

Confidential

# **EETI Quarterly Review**

**QUARTER ENDED 30/06/2010**

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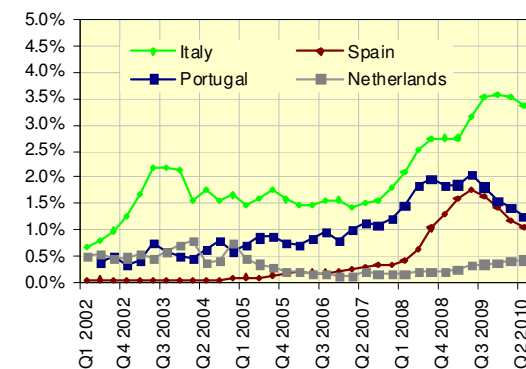
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# **1 EUROPEAN ABS / RMBS ACTIVITY AND PERFORMANCE**

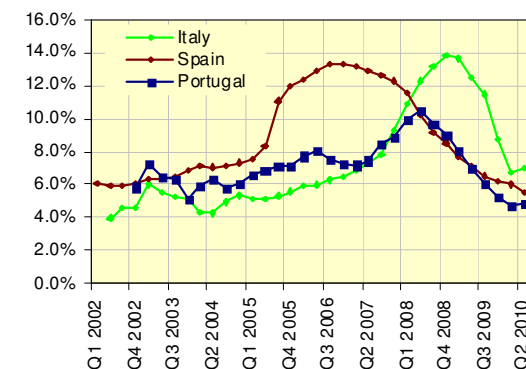
## Prime European RMBS performance overview

- ▶ As in previous quarters, arrears in prime RMBS across Europe continue their overall decline, including in Italy, with the collateral of older transactions clearly outperforming 2006-07 vintages.
- ▶ Some transactions, including Lusitano 4, have however experienced a rise in prepayments this quarter, for which no obvious explanation is available.
- ▶ Similarly, prepayments on loans (CPR) broadly remain around 6% across Continental Europe.
  - Some transactions, including Lusitano 4, have however experienced a rise in prepayments this quarter, for which no obvious explanation is available.
- ▶ With Southern European economies remaining weak, the performance outlook in these countries continues to hinge, in our opinion, on the impact on households of austerity measures as well as on the level of Euribor.

3-12 months arrears of prime European RMBS



12-month average CPR of prime European RMBS



Notes: Italian index includes 25 transactions: Sestante 1, 2, 3 & 4; Argo 1 & 2; Berica & Berica 1, 2, 3, 4 & 6; BPM 1 & 2; Claris 2002, 2003, 2005 & 2007, Vela Home 2 & 3, Credico, Voba, Lombardia and Bipitalia.  
 Spanish index includes 33 transactions: Pastor 2, 3, 4 & 5; Bankinter 1 to 16; Cajamar 1, 3, 4, 5 & 6; Bancaja 3 to 10.  
 Portuguese index includes 14 transactions: Lusitano 1 to 6, Douro 1 to 3 and Magellan 1 to 5.  
 Dutch index includes 30 transactions : Delphinus and Beluga series, Memphis series and Shield.

## European ABS / RMBS market activity

- ▶ The quarter saw some new AAA issuance to investors, particularly in Dutch & UK RMBS as well as in auto loans.
  - Total issuance for the first half of 2010 amounts to close to EUR 100bn, of which analysts estimate that a quarter was effectively placed to investors as opposed to retained by originators to obtain ECB financing;
  - Several deals were actually placed with single investors, who purchased the whole AAA tranche.
- ▶ Sovereign debt concerns have accelerated the tiering of the market between (i) UK and Dutch prime RMBS, the most liquid and best regarded segments, and (ii) other European issues, with Portugal and Spain at the bottom.
- ▶ AAA spreads have widened in the quarter across Europe, with the biggest rise affecting Spanish paper. Mezzanine and subordinated tranches remain largely unchanged, albeit with continued low trading volumes.

### Summary of spread evolution of European prime AAA and BBB RMBS spreads

(in bps)	Jun 2010	Mar 2010	Dec 2009	Sep 2009	June 2009	Mar 2009	Dec 2008
<b>AAA Spreads</b>							
UK Prime	+165	+135	+155	+200	+275	+375	+400
Netherlands	+150	+135	+160	+200	+300	+350	+375
Spain	+600	+350	+375	+400	+600	+675	+600
<b>BBB Spreads</b>							
UK Prime	+1,250	+1,400	+2,000	+4,000	+5,000	+3,000	+2,000
Netherlands	+700	+750	+1,000	+1,250	+2,000	+2,000	+1,750
Spain	+1,750	+1,750	+2,750	+3,000	+4,000	+3,500	+2,500

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

Note: UK Prime series has been restated to exclude bonds backed by buy-to-let loans, which trade more in line with non-conforming loans.

## 2 PORTFOLIO PERFORMANCE

## A. General Overview

## The year in review

- ▶ The EETI portfolio generated total cash flow of almost EUR 4.0m over the past 4 quarters.
  - Adding the new investments due to be transferred during the summer, total cash generation amounts to EUR 4.1m.
- ▶ The main contributing positions were Pastor 2 (28%), Minotaure (21%) as well as the Dutch and German bonds (43%).
  - The significant contribution of Pastor 2 reflects an earlier than expected reserve release in the transaction. This fact accounts for much of the difference between actual and forecast in the last quarter of 2009 and the first quarter of 2010.

