

Semi-Annual Report of

**CREDIT SAIL LIMITED**

For the period ended  
30 June 2010

(Compiled without audit or review)

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## **CREDIT SAIL LIMITED**

Period from 1 January 2010 to 30 June 2010

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# CREDIT SAIL LIMITED

<b>Results for announcement to the market</b>	
Reporting Period	1 January 2010 to 30 June 2010
Previous Reporting Period	1 January 2009 to 31 December 2009

<b>June 2010</b>	<b>Amount</b>	<b>Percentage change</b>
Revenue from ordinary activities	NZ\$1,229,290	-59.81%
Profit (loss) from ordinary activities after tax attributable to security holder.	NZ\$21	112.43%
Net profit (loss) attributable to security holders	NZ\$21	112.43%
<b>2009</b>		
Revenue from ordinary activities	NZ\$3,058,947	-73.27%
Profit (loss) from ordinary activities after tax attributable to security holder.	NZ\$(169)	-176.82%
Net profit (loss) attributable to security holders	NZ\$(169)	-176.82%

<b>Interim/Final Dividend</b>	<b>Amount per security</b>	<b>Imputed amount per quality</b>
N/A	It is not proposed to pay dividends.	Not Applicable
Record Date	Not Applicable	Not Applicable
Dividend Payment Date	Not Applicable	Not Applicable

For the purposes of Appendix 1 we attach the Financial Statements of Credit Sail Limited (being its half year report for the purposes of Listing Rule 10.5.2)

Comments:	<ul style="list-style-type: none"> <li>(i) the earnings per security and the nature of any dilution aspects - No Comments</li> <li>(ii) returns to shareholders including any distributions and buy backs - NIL</li> <li>(iii) results of segments that are significant to an understanding of the business as a whole - NIL</li> <li>(iv) material factors affecting the revenues and expenses of the group for the current reporting period – NIL</li> <li>(v) significant trends or events since the end of the current full year – NIL</li> <li>(vi) changes in accounting policies since the last half yearly report – NIL</li> <li>(vii) management's discussion and analysis of the financial condition, result and/or operations (this should contain forward looking statements that should outline where these involve risk and uncertainty) – During the year there were a number of ratings downgrades and credit events in the portfolio collateral, which are Momentum CDO (Europe) Limited Series 2006-16 Notes (the Momentum Notes) and consequently subsequent ratings downgrades in the Credit Sail Notes. The Credit Sail Notes were rated CC-p N.R.i. by Standard &amp; Poors (a division of the McGraw-Hill Companies, Inc.) as at 13 March 2009. The underlying collateral (the Momentum Notes) are valued using a pricing model which takes into account certain assumptions, including the spreads of the underlying credit, default correlation in the reference portfolio, tranche subordination and time to maturity, among others. As a result of the credit events in the underlying portfolio, relating to a number of reference entities including Lehman Brothers Holdings, Inc., Washington Mutual Inc., Glitnir Banki hf, Landsbanki Islands hf, Kaupthing Bank hf and Idearc Inc, there has been a significant decline in both the value of the Momentum Notes and the Credit Sail Notes. On 11 May 2009, the Company was informed that the nominal amount of the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date as a result of credit events in the Momentum Notes reference portfolio. Since the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date, the holders of the Credit Sail Notes will not receive their principal back and the Credit Sail Notes will be redeemed at NZD Nil, plus the holder's pro rata share of the residual monies, equal to NZD 1,067,239, plus interest which was prorated upon the unwind and termination of the Credit Strategy on 17 November 2008. At 30 June 2010 the residual monies were NZD 2,186,831 (2009: NZD 1,988,390).</li> <li>(viii) Exposure to market, credit, interest rate and liquidity risk arises in the normal course of the Company's business. The risks have been managed through the issue of limited recourse Notes which only have recourse to the Company's assets which have been pledged to New Zealand Permanent Trustees Limited. The assets (excluding the proceeds of the ordinary share issue and transaction fee received) and liabilities of the Company have been structured to ensure that they are equal and that there is no residual risk to the Company. There have been no changes to the way that the Company manages its risk in the year.</li> </ul>
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### Distribution of Notes as at 30 June 2010

Size of Noteholders	Number of Noteholders	Percentage of Noteholders	Number of Notes	Percentage of Notes
1 - 5,000	183	11.90%	912,500	1.00%
5,001 – 10,000	427	27.76%	4,070,000	4.44%
10,001 – 100,000	871	56.63%	28,763,400	31.44%
100,001 and over	57	3.71%	57,754,100	63.12%
	<b>1,538</b>	<b>100.00%</b>	<b>91,500,000</b>	<b>100.00%</b>

#### **The current credit rating status**

At the period end the credit rating status of the Credit Sail Limited Notes is CC-p N.R.i as rated by Standard and Poor's on 13 March 2009. The subscript 'N.R.i.' means that the interest on the notes is not rated. Since the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date, the holders of the notes will not receive their principal back and the notes will be redeemed at NZD Nil, plus the holder's pro rata share of the residual monies, equal to NZD 1,067,239, plus interest which was pro-rated upon the unwind and termination of the Credit Strategy on 17 November 2008. At 30 June 2010 the residual monies were NZD 2,186,831 (2009: NZD 1,988,390).

