

# **Global Diversified Investment Grade Income Trust II**

Consolidated Financial Statements  
**December 31, 2005**

April 25, 2006

## Auditors' Report

### To the Unitholders of Global Diversified Investment Grade Income Trust II

We have audited the consolidated statement of net assets of **Global Diversified Investment Grade Income Trust II** (the "Trust") as at December 31, 2005 and the consolidated statements of operations, changes in net assets and cash flows for the period from March 2, 2005 to December 31, 2005. These financial statements are the responsibility of the Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trustees, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and the results of its operations and the changes in its net assets and its cash flows for the period from March 2, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

# Global Diversified Investment Grade Income Trust II

Consolidated Statement of Net Assets

As at December 31, 2005

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	\$
<b>Assets</b>	
Cash	409,414
Interest receivable on investments	6,027,227
Credit default swap receivable	11,597,327
Other accounts receivable	93,559
Prepaid expenses	14,455,233
Investments, at cost (note 3)	2,131,107,740
Interest rate swap asset (note 4)	112,864
	<u>2,163,803,364</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,549,806
Brokers' commissions payable	86,063
Credit default swap payable	1,204,233
Commercial paper (note 5)	1,752,110,409
Floating rate notes (note 6)	250,000,000
Placement and structuring fee note (note 7)	14,756,610
Distributions payable	1,027,065
	<u>2,021,734,186</u>
<b>Net Assets representing Unitholders' Equity</b> (note 10)	<u>142,069,178</u>
<b>Number of units outstanding</b>	<u>14,950,000</u>
<b>Net assets per unit</b>	<u>9.50</u>

Approved by the Trustee, Global DIGIT II Management Inc.

Claude Dalphond Director  
Claude Dalphond

Benoit Deschamps Director  
Benoit Deschamps

# Global Diversified Investment Grade Income Trust II

Consolidated Statement of Operations

For the period from March 2, 2005 to December 31, 2005

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	\$
<b>Investment income</b>	
Interest on investments	52,186,605
Income from credit default swap	26,851,415
Interest on cash	11,827
Change in unrealized appreciation of interest rate swap asset	112,864
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	79,162,711
<b>Investment-related expenses</b>	
Expense on credit default swaps	11,846,589
Interest on interest rate swaps	46,504
Interest on commercial paper	40,600,789
Interest on floating rate notes	5,863,712
Interest on placement and structuring fee note	601,538
Brokers' commissions	1,174,858
Liquidity premiums	1,005,507
Financial service fees (note 8(a))	4,689,977
Follow-up fees (note 8(b))	481,267
	<hr/>
	66,310,741
<b>Net investment income before administrative expenses</b>	<hr/>
	12,851,970
<b>Administrative expenses</b>	
Audit fees	40,000
Legal fees	119,452
Directors' fees	65,526
Administrative agent	48,534
Trustee fees	16,992
Custodial fees	98,384
Communications	54,105
Regulatory fees	70,072
Insurances	52,990
Information technology fees	7,084
Bank fees	3,829
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	576,968
<b>Net income for the period</b>	<hr/>
	12,275,002
<b>Net income per unit</b>	<hr/>
	0.82

# Global Diversified Investment Grade Income Trust II

Consolidated Statement of Changes in Net Assets

For the period from March 2, 2005 to December 31, 2005

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	\$
<b>Net income for the period</b>	12,275,002
<b>Distributions to unitholders</b>	
Return of capital	(9,919,325)
<b>Equity transactions</b> (note 10)	<u>139,713,501</u>
<b>Increase in net assets for the period</b>	142,069,178
<b>Net assets – Beginning of period</b>	<u>-</u>
<b>Net assets – End of period</b>	<u>142,069,178</u>

