

Confidential

# **EETI Quarterly Review**

**QUARTER ENDED 30/09/2019**

October 2019

**DRAFT**

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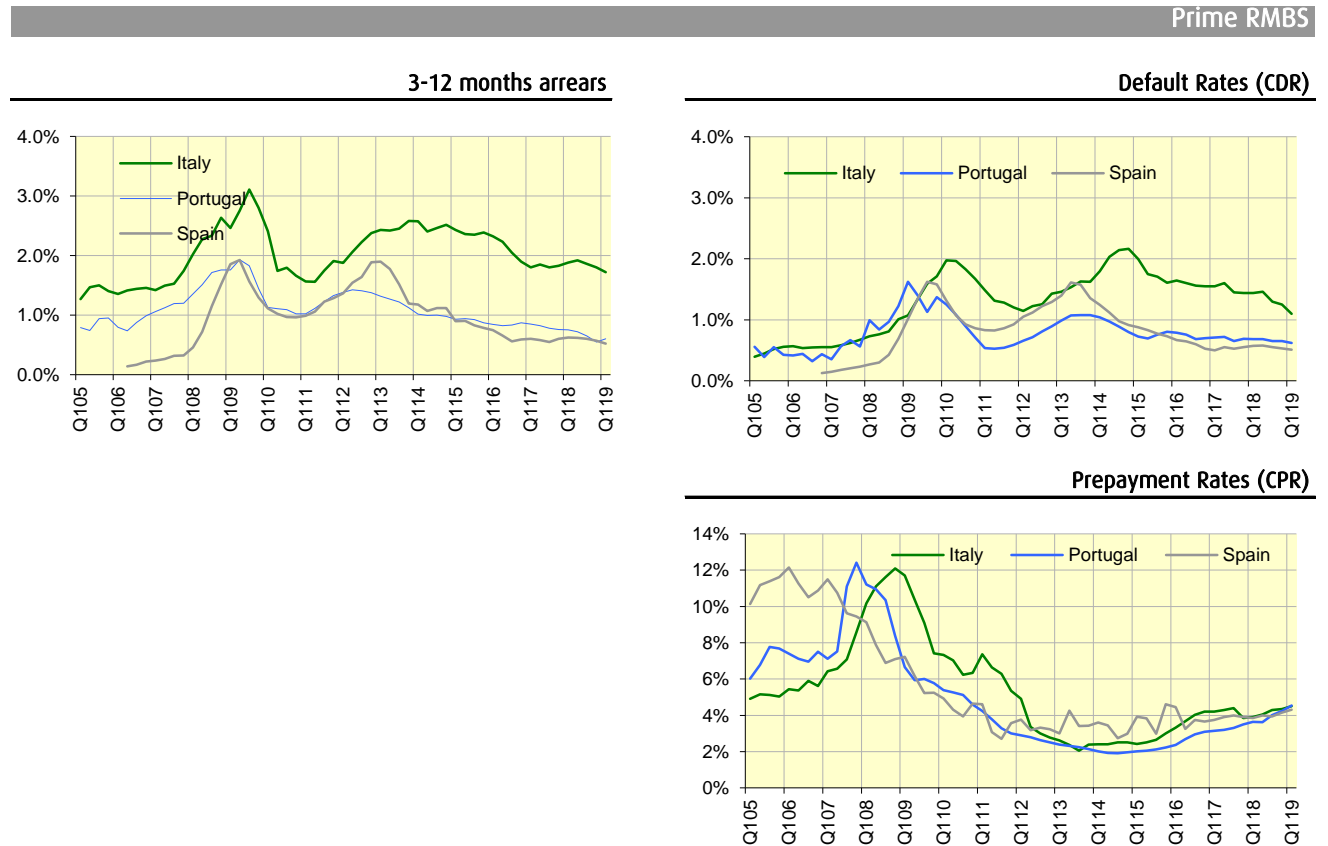
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# 1 EUROPEAN ABS / RMBS ACTIVITY AND PERFORMANCE

## Prime European RMBS performance - TBC

- ▶ The credit performance of peripheral RMBS was generally stable both in terms of arrears / defaults and prepayments.



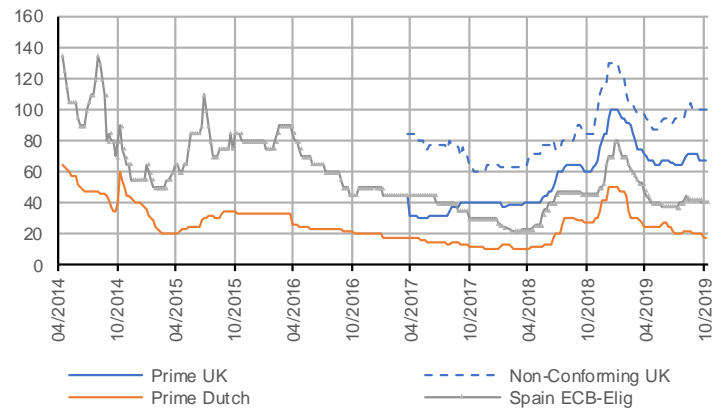
Note: Indices based on own data collection of a broad sample of seasoned RMBS transactions.  
 Source: Trustee reports and Cartesia.

## European ABS / RMBS market activity

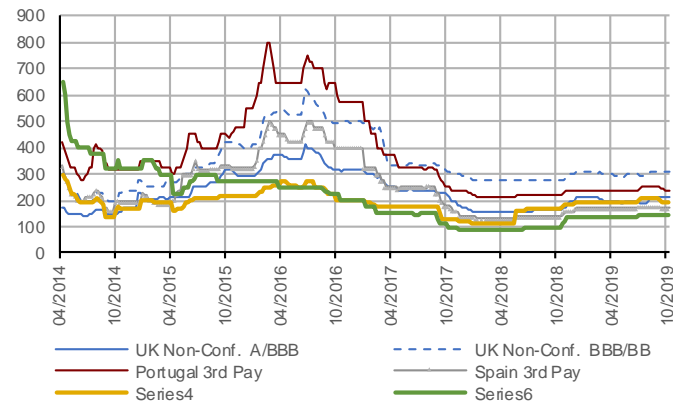
- ▶ The RMBS and ABS markets remained broadly flat in the third quarter due to increased concerns over tail risks (trade, rates vs. the risk of a credit asset bubble, geopolitical). Liquidity and appetite for prime collateral continues nonetheless to be solid.
  - Dutch prime AAA RMBS and Spanish first-pays remained flat at spreads over Euribor of approx. 0.20% and 0.40% respectively;
  - Similarly, peripheral mezzanine (3<sup>rd</sup> pay bonds) were almost unchanged, with spreads over Euribor ranging from 1.45% (Ireland) to 2.4% (Portugal); spreads in Spain and Italy stood at 1.7% and 1.9% respectively;
  - As previously noted, senior and mezzanine ABS / RMBS spreads are generally less reactive to news than the general credit market. As a further illustration, UK RMBS spreads have widened by 0.1-0.2% in the summer but have not reacted much yet to the recently improved outlook for an orderly Brexit.
- ▶ The primary market remains overall active principally in short ABS (i.e. auto & consumer loans) and CLOs (new issues and refinancings) with some RMBS issued as well.
  - Investors appear more receptive to prime collateral, with standard documentation and features leading to greater differentiation between comparable deals and ratings based on perceived risks;
  - Securitisations of re-performing loans and NPLs have nonetheless gathered some momentum over the past quarters and there is a market for such collateral at a yield pick-up.

