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Kleros Preferred Funding CDO Term Sheet

Merrill Lynch International

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Closing Information

THE OFFERING:
\$1,007.0 million Collateralized Debt
Obligation ("CDO") Notes and Preferred
Shares issued by Kleros Preferred Funding,
LTD

**KLEROS
PREFERRED FUNDING**

COLLATERAL MANAGER:
Strategos Capital Management, LLC, a
Delaware limited liability company
100% owned by Cohen Bros.
Financial, LLC ("Cohen Bros.")

	CLASS A1 NOTES ⁽¹⁾⁽²⁾⁽³⁾	CLASS A2 NOTES ⁽¹⁾⁽²⁾	CLASS B NOTES ⁽¹⁾⁽²⁾	CLASS C NOTES ⁽¹⁾⁽²⁾	CLASS D NOTES ⁽¹⁾⁽²⁾	PREFERRED SHARES ⁽¹⁾⁽²⁾
Principal	\$850,000,000	\$68,500,000	\$51,500,000	\$13,000,000	\$8,500,000	\$15,500,000
Percentage	84.4%	6.8%	5.1%	1.3%	0.8%	1.5%
Coupon Type	Floating	Floating	Floating	Floating	Floating	Residual
Expected Rating	Aaa/AAA/AAA	Aaa/AAA/AAA	Aa2/AA/AA	A3/A-/A-	Baa2/BBB/BBB	Not Rated
Rating Agency	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P/Fitch	N/A
Spread	L + .25%	L + .48%	L + .60%	L + 1.50%	L + 2.65%	N/A
Average Life ⁽⁴⁾	6.1 yrs.	6.3 yrs.	6.3 yrs.	6.3 yrs.	6.3 yrs.	N/A
Legal Maturity	October 6, 2041	October 6, 2041	October 6, 2041	October 6, 2041	October 6, 2041	October 6, 2041
Denomination	\$250,000 minimum	\$250,000 minimum	\$250,000 minimum	\$250,000 minimum	\$250,000 minimum	\$250,000 minimum

(1) The transaction is at a structuring phase, the actual characteristics of the offered securities may differ from those presented herein. Definitions and other terms will be fully described in the Offering Circular.

(2) Payments on the Notes and Preferred Shares will be made quarterly.

(3) The Class A-1 Notes will not be fully funded at Closing.

(4) Based on an 8 year auction call. See "Transaction Highlights" in the Confidential Discussion Material for a description on modeling assumptions.

(5) With some limited exceptions.

STRUCTURE

Issuer:	Kleros Preferred Funding, Ltd
Collateral Manager:	Strategos Capital Management, LLC, a Delaware limited liability company 100% owned by Cohen Bros.
Closing Date:	June 3, 2005
Coupon Payment Dates:	Quarterly, beginning October 6, 2005
Ramp Up Period:	At least 85% of the portfolio has been purchased or identified by closing; 4 month ramp up period
Non Call Period:	4 years (thereafter, all of the Notes and Preferred Shares may be called by a majority vote of the Preferred Shares)
OC and IC Test Cures:	In the event that either Class A/B Coverage Test is breached in the interest waterfall, interest will be used first to pay down the Class A1 Notes, followed by the Class A2 Notes, and finally the Class B Notes. In the event that either Class A/B Coverage Test is breached in the principal waterfall, principal will be used first to pay down the Class A1 Notes, followed by the Class A2 Notes, and finally the Class B Notes. In the event that either Class C/D Coverage Test is breached in the interest waterfall, interest will be used to pay down the Class C and Class D Notes on a prorata basis. In the event that either Class C/D Coverage Test is breached in the principal waterfall, principal will be used to pay down the Notes on a sequential basis beginning with the most senior outstanding Notes.
Substitution Period:	None. Immediate Principal Amortization
Auction Call:	8 years
Deleveraging Structure:	Principal amortization will be used to pay down the Notes on a pro rata basis until either 50% of the collateral has amortized or if a coverage test is not in compliance.