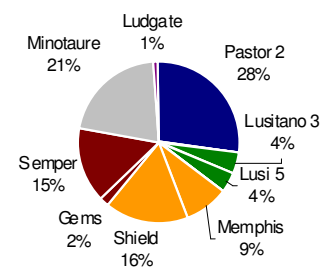
Total cash generation of EUR 4.0m over the past 12 months

### EETI cash flow generation since 30/6/2009

(EUR)

Quarter ended	EETI Portfolio			New Investments		TOTAL
	Actual	Forecast	Delta	Actual		
30/09/2009	890,941	na				890,941
31/12/2009	1,166,318	720,696	61.8%			1,166,318
31/03/2010	960,195	757,666	26.7%			960,195
30/06/2010	952,442	921,540	3.4%	144,704		1,097,145
<b>TOTAL</b>	<b>3,969,895</b>			<b>144,704</b>		<b>4,114,599</b>

### Contributors to cash flow since 30/6/2009 (ex-new investments)



## Forecast cash flow (ex-new investments)

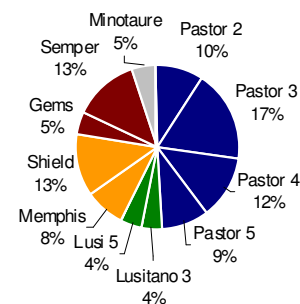
- ▶ Forecast cash flow from Q3 2010 included amounts to EUR 79.3m, of which half should be generated by end 2015.
  - Forecast cash flow for the coming 2 years amount to approx. EUR 3.5m p.a.
- ▶ Close to half of total cash flow is expected to be generated by the Pastor subordinated loans. Except for Pastor 2, the Pastor positions are not expected to cash flow before 2015-17.
  - Period cash flow by position are provided overleaf.

Total forecast cash flow of EUR 79.3m, half of which by end 2015

EETI yearly forecast cash flow generation from 30/6/2010 onwards

Year ended	Yearly CF	% Total	Cumulative CF	% Total
30/06/2011	3,480	4.4%	3,480	4.4%
30/06/2012	3,410	4.3%	6,890	8.7%
30/06/2013	9,725	12.3%	16,614	21.0%
30/06/2014	6,263	7.9%	22,878	28.9%
30/06/2015	12,604	15.9%	35,482	44.7%
30/06/2016	6,920	8.7%	42,402	53.5%
30/06/2017	2,455	3.1%	44,857	56.6%
30/06/2018	8,522	10.7%	53,379	67.3%
30/06/2019	13,123	16.5%	66,502	83.9%
30/06/2020	1,033	1.3%	67,535	85.2%
30/06/2021	6,503	8.2%	74,038	93.4%
30/06/2022	3,977	5.0%	78,015	98.4%
Beyond	1,282	1.6%	79,297	100.0%
<b>TOTAL</b>	<b>79,297</b>	<b>100.0%</b>		

Contributors to forecast cash flow from 30/6/2010 onwards



## Forecast cash flow (ex-new investments) (Cont'd)

- ▶ At this stage, forecast cash flow are unchanged from the previous valuation conducted in September 2009 (partly revised since then for Pastor 2) as the fundamental credit and prepayment variables underlying cash flow forecast have evolved more favourably than anticipated.
  - As detailed in the next section, arrears / default and loss trends, as well as prepayments, are well within forecast.
  - Similarly, recoveries on defaulted loans either exceed expectations (Lusitanos) or are broadly in line with anticipated levels.
- ▶ At the same time, a revaluation appears premature given the exceptionally low interest rates over the past year and continued uncertain outlook.
- ▶ While the cash flow of the positions owned by EETI is driven by several variables, we would single out two as being of particular importance:
  - Recoveries on defaulted loans for Lusitanos, Pastor and Sestante investments;
  - Exercise of the call for Lusitano. As explained in detail in the previous quarterly report, the transactions were sold on the basis of an optional time call between 2013 and 2015 by the originator Banco Espirito Santo (BES). However, given tight banking liquidity, it is uncertain whether BES will be in a position to exercise the calls.
    - The non-exercise of the call would translate into higher but longer cash flow under the positions.
- ▶ For the German and Dutch bonds, some modest variability of forecast cash flow is expected due to the difference between the actual Euribor levels and that of the Euribor forward curve used in the models.
- ▶ The investments continue to be valued using discount rates ranging from 8.5% to 15.0% based on the long term expected rate of return of Scribona, rather than the still distressed discount rates applied by the market reflected in the new recent investments.

## Valuation of investments (ex-new investments)

(EUR thousands)