## European ABS / RMBS market activity (Cont'd)

AAA and First-Pay RMBS spreads



Third and Last Pay RMBS spreads



Source: Citi for 3-5 year WAL bonds.

# 2 PORTFOLIO PERFORMANCE

# A. Significant Events



## Significant events

Several events with a significant impact on forecast cash flow and valuation have occurred in relation to the Lusitano 3 and 5 residual positions notably. The table below recaps the principal adjustments made to the book value and forecast cash flow. Additional background and transaction details are provided in Chapter 2.

Positions	Summary	Sep. 30, 2019		Forecast Cash Flow	
		Book Value	Markdown	Current	Change vs. Q2
Lusitano 3	<ul style="list-style-type: none"> <li>▶ Exercise of the time call by the originator leading to the full repayment in October 2019</li> <li>▶ EETI will receive the par value of its notes but not the future expected cash flow stream</li> </ul>	EUR 1.5m	EUR (4.6)m	EUR 1.5m	EUR (5.9)m
Lusitano 5	<ul style="list-style-type: none"> <li>▶ Increased likelihood of a time call in the future</li> <li>▶ Significantly higher discount rate applied to forecast cash flows</li> </ul>	EUR 5.5m	EUR (3.1)m	EUR 12.3m	EUR (0.1)m
Pastor 2	<ul style="list-style-type: none"> <li>▶ Clean-up call not exercised by the originator in Q3</li> <li>▶ Repayment now expected to be postponed to 2020.</li> </ul>	EUR 4.7m	EUR (0.3)m	EUR 5.0m	--
Pastor 4	<ul style="list-style-type: none"> <li>▶ No particular event</li> </ul>	EUR 1.4m	EUR (0.06)m	EUR 3.2m	EUR 0.1m
<b>Total</b>		<b>EUR 13.1m</b>	<b>EUR (8.0)m</b>	<b>EUR 22.2m</b>	<b>EUR (5.9)m</b>

Several events – notably relating to the Lusitano positions – are resulting in a significant markdown and reduction in forecast cash flow.

# B. Cash Flow

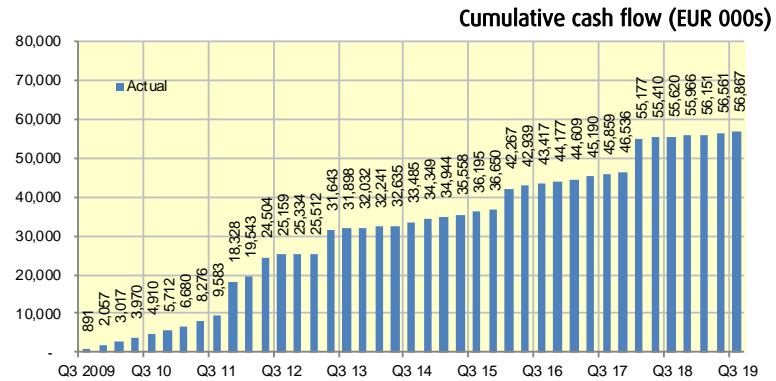
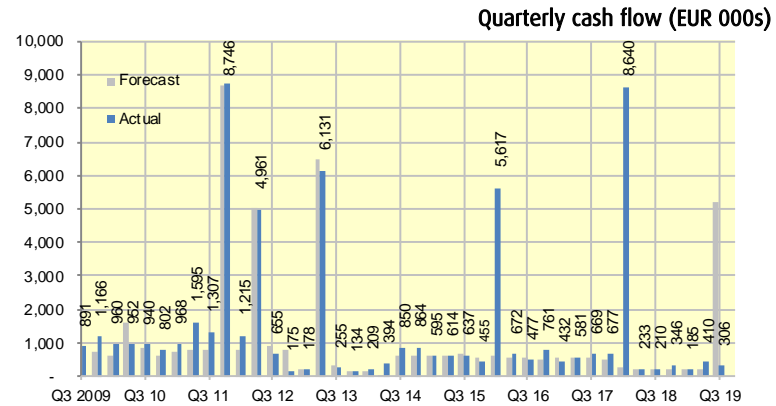
# Cash flow receipts for the quarter ended 30/09/2019

## Cash flow receipt for the quarter

(EUR)

Transactions	Actual	Forecast	Delta
Lusitano 3	305,443	225,064	80,379
Lusitano 5	-	-	-
Pastor 2	650	5,000,639	(4,999,989)
Pastor 3	-	-	-
Pastor 4	-	-	-
Pastor 5	-	-	-
<b>TOTAL</b>	<b>306,093</b>	<b>5,225,703</b>	<b>(4,919,610)</b>

## Actual vs. forecast since Q4 2009



Quarterly receipts amounted to EUR 306k from the Lusitano 3 residual.

The EUR 5m Pastor 2 position has not been repaid this quarter as the originator has not exercised the optional clean-up call.

## Forecast annual cash flow

Forecast cash flow				
(EUR 000s)				Cumulative
Period	Period CF	Cumulative CF	% Total	% Total
<b>Q4 2019</b>	1,501	1,501	6.8%	6.8%
<b>2020</b>	5,002	6,503	22.5%	29.3%
<b>2021</b>	2,651	9,153	11.9%	41.2%
<b>2022</b>	2,384	11,537	10.7%	52.0%
<b>Beyond</b>	10,660	22,197	48.0%	100.0%
<b>TOTAL</b>	<b>22,197</b>		<b>100.0%</b>	

Total forecast cash flow has been reduced to EUR 22.2m from EUR 28.1m in Q2 2019 due to the announced repayment of the Lusitano 3 residual.

Q4 2019 cash flow should amount to EUR 1.5m stemming from that repayment of Lusitano 3.

The cash flow expected in 2020 would mainly stem from the repayment of the Pastor 2 position.