# Global Diversified Investment Grade Income Trust II

## Consolidated Statement of Cash Flows

For the period from March 2, 2005 to December 31, 2005

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	\$
<b>Cash flows from</b>	
<b>Operating activities</b>	
Net income for the period	<u>12,275,002</u>
Adjustments for	
Change in unrealized appreciation in value of credit default swap and interest rate swap asset	(112,864)
Increase in interest receivable on investments	(6,027,227)
Increase in credit default swap receivable	(11,597,327)
Increase in other accounts receivable	(93,559)
Decrease in prepaid expenses	1,256,977
Increase in accounts payable and accrued liabilities	2,549,806
Increase in brokers' commissions payable	86,063
Increase in credit default swap payable	1,204,233
Interest on placement and structuring fee note	544,400
Amortization of discount on commercial paper	<u>40,600,789</u>
	<u>28,411,291</u>
	<u>40,686,293</u>
<b>Investing activities</b>	
Purchases of investments	(2,140,000,000)
Proceeds from sales of investments	<u>8,892,260</u>
	<u>(2,131,107,740)</u>
<b>Financing activities</b>	
Proceeds from issuance of commercial paper	19,199,102,951
Maturities of commercial paper	(17,487,593,331)
Proceeds from issuance of floating rate notes	400,000,000
Maturities of floating rate notes	(150,000,000)
Payments on placement and structuring fee note	(1,500,000)
Issue of units	149,500,000
Unit issue expenses	(9,786,499)
Distributions paid to unitholders	<u>(8,892,260)</u>
	<u>2,090,830,861</u>
<b>Increase in cash for the period</b>	409,414
<b>Cash – Beginning of period</b>	<u>-</u>
<b>Cash – End of period</b>	<u>409,414</u>
<b>Additional information</b>	
Interest paid	40,149,259

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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## 1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust II (the “Trust”) is a limited purpose close-end income trust which was established under the laws of the Province of Ontario on February 28, 2005 by a trust agreement.

Global Digit II Management Inc. is the issuing trustee (the “Trustee”) of the Trust. Natcan Trust Company was engaged by the Trustee to act as administrative agent of the Trust, custodian of its assets and transfer agent and registrar of its units. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustee. The promoter of the Trust is National Bank Financial Inc. Natcan Trust Company and National Bank Financial Inc. do not hold any voting securities in the Trustee and do not have a representative on its board.

The Trust provides its unitholders with an exposure to four portfolios (collectively, the “portfolio”) containing 149, 208, 195 and 553 securities (the “reference obligations”), the objective being to provide unitholders with a stream of monthly distributions and to redeem all of the outstanding units on or following March 2, 2010 (the “reset date”), or subsequent reset date on a multiple of five years. The maturity date will not be later than 40 years after initial execution. In order to meet its investment objectives, the Trust entered into credit default swap agreements with a creditworthy financial institution (the “Bank”).

Through to the maturity date, the redemption price of the Trust’s units and the net asset value of the Trust will vary depending on a number of factors such as the monthly distributions to be made on the units, interest rates, the rating of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio. Credit events include bankruptcy, failure to pay and other specified loss events. However, the Trust will not be exposed to losses greater than the unitholders’ equity.

## 2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are the following.

### Consolidation

The consolidated financial statements include the assets and liabilities and the results of operations of the Trust and of Silverstone Trust, a variable interest entity of which the Trust is the main beneficiary, after elimination of intercompany transactions and balances.

### Investments

Investments are carried at cost.

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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## **Prepaid expenses**

Prepaid expenses consist of the placement and structuring fees paid in advance to National Bank Financial Inc. They are amortized on a straight-line basis over approximately seven years.

## **Revenue recognition**

Interest income, interest expense and income and expense from the credit default swaps are recorded on an accrual basis.

## **Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trustee to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Trustee believes that the estimates used in preparing the consolidated financial statements are reasonable. Actual results may differ from those estimates.

## **Fair value of financial instruments**

The fair value of the financial instruments is determined as follows:

### Valuation of credit default swaps and interest rate swaps

The credit default swaps are presented at their net estimated replacement cost and the interest rate swaps are presented at their estimated fair value, with changes in the unrealized gain or loss of the period recorded in the consolidated statement of operations. Replacement cost is evaluated based on the quotation provided by the Bank. The calculated replacement cost reflects market conditions on a given date and for this reason may not be representative of future fair values. Also, the replacement cost does not necessarily reflect the value at which the credit default swaps could be liquidated.

### Financial instruments valued at book value

The book value of a number of short-term financial instruments presented in the consolidated statement of net assets approximates their fair value. These financial instruments include cash, interest receivable on investments, credit default swap receivable and payable, other accounts receivable, accounts payable and accrued liabilities, commercial paper and distributions payable.

### Investments and credit default swap receivable

The fair value of the floating rate term deposit approximates its book value. The estimated fair value of the fixed rate term deposit and the credit default swap receivable is determined by discounting the contractual cash flows at the interest rate on the term deposit and swaps.

# Global Diversified Investment Grade Income Trust II

## Notes to Consolidated Financial Statements

December 31, 2005

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Floating rate notes

The fair value of the floating rate notes approximates their book value.

### 3 Investments

Under the credit default swap agreements, the term deposit investments are pledged to the Bank. These investments are issued on an unsubordinated and unguaranteed basis by financial institutions. The investments mature in March 2010.

The amounts recoverable on the maturity date of the investments will be reduced by any loss incurred as a result of credit events.