	Investments	Type	Collateral loans	Originator	Discount rate	Forecast CF	Value at 06/2010	% Book Value
Spain	Pastor 2	2 <sup>nd</sup> loss (Sub. loan)	Prime residential	Banco Pastor	8.5%	7,610	4,917	9.7%
	Pastor 3	2 <sup>nd</sup> loss (Sub. loan)	Prime residential	Banco Pastor	15.0%	14,375	4,265	8.4%
	Pastor 4	2 <sup>nd</sup> loss (Sub. loan)	Prime residential	Banco Pastor	15.0%	9,810	2,862	5.7%
	Pastor 5	2 <sup>nd</sup> loss (Class D)	Prime residential	Banco Pastor	15.0%	6,894	1,845	3.6%
Portugal	Lusitano 3	Residual (Class E)	Prime residential	BES	10.0%	3,093	2,105	4.2%
	Lusitano 4	Residual (Citrine)	Prime residential	BES	-	-	-	-
	Lusitano 5	Residual (Class E)	Prime residential	BES	10.0%	3,300	1,874	3.7%
Italy	Sestante 2	Residual (Citrine)	Prime residential	Meliorbanca	-	-	-	-
	Sestante 3	Residual (Citrine)	Prime residential	Meliorbanca	-	-	-	-
	Sestante 4	Residual (Class D)	Prime residential	Meliorbanca	-	-	-	-
NL	Shield 1	B rated (Class F)	Prime residential	ABN Amro	8.5%	10,055	8,220	16.3%
	Memphis 06-1	B rated (Class G)	Prime residential	ING	8.5%	6,068	4,433	8.8%
Ger-many	Provide Gems	B- rated (Class C)	Residential (incl. 2 <sup>nd</sup> lien)	Commerzbank	10.0%	3,827	1,751	3.5%
	Semper 06-1	Unrated (2 <sup>nd</sup> loss)	Multi-family residential	Eurohypo	8.5%	10,201	4,433	14.6%
FR	Minotaure	Residual (Class R)	Prime residential	EDF	8.5%	4,064	2,878	5.7%
UK	Ludgate 06-1	Residual & MERC	Residential (non-prime)	Merrill Lynch	-	-	-	-
					<b>10.1%</b>	<b>79,297</b>	<b>42,553</b>	<b>100.0%</b>

Notes: The portfolio discount rate is based on the average of the individual discount rates weighted by the book value of the respective positions. Book value at 30/6/2010 excludes accruals to quarter end.

The EETI portfolio (ex-new investments) is valued at EUR 42,553k excluding accruals

# Period forecast cash flow (ex-new investments)

(EUR)