#### **NZX waiver0073**

NZX granted Credit Sail Limited waivers from NZX Listing Rule 7.1.11 and Appendix 2, to enable the minimum amount to be invested in Credit Sails and the Minimum Holding of Credit Sails (as defined in Appendix 2 of the NZX Listing Rules) to be \$5,000.

#### **The details of any exercise of NZX's power to (a) cancel the listing; (b) cancel, halt or suspend the quotation of Credit Sail Limited notes; or (c) refer the conduct of Credit Sail Limited, a Director or an associated person to NZX Discipline or any statutory or governmental authority**

For the period ended 30 June 2010 the NZX has not exercised any power to (a) cancel the listing, or (c) refer the conduct of Credit Sail Limited, a Director or an associated person to NZX Discipline or any statutory or governmental authority, in relation to Credit Sail Limited, its Directors or any associates. However the NZX exercised power to (b) suspend the quotation of Credit Sail Limited Notes on 8 March 2010 due to the late issuance of the un-audited financial statements for the year ended 31 December 2009 as these were not issued within five business days of the due date, 1 March 2010. Credit Sail Limited issued the 31 December 2009, un-audited financial statements on 16 March 2010 and on that date the suspension on the Credit Sail Limited Notes was lifted by NZX.

#### **A statement of corporate governance policies, practices and processes adopted or followed by Credit Sail Limited**

The Director complies with the legislation and regulation applicable to the corporate governance of Credit Sail Limited and the terms of the Trust Deed dated 3 May 2006.

**The details of any Director who has been appointed**

From the date of incorporation (29 March 2006) Colin Borman and Mark Wanless were Directors of Credit Sail Limited. Colin Borman resigned on 30 June 2006 and, on the same date, Liam Jones was appointed as a Director in his place. Liam Jones and Mark Wanless resigned on 30 May 2007 and, on the same date, Christopher Ruark was appointed as Director in their place. Christopher Ruark resigned as Director on 28 February 2008 and, on the same date, Giles Le Sueur was appointed as Director. On 20 January 2010, Giles Le Sueur resigned as a director of the Company and on the same date Marc Randall was appointed to fulfil the role as the sole director.

**The details of any change in half yearly reporting date or balance date.**

There has been no change in the half yearly reporting date or balance date

**The information required under section 26 of the Securities Markets Act 1988:**

The only substantial security holder is Maples Finance Limited as trustee for a charitable trust. They hold 100% of the voting securities in Credit Sail Limited. There are 250 voting securities in existence.

**Information required under section 211 of Companies Act 1993:**

There have been no changes in the business of Credit Sail Limited. The enhanced return offered on the Credit SaIL Notes is linked to the credit performance of two international credit portfolios represented by the CDX North American Investment Grade Index® and the iTraxx Europe®. On 17 November 2008, as a result of the Reserve falling below 1% of the principal amount of the Credit SaIL Notes outstanding, a Strategy Unwind Event occurred and all Index-Linked CDS were terminated and the Credit Strategy unwound.

As a result of the Strategy Unwind Event no further contingent interest coupons will be paid on the Credit SaIL Notes and this has caused a decline in the value of the notes.

As the Momentum Notes will be reduced to NZD Nil on the scheduled maturity date, the holders of the Notes will not receive their principal back and the Notes will be redeemed at NZD Nil, plus the holder's pro rata share of the residual monies, equal to NZD 1,067,239, plus interest which was prorated upon the unwind and termination of the Credit Strategy on 17 November 2008. At 30 June 2010 the residual monies were NZD 2,186,831 (2009: NZD 1,988,390).

There are no entries in the interests register of the company.

## **CREDIT SAIL LIMITED**

### **Director's Declaration**

In the opinion of the Director of Credit Sail Limited, the financial statements and notes, on pages 6 to 26:

- Comply with New Zealand Generally Accepted Accounting Practice (GAAP) and give a true and fair view of the financial position of the Company as at 30 June 2010 and the results of their operations and cash flows for the period ended on that date;
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates.

The Director believes that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Director considers he has taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:

  
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Director  
**Marc Randall**

# CREDIT SAIL LIMITED

Statement of Financial Position *(compiled without audit or review)*

As at 30 June 2010

*(stated in New Zealand dollars)*

	Note	2010 (Unaudited)	2009 (Audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		723	702
Accrued interest receivable		69,723	70,108
<b>Non-current assets</b>			
Investments	6	9,132,239	13,051,956
		<b>9,202,685</b>	<b>13,122,766</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accrued interest payable		(69,723)	(70,108)
<b>Non-current liabilities</b>			
Total return swap	7	(6,947,699)	(10,782,187)
Notes in issue	8	(2,184,540)	(2,269,769)
		<b>(9,201,962)</b>	<b>(13,122,064)</b>
<b>Net assets</b>	<b>NZD</b>	<b>723</b>	<b>702</b>
<b>Shareholders' equity</b>			
Share capital	9	393	393
Retained earnings		330	309
<b>Total shareholders' equity</b>	<b>NZD</b>	<b>723</b>	<b>702</b>

Approved for issuance on behalf of the Board of Directors of Credit Sail Limited by:



Director **Marc Randall**

Date: **14 SEPTEMBER 2010**

*See accompanying notes to financial statements.*



# CREDIT SAIL LIMITED

Statement of Comprehensive Income *(compiled without audit or review)*

Period ended 30 June 2010

(stated in New Zealand dollars)

	2010 (Unaudited)	2009 (Audited)
<b>Continuing Activities</b>		
<b>Income</b>		
Note interest	1,229,290	3,058,947
Foreign exchange gain	21	-
	<b>1,229,311</b>	<b>3,058,947</b>
<b>Expenses</b>		
Swap interest	(1,229,290)	(3,058,947)
Foreign exchange loss	-	(169)
	<b>(1,229,290)</b>	<b>(11,442,018)</b>
<b>Movement in unrealised gains/(losses) on financial instruments held at fair value</b>		
Movement in unrealised loss on investments	(3,919,717)	(3,646,794)
Movement in unrealised gain on total return swap	3,834,488	3,629,063
Movement in unrealised gain on notes in issue	85,229	17,731
	-	-
<b>Total comprehensive income</b>	<b>NZD 21</b>	<b>(169)</b>

*See accompanying notes to financial statements.*

## CREDIT SAIL LIMITED

Statement of Changes in Equity *(compiled without audit or review)*

Period ended 30 June 2010

*(stated in New Zealand dollars)*

	Share capital	Retained earnings	Total
Balance at 31 December 2008	393	478	871
Total comprehensive income	-	(169)	(169)
Balance at 31 December 2009 (Audited)	393	309	702
Total comprehensive income	-	21	21
<b>Balance at 30 June 2010 (Unaudited)</b>	<b>NZD 393</b>	<b>330</b>	<b>723</b>

*See accompanying notes to financial statements.*

## CREDIT SAIL LIMITED

### Statement of Cash Flows and Reconciliation of Operating Cash Flow

*(compiled without audit or review)*

Period ended 30 June 2010

*(stated in New Zealand dollars)*

	2010 (Unaudited)	2009 (Audited)
<b>Cash provided by/(applied in):</b>		
<b>Cash flows from operating activities</b>		
Total comprehensive income	21	(169)
Interest received	1,229,675	3,141,644
Interest paid	(1,229,675)	(3,141,644)
Net cash from/(used in) operating activities	21	(169)
<b>Increase/(Decrease) in cash and cash equivalents during period/year</b>	<b>21</b>	<b>(169)</b>
Cash and cash equivalents at beginning of period/year	702	871
<b>Cash and cash equivalents at end of period/year</b>	<b>NZD 723</b>	<b>702</b>
<b>Reconciliation of operating cash flow</b>		
	2010	2009
Profit/(Loss) from operating activities	21	(169)
Decrease in interest receivable	385	82,697
(Decrease) in interest payable	(385)	(82,697)
<b>Net cash provided by/(applied in) operating activities</b>	<b>NZD 21</b>	<b>(169)</b>

*See accompanying notes to financial statements.*

# CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

30 June 2010

*(stated in New Zealand dollars)*

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## 1. Reporting Entity

Credit Sail Limited (the "Company") is incorporated under the Company Law of the Cayman Islands on 29 March 2006, and has securities listed on the New Zealand Stock Exchange ("NZX"). The Company is required to comply with the New Zealand Securities Act 1978, and Securities Regulations 1983. The Company is an issuer under the Financial Reporting Act 1993.

The Company was established to issue Credit Saleable Index Linked Securities due 2012 ("Credit SaILS"). The proceeds of the Credit SaILS are invested into Momentum CDO (Europe) Limited Series 2006-16 notes (the "Momentum Notes"). The Company also entered into a total return swap (the "Swap") with Credit Agricole Corporate and Investment Bank ("Credit Agricole") in order to pass the return relating to any capital gain on the reference portfolio at maturity, as well as any contingent interest amounts, to the Company. Credit Agricole was previously named CALYON, and changed its name on 6 February 2010.

The Registered Office of the Company is Queensgate House, PO Box 1093 GT, South Church Street, Grand Cayman. The Company has no employees and has not made any donations during the period.

## 2. Basis of Preparation

### *(a) Statement of Compliance*

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities. The financial statements also comply with International Financial Reporting Standards.

The financial statements were approved by the Board of Directors on 31 August 2010.

### *(b) Basis of Measurement*

The financial statements have been prepared on the historical cost basis except for the following:

Financial instruments are measured at fair value;

Financial instruments are classified at fair value through profit or loss and are measured at fair value. This eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The methods used to measure fair value are disclosed further in note 3.

### *(c) Functional and Presentational Currency*

These financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency.

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 2. Basis of Preparation (continued)

#### (d) *Use of estimates and judgement*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

#### (e) *Standards, amendments and interpretations effective on or after 1 January 2010 but not relevant for the Company's operations*

IAS 32 (amendment), 'Classification of rights and issues';

IFRS 1 (amendment), 'Additional exemptions for first-time adopters';

IFRS 2 (amendment), 'Group cash-settled share-based payment instructions'; and

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

#### (f) *Relevant standards and amendments to existing standards that are not yet effective but relevant for the Company's operations*

IAS 24 (revision), 'Related party disclosures' (effective 1 January 2011); and

IFRS 9, 'Financial instruments' (effective 1 January 2013).

