

Confidential

# **EETI Quarterly Review**

**QUARTER ENDED 30/06/2014**

August 2014

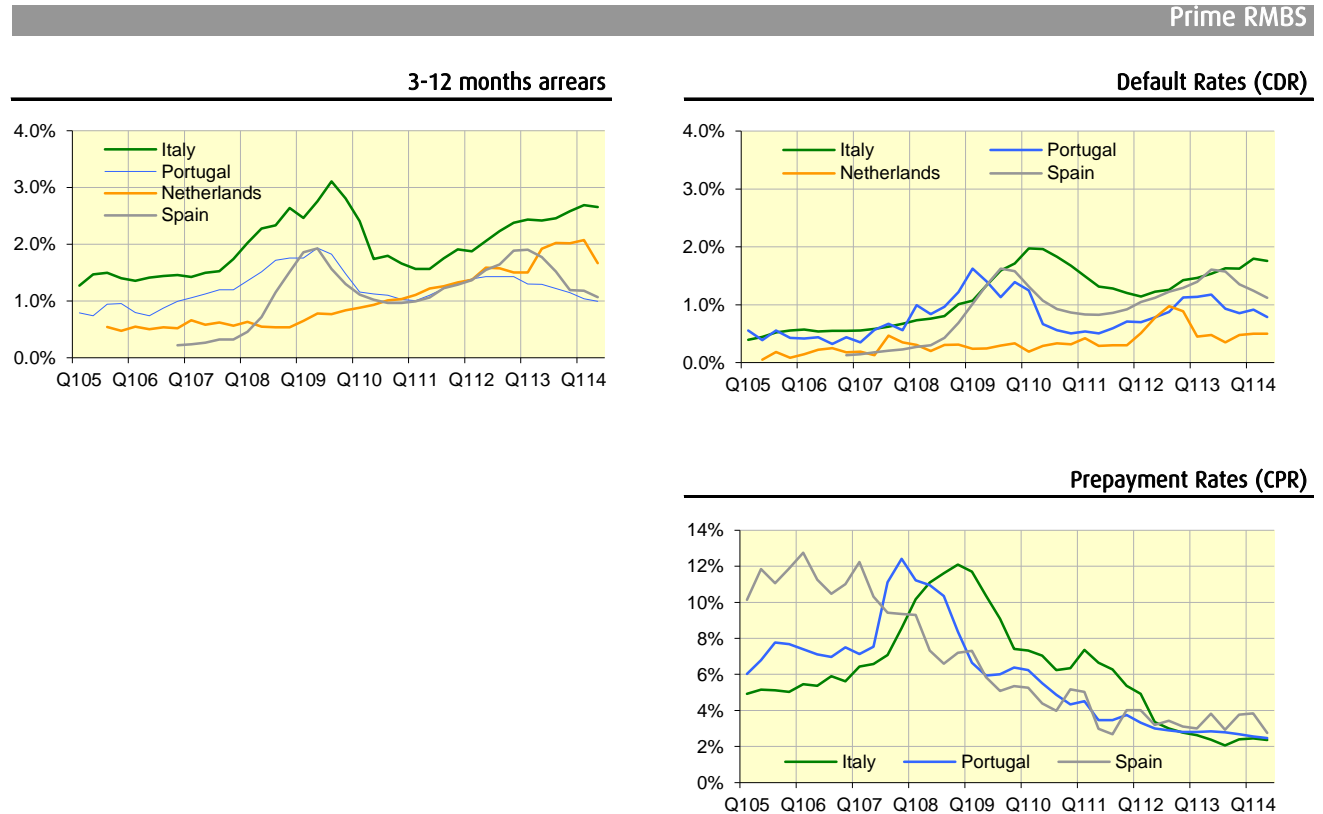
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# 1 EUROPEAN ABS / RMBS ACTIVITY AND PERFORMANCE

# Prime European RMBS performance

- Credit performance in Southern Europe is continuing to improve and RMBS has now reverted to mid-2010 level performance across the periphery

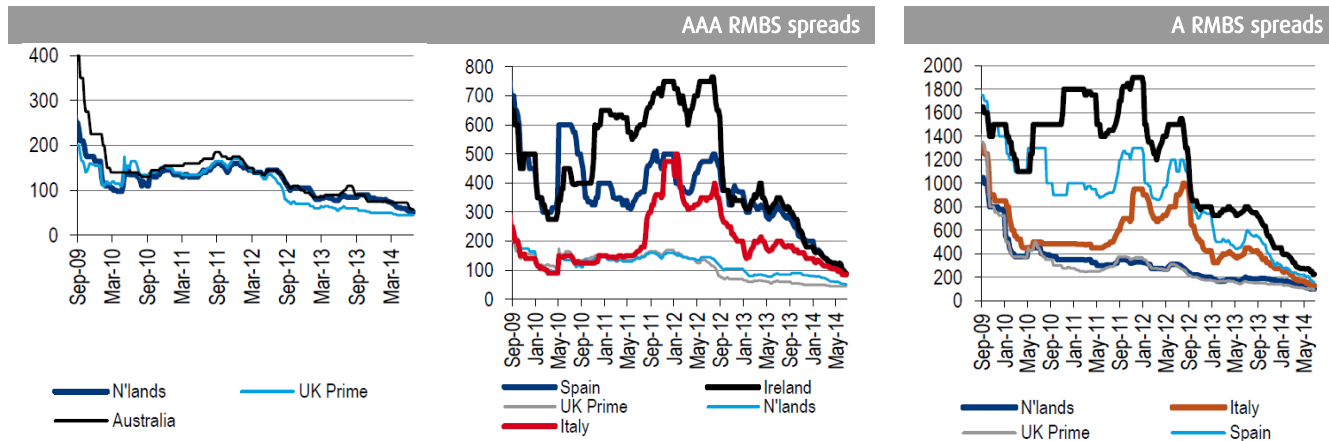


*Note: Indices based on own data collection of a broad sample of seasoned RMBS transactions.  
 Source: Trustee reports and Cartesia.*

