



EUROCASTLE INVESTMENT LIMITED

**Q4 2013 Supplement**



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The opinions and statements presented herein are based on general information gathered at the time of writing and are subject to change without notice.



# Financial Highlights – FY 2013

- **NAV:** €328.4 million or €10.06 per share
- **Normalized FFO:** €15.8 million or €0.60 per share
- **Dividends:** Reinstated dividend in 3Q 2013 for first time since 2008; paid €8.2 million, or €0.25 per share in 2013

Key Metrics <sup>(1)</sup>		
	4Q 2013	FY 2013
NAV/Share <sup>(1)</sup>	€10.06	€10.06
Normalized FFO/Share	€0.03	€0.60
Dividend/Share	€0.125	€0.25

(1) Excludes the negative net asset value of the Mars Floating and the Bridge portfolio (net of a €2.6 million distribution received in January 2014).



## *Simplified Capital Structure & Restored Dividend*

- In 1H 2013, converted convertible debt into ordinary shares at €0.05 per share
- Reset the base on which the management fee is calculated – annual savings of approximately €18 million
- In May, raised gross proceeds of €109 million by issuing 15 million shares at €7.25 per share
- In 3Q 2013, reinstated dividend & paid a total of €0.25 per share in 3Q and 4Q

## *Shifted Investment Focus to Italy*

- Invested €17 million to purchase 5 non-performing loan (“NPL”) pools & 1 performing loan (“PL”) pool
- Strong performance to date; €9 million of distributions to date plus €17 million of expected future cash flow
- Near-term pipeline is robust; large pipeline of NPLs and select other credit-focused opportunities

## *Continued to Optimize Commercial Real Estate & Other Debt Value*

- Generated €271 million of proceeds through the sale of 33 commercial real estate assets
- Repaid €303 million of debt related to commercial real estate portfolio
- In January 2014, generated €23 million of net proceeds through the sale of CDO IV securities



# Business Snapshot

- Eurocastle's business is split between two distinct segments:
  - New Investments – investments in Italian loans and real estate related assets
  - Legacy – German commercial real estate & European real estate debt investment
- Current market cap of €228 million<sup>(1)</sup> less New Investments and Corporate Cash, implies a €58 million valuation for the legacy business
  - Approximately 63% discount to current NAV<sup>(2)</sup>

	(€mm)	Dec-31 Assets	Dec-31 NAV	Jan-31 NAV <sup>(3)</sup>	Jan-31 NAV Per Share
Legacy Business	Commercial Real Estate <sup>(2)</sup>	1,290	133	129	€3.96
	Other Debt Investments	356	51	29	€0.88
New Investments	Italian Loans	14	14	14	€0.43
	Net Corporate Cash	130	130	156	€4.79
<b>TOTAL</b>		<b>€1,790 mm</b>	<b>€328 mm</b>	<b>€328 mm</b>	<b>€10.06</b>

(1) Based on closing share price of €6.99 as at March 7, 2014.

(2) As of Dec 30 2013 and excludes the NAV of the Mars Floating & Bridge RE portfolios net of €2.6m received in January 2014 and included in Corporate Cash.

(3) Adjusted for NAV realised in the Legacy Business in January 2014.



## Business Line Overview

- 1 Italian Loans – Non-Performing & Performing
- 2 Commercial Real Estate & Other Debt



