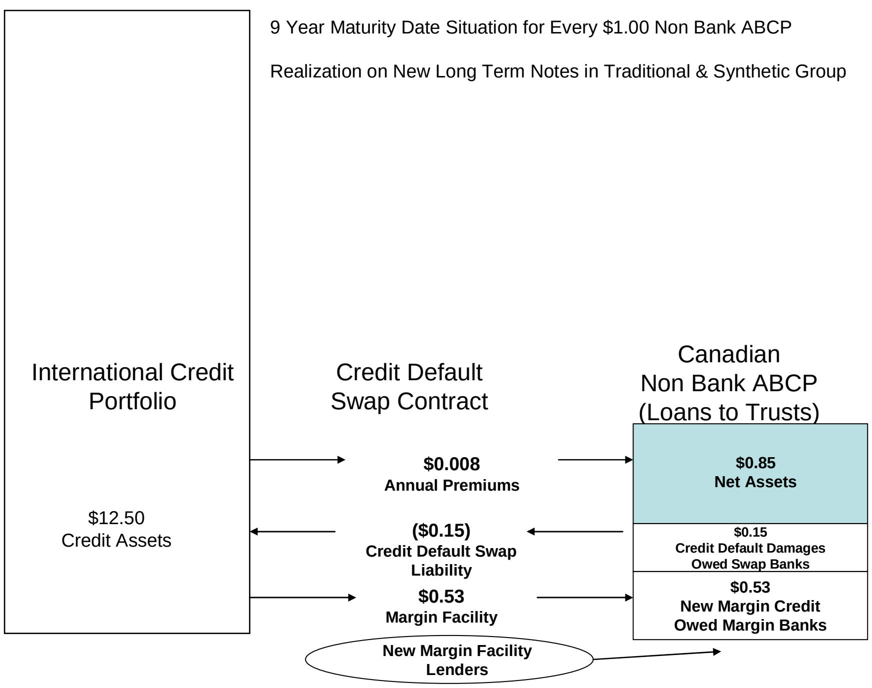
Figure 11: Average Liquidation Valuation of the Traditional & Synthetic Assets Category - Urquhart Analysis



The international bank CDS concessions buy time, so that ABCP owners can benefit from lower credit default swap liabilities in the future as credit spreads fall across all types of credit instruments including the LSS CDS trades as the current crisis settles down.

Figure 12, provides the case for why the Canadian ABCP owners would vote yes to the ABCP CCAA Restructuring Plan, since the CDS liability is expected to be substantially less than now and will certainly not be the -100% in the liquidation scenario of Figure 11. My professional opinion, however, is that the Non Bank ABCP cannot go back to full par value by the 9 year maturity date of the restructured long term notes, due to permanent impairments in the ineligible assets that are U.S. and Canadian sub-prime mortgages and possibly in some of the traditional assets too. Also, there is no guarantee that the CDS contracts will not require actual credit default damage payments that exceed the low end of the average damage threshold for all the CDS contracts in the ABCP trusts at 17.4% to 62.7% at the maturity date of CDS contracts and the new long term notes.

Figure 12: Average Long Term Valuation of the Traditional & Synthetic Assets Category - Urquhart Analysis



Prepared by:

Diane Urquhart
Independent Analyst
Mississauga, Ontario
Telephone: (905) 822-7618
Cell: (416) 505-4832
E-mail: urquhart@rogers.com
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