## European ABS / RMBS market activity

- ▶ European ABS / RMBS prices continue to be supported by the ongoing tightening in European fixed income, which fully benefits higher beta peripheral bonds across the capital structure.
  - Top UK/Dutch AAAs continue to trade around EUR3M + 50-100bps;
  - Yields on peripheral ABS have further declined alongside their sovereign issues; quality first pay bonds from Italy, Spain and Portugal have tightened to around EUR3M + 150-200bps;
  - There is also significant ongoing interest in higher yielding mezzanine and subordinated bonds, with quality paper trading at IRRs around 6-7%.

EVOLUTION OF RMBS SPREADS OVER EUR3M



Source: Merrill Lynch BOA for 3-5 year WAL bonds.

# 2 PORTFOLIO PERFORMANCE

# A. Cash Flow

# Cash flow receipts for the quarter ended 30/06/2014

- ▶ Quarterly cash flow amounted to EUR 394k, derived primarily from the of the Ludgate position, which generated EUR 291k and started cash flowing again.

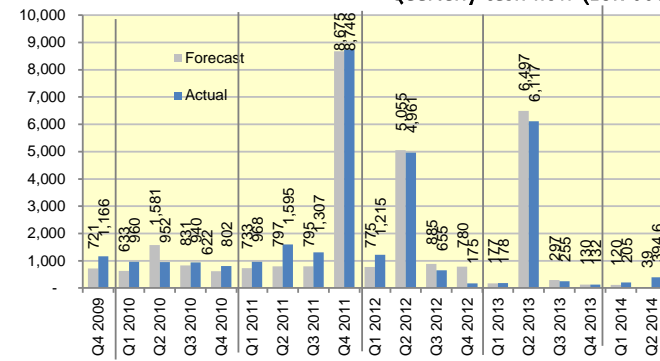
Cash flow receipt for the quarter

(EUR)

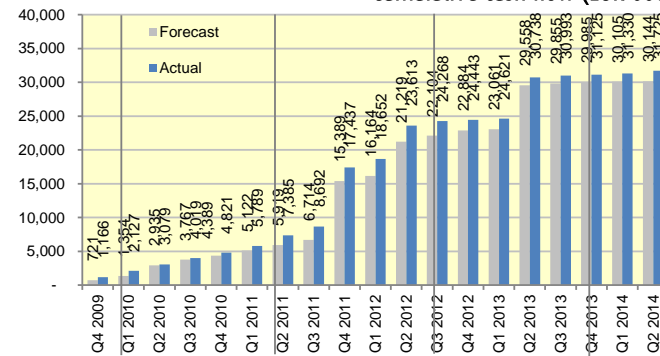
Transactions	Actual	Forecast	Delta
Lusitano 3	77,810	-	77,810
Lusitano 5	-	-	-
Pastor 2	-	-	-
Pastor 3	-	-	-
Pastor 4	-	-	-
Pastor 5	-	-	-
Sestante 4 A1	12,336	16,495	(4,160)
Gems	12,599	12,813	(214)
Ludgate	290,875	-	290,875
<b>TOTAL</b>	<b>393,620</b>	<b>29,308</b>	<b>364,312</b>

Actual vs. forecast since Q4 2009

Quarterly cash flow (EUR 000s)



Cumulative cash flow (EUR 000s)





## Forecast cash flow

### Forecast cash flow from Q3 2014 onwards

(EUR 000s)

Period	Period CF	Cumulative CF	% Total	Cumulative % Total
<b>Q3-4 2014</b>	1,166	1,166	2.9%	2.9%
<b>2015</b>	2,533	3,699	6.2%	9.1%
<b>2016</b>	3,342	7,041	8.2%	17.2%
<b>2017</b>	6,398	13,440	15.7%	32.9%
<b>2018</b>	2,897	16,337	7.1%	40.0%
<b>2019</b>	6,663	23,000	16.3%	56.3%
<b>2020</b>	7,308	30,308	17.9%	74.2%
<b>2021</b>	3,843	34,152	9.4%	83.6%
<b>2022</b>	629	34,781	1.5%	85.1%
<b>Beyond</b>	6,066	40,847	14.9%	100.0%
<b>TOTAL</b>	<b>40,847</b>		<b>100.0%</b>	