## Historical cash flow

(EUR 000s)	Spain				Portugal		Italy	NL		Germany		France	UK	Quarterly	Annual	Cumulative
	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Sestante 4	Memphis	Shield	Gems	Semper	Minotaure	Ludgate			
<b>HISTORICAL</b>														CF	CF	CF
Q3 2009	86	-	-	-	59	77	-	92	170	25	156	213	13	891		
Q4 2009	430	-	-	-	34	75	-	87	163	19	148	210	-	1,166	2,057	2,057
Q1 2010	337	-	-	-	-	0	-	85	158	18	146	190	26	960		
Q2 2010	235	-	-	-	75	-	-	85	154	17	148	233	6	952		
Q3 2010	59	-	-	-	205	-	-	84	155	18	150	264	6	940		
Q4 2010	160	-	-	-	-	-	-	87	161	20	150	216	8	802	3,655	5,712
Q1 2011	316	-	-	-	85	-	-	89	164	22	151	132	10	968		
Q2 2011	385	-	-	-	529	-	25	88	160	23	158	214	13	1,595		
Q3 2011	222	-	-	-	350	-	25	91	169	27	163	249	11	1,307		
Q4 2011	169	-	-	-	273	-	19	95	7,810	28	162	177	11	8,746	12,616	18,328
Q1 2012	235	-	-	-	487	-	20	95		27	159	189	2	1,215		
Q2 2012	170	-	-	-	388	-	15	4,081		22	149	134	2	4,961		
Q3 2012	91	-	-	-	282	-	14			17	147	99	5	655		
Q4 2012	7	-	-	-	-	-	11			12	139	-	5	175	7,006	25,334
Q1 2013	7	-	-	-	5	-	11			11	137	-	7	178		
Q2 2013	-	-	-	-	-	-	13			12	6,093	-	14	6,131		
Q3 2013	14	-	-	-	203	-	12			11		-	14	255		
Q4 2013	-	-	-	-	110	-	11			12		-	1	134	6,698	32,032
Q1 2014	-	-	-	-	183	-	10			12		-	4	209		
Q2 2014	-	-	-	-	78	-	12			13		-	291	394		
Q3 2014	-	-	-	-	247	-	13			13		-	577	850		
Q4 2014	29	-	-	-	237	-	12			11		-	575	864	2,317	34,349
Q1 2015	4	-	-	-	114	-	11			10		-	456	595		
Q2 2015	4	-	-	-	110	-	11			9		-	479	614		
Q3 2015	3	-	-	-	71	-	13			9		-	541	637		
Q4 2015	-	-	-	-	102	-	13			8		-	331	455	2,301	36,650
Q1 2016	-	-	-	-	179	-	15			5,007		-	416	5,617		
Q2 2016	8	-	-	-	219	-	13					-	432	672		
Q3 2016	-	-	-	-	98	-	14					-	366	477		
Q4 2016	-	-	-	-	393	-	9					-	358	761	7,527	44,177
Q1 2017	-	-	-	-	158	-	-					-	273	432		
Q2 2017	-	-	-	-	200	-	13					-	368	581		
Q3 2017	-	-	-	-	189	-	-					-	480	669		
Q4 2017	3	-	-	-	395	-	-					-	280	677	2,359	46,536
Q1 2018	0	-	-	-	308	-	-					3,410	4,922	8,640		
Q2 2018	0	-	-	-	233	-	-							233		
Q3 2018	1	-	-	-	210	-	-							210		
Q4 2018					346									346	9,430	55,966
Q1 2019	1				184									185		
Q2 2019	1				409									410		
Q3 2019	1				305									306	901	56,867

# Forecast quarterly cash flow

(EUR 000s)		Spain				Portugal					
		Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5				
<b>Cumulative CF</b>		<b>5,003</b>	<b>-</b>	<b>3,358</b>	<b>-</b>	<b>1,500</b>	<b>12,336</b>	<b>22,197</b>			
<b>% Total</b>		<b>22.5%</b>	<b>0.0%</b>	<b>15.1%</b>	<b>0.0%</b>	<b>6.8%</b>	<b>55.6%</b>	<b>100.0%</b>			
							Quarterly CF	Annual CF	Cumulative CF		
Q4 2019	1	1	-	-	-	1,500	-	1,501	1,501	1,501	
Q1 2020	2	1	-	-	-	-	-	1	-	1,501	
Q2 2020	3	1	-	-	-	-	-	1	-	1,502	
Q3 2020	4	5,001	-	-	-	-	-	5,001	-	6,503	
Q4 2020	5	-	-	-	-	-	-	-	5,002	6,503	
Q1 2021	6	-	-	-	-	-	-	-	-	6,503	
Q2 2021	7	-	-	-	-	-	52	52	-	6,555	
Q3 2021	8	-	-	-	-	-	2,094	2,094	-	8,648	
Q4 2021	9	-	-	-	-	-	505	505	2,651	9,153	
Q1 2022	10	-	-	-	-	-	468	468	-	9,622	
Q2 2022	11	-	-	-	-	-	686	686	-	10,307	
Q3 2022	12	-	-	-	-	-	597	597	-	10,905	
Q4 2022	13	-	-	-	-	-	632	632	2,384	11,537	
Q1 2023	14	-	-	-	-	-	631	631	-	12,168	
Q2 2023	15	-	-	-	-	-	628	628	-	12,795	
Q3 2023	16	-	-	-	-	-	623	623	-	13,418	
Q4 2023	17	-	-	-	-	-	676	676	2,558	14,095	
Q1 2024	18	-	-	-	-	-	675	675	-	14,770	
Q2 2024	19	-	-	-	-	-	672	672	-	15,442	
Q3 2024	20	-	-	-	-	-	669	669	-	16,110	
Q4 2024	21	-	-	-	-	-	656	656	2,671	16,766	
Q1 2025	22	-	-	-	-	-	54	54	-	16,820	
Q2 2025	23	-	-	-	-	-	51	51	-	16,871	
Q3 2025	24	-	-	-	-	-	47	47	-	16,918	
Q4 2025	25	-	-	-	-	-	46	46	198	16,964	
Q1 2026	26	-	-	-	-	-	44	44	-	17,008	
Q2 2026	27	-	-	-	-	-	42	42	-	17,050	
Q3 2026	28	-	-	-	-	-	39	39	-	17,088	
Q4 2026	29	-	-	-	-	-	37	37	161	17,125	
Q1 2027	30	-	-	-	-	-	1,714	1,714	-	18,839	
Q2 2027	31	-	-	-	-	-	-	-	-	18,839	
Q3 2027	32	-	-	-	-	-	-	-	-	18,839	
Q4 2027	33	-	-	-	-	-	-	-	1,714	18,839	
Q1 2028	34	-	-	3,358	-	-	-	3,358	-	22,197	

## Net present values at different discount rates

(EUR 000s)