A \$131,107,740 term deposit with a financial institution, having a long-term solvency rating of A from Standards & Poor's Rating Service ("S&P") as of the date of issuance, together with a credit default swap receivable of \$8,892,260 bear interest at a rate of 3.922% payable monthly until on or about March 2, 2010 after which date their rate of return will be reset for five years as of each reset date until the maturity date. The fair value on December 31, 2005 was \$137,242,000.

A \$2,000,000,000 term deposit with a financial institution, having an S&P long-term solvency rating of AAA, bears interest at the rate of one-month bankers' acceptances plus a fixed margin, payable monthly until end of term.

### 4 Derivative instruments

The Trust has entered into three credit default swap agreements ("swap agreements A, B and C") with the Bank pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations until March 2010 or subsequent reset date on a multiple of five years. The maximum loss that may be incurred for credit events with respect to swap agreements A, B and C amounts to \$140,000,000. Under swap agreements A, B and C, a monthly payment, made by the Trust to the Bank corresponding to a contractual rate applied to the notional amount of the contracts and equal to the contractual interest rate applied to the investment pledged as security, is made, and the Bank will pay at term an amount equal to the excess of the notional amount of the contracts less net losses incurred on those contracts over the residual amount of the investments pledged as security. On a monthly basis, the Bank will acquire from the Trust a portion contractually determined of the note pledged as security; this portion is equal to the monthly payment for the month in consideration.

Moreover, through Silverstone Trust, the Trust has also entered into credit default swap agreements ("swap agreements D") with the Bank pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations until March 2010 or subsequent reset date on a multiple of five years. The maximum loss that may be incurred for credit events with respect to swap agreements D amounts to \$2,000,000,000. The income from those contracts received by the Trust is equal to a contractual rate applied to the contract notional amount.

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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The funded aggregate notional amount of the four swap agreements (A, B, C and D) as at December 31, 2005 totalled \$2,140,000,000 for the reference obligations portfolio of \$80,000,000,000, which had an average S&P rating of AA/AA- as at December 31, 2005.

From time to time, the Trust enters into interest rate swap agreements with National Bank of Canada in order to manage interest rate spread risks relating to the commercial paper and the investments. These contracts have not been designated for hedge accounting. They had a total notional amount of \$787,368,690 as at December 31, 2005 and a fair value of \$112,864.

## Credit risk

As a result of entering into the credit default swap agreements with the Bank, the Trust is exposed to credit risk with respect to the reference obligations included in the portfolio. Credit events (bankruptcy, failure to pay or other loss event) in relation to the reference obligations could result in a loss for the Trust. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C amounts to \$140,000,000. Any loss from swap agreements D will be borne by the holders of the commercial paper and floating rate notes.

Additionally, the Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swaps and interest rate swaps, plus any amount receivable from the counterparty. The Trustee believes that the probability of default is low. The counterparty net credit risk exposure on December 31, 2005 was \$10,393,094.

During the period ended December 31, 2005, no credit events had occurred in the portfolio of reference obligations.

## Interest rate risk

There is interest rate risk associated with the financial instruments. Market rates can vary and cause fluctuations in the fair value of financial instruments having a fixed rate at the signing of the contract.

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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## 5 Commercial paper

Commercial paper as at December 31, 2005, including accrued interest of \$5,555,512, mature between January and June 2006, as shown in the table below:

<b>Maturity date</b>	<b>Interest rate</b>	<b>Amount \$</b>
January 2006	3.04% to 3.48%	954,392,417
February 2006	3.17% to 3.50%	424,702,309
March 2006	3.41% to 3.67%	351,244,681
April 2006	3.67%	2,080,761
May 2006	2.88%	4,953,212
June 2006	3.86%	14,737,029
		<u>1,752,110,409</u>

## 6 Floating rate notes

<b>Maturity date</b>	<b>Interest rate</b>	<b>Amount \$</b>
September 2006	CDOR – 1 month + 0.15%	100,000,000
March 2007	CDOR – 1 month + 0.17%	75,000,000
March 2007	CDOR – 3 months + 0.17%	25,000,000
April 2007	CDOR – 1 month + 0.16%	50,000,000
		<u>250,000,000</u>

## 7 Placement and structuring fee note (“PSF Note”)

The Trust issued a PSF Note, having a fair value of \$20,000,000, in consideration of \$15,712,210 pursuant to a Financial Services Agreement dated August 27, 2004 between National Bank Financial Inc. and the Trust. The principal sum of \$20,000,000 will be paid by the Trust in equal monthly instalments of \$166,667 consisting of capital and interest of 5%.

The maturity date of the PSF Note is March 3, 2015.