	Spain				Portugal			Italy			Netherlands		Germany		France	UK	TOTAL
	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusi 4	Lusi 5	Sestante 2	Sesta 3	Sesta 4	Memphis	Shield	Gems	Semper	Mnotaure	Ludgate	EETI
CF Q3 2009 - Q2 2010	1,088	-	-	-	168	-	152	-	-	-	350	645	79	598	846	45	3,970
<b>CF from Q3 2010</b>	<b>7,610</b>	<b>14,375</b>	<b>9,810</b>	<b>6,894</b>	<b>3,093</b>	-	<b>3,300</b>	-	-	-	<b>6,068</b>	<b>10,055</b>	<b>3,827</b>	<b>10,201</b>	<b>4,064</b>	-	<b>79,297</b>
Q3 2009	86	-	-	-	59	-	77	-	-	-	92	170	25	156	213	13	891
Q4 2009	430	-	-	-	34	-	75	-	-	-	87	163	19	148	210	-	1,166
Q1 2010	337	-	-	-	-	-	0	-	-	-	85	158	18	146	190	26	960
Q2 2010	235	-	-	-	75	-	-	-	-	-	85	154	17	148	233	6	952
Q3 2010	1	295	-	-	-	-	-	-	-	-	88	162	23	153	162	-	882
Q4 2010	2	244	-	-	-	-	-	-	-	-	91	168	26	158	160	-	848
Q1 2011	3	240	-	-	-	-	-	-	-	-	95	174	30	163	152	-	855
Q2 2011	4	237	-	-	-	-	-	-	-	-	98	181	35	169	175	-	895
Q3 2011	5	184	-	-	-	-	-	-	-	-	101	187	38	174	169	-	853
Q4 2011	6	186	-	-	-	-	-	-	-	-	104	193	42	178	161	-	863
Q1 2012	7	184	-	-	-	-	-	-	-	-	106	197	44	181	160	-	871
Q2 2012	8	140	-	-	-	-	-	-	-	-	107	198	45	182	151	-	823
Q3 2012	9	189	-	-	-	-	-	-	-	-	107	797	46	184	149	-	1,472
Q4 2012	10	26	-	-	-	-	-	-	-	-	109	3,667	48	187	143	-	4,179
Q1 2013	11	27	-	-	-	-	-	-	-	-	111	1,985	50	190	136	-	2,499
Q2 2013	12	28	-	-	-	-	-	-	-	-	113	1,053	53	193	135	-	1,574
Q3 2013	13	30	-	-	-	-	-	-	-	-	114	548	54	195	127	-	1,068
Q4 2013	14	30	-	-	-	3,093	-	-	-	-	115	274	55	197	125	-	3,890
Q1 2014	15	31	-	-	-	-	-	-	-	-	116	137	56	198	119	-	657
Q2 2014	16	31	-	-	-	-	-	-	-	-	116	134	57	199	113	-	649
Q3 2014	17	32	-	-	-	-	-	-	-	-	117	-	58	200	111	-	518
Q4 2014	18	32	-	-	-	-	-	-	-	-	2,786	-	59	201	103	-	3,181
Q1 2015	19	32	-	-	-	-	-	-	-	-	1,473	-	59	6,902	101	-	8,568
Q2 2015	20	32	-	149	-	-	-	-	-	-	-	-	60	-	96	-	337
Q3 2015	21	34	-	748	-	-	-	-	-	-	-	-	61	-	90	-	933
Q4 2015	22	34	-	702	183	-	3,300	-	-	-	-	-	61	-	89	-	4,369
Q1 2016	23	34	-	617	285	-	-	-	-	-	-	-	62	-	83	-	1,080
Q2 2016	24	34	-	95	266	-	-	-	-	-	-	-	62	-	81	-	538
Q3 2016	25	35	-	96	257	-	-	-	-	-	-	-	63	-	77	-	527
Q4 2016	26	35	-	97	249	-	-	-	-	-	-	-	63	-	72	-	516
Q1 2017	27	35	-	96	241	-	-	-	-	-	-	-	64	-	71	-	507
Q2 2017	28	35	413	95	233	-	-	-	-	-	-	-	64	-	65	-	905
Q3 2017	29	35	528	98	227	-	-	-	-	-	-	-	64	-	64	-	1,016
Q4 2017	30	36	494	98	220	-	-	-	-	-	-	-	64	-	60	-	973
Q1 2018	31	5,035	466	97	88	-	-	-	-	-	-	-	65	-	56	-	5,807
Q2 2018	32	-	443	96	66	-	-	-	-	-	-	-	64	-	56	-	725
Q3 2018	33	-	425	99	68	-	-	-	-	-	-	-	62	-	50	-	704
Q4 2018	34	-	414	99	68	-	-	-	-	-	-	-	61	-	50	-	691
Q1 2019	35	-	403	98	67	-	-	-	-	-	-	-	60	-	46	-	674
Q2 2019	36	-	10,790	98	66	-	-	-	-	-	-	-	58	-	41	-	11,054
Q3 2019	37	-	-	100	68	-	-	-	-	-	-	-	57	-	40	-	266
Q4 2019	38	-	-	101	68	-	-	-	-	-	-	-	56	-	35	-	259
Q1 2020	39	-	-	100	67	-	-	-	-	-	-	-	55	-	33	-	256
Q2 2020	40	-	-	101	67	-	-	-	-	-	-	-	54	-	30	-	252
Q3 2020	41	-	-	102	68	-	-	-	-	-	-	-	52	-	27	-	250
Q4 2020	42	-	-	103	68	-	-	-	-	-	-	-	51	-	26	-	248
Q1 2021	43	-	-	102	67	-	-	-	-	-	-	-	50	-	24	-	244
Q2 2021	44	-	5,621	66	68	-	-	-	-	-	-	-	49	-	24	-	5,761
Q3 2021	45	-	-	68	68	-	-	-	-	-	-	-	48	-	24	-	139
Q4 2021	46	-	-	68	68	-	-	-	-	-	-	-	47	-	-	-	115
Q1 2022	47	-	-	67	68	-	-	-	-	-	-	-	45	-	-	-	113
Q2 2022	48	-	-	3,566	68	-	-	-	-	-	-	-	44	-	-	-	3,610
Q3 2022	49	-	-	-	68	-	-	-	-	-	-	-	43	-	-	-	43
Q4 2022	50	-	-	-	68	-	-	-	-	-	-	-	42	-	-	-	42
Q1 2023	51	-	-	-	68	-	-	-	-	-	-	-	41	-	-	-	41
Q2 2023	52	-	-	-	68	-	-	-	-	-	-	-	39	-	-	-	39
Q3 2023	53	-	-	-	68	-	-	-	-	-	-	-	38	-	-	-	38
Q4 2023	54	-	-	-	68	-	-	-	-	-	-	-	37	-	-	-	37
Q1 2024	55	-	-	-	68	-	-	-	-	-	-	-	36	-	-	-	36
Q2 2024	56	-	-	-	68	-	-	-	-	-	-	-	35	-	-	-	35
Q3 2024	57	-	-	-	68	-	-	-	-	-	-	-	34	-	-	-	34
Q4 2024	58	-	-	-	68	-	-	-	-	-	-	-	33	-	-	-	33
Q1 2025	59	-	-	-	68	-	-	-	-	-	-	-	32	-	-	-	32
Q2 2025	60	-	-	-	68	-	-	-	-	-	-	-	31	-	-	-	31
Q3 2025	61	-	-	-	68	-	-	-	-	-	-	-	29	-	-	-	29
Q4 2025	62	-	-	-	68	-	-	-	-	-	-	-	28	-	-	-	28
Q1 2026	63	-	-	-	68	-	-	-	-	-	-	-	27	-	-	-	27
Q2 2026	64	-	-	-	68	-	-	-	-	-	-	-	27	-	-	-	27
Q3 2026	65	-	-	-	68	-	-	-	-	-	-	-	26	-	-	-	26
Q4 2026	66	-	-	-	68	-	-	-	-	-	-	-	25	-	-	-	25
Q1 2027	67	-	-	-	68	-	-	-	-	-	-	-	680	-	-	-	680