Total forecast cash flow of  
EUR 40.9m

# Forecast cash flow (cont'd)

(EUR 000s)	Spain				Portugal		Italy	Germany	France	UK	TOTAL EETI		
	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Sestante 4	Gems	Minotaure	Ludgate	Qty	Annual	Cumulative
<b>HISTORICAL</b>													
Q4 2009	430	-	-	-	34	75	-	19	210	-	-	1,166	
Q1 2010	337	-	-	-	-	0	-	18	190	26	960		
Q2 2010	235	-	-	-	75	-	-	17	233	6	952		
Q3 2010	59	-	-	-	205	-	-	18	264	6	940		
Q4 2010	160	-	-	-	-	-	-	20	216	8	802	3,655	
Q1 2011	316	-	-	-	85	-	-	22	132	10	968		
Q2 2011	385	-	-	-	529	-	25	23	214	13	1,595		
Q3 2011	222	-	-	-	350	-	25	27	249	11	1,307		
Q4 2011	169	-	-	-	273	-	19	28	177	11	8,746	12,616	
Q1 2012	235	-	-	-	487	-	20	27	189	2	1,215		
Q2 2012	170	-	-	-	388	-	15	22	134	2	4,961		
Q3 2012	91	-	-	-	282	-	14	17	99	5	655		
Q4 2012	7	-	-	-	-	-	11	12	-	5	175	7,006	
Q1 2013	7	-	-	-	5	-	11	11	-	7	178		
Q2 2013	-	-	-	-	-	-	13	12	-	-	6,117		
Q3 2013	14	-	-	-	203	-	12	11	-	14	255		
Q4 2013	-	-	-	-	110	-	11	11	-	-	132	6,682	
Q1 2014	-	-	-	-	183	-	10	12	-	-	205		
Q2 2014	-	-	-	-	78	-	12	13	-	291	394		
<b>FORECAST</b>													
Sum CF	5,253	-	1,146	-	9,172	7,400	138	5,379	3,075	9,284	40,847	-	Totals
% Total	12.9%	0.0%	2.8%	0.0%	22.5%	18.1%	0.3%	13.2%	7.5%	22.7%	100.0%	-	Yearly Cumulative
Q3 2014	1	-	-	-	100	-	11	12	-	513	637	-	637
Q4 2014	2	-	-	-	-	-	11	12	-	506	529	1,166	1,166
Q1 2015	3	48	-	-	76	-	11	12	-	498	646	-	1,812
Q2 2015	4	8	-	-	107	-	11	12	-	490	628	-	2,440
Q3 2015	5	8	-	-	155	-	10	12	-	476	662	-	3,102
Q4 2015	6	9	-	-	102	-	10	13	-	463	597	2,533	3,699
Q1 2016	7	9	-	-	172	-	10	13	-	450	653	-	4,352
Q2 2016	8	9	-	-	264	-	10	13	-	437	733	-	5,084
Q3 2016	9	9	-	-	537	-	10	13	-	418	986	-	6,071
Q4 2016	10	10	-	-	536	-	10	14	-	401	970	3,342	7,041
Q1 2017	11	10	-	-	539	-	10	14	-	384	956	-	7,998
Q2 2017	12	10	-	-	594	216	9	14	-	367	1,212	-	9,209
Q3 2017	13	10	-	-	596	1,433	9	14	-	344	2,406	-	11,615
Q4 2017	14	10	-	-	582	890	6	14	-	322	1,824	6,398	13,440
Q1 2018	15	10	-	-	588	319	-	14	-	301	1,232	-	14,672
Q2 2018	16	10	-	-	217	113	-	14	-	282	637	-	15,308
Q3 2018	17	10	-	-	144	108	-	14	-	255	531	-	15,839
Q4 2018	18	15	-	-	127	107	-	19	-	230	498	2,897	16,337
Q1 2019	19	15	-	-	106	110	-	19	-	208	458	-	16,795
Q2 2019	20	15	-	-	104	109	-	19	-	188	435	-	17,229
Q3 2019	21	15	-	-	106	104	-	19	-	160	404	-	17,634
Q4 2019	22	5,015	-	-	93	105	-	19	-	135	5,367	6,663	23,000
Q1 2020	23	-	-	-	98	106	-	19	-	115	338	-	23,338
Q2 2020	24	-	-	-	97	105	-	19	-	1,269	1,489	-	24,827
Q3 2020	25	-	-	-	97	102	-	5,019	-	73	5,291	-	30,118
Q4 2020	26	-	-	-	90	100	-	-	-	-	190	7,308	30,308
Q1 2021	27	-	-	-	95	103	-	-	3,075	-	3,273	-	33,581
Q2 2021	28	-	-	-	94	102	-	-	-	-	196	-	33,777
Q3 2021	29	-	-	-	97	98	-	-	-	-	194	-	33,971
Q4 2021	30	-	-	-	83	98	-	-	-	-	180	3,843	34,152
Q1 2022	31	-	-	-	88	98	-	-	-	-	186	-	34,338
Q2 2022	32	-	-	-	87	97	-	-	-	-	184	-	34,522
Q3 2022	33	-	-	-	89	51	-	-	-	-	140	-	34,662
Q4 2022	34	-	-	-	77	42	-	-	-	-	119	629	34,781
Q1 2023	35	-	-	-	81	43	-	-	-	-	124	-	34,905
Q2 2023	36	-	-	-	80	42	-	-	-	-	122	-	35,027
Q3 2023	37	-	-	-	82	39	-	-	-	-	121	-	35,148
Q4 2023	38	-	-	-	72	42	-	-	-	-	114	481	35,262
Q1 2024	39	-	1,146	-	79	44	-	-	-	-	1,269	-	36,530
Q2 2024	40	-	-	-	77	44	-	-	-	-	121	-	36,652
Q3 2024	41	-	-	-	78	42	-	-	-	-	120	-	36,771
Q4 2024	42	-	-	-	72	43	-	-	-	-	115	1,624	36,886
Q1 2025	43	-	-	-	74	44	-	-	-	-	119	-	37,005
Q2 2025	44	-	-	-	73	44	-	-	-	-	117	-	37,122
Q3 2025	45	-	-	-	75	42	-	-	-	-	116	-	37,238
Q4 2025	46	-	-	-	1,395	42	-	-	-	-	1,437	1,788	38,675
Q1 2026	47	-	-	-	-	43	-	-	-	-	43	-	38,717
Q2 2026	48	-	-	-	-	43	-	-	-	-	43	-	38,760
Q3 2026	49	-	-	-	-	40	-	-	-	-	40	-	38,800
Q4 2026	50	-	-	-	-	42	-	-	-	-	42	167	38,842
Q1 2027	51	-	-	-	-	42	-	-	-	-	42	-	38,884
Q2 2027	52	-	-	-	-	42	-	-	-	-	42	-	38,927
Q3 2027	53	-	-	-	-	40	-	-	-	-	40	-	38,967
Q4 2027	54	-	-	-	-	41	-	-	-	-	41	165	39,007
Q1 2028	55	-	-	-	-	41	-	-	-	-	41	-	39,048
Q2 2028	56	-	-	-	-	41	-	-	-	-	41	-	39,089
Q3 2028	57	-	-	-	-	40	-	-	-	-	40	-	39,129
Q4 2028	58	-	-	-	-	1,718	-	-	-	-	1,718	1,840	40,847