# 1 Italy – Large Market, Slow to Emerge from Significant Distress

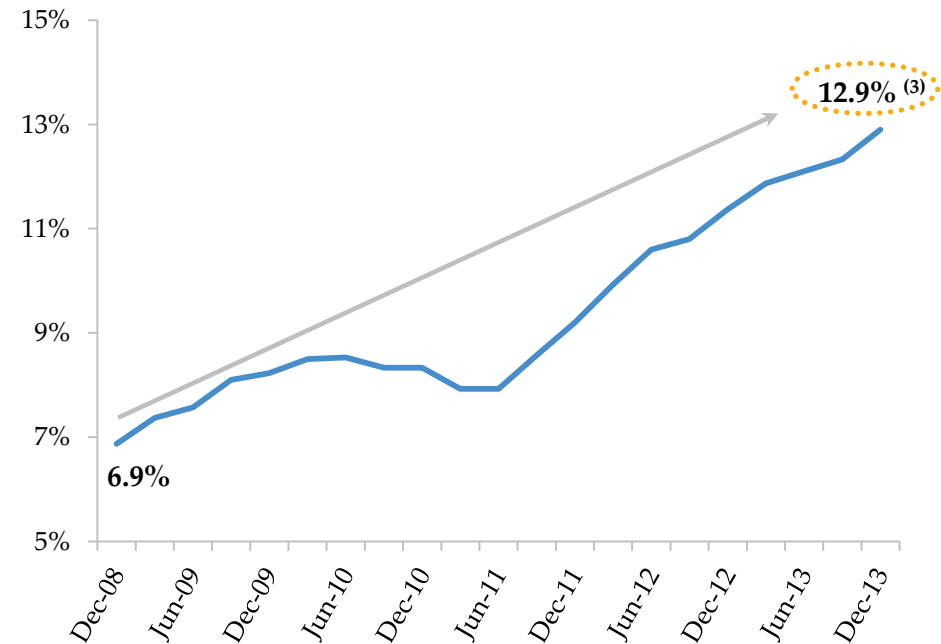
*We believe the dynamics of the Italian economy create a truly unique investment opportunity*

- 3<sup>rd</sup> largest European economy and 8<sup>th</sup> largest economy in the world
- However, Italy was not immune from the European sovereign debt crisis and double-dip recession
  - Italy's unemployment rate rose to a record high of 12.9% in January – we believe this metric is close to its peak
  - CDS spread reached new highs in 2012 and 2013, but have since trended down in recent months
  - Plagued by political instability – four different Prime Ministers since 2011

### Italy CDS Spread Trending Down<sup>(1)</sup>



### Italy's Unemployment Rate<sup>(2)</sup>



(1) Source: Bloomberg (ITALY CDS USD SR 5Y).

(2) Source: Bloomberg (EHUPIT Index).

(3) Italy's unemployment rate increased from 12.7% in December 2013, to 12.9% in January 2014.



# 1 Italy – Banks Under Pressure

*The effects of economic duress are resonating throughout Italian banks*

- Bank of Italy heightened scrutiny of Italian banks and curtailed lending
  - Bank of Italy and ECB conducting detailed asset quality review of Italy's largest banks – focused on loan provisioning
  - Small and medium sized businesses heavily rely on lending
- Banks under pressure to sell loans in order to generate liquidity and address capital/regulatory requirements
  - Non-performing loans continue to grow and distressed banks are becoming forced sellers of loans

## Top Italian Bank Loan Delinquencies<sup>(1)</sup>

	<i>Loans</i>	<i>NPLs</i>	<i>% DQ</i>
<b>Banco Popolare</b>	91	14	16%
<b>Monte dei Paschi di Siena</b>	152	19	13%
<b>UniCredit</b>	570	47	8%
<b>Intesa SP</b>	385	31	8%
<b>Banca Popolare Vicenza</b>	33	2	7%
<b>BNL</b>	71	5	7%
<b>Banca Popolare Milano</b>	36	2	6%
<b>UBI</b>	91	6	6%
<b>CRP</b>	36	2	5%
<b>BPER</b>	51	2	4%
<b>Total Top 10</b>	<b>€1.5 tn</b>	<b>€130 bn</b>	<b>9%</b>

(1) Source: Eurostat News Release Industrial Production. As of March 2013.