## B. Quarterly Performance

## Quarterly CF and performance indicators

(EUR except Recoveries and Reserve in EURk)					Cash flow receipts				Collateral performance							
Transactions	IPD	Actual	Forecast	Delta	90d+ arr.		CDR		CPR		Recoveries		Reserve		Cum. loss rate	
					Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast
Lusitano 3E	16/04/2010	74,753	-	74,753	1.4%	2.4%	1.11%	2.2%	3.2%	6.0%	1,681	-	9,600	4,628	na	na
Lusitano 4E	20/06/2010	-	-	-	1.3%	2.2%	0.8%	1.9%	13.9%	6.0%	1,176	-	4,750	1,137	na	na
Lusitano 5E	15/04/2010	-	-	-	1.6%	3.1%	1.6%	2.2%	3.3%	6.0%	871	-	10,993	9,013	na	na
Pastor 2	22/06/2010	234,557	335,291	- 100,734	0.5%	0.5%	0.3%	0.6%	6.0%	7.0%	-	164	6,615	6,638	na	na
Pastor 3	22/06/2010	-	-	-	2.5%	3.8%	3.6%	3.7%	7.1%	6.0%	5	2,095	(13,430)	(12,126)	na	na
Pastor 4	22/06/2010	-	-	-	1.8%	3.3%	2.5%	3.1%	5.1%	6.0%	540	-	(8,908)	(10,467)	na	na
Pastor 5	19/06/2010	-	-	-	1.7%	3.5%	3.9%	1.5%	6.0%	6.0%	724	-	2,509	7,466	na	na
Sestante 2	13/04/2010	-	-	-	4.7%	6.5%	4.2%	4.5%	12.2%	12.6%	934	1,005	(2,892)	(2,040)	na	na
Sestante 3	20/04/2010	-	-	-	3.8%	6.1%	3.6%	4.6%	8.1%	15.5%	124	1,420	(8,204)	(6,242)	na	na
Sestante 4	16/04/2010	-	-	-	5.0%	8.6%	6.3%	5.6%	6.2%	12.5%	57	-	(17,877)	(12,483)	na	na
Shield 1	20/04/2010	153,540	159,554	- 6,014	0.5%	na	0.3%	0.3%	5.9%	na	na	na	na	na	0.09%	0.13%
Memphis	26/04/2010	84,694	86,987	- 2,293	na	na	na	0.2%	na	na	na	na	na	na	0.13%	0.15%
Gems	02/06/2010	17,327	20,972	- 3,645	na	na	na	na	2.9%	5.0%	na	na	na	na	2.68%	2.79%
Semper	30/06/2010	148,005	150,377	- 2,372	na	na	na	na	na	na	na	na	na	na	-	-
Minotaure	23/06/2010	233,399	168,359	65,040	na	na	na	na	na	na	na	na	na	na	na	na
Ludgate	07/06/2010	6,167	-	6,167	na	na	na	na	na	na	na	na	na	na	na	na
<b>Total EETI Portfolio</b>		<b>952,442</b>	<b>921,540</b>	<b>30,902</b>												
Smart 06	28/06/2010	131,396	130,490	906	0.1%	na	3.9%	1.0%	na	na	na	na	na	na	0.02%	0.02%
Empop 1	22/06/2010	2,445	2,875	- 430	2.7%	na	3.2%	3.0%	35.1%	30.0%	2,052	1,020	33,451	32,327	na	na
BBVA H 3	21/05/2010	3,846	3,775	71	0.5%	na	0.8%	2.0%	28.5%	21.0%	66	-	18,426	17,357	na	na
Lusitano 3D	16/04/2010	4,240	883	3,357	Same as above Lusitano 3E above											
Lusitano 4D	20/06/2010	2,778	2,600	178	Same as above Lusitano 4D above											
<b>Total New Investments</b>		<b>144,704</b>	<b>140,623</b>	<b>4,081</b>												
<b>GRAND TOTAL CF</b>		<b>1,097,145</b>	<b>1,062,163</b>	<b>34,983</b>												

Notes: Negative reserve indicates unpaid amounts to the senior notes (unpaid PDLs). For EMPOP1 and BBVAH3, CPR is total redemption rate.

Total CF for the quarter amounted to EUR 1,097k vs. EUR 1,062k forecast

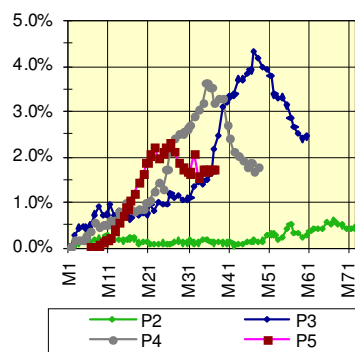
The historical EETI portfolio generated EUR 952k vs. EUR 921k forecast

The new investments generated EUR 145k, slightly above forecast

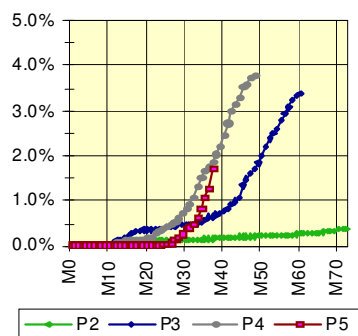
## Pastor investments

- ▶ 90-day+ arrears in the transactions have stabilised this quarter at 2.5% for Pastor 3 and 1.7-1.8% for Pastor 4 & 5. At the same time, default rates remain high in the 2.5-4.0% range, as arrears accumulated over the past year transition to defaults (> 12 months arrears definition).
  - This explains the spike in defaults of Pastor 5 this quarter, with an annualised default rate of 3.9%.
- ▶ Recoveries remain uneven, exceeding forecast in the more recent Pastor 4 and 5 (total of EUR 1.4m vs. 0 forecast), but well below expectations in Pastor 2 and 3 (virtually 0 vs. EUR 2.25m expected).
  - As a result of continuing high default and low recoveries, the reserves remain severely overdrawn in Pastor 3 and 4, with unpaid PDLs of EUR 13.4m and EUR 8.9m respectively;
  - The reserve in Pastor 5 at EUR 2.5m is expected to be depleted in the coming quarters.
- ▶ As noted last quarter, CPRs remain modest at 6-7% but appear to have stabilised / edging up after 3 years of decline.