Net present values at different discount rates							
NPV at different discount rates							
Discount Rate	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Total
4.00%	4,810	-	2,406	-	1,486	10,535	<b>18,678</b>
<b>5.81%</b>	<b>4,728</b>	-	2,078	-	<b>1,479</b>	9,843	<b>17,375</b>
<b>10.81%</b>	4,515	-	<b>1,403</b>	-	1,463	8,240	<b>14,462</b>
15.00%	4,350	-	1,023	-	1,449	7,174	<b>12,602</b>
20.00%	4,169	-	713	-	1,434	6,146	<b>10,868</b>
<b>25.00%</b>	4,002	-	504	-	1,420	<b>5,321</b>	<b>9,512</b>
30.00%	3,848	-	361	-	1,406	4,649	<b>8,429</b>
<b>Valuation</b>	<b>4,728</b>	-	<b>1,403</b>	-	<b>1,479</b>	<b>5,321</b>	<b>12,932</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	Total
4.00%	1.0x	-	1.4x	-	1.0x	1.2x	<b>1.19x</b>
<b>5.81%</b>	<b>1.06x</b>	-	1.62x	-	<b>1.01x</b>	1.25x	<b>1.28x</b>
<b>10.81%</b>	1.11x	-	<b>2.39x</b>	-	1.03x	<b>1.50x</b>	<b>1.53x</b>
15.00%	1.15x	-	3.28x	-	1.04x	1.72x	<b>1.76x</b>
20.00%	1.20x	-	4.71x	-	1.05x	2.01x	<b>2.04x</b>
<b>25.00%</b>	1.25x	-	6.67x	-	1.06x	2.32x	<b>2.33x</b>
30.00%	1.30x	-	9.30x	-	1.07x	2.65x	<b>2.63x</b>
<b>Valuation</b>	<b>1.06x</b>	-	<b>2.39x</b>	-	<b>1.01x</b>	<b>1.50x</b>	<b>1.72x</b>

Note: Net present values presented in the above table 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

% Actual Cash Flow vs. Base Case	Pastor 2	Pastor 3	Pastor 4	Pastor 5	Lusitano 3	Lusitano 5	Total	Delta
170.0%	8,037	-	2,385	-	2,515	9,046	21,984	70.0%
165.0%	7,801	-	2,315	-	2,441	8,780	21,337	65.0%
160.0%	7,565	-	2,245	-	2,367	8,514	20,691	60.0%
155.0%	7,328	-	2,175	-	2,293	8,248	20,044	55.0%
150.0%	7,092	-	2,105	-	2,219	7,982	19,397	50.0%
145.0%	6,855	-	2,035	-	2,145	7,716	18,751	45.0%
140.0%	6,619	-	1,964	-	2,071	7,450	18,104	40.0%
135.0%	6,383	-	1,894	-	1,997	7,184	17,458	35.0%
130.0%	6,146	-	1,824	-	1,923	6,918	16,811	30.0%
125.0%	5,910	-	1,754	-	1,849	6,652	16,165	25.0%
120.0%	5,673	-	1,684	-	1,775	6,385	15,518	20.0%
115.0%	5,437	-	1,614	-	1,701	6,119	14,871	15.0%
110.0%	5,201	-	1,544	-	1,627	5,853	14,225	10.0%
105.0%	4,964	-	1,473	-	1,553	5,587	13,578	5.0%
100.0%	4,728	-	1,403	-	1,479	5,321	12,932	0.0%
95.0%	4,492	-	1,333	-	1,405	5,055	12,285	-5.0%
90.0%	4,255	-	1,263	-	1,331	4,789	11,638	-10.0%
85.0%	4,019	-	1,193	-	1,257	4,523	10,992	-15.0%
80.0%	3,782	-	1,123	-	1,183	4,257	10,345	-20.0%
75.0%	3,546	-	1,052	-	1,109	3,991	9,699	-25.0%
70.0%	3,310	-	982	-	1,035	3,725	9,052	-30.0%
65.0%	3,073	-	912	-	962	3,459	8,406	-35.0%
60.0%	2,837	-	842	-	888	3,193	7,759	-40.0%
55.0%	2,600	-	772	-	814	2,927	7,112	-45.0%
50.0%	2,364	-	702	-	740	2,661	6,466	-50.0%
45.0%	2,128	-	631	-	666	2,395	5,819	-55.0%
40.0%	1,891	-	561	-	592	2,128	5,173	-60.0%
35.0%	1,655	-	491	-	518	1,862	4,526	-65.0%
30.0%	1,418	-	421	-	444	1,596	3,879	-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.



# C. Lusitano Positions

## Lusitano 3 – Exercise of the optional time call by the originator

### Summary

- ▶ The originator of the Lusitano 3 RMBS, Novo Banco, announced its intention to exercise its optional time call on the October 2019 payment date (see overleaf for background on time calls).
- ▶ As a consequence, EETI will receive on that date, as full and final payment, an estimated amount of EUR 1.5m comprising the par value of its position (EUR 1.3m) and quarterly residual cash flow (estimated at EUR 0.2m);
  - The transaction would then be terminated in line with transaction documentation.

### Valuation impact

- ▶ The position was valued at EUR 6.2m in Q2 2019 and forecast to generate a total cash flow of EUR 7.4m until 2024 (vs. the final EUR 1.5m now expected).
- ▶ The resulting markdown to be taken at quarter-end amounts to EUR4.6m, corresponding to the loss in cash flow discounted at 5.8%. The position is now valued at EUR 1.5m.

The exercise of the Lusitano 3 time call results in a EUR 4.6m markdown.

The final EUR 1.5m will be paid out in October 2019.

## Background on time calls in Portuguese RMBS

- ▶ Time calls are standard features in pre-crisis Portuguese RMBS. They allow originators to call deals at the par value of the notes after a 7 to 9-year period, around 10 years before the usual redemption through a 10% clean-up call;
  - Portuguese RMBS were sold by the originators on the basis of the exercise of the time call, shortening the investment horizon for institutional investors concerned about a 15-20 year exposure to Portugal;
  - As an incentive for the originator to exercise the time calls, the coupon on the notes typically doubled after the first time call date, thereby reducing the residual profit on the transaction for the originator;
  - The time calls can only be exercised in whole, i.e. for all of the RMBS notes. The option to exercise the time call remains permanently open once the date is reached.
- ▶ Since the 2008 – 2013 financial and Eurozone crisis, none of these time calls had been exercised by any other Portuguese bank because the banks' own funding cost as well as weak capital position made it uneconomical;
  - Specifically, the refinancing rates of these banks – based on average spreads of outstanding RMBS and covered bonds – were higher or close to the spread offered by the mortgage loans underlying the RMBS;
- ▶ The general market assumptions in trading Portuguese RMBS was that time calls would not be exercised in the foreseeable future and the bonds were priced to the 10% clean-up call or to maturity.
  - Note that the first time call date on Lusitano 3 was October 2013. Over the October 2013 – October 2019 period, EETI collected a total amount of EUR 5.3m in residual cash flow from that position.