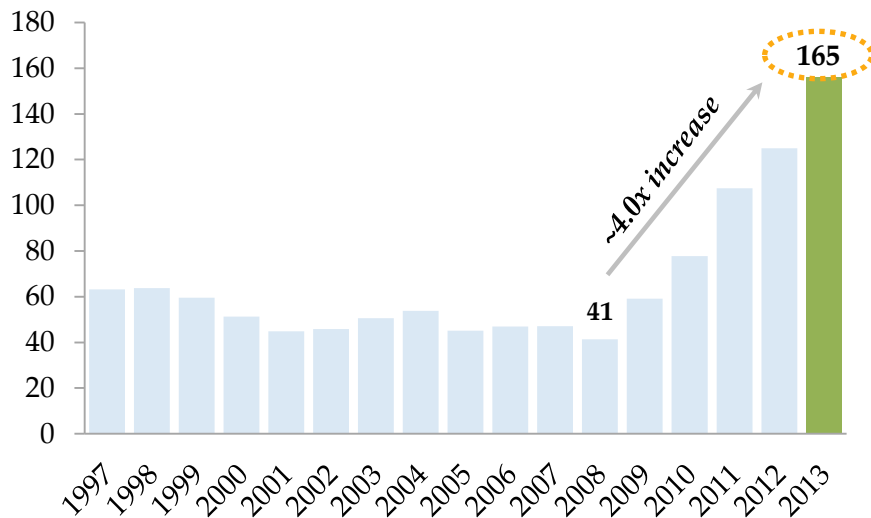
# 1 Italy – Tremendous NPL Opportunity

*We believe there are €165 billion of NPLs on Italian banks' balance sheets; ~4.0x increase since 2008<sup>(1)</sup>*

- After several years of inactivity, Italian banks are beginning to enter third big wave of selling NPLs
- NPLs trades slower than expected while Italian banks continue to be scrutinized by the ECB's inspections
  - Asset quality reviews expected to end in October 2014<sup>(2)</sup>
  - Italian banks may be incurring potential capital shortfall of €10 – 15 billion<sup>(3)</sup>
  - NPL trades are expected to pick up starting in summer 2014<sup>(4)</sup>

## Rising NPL Inventory<sup>(1)</sup>

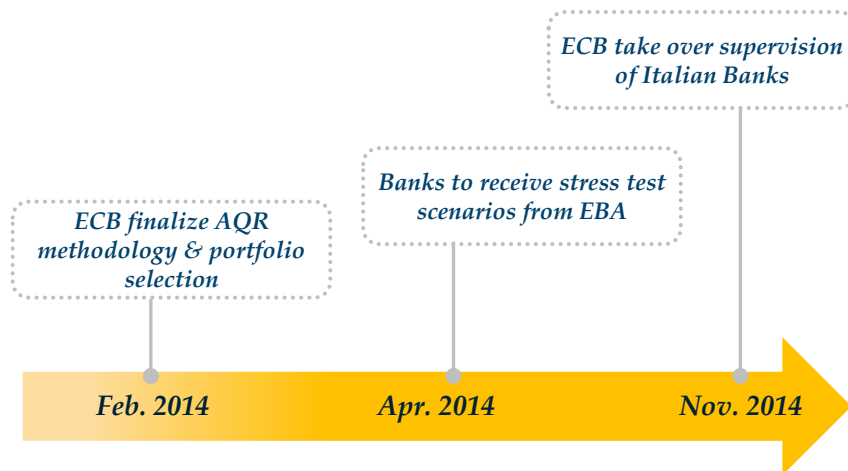
(€bn)



## ECB Inspection Timeline<sup>(4,5)</sup>

(€bn)

*ECB chose to review 15 Italian banks, which make up about 85% of Italian NPL inventory<sup>(5)</sup>*



(1) Source: Bank of Italy Statistical Bulletin, 4Q 2013; January 10, 2014.

(2) ECB Press Release February 3, 2014. ECB Banking Supervision "Comprehensive Assessment Description".

(3) Italfondario estimates, provided for discussion purposes only and not to be relied upon for any reason. As of December 2013.

(4) PWC report: "The Italian NPL Market – 1H2013 Market Update".

(5) Reuters Italy: "SCHEMA 1-1 dati sensibili delle 15 banche italiane sotto esame Bce" February 21, 2014.



# 1 Italfondionario – Partner with Proven Servicer

*Eurocastle's manager, Fortress, owns the largest and highest rated special servicer in Italy<sup>(1)</sup>*

- Despite high volume of NPLs, not many natural buyers, primarily due to barriers to entry
- 13 year history of resolving Italian NPLs – service over 370K of loans with a balance of €36 billion<sup>(2)</sup>
  - Nearly 4x the size of the next biggest servicer
- Highest rated special servicer in Italy by S&P and Fitch<sup>(3)</sup>
- Approximately 640 employees in 9 offices across Italy<sup>(4)</sup>

## Top Non-Captive Special Servicers<sup>(2)</sup>

Company	AUM (GBV)
<b>Italfondionario</b>	<b>€35.8 bn</b>
Prelios Credit Servicing	€9.5 bn <sup>(5)</sup>
FBS	€4.8 bn
Jupiter Finance	€3.1 bn
Guber	€2.8 bn
CAF	€2.3 bn
Archon Group Italia	€2.1 bn

## 9 Offices Throughout Italy<sup>(4)</sup>



(1) Eurocastle is managed by an affiliate of Fortress Investment Group and Fortress managed funds own Italfondionario.