#### (g) *Standards, amendments and interpretations that are not yet effective and not relevant for the Company's operations*

IFRS 1 (amendments), 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time-Adopters' (effective from 1 July 2010);

IFRC 14, IAS 19, 'The limit on defined benefit assets, minimum funding requirements and their interaction' (effective from 1 January 2010). and

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective from 1 July 2010).

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 2. Basis of preparation (continued)

(h) *Standards, amendments and interpretations that are not yet effective and not relevant for the Company's operations (continued)*

'Improvements to IFRS' were issued in July 2010 and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

### 3. Significant accounting policies

(a) *Translation of foreign currencies*

Transactions in foreign currencies are translated at the foreign exchange rate at the date of transaction. Assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are retranslated at the foreign exchange rate ruling at that date. Realised and unrealised gains and losses arising on translation are included in foreign exchange gain or loss in the Statement of Comprehensive Income. Share capital is translated at the exchange rate ruling at the date of issue of the shares.

(b) *Investments*

Investments, categorised as 'held at fair value through profit and loss' ("FVP") are initially recorded at fair value on a trade date basis. Subsequently, they are stated at fair value as of the date of the Statement of Financial Position, any resultant movement in unrealised gain or loss is recognised in the Statement of Comprehensive Income. The investments are categorised as FVP on initial recognition. The director considers the designation at FVP as the most appropriate method for the valuation of these financial instruments.

(c) *Notes in issue*

Notes in issue, categorised as FVP, are initially recorded at fair value on a trade date basis. Subsequently, they are stated at fair value as of the date of the Statement of Financial Position, any resultant movement in unrealised gain or loss is recognised in the Statement of Comprehensive Income. Associated transaction costs are recognised in the Statement of Comprehensive Income as they are incurred.

(d) *Total return swap*

The Swap is initially recorded at fair value on a trade date basis. Subsequently, it is stated at fair value as of the date of the Statement of Financial Position, and any resultant movement in unrealised gain or loss is recognised in the Statement of Comprehensive Income. The Swap is categorised as fair value through profit and loss.

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 3. Significant accounting policies (continued)

#### (e) *Recognition and derecognition of financial instruments*

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the Company no longer has control over the contractual rights that comprise the asset. This occurs when the rights are realised, expired or are surrendered. Financial liabilities are derecognised when extinguished.

#### (f) *Cash and cash equivalents*

Cash and cash equivalents include cash balances and call deposits held at a financial institution.

#### (g) *Interest*

Interest income and expense is accounted for using the effective interest rate method.

#### (h) *Other financial and non-financial assets and liabilities*

Other financial and non-financial assets and liabilities are recorded in the Statement of Financial Position at historical cost. The fair value of other financial assets and liabilities is not materially different to their carrying value.

#### (i) *Fair Value Measurement*

Fair values are calculated on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair values have been calculated by Credit Agricole at the request and on behalf of the Company. Credit Agricole have calculated the fair value using a Gaussian copula formula.

The Company adopted the amendment to IFRS 7, effective 1 January 2009. This requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 6). The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

30 June 2010

*(stated in New Zealand dollars)*

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### 4. Segment information

The Company operates in one business and geographical segment, which is the issuance of Credit SAILS in New Zealand.

### 5. Auditors' remuneration

Auditors' remuneration is payable for the audit and other audit services respectively. Such remuneration is payable either directly or indirectly by Credit Agricole under the terms of the Expenses Agreement between Credit Sail Limited and Credit Agricole dated 13 June 2006. The audit fee and related expenses for the period ended 30 June 2010 are NZD Nil (2009: NZD\$40,530)

### 6. Investments

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		Cost	2010 Fair Value	2009 Fair Value
Momentum CDO Ltd series 2006-16	NZD	91,500,000	9,132,239	13,051,956

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The Company has purchased 91,500,000 Momentum CDO (Europe) Limited series 2006-16 notes. The Momentum Notes bear interest at 3 month NZD-BBR-FRA rates, payable quarterly in arrears. The Momentum Notes, at the period end were rated as CC as of 13 March 2009 by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P" or "Standard and Poor's"). The Momentum Notes are limited recourse notes and are credit linked to a portfolio of Reference Entities (as defined in the terms and conditions of the Momentum Notes). On 11 May 2009, the Company was informed by Credit Agricole that the nominal amount of the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date as a result of credit events in the Momentum reference portfolio.

The fair value of the Momentum Notes at the period end date has been calculated by Credit Agricole at the request and on behalf of the Company. The fair value of the Momentum Notes, NZD 9,132,239 is equivalent to the present value of the future interest payments of the notes, discounted at yield curves based on forward rates. As stated above, the nominal amount of the Momentum Notes will be reduced to NZD Nil at the scheduled maturity date hence no future cash flow based on the nominal amount has been included in the calculation of the fair value of the Momentum Notes.

The Momentum Notes have been pledged to New Zealand Permanent Trustees Limited for the benefit of the Credit SAILS holders (and other secured creditors) and cannot otherwise be transferred.