The long-standing practice of Portuguese banks to not exercise available time calls has been reversed this summer, supported by continued spread compression.

The option to exercise the Lusitano 3 time call had been open for 6 years, during which the position generated total cash flow of EUR 5.3m for EETI.

## Background on time calls in Portuguese RMBS (Cont'd)

- ▶ The practice concerning time calls changed in the summer of 2019 with several originators (BES / Novo Banco, BPI / BCP) recently exercising time calls on older RMBS, including Lusitano 2 and 3, in which time calls had been open for more than 5 years.
- ▶ Negative sovereign rates, including in Portugal since June, compressed credit spreads, the resumption of asset purchases by the ECB in Q4 2019 and improving capital ratios must have provided the economic conditions for the exercise of time calls to be viable;
  - However, with current funding cost of Novo Banco at spreads over Euribor of close to 1.0%, the economic rationale for these time calls remains challenging without factoring in a profit on the resale of some or all repurchased of the mortgages and/or a ECB subsidy through its renewed quantitative easing measures;
  - Furthermore, several Portuguese RMBS transactions with open time calls still remain outstanding and it is not clear whether the originators will call these deals.

Not all pre-crisis Portuguese RMBS with open time calls have been called however.

## Lusitano 5 – Possibility of a time call

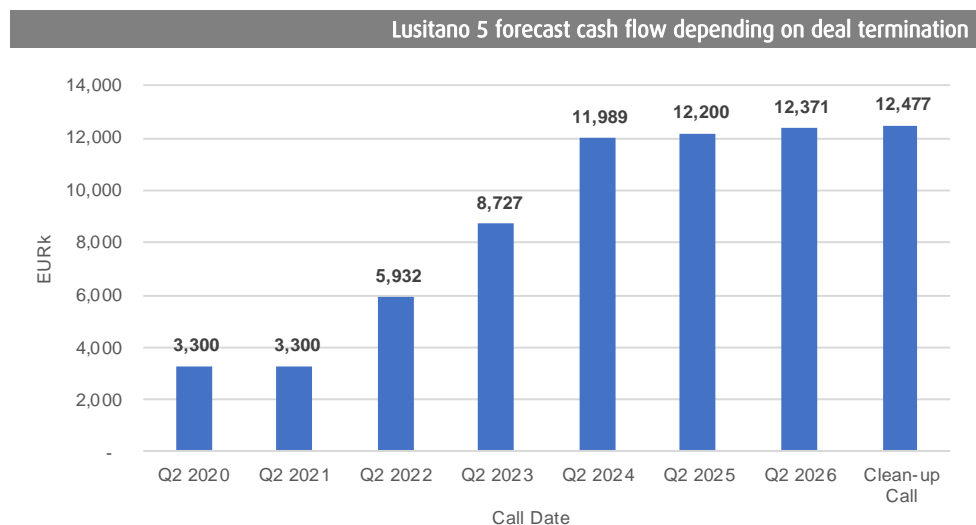
- ▶ The recent exercises of time calls does increase the likelihood of a similar exercise on other RMBS, notably Lusitano 5, which was issued two years after Lusitano 3 by the same originating bank (BES / Novo Banco).
  - The option to exercise the time call on Lusitano 5 has been open to the originator since October 2015.
- ▶ However, the current principal deficiency in the Lusitano 5 RMBS makes it less likely that a call will be exercised in the short term, as the originator would have to come up for part of the par value of the notes that would be called;
  - Lusitano 5 has generated an imbalance between the par value of the notes and the book value of mortgages due sustained defaults during the 2008-2012 period;
  - That imbalance has been significantly reduced but remains in the form of an overdrawn reserve amount. The reserve required level is of EUR 11.9m but its actual level is of EUR 2.6m (up from -EUR 1.1m in Q3 2018);
  - In the event of a time call, the originator would have to come up for that EUR 9.3m difference as the equivalent of the full reserve amount would be owed as the par value of the residual notes.
- ▶ In that context, the originator's interest would be to await the gradual replenishment of the reserve through residual profits, which is expected to occur by Q2 2021;
  - It is however uncertain that conditions will remain as favorable as they are today over that time span.
- ▶ In the event of a time call, EETI would receive the EUR 3.3m par value of the residual notes it holds vs. a current forecast cash flow assumed to total EUR 12.3m.

The exercise of the Lusitano 5 time call in the short term appears less likely given the ongoing principal deficiency in the transaction.

That imbalance is being reduced with the reserve expected to be replenished in 2021 but it is uncertain whether market circumstances will remain as favourable over that period.

## Lusitano 5 – Valuation adjustment

- ▶ In accordance with the Board of EETI, the Lusitano 5 residual position will continue to be valued on the basis of forecast cash flow until clean-up call in 2027, but with a 25% discount rate significantly higher than the current 11%.
  - As detailed in the graph below, the adverse impact of a time call on total cash flow would most significant if exercised over the 2020-2023 window, in which case EETI would only receive the par value of the residual notes (EUR 3.3m) and no residual cash flow.



- ▶ The markdown in Q3 2019 is of EUR 3.1m, reflecting the impact of the 25% discount rate on forecast cash flow of EUR 12.3m until 2027 (see overleaf). The position is now valued at EUR 5.5m quarter-end vs. EUR 8.5m in Q2 2019.

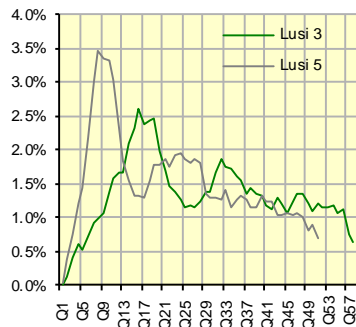
The position continues to be valued to clean-up call but with a high 25% discount rate.

The resulting markdown amounts to EUR 3.1m with the position valued at EUR 5.5m at quarter-end.

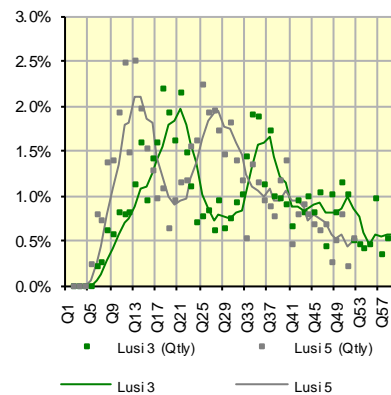
## Lusitano credit performance

- ▶ The credit performance of the Lusitanos has otherwise remained solid with Lusitano 5 recording slightly lower arrears than last quarter and a quarterly default rate of 0.5%, in line with model assumptions.
- ▶ Recoveries on mortgages totaled EUR 2.1m in Lusitano 5, contributing to the gradual replenishment of the reserve amount, which reached EUR 2.6m at quarter-end.
  - That amount was slightly below expectations but the replenishment of the transaction reserve still appears well on track.