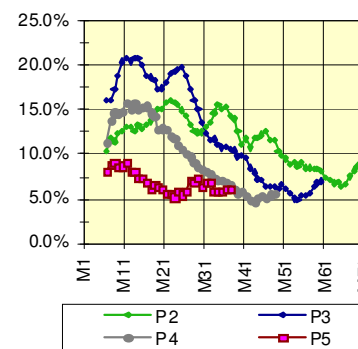
90d+ arrears (excl. defaults, as % CB)



Cumulative defaults (as % OB)



6M average CPR



Note: Data expressed in months since issue.

## Pastor investments (Cont'd)

- ▶ The performance of Pastor 2 remains strong and the EUR 100k shortfall in cash flow this quarter reflects lower than expected recoveries rather than rising defaults.

### Pastor 2 -- Actual vs. forecast CF at 22/06/2010 IPD (EUR 000s)

<b>Original Forecast</b>	<b>335</b>
<u>Variations vs. forecast</u>	
Lower reserve release due to lower CPR	(19)
Lower defaults	116
Lower recoveries	(164)
Other differences	(33)
<b>Actual Receipt</b>	<b>235</b>
Excess vs. forecast	(100)

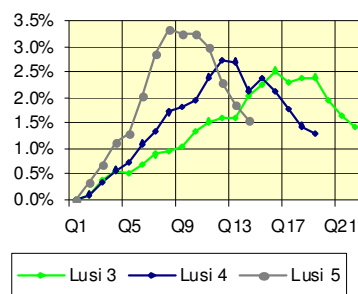
## Lusitano investments

- ▶ 90-day+ arrears have continued to fall this quarter to approx. 1.5%, with default rates following a similar trend.
  - Note however that even at that reduced level, future default rates are likely to exceed the excess spread of the transactions in the coming quarters. Thus cash flow on the residuals depends on the amount of recoveries.
- ▶ Recoveries have been unexpectedly high this quarter, ranging from EUR 0.9m to EUR 1.7m in each of the three transactions. This cash inflow has helped replenish the deal cash reserves which are at, or close, to their required level in Lusitano 3 & 5 and still 60% overdrawn in Lusitano 4.
  - An unexpected residual cash flow was paid out in Lusitano 3 as the reserve fund is fully replenished.
- ▶ CPRs recorded an unexpected spike to 13.9% in Lusitano 4 this quarter, while prepayments were of only 3% in the other two transactions. The reason for this spike is not clear at this stage.

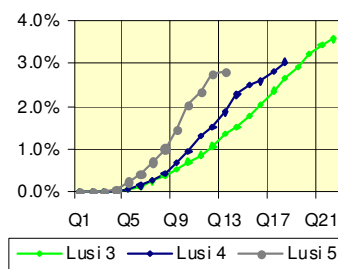
The Lusitano transactions continue to show encouraging signs with lower arrears & defaults than expected and higher recoveries

Lusitano 3 generated an unexpected cash flow as high recoveries enabled the replenishment of the reserve

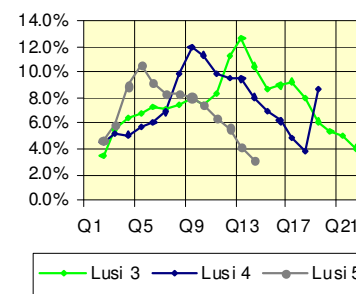
90d+ arrears (excl. defaults, as % CB)



Cumulative defaults (as % OB)



6M average CPR



Note: Data expressed in quarters since issue.

## Sestante investments

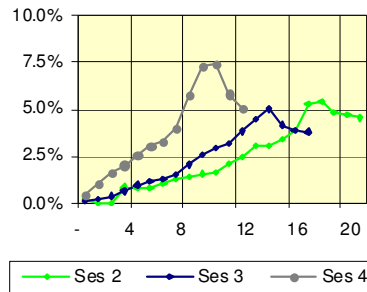
- ▶ 90-day+ arrears appear to be stabilising at a 4-5% level, while the default trend remains largely unchanged at approx. 4% for Sestante 2 & 3 and over 6% for Sestante 4.
- ▶ The transactions experienced some recoveries (EUR 1.1m) albeit well below forecast (EUR 2.4m).
- ▶ CPRs are continuing to decline rapidly for the 3 transactions and have reached 12.2%, 8.1% and 6.2% in the last quarter for Sestante 2, 3 & 4 respectively.
  - Lower CPRs increase available excess spread in the transactions and thus potentially future residual cash flow. However, in this case, as default rates significantly exceed excess spread and recoveries are low, slower prepayments are not expected at this point to increase cash generation.
- ▶ Reserves remain severely overdrawn, notably for Sestante 4 (negative EUR 18m), and only significant recoveries would enable their replenishment.