# Net present values at different discount rates

(EUR 000s)

Net present values at different discount rates											
Discount Rate	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Sestante 4	Gems	Minotaure	Ludgate	Total
6.99%	3,655	-	593	-	6,532	4,605	123	3,577	1,948	7,679	28,513
8.49%	3,392	-	517	-	6,128	4,219	120	3,290	1,773	7,398	26,829
13.49%	2,668	-	333	-	5,046	3,244	111	2,514	1,308	6,589	22,218
15.49%	2,431	-	281	-	4,702	2,950	108	2,266	1,162	6,310	20,722
17.49%	2,220	-	238	-	4,396	2,697	105	2,047	1,035	6,053	19,384
19.49%	2,030	-	202	-	4,123	2,476	102	1,853	923	5,816	18,183
21.49%	1,860	-	171	-	3,878	2,282	100	1,681	825	5,597	17,102
<b>Valuation</b>	<b>3,392</b>	<b>-</b>	<b>333</b>	<b>-</b>	<b>6,128</b>	<b>3,244</b>	<b>123</b>	<b>3,577</b>	<b>1,308</b>	<b>6,589</b>	<b>24,693</b>

Cash flow multiples at different discount rates (total cash flow / net present value)											
Discount Rate	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Sestante 4	Gems	Minotaure	Ludgate	Total
6.99%	1.4x	--	1.9x --	--	1.4x	1.6x	1.1x	1.5x	1.6x	1.2x	1.4x
8.49%	1.5x	--	2.2x --	--	1.5x	1.8x	1.2x	1.6x	1.7x	1.3x	1.5x
13.49%	2.0x	--	3.4x --	--	1.8x	2.3x	1.2x	2.1x	2.4x	1.4x	1.8x
15.49%	2.2x	--	4.1x --	--	2.0x	2.5x	1.3x	2.4x	2.6x	1.5x	2.0x
17.49%	2.4x	--	4.8x --	--	2.1x	2.7x	1.3x	2.6x	3.0x	1.5x	2.1x
19.49%	2.6x	--	5.7x --	--	2.2x	3.0x	1.4x	2.9x	3.3x	1.6x	2.2x
21.49%	2.8x	--	6.7x --	--	2.4x	3.2x	1.4x	3.2x	3.7x	1.7x	2.4x
<b>Valuation</b>	<b>1.5x</b>	<b>--</b>	<b>3.4x --</b>	<b>--</b>	<b>1.5x</b>	<b>2.3x</b>	<b>1.1x</b>	<b>1.5x</b>	<b>2.4x</b>	<b>1.4x</b>	<b>1.7x</b>

Note: Net present values presented in the above tables marginally differ from accounting book values as their calculation is based on simplified assumptions of end of quarter cash flow receipts and quarterly compounding.

# Net present values at different cash flow vs. base case

(EUR 000s)

## Net present values at different forecast cash flow

NPV at current discount rates

% Actual Cash Flow vs. Base Case	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Sestante 4	Gems	Minotaure		Total	Delta
170.0%	5,767	-	566	-	10,418	5,514	209	6,080	2,223	11,201	41,978	70.0%
165.0%	5,597	-	550	-	10,111	5,352	203	5,902	2,158	10,871	40,744	65.0%
160.0%	5,428	-	533	-	9,805	5,190	197	5,723	2,092	10,542	39,509	60.0%
155.0%	5,258	-	516	-	9,498	5,028	191	5,544	2,027	10,212	38,274	55.0%
150.0%	5,089	-	500	-	9,192	4,866	184	5,365	1,962	9,883	37,040	50.0%
145.0%	4,919	-	483	-	8,886	4,703	178	5,186	1,896	9,553	35,805	45.0%
140.0%	4,749	-	467	-	8,579	4,541	172	5,007	1,831	9,224	34,570	40.0%
135.0%	4,580	-	450	-	8,273	4,379	166	4,829	1,765	8,895	33,336	35.0%
130.0%	4,410	-	433	-	7,966	4,217	160	4,650	1,700	8,565	32,101	30.0%
125.0%	4,240	-	417	-	7,660	4,055	154	4,471	1,635	8,236	30,866	25.0%
120.0%	4,071	-	400	-	7,354	3,892	148	4,292	1,569	7,906	29,632	20.0%
115.0%	3,901	-	383	-	7,047	3,730	141	4,113	1,504	7,577	28,397	15.0%
110.0%	3,732	-	367	-	6,741	3,568	135	3,934	1,438	7,247	27,162	10.0%
105.0%	3,562	-	350	-	6,434	3,406	129	3,756	1,373	6,918	25,928	5.0%
100.0%	3,392	-	333	-	6,128	3,244	123	3,577	1,308	6,589	24,693	0.0%
95.0%	3,223	-	317	-	5,822	3,082	117	3,398	1,242	6,259	23,458	-5.0%
90.0%	3,053	-	300	-	5,515	2,919	111	3,219	1,177	5,930	22,224	-10.0%
85.0%	2,884	-	283	-	5,209	2,757	104	3,040	1,112	5,600	20,989	-15.0%
80.0%	2,714	-	267	-	4,902	2,595	98	2,861	1,046	5,271	19,755	-20.0%
75.0%	2,544	-	250	-	4,596	2,433	92	2,683	981	4,941	18,520	-25.0%
70.0%	2,375	-	233	-	4,290	2,271	86	2,504	915	4,612	17,285	-30.0%
65.0%	2,205	-	217	-	3,983	2,108	80	2,325	850	4,283	16,051	-35.0%
60.0%	2,035	-	200	-	3,677	1,946	74	2,146	785	3,953	14,816	-40.0%
55.0%	1,866	-	183	-	3,370	1,784	68	1,967	719	3,624	13,581	-45.0%
50.0%	1,696	-	167	-	3,064	1,622	61	1,788	654	3,294	12,347	-50.0%
45.0%	1,527	-	150	-	2,758	1,460	55	1,610	588	2,965	11,112	-55.0%
40.0%	1,357	-	133	-	2,451	1,297	49	1,431	523	2,635	9,877	-60.0%
35.0%	1,187	-	117	-	2,145	1,135	43	1,252	458	2,306	8,643	-65.0%
30.0%	1,018	-	100	-	1,838	973	37	1,073	392	1,977	7,408	-70.0%