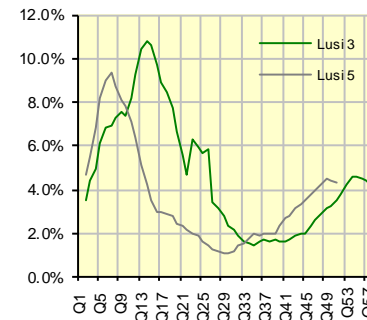
90d+ arrears (excl. defaults, as % CB)



Quarterly and average defaults (as % CB)



12M average CPR



Note: Graphs expressed in quarters since issue.

# D. Pastor Positions



## Pastor investments

### 10% clean-up call on Pastor 2 not yet exercised

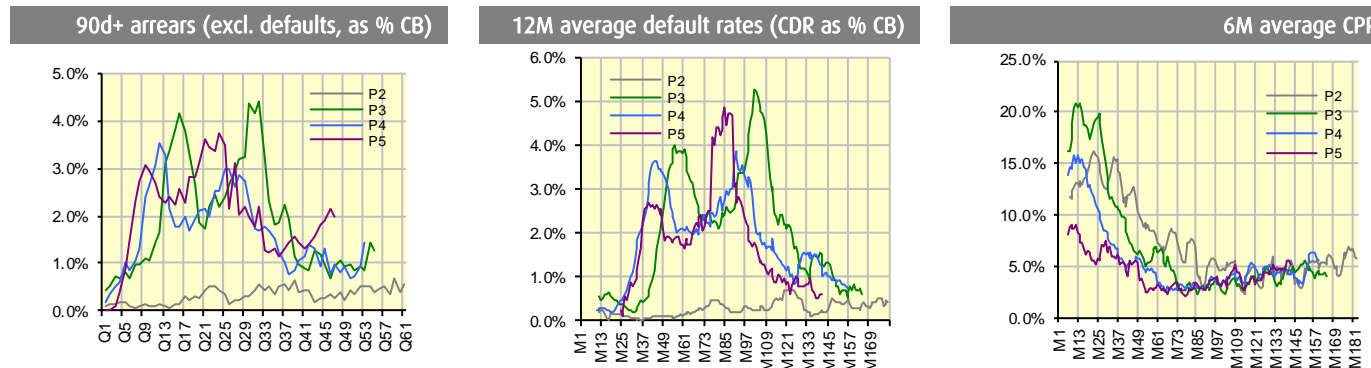
- ▶ The underlying mortgage loan balance of the Pastor 2 transaction has fallen to 9.1% of the original amount, below the 10% threshold for the exercise of the clean-up call by the originator (Santander, since the absorption of Banco Popular / Banco Pastor);
  - The transaction has however not been called by quarter-end;
  - As the credit quality of the transaction remains strong and the track record of exercising clean-up calls in Spain broadly consistent, albeit with some delay, there is no reason to assume that the clean-up call will not be exercised over the coming quarters;
  - Note that in any event there is no doubt as to the eventual repayment of the EUR 5m subordinated loan held by EETI; the question is one of timing.
- ▶ On that basis, the cash flow forecast of the Pastor 2 transaction now assume the exercise of the clean-up call in Q3 2020.
  - This change results in a EUR 273k markdown at quarter-end, valuing the position at EUR 4.7m vs. EUR 4.9m in Q2 2019;
  - Forecast cash flow remain however almost unchanged.

The clean-up call of the Pastor 2 has not been yet been exercised and is now assumed to occur in Q3 2020.

## Pastor investments (Cont'd)

### Credit performance

- ▶ Default rates were well below expectations for Pastor 2 and 4 but have remained relatively elevated in Pastor 3 and 5 this quarter.
  - Arrears level remain broadly in line with expectations although they point to a stabilization of default rates at 0.7-1.0% rather than a continued decline in Pastor 2, 3 and 4.
- ▶ Recoveries on defaulted loans showed a welcome uptick in Pastor 3 and 5 but remained anemic in Pastor 2 and 4.
  - Recoveries are critical to the absorption of the principal deficiency amount in Pastor 3, 4 and 5.



Note: Graphs expressed in months since issue except for 90d+ arrears, which are expressed in quarters since issue. Last quarter reading for Pastor 5 not depicted.

# E. Other Items

## Quarterly performance indicators

(EUR 000s)

Transactions	90d+ arr.		CDR		CPR		Recoveries		Reserve		
	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Act.	Fcast	Min.
Lusitano 3	0.6%	n/a	0.5%	0.5%	4.1%	4.4%	n/a	1,000	5,400	5,400	5,400
Lusitano 5	0.9%	n/a	0.5%	0.6%	4.3%	4.1%	2,064	1,600	2,591	3,026	11,900
Pastor 2	0.6%	n/a	0.1%	0.4%	4.4%	5.5%	72	210	5,000	5,000	5,000
Pastor 3	1.2%	n/a	1.0%	n/a	5.4%	n/a	293	n/a	(48,009)	n/a	9,000
Pastor 4	1.4%	n/a	0.3%	0.9%	5.2%	4.7%	2	580	(38,245)	(38,376)	5,520
Pastor 5	0.5%	n/a	2.1%	n/a	2.8%	n/a	911	n/a	(32,068)	n/a	10,500

Notes: A negative reserve indicates a principal deficiency to the senior notes (unpaid PDLs). Reserve amounts are highlighted in red when negative or below their minimum required level, even if they are better than forecast.

Higher CPRs than forecast are a negative for the residual positions in Lusitano 3 and 5, all other things equal, and are therefore depicted in red; higher CPRs are a positive for the other positions and are therefore depicted in green.

EETI also holds the Class D residual position of the Sestante 4 transaction and the junior notes of the levered repackaging vehicles holding the residual positions of the Lusitano 4, Sestante 2 and Sestante 3 transactions. These positions are written off and considered to be irremediably impaired.

The underlying credit performance of the transactions remains broadly unchanged.

## Quarterly valuation

- ▶ Quarter-end book value amounts to EUR 12,825k excluding accruals and EUR 13,141k with accruals.
- ▶ The total markdowns relating to Lusitano 3 and 5 and to Pastor 2, which are detailed above, total EUR 8,025k.

Quarter-end portfolio book value excluding accruals amounts to EUR 12,825k further to a markdown of EUR 8,025k.