(2) Data as of September 30, 2013.

(3) Source: Fitch and S&P. "Strong" by S&Ps is the highest rating available in Italy and EU. Ratings as of September 2013.

(4) Includes one Italfondionario subsidiary office.

(5) Per its amended agreement with a wholly-owned subsidiary of Crédit Agricole, Prelios will, in 2013, be released from Special Servicing mandates assigned to it by the following SPV vehicles: Calliope S.r.l., Sagrantino S.r.l., LSF S.r.l., Island Refinancing S.r.l.. (Source: Prelios S.p.A. Prospectus; July 2013). As a result of the termination of these mandates, Prelios is expected to lose an estimated €3bn of AUM. (Italfondionario estimate as of September 2013).



# 1 Portfolio Overview & Performance – 4Q 2013

- To date, ECT has invested approximately €17 million to acquire 6 loan pools with an initial GBV of €3.3 billion<sup>(1)</sup>
  - Collections ahead of initial expectations; €9 million of cash flow received to date (53% of investment), versus initial underwriting of €4 million
  - Expected weighted average life of 1.9 years, versus initial underwriting of 2.0 years
- Targeted IRR has increased to 38%, versus our initial projection of 19%

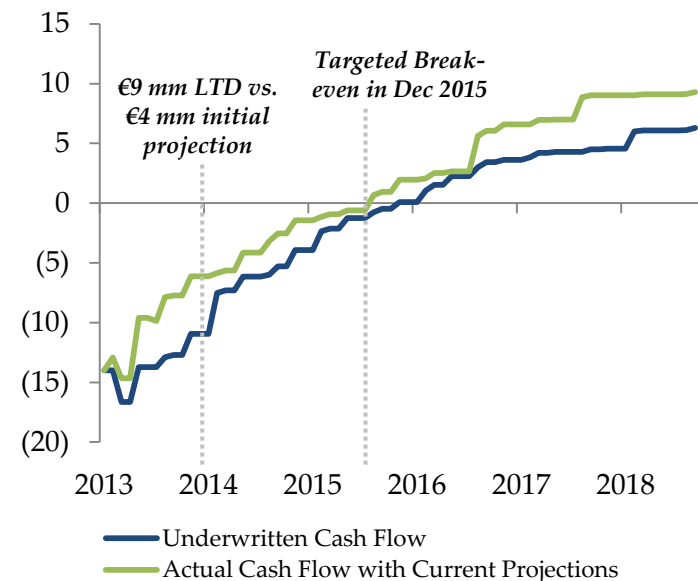
## Portfolio Overview

(€mm)

	<i>Initial GBV</i>	<i>Purchase Price</i>	<i>Cash Flow to Date</i>	<i>Expected Future Cash Flow</i>
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	<i>Initial GBV</i>	<i>Purchase Price</i>	<i>Cash Flow to Date</i>	<i>Expected Future Cash Flow</i>
DEAL 1 NPL Pool #1	2,646	3.2	3.2	2.8
NPL Pool #2	71	1.5	0.8	1.3
NPL Pool #3	524	4.6	2.0	5.1
NPL Pool #4	12	0.2	0.0	0.3
PL Pool #5	8	4.6	2.1	4.5
DEAL 2 NPL Pool #6	7	2.6	0.7	3.1
	<b>€3,268</b>	<b>€16.6</b>	<b>€8.8</b>	<b>€17.2</b>