Note: The table presents the net present value of each investment at its base case discount rate, assuming an increase/decrease in actual cash flow received vs. base case. Net present values marginally differ from accounting book values as their calculation is based on simplified assumptions of end of quarter cash flow receipts and quarterly compounding.

## B. Performance and Valuation

## Quarterly performance indicators

Transactions	90d+ arr.		CDR		CPR		Recoveries		Reserve			Cum. loss rate	
	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Min.	Act.	Fcast
Lusitano 3	1.4%	n/a	1.0%	1.4%	1.4%	1.7%	1,227	1,080	7,982	7,994	7,982	n/a	n/a
Lusitano 5	1.3%	n/a	1.4%	1.8%	1.3%	1.4%	2,182	1,600	(7,562)	(6,474)	11,900	n/a	n/a
Pastor 2	0.4%	n/a	1.2%	0.4%	3.1%	4.4%	236	280	4,592	5,000	5,000	n/a	n/a
Pastor 3	1.8%	n/a	2.7%	4.1%	3.6%	3.0%	2,295	300	(47,639)	(51,097)	9,000	n/a	n/a
Pastor 4	1.7%	n/a	2.3%	3.1%	3.2%	3.1%	1,768	520	(35,671)	(37,947)	5,520	n/a	n/a
Pastor 5	2.4%	n/a	3.7%	3.3%	3.4%	2.8%	2,229	360	(24,889)	(26,494)	10,500	n/a	n/a
Sestante 4 A1	8.5%	5.1%	3.5%	4.0%	0.8%	12.9%	645	6,130	(38,790)	(24,560)	6,200	n/a	n/a
Gems	n/a	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a	-	-	n/a	3.84%	4.30%
Ludgate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes: Negative reserve indicates unpaid amounts to the senior notes (unpaid PDLs). Reserve amounts are highlighted in red when negative or below minimum, even if better than forecast.

Actual CDRs are settling down below their 24-month average and recoveries are gathering some momentum even in Spain

## Revised valuation assumptions (24-month averages)

- ▶ The main change in credit assumptions is the increase in loss severity of the Pastors from 20% to 30%, as detailed overleaf. Updated 24-month averages otherwise lead to a flat default rates (CDRs) in most transactions and marginal adjustments to CPRs.
- ▶ Discount rates are further lowered by 18bps reflecting the tightening of the risk premiums over two years.

### SUMMARY OF MAIN VALUATION INPUTS

Positions	CDR						CPR						Loss Severity		Recovery Lag		Discount Rate					
	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q1 2014	Q2 2014	Q1 2014	Q2 2014	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Lusitano 3	1.04%	1.20%	1.22%	1.35%	1.39%	1.39%	2.25%	1.90%	1.80%	1.70%	1.68%	1.58%	20%	20%	10	10	9.90%	9.78%	9.48%	9.00%	8.77%	8.49%
Lusitano 5	1.41%	1.57%	1.67%	1.71%	1.79%	1.77%	2.00%	1.80%	1.60%	1.50%	1.36%	1.27%	20%	20%	10	10	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%
Pastor 2	0.22%	0.29%	0.30%	0.35%	0.39%	0.47%	4.90%	4.60%	4.60%	4.60%	4.40%	4.31%	20%	30%	10	10	9.90%	9.78%	9.48%	9.00%	8.77%	8.49%
Pastor 3	2.73%	2.91%	3.37%	3.93%	4.11%	4.02%	2.90%	3.10%	3.00%	3.00%	3.00%	3.21%	20%	30%	10	10	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%
Pastor 4	2.33%	2.46%	2.58%	3.06%	3.10%	2.97%	3.00%	3.00%	2.90%	3.00%	3.10%	3.25%	20%	30%	10	10	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%
Pastor 5	2.14%	1.90%	2.12%	3.07%	3.31%	3.50%	2.90%	2.90%	2.80%	2.80%	2.80%	2.86%	20%	30%	10	10	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%
Gems	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	nm	nm	nm	nm	nm	nm	95%	95%	nm	nm	8.40%	8.28%	7.98%	7.50%	7.27%	6.99%
Minotaure	0.22%	0.18%	0.22%	0.22%	0.23%	0.26%	4.56%	4.27%	4.07%	4.16%	4.20%	4.30%	nm	nm	nm	nm	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%
Sestante 4 A1																	8.40%	8.28%	7.98%	7.50%	7.27%	6.99%

## Quarterly valuation

- ▶ Quarter-end book value amounts to EUR 24,697k excluding accruals, after adjustments to several positions with a net quarterly revaluation of EUR 3,547k. Main changes include the following:
  - The Ludgate position, which was previously written-off, has been revalued to EUR 6,590k as it has resumed residual cash flow payments;
  - The Gems position has been written down by EUR 1,148k assuming the exercise of the clean-up call would not be exercised;
  - The Spanish positions have been written down by EUR 2,508k due to higher expected loss severity on foreclosed properties.