Arrears and defaults remain high, highest of all in Sestante 4

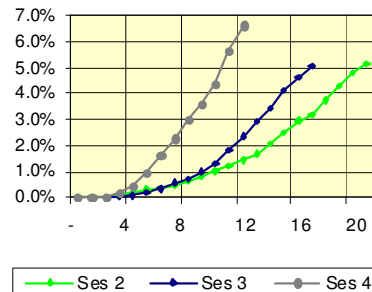
CPRs are declining more rapidly than anticipated, notably in the more recent Sestante 3 and 4

The outlook for the transactions remains negative as recoveries are slow and reserves severely overdrawn

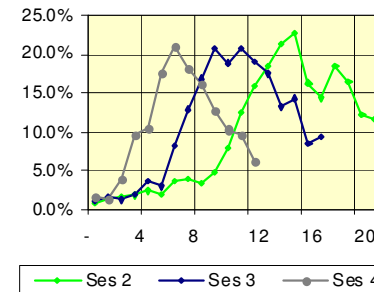
90d+ arrears (excl. defaults, as % CB)



Cumulative defaults (% OB)



6M average CPR



Note: Data expressed in quarters since issue.

## Other EETI investments

### Shield 1 and Memphis 2006-1

- ▶ Both bonds continue to perform slightly above expectations in terms of new credit events and cumulative losses.

### Semper 2006-1

- ▶ The transaction continues to perform well to date with substantially higher prepayments than anticipated and no single credit event recorded since issue.

### Provide Gems 2002-1

- ▶ Evolution in credit events and cumulated losses equal to forecast with no improvement expected.

### Minotaure

- ▶ Cash flow was 40% above forecast, a difference of EUR 65k, reflecting continued low default and higher CPRs than anticipated.

### Ludgate

- ▶ Payment received corresponds to prepayment penalties that are expected to wind down to 0 after the next payment date.

## New investments

- ▶ The portfolio of new investments has performed in line with expectations both in terms of losses and outstanding credit protection.

### **3 CONSOLIDATED ACCOUNTING ITEMS**

## Income for the quarter ended 30/06/2010

- ▶ Income for the quarter is **EUR 1,094k** vs. EUR 1,034k at 31/3/2010.
  - The EETI portfolio generated approx. EUR 1,032k in income;
  - The remaining approx. EUR 62k relate to the new investments currently held by EETI. Income figure is substantially below actual cash flow received from these positions (EUR 145k) due to the reversal of interest accruals at purchase;
  - Accruals to quarter end amount to EUR 331k almost equal to the amount in the previous quarter (EUR 334k).

### Summary of quarterly accounting income at 30/06/2010 vs. previous quarters

EUR 000s	Current Q ended 30/06/2010	Previous Q ended 31/03/2010	Q before last ended 31/12/2009
Actual income	1,094	1,034	752

## Book value of investments at 30/06/2010

- ▶ The aggregate book value of investments stands at EUR 50,562k (excl. accruals), of which EUR 42,553k relate to the EETI portfolio and EUR 8,015k to the new investments.
- ▶ Principal movements in the quarter are as follows:
  - The capitalisation of interest of EUR 403k (mainly Pastor 3, 4 & 5); plus
  - The acquisition of the new investments for a total amount of EUR 7,905k, of which EUR 81k in accrued interest; less
  - Principal repayment of EUR 324k (Pastor 2, Minotaure & Lusitano 3); less
  - The reversal of interest accruals acquired with the new investments of EUR 81k and EUR 4k principal repayments under these new bonds (Lusitano 3D).

### Summary of book values at 31/03/2010 and 31/12/2009

EUR 000s	Current Q ended 30/06/2010	Previous Q ended 31/03/2010	Previous Q ended 31/12/2009
<b>Portfolio Book Value excl. accruals</b>	<b>EETI: 42,553 New: 8,009 Total: 50,562</b>	<b>EETI: 42,474 New: 189 Total: 42,663</b>	<b>EETI: 42,396</b>
Portfolio Book Value incl. accruals	EETI: 42,881 New: 8,015 Total: 50,896	EETI: 42,805 New: 189 Total: 42,994	EETI: 42,731

## Valuation of new investments at 30/06/2010

- ▶ **The new investments are valued at their purchase price. Income is accounted for on the basis of accrued interests since purchase at the nominal coupon rates.**
- ▶ This approach **differs** from that of applied to the historical EETI investments:
  - These positions are valued at their forecast cash flow discounted at a chosen discount rate;
  - Quarterly income is based on the accrual method at the chosen discount rate.
- ▶ **The fundamental reason for applying this different method to the new investments is that it reflects current market prices.**
  - The positions have been purchased in the past weeks and to the best of our knowledge, their valuation remains unchanged.
- ▶ If the new investments had been valued and accounted for using the method applied to the historical EETI assets, (i) their book value at 30/6/2010 would be higher by approx. EUR 400k and (ii) income for the quarter would be higher by approx. EUR 340k.
  - This reflects the fact that accounting income would have been based on a discount rate of 20-30% vs. coupon rates of approx. 4-8%. Accounting income would substantially exceed cash income and that difference would be treated as capitalized interests, which are added to the book value of the assets;

New investments are valued at cost and income is calculated based on the nominal coupon rates

## NPV differences at 30/06/2010

- ▶ As a result of differences between actual and forecast cash flow, the net present values of certain investments differ marginally from their book values.
- ▶ The total difference is of **+EUR 219k** this quarter, representing 0.4% of book value.
- ▶ We recommend not to include these differences in the book value as they are minor and await a broader revaluation.