## Collections (€mm)

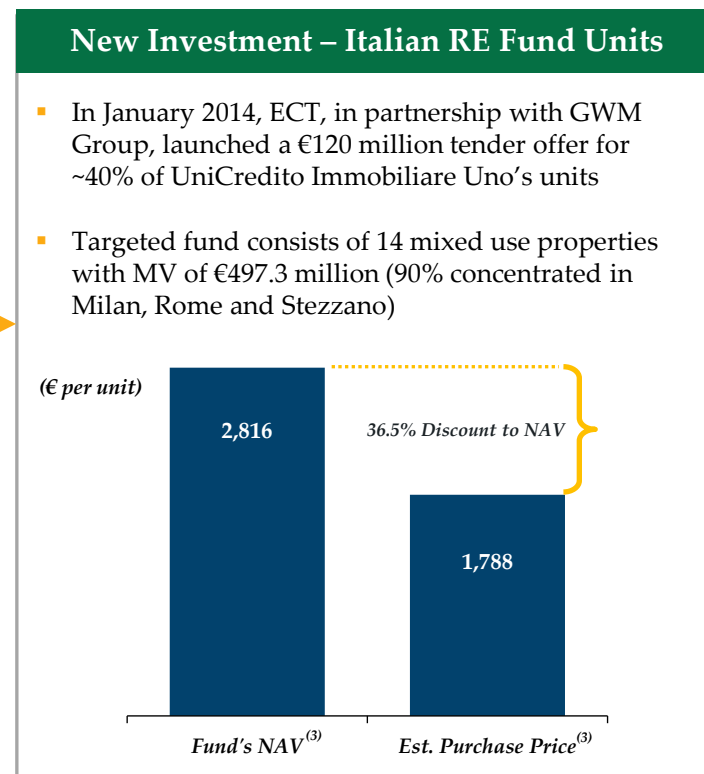


(1) Represents Eurocastle's share of the loan investment.



# 1 Robust Pipeline for Growth

Target Investments	Pipeline for Growth
<b>Italian NPLs</b>	<ul style="list-style-type: none"> <li>✓ Over €50 billion expected to trade in 2014 – 2016<sup>(1)</sup></li> <li>✓ In discussions to invest €30 – €40 million to acquire interest in 3 NPL pools<sup>(2)</sup></li> <li>✓ Near term pipeline of €400 – 700 million est. equity investment / €11 billion GBV</li> </ul>
<b>RE Fund Units</b>	<ul style="list-style-type: none"> <li>✓ Opportunity to purchase shares of listed funds nearing liquidation, trading at significant discount to NAV</li> <li>✓ Actively working on one new investment</li> </ul>
<b>RE Asset Conversions</b>	<ul style="list-style-type: none"> <li>✓ Attractive market for investors with available capital</li> <li>✓ Evaluating €30 million investment in 2 properties</li> <li>✓ Currently evaluating pipeline of ~€200 million</li> </ul>
<b>Other Credit Opportunities</b>	<ul style="list-style-type: none"> <li>✓ Currently evaluating 4 deals with estimated equity investment of over €200 million</li> </ul>



(1) Source: Italfondionario estimates, provided for discussion purposes only and not to be relied upon for any reason. As of December 31, 2013.

(2) As of March 2014. There can be no assurance that Eurocastle will actually invest in any part of these identified pools.

(3) Fund's NAV as of December 31, 2013 adjusted for the partial unit redemption / estimated purchase price adjusted for the partial unit redemption



2

# Commercial Real Estate & Other Debt Portfolios

- €1.6 billion of assets financed with €1.5 billion of debt
  - Commercial Real Estate – €1.3 billion of assets financed with €1.2 billion of debt
  - Other Debt – €356 million of assets financed with €305 million of debt
- Actively harvesting portfolio to optimize proceeds
  - In 2013, generated €271 million of proceeds through sale of 33 commercial real estate assets

	<i>Current NAV</i>	<i>Potential Recovery</i>	<i>Projected WAL</i>
<b>Commercial Real Estate<sup>(1)</sup></b>	€133 mm	€100 – 150 mm	1.8 – 2.5 yrs
<b>Other Debt</b>	€51 mm	€25 – 50 mm	1.0 – 3.0 yrs
<b>TOTAL</b>	<b>€184 mm</b>	<b>€125 – 200 mm</b>	<b>1.7 – 2.8 yrs</b>
<i>Per Share</i>	€5.64	€3.83 – 6.13	

(1) As of Dec 31 2013 and excludes the NAV of the Mars Floating & Bridge RE portfolios.