The Momentum Notes are backed by, among other things, a cash deposit (the "CDO"). The CDO references a portfolio of 125 corporate entities. In the prior year, the CDO was valued using a pricing model that took into account the following assumptions, among others:



## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 6. Investments (continued)

#### *Spreads of the underlying credit*

The credit spreads are related to the credit ratings of the underlying reference entities in the CDO. A decrease in the average credit rating of the portfolio indicates there is a higher probability of a credit event occurring in respect of one or more of the reference entities in the portfolio and negatively affects the rating of the CDO (and may lead to a reduction of the principal and interest of the CDO). The higher the credit spreads, the lower the mark to market ("MTM").

At origination, the 125 reference entities had a weighted average S&P rating of AA, this was reduced to CC on 13 March 2009. At 31 December 2008, there was a decline in the credit worthiness of the reference portfolio, and as such a commensurate decrease in the value of the CDO. The changes in the spreads of the entities in the portfolio will not affect any future valuations of the CDO as the principal has been reduced to NZD Nil due to the losses in the reference portfolio;

#### *Default correlation in reference portfolio*

The default correlation assumption accounts for the correlation between the probabilities of default of entities in the portfolio. This input is modeled using a Gaussian copula model that compares the credit curves of the various entities to estimate default correlation. The higher the default correlation, the lower the MTM. There was an increase to the default correlation of the reference entities as a whole, and as such, a commensurate decline in the value of the CDO. The changes in the default correlation of the entities in the portfolio will not affect any future valuations of the CDO as the principal has been reduced to NZD Nil due to the losses in the reference portfolio;

#### *Tranche subordination*

The tranche subordination refers to the seniority of the collateralised debt obligations to losses occurring in the reference portfolio. Tranche subordination is set at the outset of the transaction and does not change from year to year. However, losses accruing to junior tranches affect the likelihood of losses and as such the subordination is a significant variable to the valuation of the CDO. During the year ended 31 December 2008, there were a number of credit events in the reference portfolio. The reference entities that were affected were Lehman Brothers Holdings, Inc., Washington Mutual Inc., Glitnir Banki hf, Landsbanki Islands hf and Kaupthing Bank hf. which caused losses to accrue on the Momentum Notes. During the year ended 31 December 2009, there was an additional credit event in the reference portfolio, in relation to Idearc. The changes in the tranche subordination of the entities in the portfolio will not affect any future valuations of the CDO as the principal has been reduced to NZD Nil due to the losses in the reference portfolio; and

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

30 June 2010

*(stated in New Zealand dollars)*

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### 6. Investments (continued)

#### *Maturity*

The maturity is set at the outset of the transaction and involves the contractual life of the notes. The effect of time passing is instrumental in valuing the CDO because probability of a portfolio entity defaulting is a function of time.

The fair value of the Momentum Notes is equivalent to the present value of the future interest payments of the notes, discounted at yield curves based on forward rates. As time passes, the fair value of the Momentum Notes will decrease as the interest payments are received. The average BBR forward rate used in the calculation of the future interest payments of the notes for the period up to maturity is 5.143%. The future interest payments were discounted using the BBR forward rates.

### 7. Total return swap

	Cost	2010 Fair Value	2009 Fair Value
<b>Total return swap</b>	<b>NZD</b>	<b>-</b>	<b>(6,947,699) (10,782,187)</b>

Under the terms of the Swap the Company pays the income it receives from the Momentum Notes and received a payment of 8.5% per annum, paid quarterly in arrears, and any redemption premium (as defined in the Swap confirmation), subject, in each case, to the performance of the credit strategy and returns on the notional cash deposit (each as defined in the Swap confirmation).

The fair value of the Swap at the period end date has been calculated by Credit Agricole at the request and on behalf of the Company. The Swap has been pledged to New Zealand Permanent Trustees Limited for the benefit of the Credit SaILS holders (and other secured creditors) and cannot otherwise be transferred.

The total return swap has two distinct components that cause changes to its fair value:

#### *Interest payments*

Interest is received from the floating rate Momentum Notes and increases the value of the total return swap. Fixed interest payments were paid out of the total return swap to the holders of the Credit SaILS Notes which cause a decrease of the value of the total return swap; and

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 7. Total return swap (continued)

#### *Leveraged Credit Strategy*

The pool available to this strategy is the amount left over after purchase of the Momentum Notes. The credit strategy invested in two highly liquid credit indices; the iTraxx Europe® and the CDX US®. Investments in these indices caused three sources of income/loss to accrue to the total return swap:

- The indices paid a premium for investment in the credit of the underlying portfolio;
- Default losses that occur to the portfolio companies will impact negatively the total return swap; and
- The roll-over of the indices caused gains and/or losses to accrue.

During the third quarter of 2008, a number of credit events occurred in the reference portfolio of the Total Return Swap that reduced the Credit Strategy Reserve below the 5% threshold and as a result interest payments on the Credit SaILS were not made for the quarterly interest payment due on 22 September 2008. Further credit events occurred in October 2008 that resulted in the Credit Strategy Reserve falling below 1% causing a Strategy Unwind Event. In accordance with the terms and conditions of the Credit SaILS on 17 November 2008 the Credit Strategy was unwound and as a result no further interest will be paid on the Credit SaILS nor any redemption premium.