### QUARTERLY BOOK VALUES AND REVALUATIONS

(EUR 000s)	31/12/2012		31/03/2013		30/06/2013		30/09/2013		31/12/2013		31/03/2014		30/06/2014	
	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation
Lusitano 3	6,070	13	5,947	(266)	5,862	(225)	5,581	(330)	5,803	228	5,769	132	6,129	317
Lusitano 5	2,762	627	2,430	(431)	2,631	116	3,009	206	2,841	(279)	2,926	81	3,244	224
Pastor 2	2,826	(520)	2,863	(24)	2,946	14	3,123	115	3,257	63	3,278	(42)	3,393	45
Pastor 3	502	(531)	184	(336)	287	97	68	(230)	68	(1)	-	(70)	-	0
Pastor 4	2,357	(459)	2,267	(172)	2,376	28	2,528	60	2,272	(344)	2,324	(13)	333	(2,067)
Pastor 5	855	23	903	18	1,165	229	1,199	(11)	448	(793)	427	(31)	-	(441)
Semper	6,720	(200)	6,719	(1)		(626)								
Gems	3,208	1,234	3,397	136	4,119	663	4,269	52	4,504	163	4,654	110	3,577	(1,148)
Minotaure	920	(1,321)	1,010	58	1,070	23	1,131	22	1,190	20	1,245	18	1,308	22
Sestante 4 A1	173	(7)	163	(3)	153	0	150	3	137	(5)	127	0	123	6
Ludgate													6,590	6,590
<b>TOTAL</b>	<b>26,394</b>	<b>(1,142)</b>	<b>25,884</b>	<b>(1,020)</b>	<b>20,608</b>	<b>319</b>	<b>21,059</b>	<b>(113)</b>	<b>20,521</b>	<b>(947)</b>	<b>20,751</b>	<b>186</b>	<b>24,697</b>	<b>3,547</b>



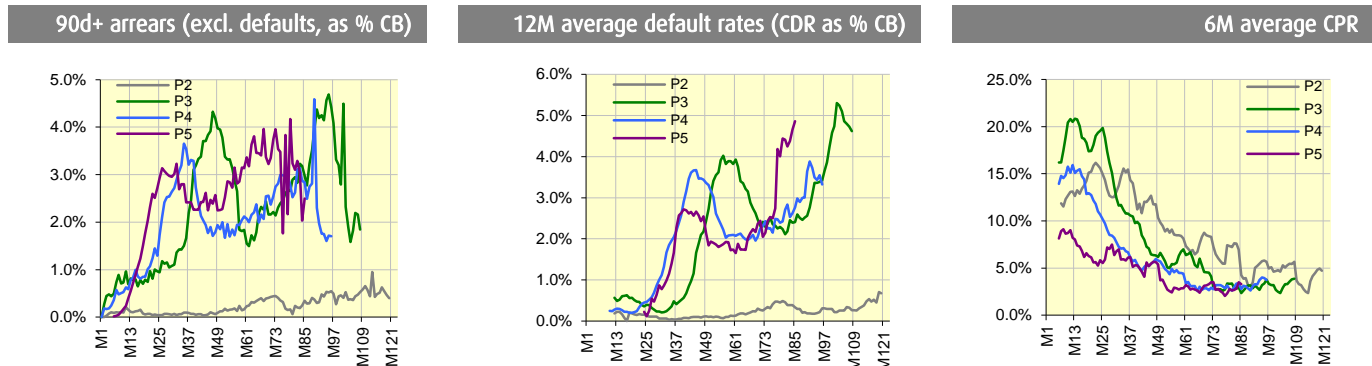
# Pastor investments

## PERFORMANCE

- ▶ Arrears generation has slowed in the Pastor 3, 4 and 5 deals with default rates declining but still above available excess spread. The transactions also carry a total of EUR 100m of unforclosed loans, causing a principal shortfall in all three structures.
- ▶ See overleaf for changes on the assumed loss severity of defaulted loans.
- ▶ The Pastor 2 transaction has a delay of two quarters in absorbing a slight draw in the reserve, leading to unpaid interest on the subordinated loan held by EETI. We continue to view this event as benign.

## VALUATION

- ▶ Updated loss severity assumptions lead to a combined markdown of EUR 2,464k for all 4 transactions, including the full write-down of Pastor 5 (EUR 441k) and a EUR 2.1m reduction in Pastor 4. The combined value of the Pastor subordinated loans is now of EUR 3,726k.



Note: Graphs expressed in months since issue.

## Pastor loss severity assumption

- ▶ The recovery data of the Pastor 5 transaction, which is now available, more than doubles the sample of sold repossessions used for loss severity estimates.
- ▶ Combined data is as follows:
  - The sample now includes EUR 112m in defaulted loans ;
  - EUR 12m of these loans have been sold and repossessed (EUR 5m for the Pastor 2 to 4 and EUR 7m for Pastor 5);
  - The average loss severity on these loans is above 45%, of which 10-15% is due to refurbishment and other costs.