### QUARTERLY BOOK VALUES AND REVALUATIONS

(EUR 000s)	31/12/2018		31/03/2019		30/06/2019		30/09/2019	
	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation	Book Value	(Markdown)/ Revaluation
<b>Lusitano 3</b>	6,401	109	6,414	100	6,175	77	1,378	(4,581)
<b>Lusitano 5</b>	7,770	53	7,870	(108)	8,214	139	5,317	(3,113)
<b>Pastor 2</b>	4,787	(2)	4,856	1	4,928	0	4,727	(273)
<b>Pastor 3</b>	0	0	0	0	0	0	0	0
<b>Pastor 4</b>	1,379	(18)	1,422	7	1,422	(38)	1,403	(57)
<b>Pastor 5</b>	0	0	0	0	0	0	0	0
<b>Semper</b>								
<b>Gems</b>								
<b>Minotaure</b>	<i>sold</i>		<i>sold</i>		<i>sold</i>		<i>sold</i>	
<b>Sestante 4 A1</b>								
<b>Ludgate</b>	<i>sold</i>		<i>sold</i>		<i>sold</i>		<i>sold</i>	
<b>TOTAL</b>	<b>20,337</b>	<b>142</b>	<b>20,562</b>	<b>1</b>	<b>20,740</b>	<b>179</b>	<b>12,825</b>	<b>(8,024)</b>

Note: EETI also holds the Class D residual position of the Sestante 4 transaction and the junior notes of the levered repackaging vehicles holding the residual positions of the Lusitano 4, Sestante 2 and Sestante 3 transactions. These positions are written off and considered to be irremediably impaired

## Other EETI Investments

### Other positions

- ▶ EETI also holds the Class D Notes of Sestante 4 as well as the junior notes of the Citrine refinancing vehicle referencing the residuals of the Sestante 2 and 3 and of the Lusitano 4 transactions. These positions are valued at 0 and considered permanently impaired.

### **3 PROVISIONAL ACCOUNTING ITEMS**

## Accounting items for the quarter ended 30/09/2019

EETI QUARTERLY VALUATION REPORT AS AT 30/09/2019

From:	01/07/2019
To:	30/09/2019

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	16/07/2019	305	90	216	90	0	118	(4,581)	1,378	(4,581)	1,496	11.4%
Lusitano 5	15/07/2019	0	0	0	216	216	180	(3,113)	5,317	(3,113)	5,497	41.8% 53.2%
Pastor 2	22/09/2019	0	0	0	73	72	12	(273)	4,727	(273)	4,739	36.1%
Pastor 3	22/09/2019	0	0	0	0	0	0	0	0	0	0	0.0%
Pastor 4	22/09/2019	0	0	0	38	38	5	(57)	1,403	(57)	1,408	10.7%
Pastor 5	22/09/2019	0	0	0	0	0	0	0	0	0	0	0.0% 46.8%
<b>Total</b>		<b>306</b>	<b>90</b>	<b>216</b>	<b>416</b>	<b>326</b>	<b>315</b>	<b>(8,025)</b>	<b>12,826</b>	<b>(8,025)</b>	<b>13,141</b>	<b>100.0% 100.0%</b>

ACCOUNTING INCOME	
Actual cash flow received in Q	306
Plus: Capitalised interest	326
Less: Amortisation of principal	(216)
<b>Income excl. accruals</b>	<b>416</b>
<i>check</i>	<i>0.0</i>
Less: Previous Q accruals	(366)
Plus: Current Q accruals	315
<b>Income incl. accruals</b>	<b>365</b>

WRITE-DOWNS / REVALUATIONS	
Sum of write-downs excl. accruals	(8,025)
Sum of revaluations excl. accruals	0
<b>Total excl. accruals</b>	<b>(8,025)</b>
<i>check</i>	<i>0.0</i>
Sum of accruals included in write-downs	0
Sum of accruals included in revaluations	0
<b>Total incl. accruals</b>	<b>(8,025)</b>
<i>check</i>	<i>0.0</i>

VALUATION RECAP	
<b>Valuation excl. accruals</b>	<b>12,826</b>
<b>Valuation incl. accruals</b>	<b>13,141</b>
<i>check</i>	<i>0.0</i>
Last Q valuation excl. accruals	20,740
Plus: Capitalised interest	326
Less: Amortisation of principal	(216)
Sum write-downs / reval. excl. accruals	(8,025)
Plus: Purchased / (Sold) in Q	0
<b>Current Q excl. accruals</b>	<b>12,826</b>
<i>check</i>	<i>(0.0)</i>

Note: EETI also holds the Class D residual position of the Sestante 4 transaction and the junior notes of the levered repackaging vehicles holding the residual positions of the Lusitano 4, Sestante 2 and Sestante 3 transactions. These positions are written off and considered to be irremediably impaired.



## APPENDIX: HISTORICAL VALUATION ASSUMPTIONS

# Revised valuation assumptions (24-month averages)

## SUMMARY OF DEFAULT RATE ASSUMPTIONS

Positions																											CDR	
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Lusitano 3	0.90%	1.04%	1.20%	1.22%	1.35%	1.39%	1.39%	1.38%	1.28%	1.16%	1.03%	1.01%	0.90%	0.90%	0.84%	0.85%	0.87%	0.89%	0.92%	0.85%	0.81%	0.73%	0.73%	0.73%	0.67%	0.59%	0.53%	nm
Lusitano 5	1.30%	1.41%	1.57%	1.67%	1.71%	1.79%	1.77%	1.72%	1.50%	1.43%	1.33%	1.24%	1.16%	1.03%	1.01%	1.03%	1.02%	0.95%	0.92%	0.90%	0.88%	0.86%	0.80%	0.75%	0.66%	0.66%	0.58%	0.54%
Pastor 2	0.20%	0.22%	0.29%	0.30%	0.35%	0.39%	0.47%	0.53%	0.53%	0.51%	0.45%	0.41%	0.38%	0.36%	0.22%	0.29%	0.29%	0.30%	0.33%	0.40%	0.35%	0.38%	0.40%	0.34%	0.38%	0.36%	0.36%	0.33%
Pastor 3	2.40%	2.73%	2.91%	3.37%	3.93%	4.11%	4.02%	3.75%	3.61%	3.64%	3.40%	2.69%	2.07%	1.80%	1.65%	1.67%	1.67%	1.34%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Pastor 4	2.20%	2.33%	2.46%	2.58%	3.06%	3.10%	2.97%	3.10%	2.98%	2.75%	2.54%	2.46%	2.32%	1.95%	1.43%	1.43%	1.31%	1.34%	1.34%	1.27%	1.18%	1.28%	1.30%	1.22%	1.19%	1.03%	1.03%	0.91%
Pastor 5	2.00%	2.14%	1.90%	2.12%	3.07%	3.31%	3.50%	3.63%	3.41%	3.50%	3.54%	3.27%	2.42%	2.05%	1.69%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Minotaure	0.20%	0.22%	0.18%	0.22%	0.22%	0.23%	0.26%	0.20%	0.23%	0.24%	0.24%	0.25%	0.24%	0.28%	0.28%	0.26%	0.30%	0.35%	0.35%	0.35%	0.33%	nm	nm	nm	nm	nm	nm	
Ludgate							1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.50%	0.50%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	nm	nm	nm	nm

Note: Changes in variables which are supportive to the valuation of a position are depicted in green; changes depicted in red are unsupportive to the valuation of a position.