The Company is contractually obliged to pay interest received from the Momentum notes to the Swap Counterparty. Since the strategy unwind event, the Leveraged Credit Strategy is equal to the final strategy return as determined at the Strategy unwind date, earning interest at BBR-FRA rates less 0.05%, accruing quarterly.

### 8. Notes in issue

		Proceeds	2010 Fair Value	2009 Fair Value
Credit SaILS 2012	NZD	91,500,000	2,184,540	2,269,769

Pursuant to the terms of a supplemental trust deed between the Company and New Zealand Permanent Trustees Limited, the Company issued NZD 91,500,000 Credit SaILS. The Notes represent limited recourse obligations of the Company and are secured upon, among other things, the Momentum Notes and Swap, which have been assigned to New Zealand Permanent Trustees Limited. The Notes have been listed with New Zealand Exchange Limited.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

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### 8. Notes in issue (continued)

The agreed terms and conditions of the Credit SaILS, were that the Credit SaILS bare contingent interest at 8.5% per annum plus a potential redemption premium (as defined in the terms and conditions of the Credit SaILS) payable on the maturity of the Credit SaILS. The redemption premium was linked to the credit performance of two international credit portfolios, represented by the Indices. The two Indices, the CDX North American Investment Grade Index (CDX US®) and iTraxx Europe® Index, were each comprised of 125 well-known corporate and other entities which, on the date such entities became part of such indices, have either investment grade credit ratings, or have senior unsecured debt that was rated investment grade, from S&P or Moody's Investor Services Limited. Interest is payable quarterly in arrears on the Credit SaILS to the extent that funds are available for such purpose. The principal and interest received from the Momentum Notes and the Swap was used to pay the principal and interest on the Credit SaILS.

At the period end the Credit SaILS had, as of 13 March 2009, been rated as CC-p N.R.i. by S&P as to the repayment of the principal amount of the Credit SaILS. The subscript 'N.R.i' means that the interest on the notes is not rated. The principal only credit rating is not an express or implied statement or opinion as to the likelihood of the amount or timeliness of interest payments on the Credit SaILS. However, as noted in note 7, interest will no longer be paid on the notes. Furthermore, the Momentum Notes will be reduced to NZD Nil on the scheduled maturity date, the holders of the Notes will not receive their principal back and the Notes will be redeemed at NZD Nil, plus the holder's pro rata share of the residual monies, equal to NZD 1,067,239, plus interest which was prorated upon the unwind and termination of the Credit Strategy on 17 November 2008. At 30 June 2010 the residual monies were NZD 2,186,831 (2009: NZD 1,988,390).

The fair value of the Credit SaILS at the period end date has been calculated by Credit Agricole at the request and on behalf of the Company. The movement in fair value is attributable, amongst other factors, to changes in the benchmark interest rates in New Zealand in that any change in the benchmark interest rates will affect the price at which Credit SaILS may be traded.

The fair value of the Credit SaILS instruments is equivalent to the present value of the notional account balance plus future interest receivable, discounted at yield curves based on forward rates. The same BBR forward rates in the calculation of the investment (refer note 6) were used.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

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*(stated in New Zealand dollars)*

### 8. Notes in issue (continued)

The table below provides an analysis of the Credit SaILS future cash flows that will be settled on a gross basis into relevant maturity groupings based on the end of the current period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Statement of Financial Position	Contractual cash flows	Less than 1 year	1 – 2 years	2- 5 years
<b>As at 30 June 2010</b>					
<b>Credit SaILS</b>					
-Interest	-	-	-	-	-
-Principal	2,184,540	2,186,831	-	-	2,186,831
<b>Total</b>	2,184,540	2,186,831	-	-	2,186,831
<b>As at 31 December 2009</b>					
<b>Credit SaILS</b>					
-Interest	-	-	-	-	-
-Principal	2,269,769	1,988,390	-	-	1,988,390
<b>Total</b>	2,269,769	1,988,390	-	-	1,988,390

The contractual cashflows the Company will be due to pay at maturity will equate to the residual monies less any payments necessary to the Swap Counterparty. At the Statement of Financial Position date the director believes that the best estimate of these cashflows equate to the fair value of the Credit SaILS as this is the best estimate of the non-discounted contractual cashflows as calculated by Credit Agricole.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

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*(stated in New Zealand dollars)*

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### 9. Share capital

		2010	2009
Authorised:			
50,000 Ordinary Shares of US\$1.00 each	US\$	50,000	50,000
Issued and fully paid:			
250 Ordinary Shares	NZD	393	393

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No new shares were issued nor any cancelled during the period.

Ordinary Shares are voting, non-participating shares that are held by Maples Finance Limited, in trust for certain qualified charities.

### 10. Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Council of the Cayman Islands exempting it from local taxes on all income, profits, gains and appreciations until 2026. Accordingly, no provision for income taxes is included in these financial statements.