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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## 8 Operating expenses

- a) The Trust pays financial service fees of up to 0.35% per annum of the funded initial amount of the swap contract entered into by the Trust. These fees include the placement and structuring fee and the performance fee.
- b) The Trust pays investment advisors follow-up fees equal to 0.40% annually of the outstanding amount on a per unit basis held by clients of such investment advisors.

## 9 Income taxes

The Trust qualifies as a unit trust within the meaning of the Income Tax Act (Canada). The Trust is subject to income taxes under this Act on the amount of taxable income for the period and can deduct in computing its income tax for all amounts paid or payable to the Trust's unitholders in determining its income for tax purposes.

Any amount payable under the credit default swaps is considered to be payable under the swap agreements and is taxable as such. According to the terms of the swap agreements, the amount will be determinable only on the maturity date and therefore the swap payment to the Trust should only be taxable as income at that date only.

## 10 Unitholders' equity

### Authorized units

The Trust is authorized to issue in series an unlimited number of transferable and redeemable units, each of which represents an equal, undivided interest in the net assets of the Trust.

All units have equal rights and privileges. Each whole unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust.

Units may be surrendered for redemption at any time but will be redeemed only on a quarterly basis on the last business day of each of the months of February, May, August and November (the "redemption date") for an amount equal to the redemption price of the units determined as of such redemption date.

The redemption price will be equal to the lesser of:

- (a) 95% of the daily weighted average trading price per unit on the principal exchange on which the units are listed for the five trading days following the redemption date; and
- (b) an amount equal to:
  - (i) the closing price of the units on the principal exchange on which the units are listed; or

# Global Diversified Investment Grade Income Trust II

## Notes to Consolidated Financial Statements

December 31, 2005

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- (ii) the average of the highest and lowest prices of the units if the exchange or other markets on which the units are listed provides only the highest and lowest trading prices; or
- (iii) the average of the latest bid and ask prices on the principal exchange on which the units are listed if there was no trading on such redemption date.

Units may be surrendered for redemption at any time but will be redeemed only on an annual basis on the last business day of each month of February (the "annual redemption date") for an amount equal to the unwind price of swap agreements A, B and C determined as of such annual redemption date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swaps agreements A, B and C and (ii) the market value of the tranche of the Trust's \$140,000,000 term deposit.

The following transactions took place during the period from March 2, 2005 to December 31, 2005:

### Number of units

Balance – Beginning of period	-
Issued during the period	14,950,000
Redeemed during the period	-
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Balance – End of period	<u>14,950,000</u>

Unitholders' equity is made up of units issued and retained earnings. The following transactions took place during the period from March 2, 2005 to December 31, 2005:

\$

### Units

Balance – Beginning of period	-
Issued during the period	149,500,000
Issue expenses	(9,786,499)
Return of capital to unitholders	(9,919,325)
Redeemed during the period	-
	<hr/>
Balance – End of period	<u>129,794,176</u>

### Retained earnings

Balance – Beginning of period	-
Net income for the period	12,275,002
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Balance – End of period	<u>12,275,002</u>
	<hr/>
	<u>142,069,178</u>

# Global Diversified Investment Grade Income Trust II

Notes to Consolidated Financial Statements

December 31, 2005

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## Monthly distributions

Distributions to unitholders constitute partial capital reimbursement at the issue price of the units and may fluctuate from month to month depending on the occurrence of credit events in the portfolio. In the event that no credit default occurs, the Trust expects distributions in the form of return of capital to be made until March 2010 at an annual fixed rate of 8.25%, after which they will be equal to the applicable five-year Government of Canada bond rate plus 4.0 to 4.5%.

The distributions declared by the Trust are accounted for once declared but are payable on the 10<sup>th</sup> business day of the following month.

# Global Diversified Investment Grade Income Trust II

## Schedule – Derivative Instruments and Reference Obligation Portfolios

As at December 31, 2005

The portfolios of reference obligations, to which swap agreements A, B and C refer, are subject to asset eligibility and portfolio guidelines which may, over time, modify the overall economic exposure of the Trust to the credit performance of these portfolios. The information provided below is subject to such asset eligibility and portfolio guidelines. The portfolios of reference obligations, as disclosed in the prospectus, have been structured between December 13, 2004 and February 8, 2005 (the “inception date”).

### Swap Agreement A

Swap Agreement A refers to the credit performance of the reference obligations in Portfolio 1 that comprised 208 reference obligations as of December 31, 2005 and 249 reference obligations as of the inception date.