## APPENDIX



# FY 2013 Financial Statements

## Income Statement

<i>(€ in mm)</i>	FY 2013	FY 2012	Q4 2013	Q4 2012
Interest Income	14.2	23.9	2.6	5.1
Rental And Service Charge Income	156.3	167.7	36.4	40.8
Net Impact Of Sale Of Interest In Mars Fixed	-	6.8	-	-
Net Gain On Debt Paydowns And Repurchases	-	31.9	-	(0.9)
Gain In Fair Value Of Italian Investments	4.3	-	2.2	-
Decrease In Fair Value Of Investment Properties	(45.1)	(94.7)	(12.1)	(71.5)
Impairment Losses	(54.5)	(16.7)	(14.3)	0.3
Interest Expense	(72.8)	(89.6)	(16.9)	(19.5)
Service Charges & Property Operating Expenses	(60.8)	(62.0)	(15.2)	(16.6)
Other Operating Expenses	(29.1)	(39.7)	(9.1)	(10.3)
<b>Net Loss Before Taxation</b>	<b>(87.6)</b>	<b>(72.4)</b>	<b>(26.5)</b>	<b>(72.5)</b>
Taxation	0.7	(9.2)	0.6	(8.6)
<b>Net loss After Taxation</b>	<b>(86.9)</b>	<b>(81.7)</b>	<b>(25.9)</b>	<b>(81.1)</b>

(1) The Gain In Fair Value Of Italian Investments in 2013 have been stated net of the Minority Interest of €1.0 million for FY 2013 and €0.5 million for Q4 2013



# FY 2013 Financial Statements (continued)

## Key Balance Sheet

(€ in mm)	FY 2013	FY 2012 Pro Forma	May 2013 Capital Raise	FY 2012 Pro Forma Conversion <sup>(1)</sup>
Cash and cash equivalents	193.2	245.2	103.8	141.3
RE Investment property	1,722.5	2,020.3	-	2,020.3
Debt investments	343.5	456.1	-	456.1
Italian Investments <sup>(2)</sup>	11.6	-	-	-
Other assets	40.3	34.0	-	34.0
<b>Total assets</b>	<b>2,311.1</b>	<b>2,755.5</b>	<b>103.8</b>	<b>2,651.7</b>
Interest bearing debt financing	(1,861.8)	(2,251.0)	-	(2,251.0)
Other liabilities	(125.2)	(108.6)	-	(108.6)
<b>Total liabilities</b>	<b>(1,987.0)</b>	<b>(2,359.6)</b>	<b>-</b>	<b>(2,359.6)</b>
<b>Net assets</b>	<b>324.1</b>	<b>395.9</b>	<b>103.8</b>	<b>292.1</b>
Net assets / (liabilities) of Mars Floating & Bridge Portfolios <sup>(3)</sup>	4.2	15.2	-	15.2
<b>Adjusted net assets</b>	<b>328.4</b>	<b>411.2</b>	<b>103.8</b>	<b>307.3</b>
Ordinary Shares	32.6	32.6	15.0	17.6
<b>Net assets €/share</b>	<b>10.06</b>	<b>12.60</b>	<b>6.92</b>	<b>17.43</b>

(1) Pro Forma FY 2012 Net Assets per share adjusted for the agreed conversion price of €0.05 per share (FY 2012 €0.30 per share)

(2) The Italian Investments have been stated net of the Minority Interest of €2.8 million

(3) Adjusts to exclude the negative net asset value of the Mars Floating portfolio and the net assets of the Bridge portfolio after adjusting for €2.6m of cash distributed in January 2014. The Bridge portfolio will be deconsolidated in 2014 following the failure to reach an agreement with its lenders on an extension of the facility.