COLLATERAL ASSUMPTIONS

Portfolio Target

Weighted Average Coupon ⁽¹⁾	5.58%
Weighted Average Floating Spread ⁽²⁾	0.67%
Maximum % Fixed	20%
Maximum Weighted Average Rating	45 (Aa3/A1) ⁽³⁾
Diversity Score	>= 18 ⁽⁴⁾
Minimum Collateral Rating	A3
Max Weighted Average Life	5.65 Years
Maximum Single Issuer Concentration	1.0% ⁽⁵⁾
Maximum CDOs ⁽⁴⁾	25.0%
Maximum Single Servicer Concentration	7.5% ⁽⁵⁾
Maximum "A1", "A2", or "A3" Rated	20.0%

(1) The expected weighted average coupon is 5.60%

(2) The expected Weighted Average Spread is 0.63%

(3) Based on a Ratings Matrix which is further discussed in the Offering Circular

(4) Min CDO Rating Aa3/AA

(5) With a limited number of exceptions

COVERAGE TESTS	Test Level ⁽¹⁾	Initial ⁽²⁾	Test Level ⁽¹⁾	Initial ⁽²⁾
Class A/B Overcollateralization Test	101.7%	103.1%	Class A/B Interest Coverage Test	102.0%
Class C/D Overcollateralization Test	100.3%	100.9%	Class C/D Interest Coverage Test	100.0%

(1) Test Level represents the levels that must be passed in order not to cause accelerated redemption of the Notes.

(2) Initial represents expected characteristics of target portfolio.

MANAGEMENT FEE STRUCTURE

Senior Management Fee:	8.0 bps per annum
Subordinated Management Fee:	4.0 bps per annum
Closing Fees ⁽¹⁾	

(1) On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase Collateral and, therefore, the return to purchasers of the Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

For Further Information, Please Contact:

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Global Structured Products

Why Invest in Structured Finance Securities?

Structured Finance Securities (including ABS, RMBS and CMBS) and CDOs have historically exhibited better rating stability and higher recovery given default than comparably rated corporate bonds.⁽¹⁾

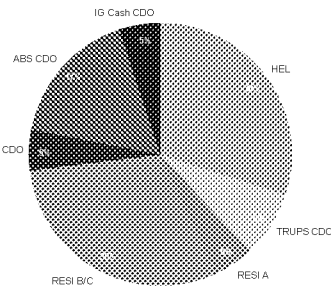
➤ According to a recent Moody's study, the long-term historical average (1983–2004) of unchanged ratings of Structured Finance Securities and CDOs was 92.3%, which compares favorably to the 77.6% average of unchanged ratings of corporate bonds for the same period.⁽¹⁾

A Moody's study on recovery rates of HEL and RMBS collateral ("Structured Finance Securities") has concluded the following⁽²⁾⁽³⁾:

- A rated RMBS/HEL Securities have historically had an average recovery rate of 83% for bonds that have not matured.⁽⁴⁾
- Aa rated RMBS/HEL Securities have historically had an average recovery rate of 93% for bonds that have not matured.⁽⁴⁾
- Aaa rated RMBS/HEL Securities have historically had an average recovery rate of 98% for bonds that have not matured.⁽⁴⁾

(1) "Structured Finance Rating Transitions: 1983-2004," Moody's Investors Service, February 2005.
 (2) Moody's Investor Service, "Default & Loss Rates of Structured Finance Securities: 1983-2007," September 2004.
 (3) Data for recovery rates are based on a limited number of defaults. Moody's records the number of defaulted securities, including cured ones, would lead to lower estimates.
 (4) Data in all three cases is based on a limited number of defaults. Moody's records the number of defaulted RMBS/HEL Securities that originated as Aaa, Aa, and A as 12, 20, and 16, respectively.

REPRESENTATIVE PORTFOLIO*



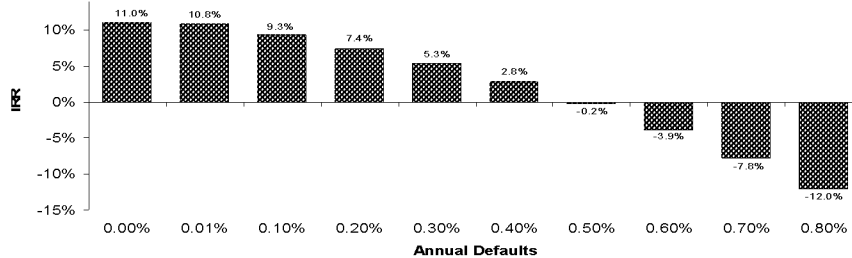
* For illustrative purposes only. Subject to change.