### 11. Related parties

The Company does not have any employees in its own right. However, during the period, Maples Finance Limited was responsible for the provision of directors under the terms of an administration agreement. All fees payable under the administration agreement are payable by Credit Agricole under, and subject to, the terms of an expense agreement. During the period Credit Agricole paid an amount of US\$22,232 (NZD 31,033) (2009: US\$23,052 (NZD 32,131)) in respect of fees due under the administration agreement.

On 28 February 2008 Christopher Ruark resigned as Director, on the same date he was replaced by Giles Le Sueur. Both were appointed in their capacity as employees of Maples Finance Jersey Limited and did not receive any remuneration from the Company. On 20 January 2010, Giles Le Sueur resigned as a director of the Company and on the same date Marc Randall was appointed to fulfil the role as the sole director. On the same date, a Deed of Assignment and Novation was entered into between Maples Finance Jersey Limited ("MFJ"), Maples Finance Limited ("MFL") and the Company whereby MFL was authorised to provide the Company the administration services that were transferred from MFJ as per the Administration Agreement dated 28 April 2006. Marc Randall was appointed as a director of the Company in his capacity as an employee of MFL and does not receive any remuneration from the Company.

Credit Agricole acted as arranger to the issuance of the Credit Sails and the Momentum Notes and are counterparty to the Swap. Credit Agricole are also the calculation agent.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

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*(stated in New Zealand dollars)*

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### 12. Ultimate Controlling Party

The immediate parent company is Maples Finance Limited, who hold the shares on trust for various qualifying charities. In the opinion of the director, there is no ultimate controlling party as the shares are held on trust for various qualifying charities.

### 13. Financial instruments

Exposure to market, credit, interest rate and liquidity risk arises in the normal course of the Company's business. The risks have been managed through the issue of limited recourse Notes which only have recourse to the Company's assets which have been pledged to New Zealand Permanent Trustees Limited. The assets (excluding the proceeds of the ordinary share issue and transaction fee received) and liabilities of the Company have been structured to ensure that they are equal and that there is no residual risk to the Company. There have been no changes to the way that the Company manages its risk in the period. Further detail is provided below.

#### Categories of financial instruments

2010			
Assets	Loans & Receivables	At Fair Value Through Profit & Loss	Financial Instruments at Amortised Cost
Cash & cash equivalents	723	-	-
Accrued interest receivable	-	-	69,723
Investments	-	9,132,239	-
<b>Liabilities</b>			
Accrued interest payable	-	-	69,723
Total return swap	-	6,947,699	-
Notes in issue	-	2,184,540	-

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## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

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*(stated in New Zealand dollars)*

### 13. Financial instruments (continued)

2009				
Assets	Loans & Receivables	At Fair Value Through Profit & Loss	Financial Instruments at Amortised Cost	
Cash & cash equivalents	702	-	-	
Accrued interest receivable	-	-	70,108	
Investments	-	13,051,956	-	
<b>Liabilities</b>				
Accrued interest payable	-	-	70,108	
Total return swap	-	10,782,187	-	
Notes in issue	-	2,269,769	-	

### Income, expenses, gains and losses resulting from financial assets and liabilities

#### Financial Instruments

At Fair Value Through Profit & Loss	2010	2009
Investments	(3,919,717)	(3,646,794)
Total Return Swap	3,834,488	3,629,063
Notes in issue	85,229	17,731

#### Market risk

The Company is exposed to market risks influencing investment valuations.



## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

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(*stated in New Zealand dollars*)

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### 13. Financial instruments (continued)

#### *Credit risk exposure*

Credit risk represents exposure to, among other things, the underlying Momentum Notes (including but not limited to the underlying reference portfolio of the Momentum Notes) and Swap.

The Company is exposed to the performance of Momentum Notes. The principal of the Momentum Notes was affected as a result of the losses on the Momentum reference portfolio that exceed the 4.8% subordination amount of the Momentum reference portfolio (an average of 8.9 credit events). There was a complete loss as the losses reached the detachment point of 5.8% of the aggregate size of the Momentum reference portfolio (an average of 10.7 credit events). On 11 May 2009, the Company was informed that the nominal amount of the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date as a result of credit events in the Momentum reference portfolio.

There was also a credit risk in relation to the contingent coupon on the Notes or the contingent capital gain due at maturity, where as a result of poor performance of the credit indices losses may occur or a Strategy Unwind Event may occur. A Strategy Unwind Event occurred on 17 November 2008 and on the same date the Credit Strategy was unwound and all Index-Linked CDS in the portfolio of Credit Sails terminated. As a result of the Strategy Unwind Event, the Company will no longer pay interest on the contingent coupon and the final strategy return will equal the cash surplus in the Notional Account Balance. Since the Momentum Notes would be reduced to NZD Nil on the scheduled maturity date, the holders of the Notes will not receive their principal back and the Notes will be redeemed at NZD Nil, plus the holder's pro rata share of the residual monies, equal to NZD 1,067,239, plus interest which was prorated upon the unwind and termination of the Credit Strategy on 17 November 2008. At 30 June 2010 the residual monies were NZD 2,186,831 (2009: NZD 1,988,390).

If the swap counterparty under the Swap became unable to pay its debts or became insolvent, it could be unable to perform its obligations under the Swap which due to the strategy unwind event is limited to the final strategy return.

There is no net exposure to the Company as a result of non-performing assets due to the limited recourse nature of the Credit Sails.