## Revised valuation assumptions (24-month averages, cont'd)

### SUMMARY OF ASSUMED PREPAYMENT RATE ASSUMPTIONS

Positions																									CPR			
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Lusitano 3	2.50%	2.25%	1.90%	1.80%	1.70%	1.68%	1.58%	1.56%	1.59%	1.68%	1.70%	1.78%	1.79%	1.82%	2.02%	2.22%	2.42%	2.56%	2.79%	3.04%	3.33%	3.69%	3.95%	4.04%	4.14%	4.33%	4.37%	nm
Lusitano 5	2.20%	2.00%	1.80%	1.60%	1.50%	1.36%	1.27%	1.24%	1.23%	1.32%	1.44%	1.59%	1.67%	1.76%	1.88%	1.98%	2.12%	2.34%	2.40%	2.59%	2.84%	3.13%	3.29%	3.57%	3.77%	4.00%	4.06%	4.10%
Pastor 2	5.10%	4.90%	4.60%	4.60%	4.60%	4.40%	4.31%	3.97%	4.05%	3.94%	3.94%	4.31%	4.40%	4.40%	4.47%	4.43%	4.40%	4.50%	4.50%	4.60%	4.70%	4.83%	4.88%	5.08%	5.37%	5.31%	5.50%	5.46%
Pastor 3	3.10%	2.90%	3.10%	3.00%	3.00%	3.00%	3.21%	3.09%	3.15%	3.26%	3.24%	3.53%	3.69%	3.80%	3.75%	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
Pastor 4	3.20%	3.00%	3.00%	2.90%	3.00%	3.10%	3.25%	3.17%	3.39%	3.54%	3.67%	3.67%	3.79%	4.09%	4.06%	4.12%	4.43%	4.44%	4.30%	4.56%	4.63%	4.38%	4.52%	4.24%	4.12%	4.36%	4.72%	4.66%
Pastor 5	3.30%	2.90%	2.90%	2.80%	2.80%	2.80%	2.86%	2.83%	3.06%	2.97%	3.18%	3.11%	3.34%	3.50%	3.74%	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
Minotaure	4.58%	4.56%	4.27%	4.07%	4.16%	4.20%	4.30%	4.15%	4.22%	4.29%	4.64%	5.50%	5.24%	5.66%	6.16%	6.66%	7.20%	7.85%	8.24%	8.52%	8.54%	nm	nm	nm	nm	nm	nm	nm
Ludgate							5.00%	5.20%	6.00%	7.00%	7.00%	7.00%	7.00%	8.00%	10.0%	10.0%	10.0%	10.0%	10.8%	10.8%	10.8%	10.8%	nm	nm	nm	nm	nm	nm

Note: Changes in variables which are supportive to the valuation of a position are depicted in green; changes depicted in red are unsupportive to the valuation of a position. In the case of prepayments / CPR, an increase is favourable for the Pastor positions but unfavourable to the residual positions in Lusitano 3 and 5.

# Revised valuation assumptions (Cont'd)

## SUMMARY OF LOSS SEVERITY ASSUMPTIONS

Positions	Loss Severity																												
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	
Lusitano 3	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	nm
Lusitano 5	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Pastor 2	20%	20%	20%	20%	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%	39%	39%	39%	39%	39%	39%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Pastor 3	20%	20%	20%	20%	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%	39%	39%	39%	39%	39%	39%	40%	40%	40%	40%	42%	42%	42%	42%	42%
Pastor 4	20%	20%	20%	20%	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%	39%	39%	39%	39%	39%	39%	40%	40%	40%	40%	42%	42%	42%	42%	42%
Pastor 5	20%	20%	20%	20%	20%	20%	30%	30%	30%	30%	30%	30%	30%	30%	39%	39%	39%	39%	39%	39%	40%	40%	40%	40%	42%	42%	42%	42%	42%
Minotaure	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Ludgate							30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	nm

Note: Changes in variables which are supportive to the valuation of a position are depicted in green; changes depicted in red are unsupportive to the valuation of a position.

# Revised valuation assumptions (Cont'd)

## SUMMARY OF RECOVERY LAG ASSUMPTIONS

Positions	Recovery Lag																												
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	
Lusitano 3	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Lusitano 5	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Pastor 2	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Pastor 3	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Pastor 4	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Pastor 5	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Minotaure	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Ludgate								4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	nm	nm	nm	nm	nm	nm

Note: Changes in variables which are supportive to the valuation of a position are depicted in green; changes depicted in red are unsupportive to the valuation of a position.

# Revised valuation assumptions (24-month averages, cont'd)

## SUMMARY OF DISCOUNT RATE ASSUMPTIONS

Positions	Discount Rate																											
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Lusitano 3	10.00%	9.90%	9.78%	9.48%	9.00%	8.77%	8.49%	8.11%	7.87%	7.64%	7.42%	7.26%	7.26%	6.44%	6.35%	6.26%	6.17%	6.16%	6.11%	6.02%	5.92%	5.86%	5.89%	5.97%	6.02%	6.01%	5.97%	5.81%
Lusitano 5	15.00%	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.01%	10.92%	10.86%	10.89%	10.97%	11.02%	11.01%	10.97%	25.00%
Pastor 2	10.00%	9.90%	9.78%	9.48%	9.00%	8.77%	8.49%	8.11%	7.87%	7.64%	7.42%	7.26%	7.26%	6.44%	6.35%	6.26%	6.17%	6.16%	6.11%	6.02%	5.92%	5.86%	5.89%	5.97%	6.02%	6.01%	5.97%	5.81%
Pastor 3	15.00%	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.02%	10.92%	10.86%	10.89%	10.97%	11.02%	11.01%	10.97%	10.81%
Pastor 4	15.00%	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.02%	10.92%	10.86%	10.89%	10.97%	11.02%	11.01%	10.97%	2.81%
Pastor 5	15.00%	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.02%	10.92%	10.86%	10.89%	10.97%	11.02%	11.01%	10.97%	10.81%
Minotaure	15.00%	14.90%	14.78%	14.48%	14.00%	13.77%	13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.02%	10.92%	nm	nm	nm	nm	nm	nm	nm
Ludgate							13.49%	13.11%	12.87%	12.64%	12.42%	12.26%	12.26%	11.44%	11.35%	11.26%	11.17%	11.16%	11.11%	11.02%	10.92%	nm	nm	nm	nm	nm	nm	nm

Note: Changes in variables which are supportive to the valuation of a position are depicted in green; changes depicted in red are unsupportive to the valuation of a position.