About Strategos Capital Management, LLC⁽¹⁾

- Strategos Capital Management, LLC, a Delaware limited liability company 100% owned by Cohen Bros. and its principals, will serve as Collateral Manager for ABS CDOs
- Cohen Bros. and Co. has grown to become one of the leading research houses and investment banks dedicated to the small and medium size financial services market. The firm currently employs over 45 professionals, with offices in Philadelphia, New York, and Paris
- Cohen Bros. draws on the many years of success of its employees and principals in the financial services and real estate sectors to provide specialized research and investment opportunities to institutions and sophisticated individuals
- Strategos was established as the cornerstone of Cohen Bros. ABS and structured finance business
- The award winning research analysts and credit underwriters at Cohen Bros. are experienced in the bank, insurance, real estate, and specialty finance industries from both an evaluation and management perspective

(1) Source: Strategos, as of January 2005

PROJECTED IRR ON PREFERRED SHARES



BREAKEVEN DEFAULT RATES⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Class Description (Moody's/S&P/Fitch)	Based on a Break in Yield		Based on 0% Yield	
	Annual Default Rate	Cumulative Gross Defaults	Annual Default Rate	Cumulative Gross Defaults
Class A1 First Priority Senior Floating Rate Delayed Draw Notes Aaa/AAA/AAA	12.5%	51.7%	33.3%	83.6%
Class A2 Second Priority Senior Floating Rate Notes Aaa/AAA/AAA	6.4%	31.7%	8.5%	39.4%
Class B Third Priority Senior Floating Rate Notes Aa2/AA/AA	2.8%	15.6%	4.3%	22.6%
Class C Fourth Priority Senior Floating Rate Notes A3/A-/A-	1.5%	8.4%	2.0%	11.0%
Class D Fifth Priority Mezzanine Floating Rate Notes Baa2/BBB/BBB	1.2%	6.8%	1.4%	7.9%

Future market and economic conditions are impossible to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Kleros Preferred Funding, Ltd. For these and other reasons, there are limitations on the value of this or any liquidated illustration.

- (1) Break in yield is the default rate at which the first dollar loss occurs, and 0% yield is the default rate at which the cashflows over the life of the bond equal the initial investment.
- (2) Assumes no default lockout, 75% immediate recoveries and forward LIBOR. Assumes a weighted average spread of 0.69% and a weighted average coupon of 5.60%.
- (3) Based on an auction call in 8 years.
- (4) Definitions and other terms will be fully described in the Offering Circular

THIS SUMMARY IS A SUMMARY OF THE "CONFIDENTIAL DISCUSSION MATERIAL - KLEROS PREFERRED FUNDING, LTD." (THE "MATERIAL") AND SHOULD BE READ IN CONJUNCTION THEREWITH, INCLUDING "TRANSACTION HIGHLIGHTS - STRUCTURING ASSUMPTIONS" THERETO. THE MATERIAL OUTLINES CERTAIN CHARACTERISTICS OF A PROPOSED COLLATERALIZED DEBT OBLIGATION TRANSACTION ("CDO"). THE MATERIAL IS PRESENTED SOLELY FOR PURPOSES OF DISCUSSION TO ASSIST INVESTORS IN DETERMINING WHETHER THEY HAVE A PRELIMINARY INTEREST IN INVESTING IN A TRANSACTION WITH THE GENERAL CHARACTERISTICS DESCRIBED HEREIN. THIS TRANSACTION IS IN A STRUCTURING PHASE AND THERE MAY BE MATERIAL CHANGES TO THE STRUCTURE, TERMS AND ASSETS PRIOR TO THE OFFERING OF ANY SECURITIES (THE "SECURITIES"). NEITHER THE MATERIAL NOR THIS SUMMARY IS AN OFFER TO SELL OR A SOLICITATION TO BUY THE SECURITIES OR ANY OTHER INVESTMENT. 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