### Summary of differences between book values and NPV at 31/03/2010

Investments	Difference in NPV less Book Value at 30/06/2010	% Book Value
Lusitano 3	110	+5.2%
Lusitano 5	78	+4.2%
Pastor 2	(61)	-1.2%
Minotaure	117	4.1%
Memphis, Shield, Semper & Gems	(25)	-0.2%
<b>Total</b>	<b>219</b>	<b>0.4%</b>

## Detailed accounting items for the quarter ended 30/06/2010

All figures in Euros thousands

Investments	Payment date	CF receipts and breakdown			Accounting items			Valuation excl. accruals		Valuation incl. accruals		% Total
		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	
Lusitano 3	16/04/2010	<b>75</b>	51	24	<b>51</b>	0	41	0	<b>2,105</b>	0	<b>2,146</b>	4.2%
Lusitano 4	20/06/2010	-	0	0	<b>0</b>	0	0	0	<b>0</b>	0	<b>0</b>	0.0%
Lusitano 5	15/04/2010	-	0	0	<b>44</b>	44	37	0	<b>1,874</b>	0	<b>1,912</b>	3.7% 7.9%
Pastor 2	22/06/2010	<b>235</b>	105	130	<b>105</b>	0	9	0	<b>4,917</b>	0	<b>4,926</b>	9.7%
Pastor 3	22/06/2010	-	0	0	<b>148</b>	148	13	0	<b>4,265</b>	0	<b>4,278</b>	8.4%
Pastor 4	22/06/2010	-	0	0	<b>99</b>	99	9	0	<b>2,862</b>	0	<b>2,871</b>	5.7%
Pastor 5	22/06/2010	-	0	0	<b>64</b>	64	6	0	<b>1,845</b>	0	<b>1,851</b>	3.6% 27.5%
Shield	20/04/2010	<b>154</b>	154	0	<b>167</b>	13	130	0	<b>8,220</b>	0	<b>8,351</b>	16.3%
Memphis	25/04/2010	<b>85</b>	85	0	<b>90</b>	5	65	0	<b>4,433</b>	0	<b>4,498</b>	8.8%
Semper 2006	30/06/2010	<b>148</b>	148	0	<b>154</b>	6	0	0	<b>7,401</b>	0	<b>7,401</b>	14.6%
Gems	02/06/2010	<b>17</b>	17	0	<b>42</b>	25	13	0	<b>1,751</b>	0	<b>1,763</b>	3.5%
Minotaure	22/06/2010	<b>233</b>	63	170	<b>63</b>	0	5	0	<b>2,878</b>	0	<b>2,883</b>	5.7% 48.8%
Sestante 2	13/04/2010	-	0	0	<b>0</b>	0	0	0	<b>0</b>	0	<b>0</b>	0.0%
Sestante 3	13/04/2010	-	0	0	<b>0</b>	0	0	0	<b>0</b>	0	<b>0</b>	0.0%
Sestante 4	16/04/2010	-	0	0	<b>0</b>	0	0	0	<b>0</b>	0	<b>0</b>	0.0%
Ludgate	03/06/2010	<b>6</b>	0	0	<b>6</b>	0	0	0	<b>0</b>	0	<b>0</b>	0.0% 0.0%
Smart 2006-1E	28/06/2010	<b>131</b>	55	76	<b>55</b>	0	3	0	<b>6,643</b>	0	<b>6,646</b>	13.1%
EMPOP 2006-1D	21/06/2010	<b>2</b>	2	1	<b>2</b>	0	0	0	<b>443</b>	0	<b>443</b>	0.9%
BBVAH 3C	11/06/2010	<b>4</b>	0	3	<b>0</b>	0	2	0	<b>705</b>	0	<b>707</b>	1.4%
Lusitano 3D	16/04/2010	<b>4</b>	0	4	<b>0</b>	0	0	0	<b>29</b>	0	<b>30</b>	0.1%
Lusitano 4D	15/06/2010	<b>3</b>	3	0	<b>3</b>	0	0	0	<b>189</b>	0	<b>190</b>	0.4% 15.8%
<b>Total</b>		<b>1,097</b>	<b>683</b>	<b>408</b>	<b>1,092</b>	<b>403</b>	<b>334</b>	<b>0</b>	<b>50,562</b>	<b>0</b>	<b>50,896</b>	<b>100.0% 100.0%</b>

ACCOUNTING INCOME	
Actual cash flow received in Q	1,097
Plus: Capitalised interest	403
Less: Amortisation of principal	(408)
<b>Income excl. accruals</b>	<b>1,092</b>
check	(0.00)
Less: Previous Q accruals	(331)
Plus: Current Q accruals	334
<b>Income incl. accruals</b>	<b>1,094</b>

WRITE-DOWNS / REVALUATIONS	
Sum of write-downs excl. accruals	0.00
Sum of revaluations excl. accruals	0.00
<b>Total excl. accruals</b>	<b>0.00</b>
check	0.00
Sum of accruals included in write-downs	0.00
Sum of accruals included in revaluations	0.00
<b>Total incl. accruals</b>	<b>0.00</b>
check	0.00

VALUATION RECAP	
<b>Valuation excl. accruals</b>	<b>50,562</b>
<b>Valuation incl. accruals</b>	<b>50,896</b>
check	0.00
Last Q valuation excl. accruals	42,663
Plus: Capitalised interest	403
Less: Amortisation of principal	(408)
Sum write-downs / reval. excl. accruals	0
Plus: Purchased in Q	7,905
<b>Current Q excl. accruals</b>	<b>50,562</b>

New investments are highlighted in bold.