Portfolio 1’s composition by asset classes as of December 13, 2005 and the inception date was as follows:

Asset class	December 31, 2005		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	8	4.40	8	3.44
Consumer asset-backed securities	14	5.62	22	8.11
Residential mortgage-backed securities	87	34.59	102	31.70
Commercial mortgage-backed securities	26	9.62	47	15.44
Synthetic corporate exposures	-	-	1	0.88
Other structured finance and fixed-income securities	73	45.77	69	40.43
	208	100.00	249	100.00

The S&P ratings of the mortgage-backed securities, asset-backed securities, structured finance securities, synthetic corporate exposures and other fixed-income securities comprised in Portfolio 1 were distributed as follows:

Rating	December 31, 2005	Inception date
	(by equivalent S&P rating)	(by notched S&P rating category)
	% of Assets	% of Assets
AAA	77.12	75.78
AA	10.38	13.53
A	12.12	10.69
BBB	0.38	-

# Global Diversified Investment Grade Income Trust II

Schedule – Derivative Instruments and Reference Obligation Portfolios ...*continued*

As at December 31, 2005

The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other fixed-income securities and synthetic corporate exposures comprised in Portfolio 1 was 19 as of December 31, 2005 (between Aa2 and Aa1) and 18 as of the inception date (Aa2 equivalent). The reference obligations comprised in Portfolio 1 had a weighted average default probability equivalent to a rating between AA+ and AA as of December 31, 2005 and of AA by S&P as of the inception date.

## Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 149 reference obligations as of December 31, 2005 and 161 reference obligations as of the inception date.

Portfolio 2's composition by asset classes as of December 31, 2005 and the inception date was as follows:

Asset class	December 31, 2005		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	8	9.06	8	5.05
Consumer asset-backed securities	1	0.46	3	0.47
Residential mortgage-backed securities	58	31.50	77	38.83
Commercial mortgage-backed securities	12	8.33	17	10.22
Synthetic corporate exposures	1	2.55	2	2.58
Other structured finance and fixed-income securities	69	48.10	54	42.85
	149	100.00	161	100.00

The S&P ratings of the mortgage-backed securities, asset-backed securities, structured finance securities, synthetic corporate exposures and other fixed-income securities comprised in Portfolio 2 were distributed as follows:

Rating	December 31, 2005	Inception date
	(by equivalent S&P rating)	(by notched S&P rating category)
	% of Assets	% of Assets
AAA	79.39	72.90
AA	8.63	16.17
A	11.98	10.93

# Global Diversified Investment Grade Income Trust II

Schedule – Derivative Instruments and Reference Obligation Portfolios ...*continued*

As at December 31, 2005

The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other fixed-income securities and synthetic corporate exposures comprised in Portfolio 2 was 19 as of December 31, 2005 (between Aa1 and Aa2) and 21 as of the inception date (Aa3 equivalent). The reference obligations comprised in Portfolio 2 had a weighted average default probability equivalent to a rating between AA+ and AA as of December 31, 2005 and of AA by S&P as of the inception date.

## Swap Agreement C

Swap Agreement C refers to the credit performance of the reference obligations in Portfolio 3 that comprised 195 reference obligations as of December 31, 2005 and 208 reference obligations as of the inception date.

Portfolio 3's composition by asset classes as of December 31, 2005 and the inception date was as follows:

Asset class	December 31, 2005		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	7	10.76	2	0.88
Consumer asset-backed securities	1	0.46	1	0.50
Residential mortgage-backed securities	110	32.34	122	41.43
Commercial mortgage-backed securities	12	7.64	9	7.91
Synthetic corporate exposures	4	5.53	5	7.22
Other structured finance and fixed-income securities	61	43.27	69	42.06
	195	100.00	208	100.00

The S&P ratings of the mortgage-backed securities, asset-backed securities, structured finance securities, synthetic corporate exposures and other fixed-income securities comprised in Portfolio 3 were distributed as follows:

Rating	December 31, 2005	Inception date
	(by equivalent S&P rating)	(by notched S&P rating category)
	% of Assets	% of Assets
AAA	50.16	66.09
AA	12.57	9.69
A	35.01	24.22
BBB	2.26 <sup>1</sup>	-

<sup>1</sup> Three of the four securities are rated A3 by Moody's and one security is rated A- by Fitch.

## **Global Diversified Investment Grade Income Trust II**

Schedule – Derivative Instruments and Reference Obligation Portfolios ...*continued*

**As at December 31, 2005**

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The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other fixed-income securities and synthetic corporate exposures comprised in Portfolio 3 was 63 as of December 31, 2005 (between Aa3 and A1) and 39 as of the inception date (Aa3 equivalent). The reference obligations comprised in Portfolio 3 had a weighted average default probability equivalent to a rating between AA- and A+ as of December 31, 2005 and of AA- by S&P as of the inception date.