### Summary of loss severity data on Pastor 2, 3, 4 and 5

(EUR m)	Debt Amount	Net Disposal Amount	Actual Loss Severity	Estimated Severity
Fully foreclosed loans	12.0	6.46	46.2%	
Repossessed , property unsold	99.9			20-25%
<b>Total</b>	<b>111.9</b>			

- ▶ At the same time, the collateral properties on close to EUR 100m of loans remain to be sold, in potentially better market conditions than over the past 2 years.
- ▶ Intermoney, the trustee of the Pastor 2, 3 and 4 transactions has announced at the beginning of July it was auctioning portfolios of defaulted loans to international investors. No further announcement was made.
  - The disposals would generate a cash inflow and accelerate senior debt repayment in the structure ;
  - It would crystallize the loss expectation for unsold repossessions.
- ▶ **On that basis, we would recommend increasing the assumed loss severity from 20% to 30%.**
  - This assumption reflects the midpoint between actual and expected loss severity on foreclosed loans. Additional data on property disposals will be factored into the loss severity assumption.

# Lusitano investments

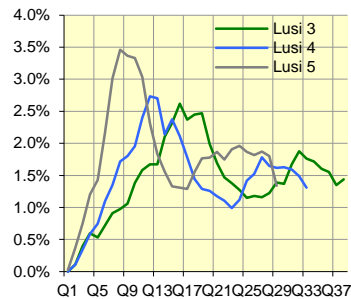
## PERFORMANCE

- ▶ 90d+ arrears have settled at 1.3% for both Lusitano 3 and 5 and default rates improved to around 1% for Lusitano 3 and slightly below 1.5% for Lusitano 5. Recoveries on Lusitano remained satisfactory in both deals.
- ▶ The Lusitano 3 residual received an unexpected EUR 78k and is expected to continue to cash flow intermittently.

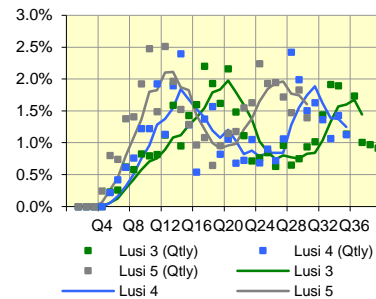
## VALUATION

- ▶ Updated assumptions as well as the lowering of the discount rate lead to a combined revaluation of these positions of EUR 541k to EUR 9,373k.

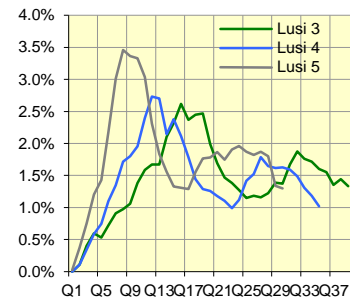
90d+ arrears (excl. defaults, as % CB)



Quarterly and average defaults (as % CB)



6M average CPR



Note: Graphs expressed in months since issue.

## Update on Gems

- ▶ The Provide Gems position has been valued assuming the exercise of the optional 10% clean-up call by the issuer, leading to a repayment in 2015. Several reasons lead to a proposed change in that assumption.
  - The originator of the securitization (formerly Eurohypo, now Frankfurter Hypothekbank) has a weakening incentive to exercise that call. It is now managed on wind-down basis, at arms' length from Commerzbank;
  - Its track record of the bank follows a focus on capital relief in its decision to exercise calls and the impact of a repurchase of the pool and the termination of the loss hedge is unclear;
  - The market prices in that the 10% clean-up will not be exercised ; the Senior Class B bonds trades at a level indicating a full principal repayment over several years only.
- ▶ The credit performance of the transaction has been consistently improving over the past quarters with the continued removal of defaulted loans from the pool, reducing future losses. The expected principal loss on the Class C bonds held by EETI is now assumed to be minimal.
- ▶ **Applying a delayed repayment of the Class C would defer full principal receipt to Q3 2020; the resulting net present value decline amounts to EUR 1,148k (including IRR adjustment) and the resulting book value of the bond to EUR 3,577k.**

## Update on Ludgate

### STATUS

- ▶ The residual notes of the Ludgate 2006-FF1 residual have started cash flowing again with EUR 290k received at the June payment date.
  - The position held by EETI is now entitled to all residual profits on the mortgage loan book;
  - The position is expected to generate approx. EUR 400-500k per quarter in the foreseeable future.
- ▶ The transaction is a securitization of “near-prime” mortgage loans originated by an affiliate of Merrill Lynch. The credit performance of the deal has been solid but transaction has accumulated a negative reserve in the crisis due to the significant mismatch between the Bank of England Base Rate (BBR) and 3-month Libor during the crisis. This exposure is unhedged in the deal.
  - This has prevented the residual payments since 2008 and has been cured since the stabilization of Libor in 2010 and 2011.
- ▶ The mortgage pool is composed of GBP 140m in “near-prime” mortgage loans to homebuyers.
  - Loans are mainly interest only maturing in 2025-30, with a floating rate of BBR + 1.80% on average;
  - CDRs have averaged around 1.0% p.a. since issue in late 2006 with loss severity of 30%.

## Update on Ludgate (Cont'd)

### ASSUMPTIONS

- ▶ The residual notes have been valued by applying the following main assumptions:

	Assumed level	24-month average level
CDR	1.0%	1.0%
BBR less Libor	(0.25%)	(0.01%)
TRR (Total redemption rate)	5.0% (increasing annually)	5.0%
Loss Severity	30.0%	30.0%

- ▶ The BRR / Libor level has been set below the current level, although unfavourable, to reflect potential future volatility.
- ▶ This assumption, as well as the credit assumptions will be updated quarterly based on actual data and reassessed.

### MAIN RISKS TO THE POSITION

- ▶ The main perceived risks is the volatility in total redemption rates and prepayments, which used to reach 40-50% p.a. prior to the crisis. A spike in arrears would reduce the size of the pool and thus overall excess spread.
- ▶ Furthermore, the EUR value of the position will be affected by the EUR / GBP spot rate;
- ▶ A renewed deep disconnection between BRR and Libor (which came close to 2.0% in 2008) would also negatively impact forecast cash flow.