# FY 2013 Financial Statements (continued)

## Segmental Normalized FFO and FFO

<i>(amounts in €'000)</i>	European RE Debt		German RE		Italian Investment	Corporate	Total Eurocastle	Total Cash-Flowing
	Cash-Flowing	Cash-Trapped	Cash-Flowing	Cash-Trapped				
Revenue	3.2	11.0	75.8	69.5	2.1	-	<b>161.6</b>	<b>81.1</b>
Service Charge And Operating Expense	-	-	(15.9)	(37.8)	-	-	<b>(53.7)</b>	<b>(15.9)</b>
Interest Expense	-	(5.3)	(38.8)	(25.0)	-	-	<b>(69.1)</b>	<b>(38.8)</b>
Amortisation Costs	-	(1.1)	(0.8)	(5.5)	-	(0.1)	<b>(7.5)</b>	<b>(0.9)</b>
Corporate And Other Expenses	(0.1)	(0.5)	(0.4)	-	-	(16.1)	<b>(17.1)</b>	<b>(16.6)</b>
Current Tax	-	-	1.9	(0.3)	-	-	<b>1.6</b>	<b>1.9</b>
<b>Normalised FFO</b>	<b>3.1</b>	<b>4.1</b>	<b>21.8</b>	<b>0.9</b>	<b>2.1</b>	<b>(16.2)</b>	<b>15.8</b>	<b>10.8</b>
<i>Normalised FFO per Share<sup>(1)</sup></i>	<b>0.12</b>	<b>0.15</b>	<b>0.82</b>	<b>0.03</b>	<b>0.08</b>	<b>(0.61)</b>	<b>0.60</b>	<b>0.41</b>
Impairment Losses	(1.3)	(53.2)	-	-	-	-	<b>(54.5)</b>	<b>(1.3)</b>
Realised Loss & Transaction Costs On Disposal Of Inv. Properties	-	-	-	(3.1)	-	-	<b>(3.1)</b>	-
Net Impact of FX movements	0.2	1.4	-	-	-	(0.1)	<b>1.5</b>	<b>0.1</b>
<b>FFO</b>	<b>2.0</b>	<b>(47.7)</b>	<b>21.8</b>	<b>(2.2)</b>	<b>2.1</b>	<b>(16.3)</b>	<b>(40.3)</b>	<b>9.6</b>

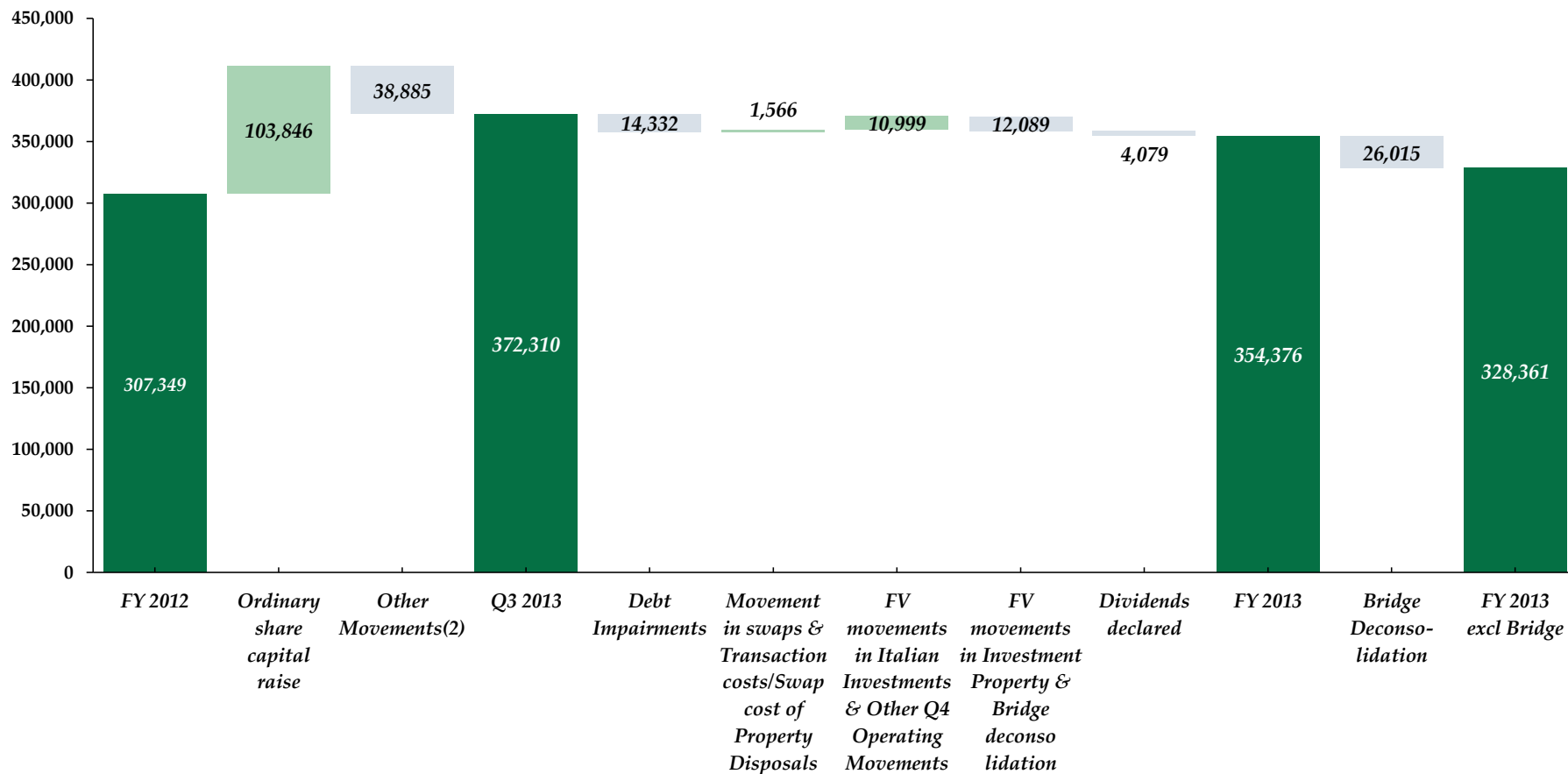
(1) On a fully diluted weighted average basis.