Financial assets exposed to credit risk at the period end were as follows:

	2010	2009
Investments	9,132,239	13,051,956
Cash and cash equivalents	723	702
Total	<u>9,132,962</u>	<u>13,052,658</u>

## CREDIT SAIL LIMITED

Notes to Financial Statements (compiled without audit or review)

30 June 2010

(stated in New Zealand dollars)

### 13. Financial instruments (continued)

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

#### *Fair value*

The Company's financial assets and liabilities included in the Statement of Financial Position are carried at fair value based on valuations carried out by Credit Agricole as disclosed in Note 6, 7 and 8.

No financial assets held by the Company are past due at the reporting date and no financial assets have been determined to be impaired by the Company as at the reporting date other than as disclosed in Note 6.

The following table analyses within the fair value hierarchy the Company's financial assets and financial liabilities (by class) measured at fair value.

#### 30 June 2010

	Level 1	Level 2	Level 3
<b>Financial assets</b>			
Momentum notes	-	9,132,239	-
Total	-	9,132,239	-

	Level 1	Level 2	Level 3
<b>Financial liabilities</b>			
Total return swap	-	6,947,699	-
Notes in issue	-	2,184,540	-
Total	-	9,132,239	-

#### 31 December 2009

	Level 1	Level 2	Level 3
<b>Financial assets</b>			
Momentum notes	-	13,051,956	-
Total	-	13,051,956	-

	Level 1	Level 2	Level 3
<b>Financial liabilities</b>			
Total return swap	-	10,782,187	-
Notes in issue	-	2,269,769	-
Total	-	13,051,956	-

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 13. Financial instruments (continued)

#### *Foreign exchange risk*

As a result of the credit event on the Momentum Notes in May 2009, there is no foreign exchange risk on the Momentum Notes held by the Company at 30 June 2010 since the final strategy return will equal the cash surplus in the Notional Account Balance which is denominated in New Zealand dollars. The Company does hold Cash and cash equivalents in currencies other than the New Zealand dollar at 30 June 2010 and 31 December 2009 but the effect that the fluctuations of currencies would have on these amounts would not be significant.

#### **Foreign Currency Exposure at Statement of Financial Position Date**

	<b>2010</b>	<b>2009</b>
	<b>NZD</b>	<b>NZD</b>
Cash and cash equivalents	<u>723</u>	<u>702</u>

The exchange rate used at period end was USD1:NZD 1.4360 (2009 USD1:NZD1.3938)

#### *Interest Rate Risk*

At 30 June 2010, had interest rates decreased by 300 basis points (2009: 300 basis points) with all other variables remaining constant, the change in gross assets attributable to holders of Credit SAILS would amount to approximately NZD (65,605) (2009: NZD (45,957)). If interest rates had risen by 300 basis points (2008: 300 basis points) the change in gross assets attributable to holders of Credit SAILS would amount to approximately NZD 65,605 (2009: NZD43,941). The above analysis is based on a more basic analysis of interest rate risk than actually used in monitoring the valuation of the Notes.

Due to constraints on the model producing historical data, this analysis has been adopted by the director to provide them with comfort that the quantitative impacts of such interest risks facing the Company are not material or significant.

#### **Total exposure to interest rate risk**

		Cash Flow interest rate risk	
<b>2010</b>	Interest rate at period end	Fixed	Floating
Investments	3.05%	-	9,132,239
Total Return Swap	3.05%	-	(6,947,699)
Notes in issue	3.05%	-	(2,184,540)

## CREDIT SAIL LIMITED

Notes to Financial Statements (*compiled without audit or review*)

30 June 2010

(*stated in New Zealand dollars*)

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### 13. Financial instruments (continued)

#### *Interest Rate Risk (continued)*

#### **Total exposure to interest rate risk**

2009	Interest rate at year end	Cash Flow interest rate risk	
		Fixed	Floating
Investments	2.76%	-	13,051,956
Total Return Swap	2.76%	-	(10,782,187)
Notes in issue	2.76%	-	(2,269,769)

### 14. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company has been structured in such a way that all liabilities are expressed to be limited recourse to the assets of the company, excluding the company's share capital and transaction fee and that there is no residual capital risk to the Company.

### 15. Subsequent events

There were no material subsequent events occurring after the reporting date.

### 16. Compilation of the condensed interim financial information

The Semi-Annual Report distributed by the Company is the sole responsibility of the Company. However, the Company has provided the Administrator with information used to compile the Semi-Annual Report from Credit Agricole. The Semi-Annual Report has been compiled without audit or review by Maples Finance Limited in its capacity as the Administrator to the Company. The information regarding the valuation of the Company's financial instruments, on which the information in these Semi-Annual Report is based, has been provided to the Administrator by the Company or its agents, and the Administrator expresses no assurance on the information contained therein.

### 17. Comparative information

The Statements of Comprehensive Income as at June 30, 2010 and December 31, 2009 have been presented for period of 6 months and 12 months respectively, and are not comparable.

## CREDIT SAIL LIMITED

Notes to Financial Statements *(compiled without audit or review)*

30 June 2010

*(stated in New Zealand dollars)*

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30 June 2010

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