## Update on Ludgate (Cont'd)

### VALUATION

- ▶ The resulting cash flow forecast of the Ludgate residual amount to GBP 7.4m or EUR 9.3m at current FX rate. The net present value of the position is of GBP 5.3m or EUR 6.6m.

### Net present value

	Ludgate 06	
	GBP	EUR
Cumulative CF:	7,432	9,284
Net Present Value:	5,276	6,591
Discount Rate:	13.49%	13.49%
EUR/GBP Spot Rate:		0.8005

### Cash flow forecast

IPD	GBP Quaterly CF	GBP Cumulative CF	EUR CASH FLOW (at spot rate)	
			Quarterly	Cumulative
			EUR/GBP spot rate 0.8005	
17/06/2014	1			
17/09/2014	411	411	513	513
17/12/2014	405	816	506	1,019
17/03/2015	399	1,214	498	1,517
17/06/2015	392	1,607	490	2,007
17/09/2015	381	1,988	476	2,484
17/12/2015	370	2,359	463	2,946
17/03/2016	360	2,718	450	3,396
17/06/2016	350	3,068	437	3,833
17/09/2016	335	3,403	418	4,251
17/12/2016	321	3,723	401	4,652
17/03/2017	307	4,031	384	5,035
17/06/2017	294	4,325	367	5,403
17/09/2017	275	4,600	344	5,747
17/12/2017	258	4,857	322	6,068
17/03/2018	241	5,098	301	6,369
17/06/2018	226	5,324	282	6,651
17/09/2018	204	5,528	255	6,906
17/12/2018	184	5,712	230	7,136
17/03/2019	167	5,879	208	7,344
17/06/2019	151	6,029	188	7,532
17/09/2019	128	6,157	160	7,692
17/12/2019	108	6,265	135	7,827
17/03/2020	92	6,357	115	7,942
17/06/2020	1,016	7,373	1,269	9,211
17/09/2020	59	7,432	73	9,284

## Other EETI investments

### Minotaure

- ▶ Lower discount rate led to a marginal revaluation of EUR 18k.

### Sestante Class A1

- ▶ Most senior bond of the Sestante 4 RMBS continues to cash flow in line with expectations.



### **3 PROVISIONAL ACCOUNTING ITEMS**

# Accounting items for the quarter ended 30/6/2014

EETI QUARTERLY VALUATION REPORT AS AT 30/06/2014

From:	01/04/2014
To:	30/06/2014

All figures in Euros thousands

Investments	Payment date	CF receipts and breakdown			Accounting items			Valuation excl. accruals		Valuation incl. accruals		
		Actual CF received	of which: Interest	of which: Principal	Income (ex-accruals)	Capitalised interest	Accruals to report date	(Write-down) / Revaluation	Valuation	(Write-down) / Revaluation	Valuation	% Total
Lusitano 3	16/04/2014	78	78	-	121	43	112	317	6,129	317	6,241	24.8%
Lusitano 5	15/04/2014	-	-	-	95	95	87	224	3,244	224	3,331	13.1% 38.0%
Pastor 2	22/06/2014	-	-	-	70	70	8	45	3,393	45	3,401	13.7%
Pastor 3	22/06/2014	-	-	-	0	0	0	0	0	0	0	0.0%
Pastor 4	22/06/2014	-	-	-	75	75	8	(2,067)	333	(2,067)	341	1.3%
Pastor 5	22/06/2014	-	-	-	14	14	1	(441)	-	(441)	1	0.0% 15.1%
Gems	02/06/2014	13	13	-	83	70	30	(1,148)	3,577	(1,148)	3,607	14.5%
Minotaure	22/06/2014	-	-	-	41	41	3	22	1,308	22	1,311	5.3% 19.8%
Ludgate	07/06/2014	291						6,590	6,590	6,590	6,590	26.7% 26.7%
Sestante 4 A1	16/04/2014	12	2	10	2	0	2	6	123	6	125	0.5% 0.5%
<b>Total</b>		<b>394</b>	<b>93</b>	<b>10</b>	<b>501</b>	<b>409</b>	<b>251</b>	<b>3,547</b>	<b>24,697</b>	<b>3,547</b>	<b>24,948</b>	<b>100.0% 100.0%</b>

**ACCOUNTING INCOME**

Actual cash flow received in Q	394
Plus: Capitalised interest	409
Less: Amortisation of principal	(10)
<b>Income excl. accruals</b>	<b>792</b>
<i>check</i>	290.9 (Ludgate)
Less: Previous Q accruals	(242)
Plus: Current Q accruals	251
<b>Income incl. accruals</b>	<b>801</b>

**WRITE-DOWNS / REVALUATIONS**

Sum of write-downs excl. accruals	(3,656)
Sum of revaluations excl. accruals	7,203
<b>Total excl. accruals</b>	<b>3,547</b>
<i>check</i>	0.0
Sum of accruals included in write-downs	0
Sum of accruals included in revaluations	0
<b>Total incl. accruals</b>	<b>3,547</b>
<i>check</i>	0.0

**VALUATION RECAP**

<b>Valuation excl. accruals</b>	<b>24,697</b>
<b>Valuation incl. accruals</b>	<b>24,948</b>
<i>check</i>	(0.0)
Last Q valuation excl. accruals	20,751
Plus: Capitalised interest	409
Less: Amortisation of principal	(10)
Sum write-downs / reval. excl. accruals	3,547
Plus: Purchased in Q	
<b>Current Q excl. accruals</b>	<b>24,697</b>
<i>check</i>	0.0