# FY 2013 Financial Statements (continued)

## NAV Walkdown<sup>(1)</sup>

(€ in mm)



(1) Excludes the negative net asset value of the Mars Floating portfolio as this financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

(2) Details behind "Other Movements" are reported in previous 2013 supplements.



# Legacy Business - Commercial RE<sup>(1)</sup>

- 376 properties across Germany with appraised value of €1.21 billion, equivalent to an NOI yield of 5.6% held in 10 separate non-recourse financings<sup>(2)</sup>
- Resolved majority of near term debt maturities:
  - Received refinancing terms on Drive Senior from Junior lenders—in discussions to extend both loans in parallel, securing current fee structure whilst repaying debt through sales
  - Terms received on an extension of Wave and simultaneously exploring a portfolio sale
  - Unable to renegotiate terms of Bridge portfolio—resulting in transfer of equity to lender

## NAV & Cash Flow

Portfolio	Cash Flowing			Cash Trapped <sup>(3)</sup>		Total (Excl. Bridge)	Bridge	Total (Incl. Bridge)
	Retail	Zama	Wave	Drive	Mars			
<b>Assets</b>	450.4	45.4	157.9	543.1	92.9	1,289.6	408.5	1,698.1
<b>Liabilities</b>	(407.3)	(40.4)	(132.7)	(503.1)	(73.2)	(1,156.8)	(379.8)	(1,536.6)
<b>NAV</b>	<b>43.1</b>	<b>4.9</b>	<b>25.2</b>	<b>40.0</b>	<b>19.7</b>	<b>132.9</b>	<b>28.6</b>	<b>161.5</b>
<b>Annualized UCF<sup>(4)</sup></b>	31.1	3.3	8.1	8.8	2.8	54.1	24.6	78.7
<b>Annualized LCF<sup>(4)</sup></b>	12.2	1.4	3.0	-	-	16.5	-	16.5
<b>FY Distribution<sup>(5)</sup></b>	<b>10.2</b>	<b>1.4</b>	<b>8.1</b>	<b>9.5</b>	<b>(1.0)</b>	<b>28.1</b>	<b>7.4</b>	<b>35.5</b>
<b>Occupancy</b>	93.7%	95.2%	78.4%	57.9%	92.1%	78.7%	98.4%	82.2%
<b>WALT</b>	5.5	3.1	4.5	3.8	2.9	4.5	5.2	4.7
<b>LTV<sup>(6)</sup></b>	90.9%	89.5%	73.3%	90.7%	80.2%	88.3%	93.1%	89.2%
<b>Debt Maturity</b>	2014-2017	May 2014	Apr 2014	Apr 2014	Dec 2014	-	Jan 2014	-

(1) Excludes the Mars Floating portfolio.

(2) Excludes Bridge portfolio.

(3) Distributions relate to sales fees and asset management fees for the Drive & Mars portfolios.

(4) UCF represents annualized NOI less capital expenditure as per note 19 of the 2013 Annual Report. LCF deducts the estimated interest cost given the information disclosed in note 23.1. The LCF of the cash trapped portfolios are reported as zero given excess cash flows are swept with cash reserves in place to fund any capital expenditures.

(5) FY distributions represent amounts received in 2013. Wave distribution includes €5.6m of sales CAD, €3.5m of which was distributed in January 2014; Mars distribution includes asset management and sales fees from the Mars Floating facility and a €2.0m capital injection from Eurocastle to secure the recent loan maturity extension.

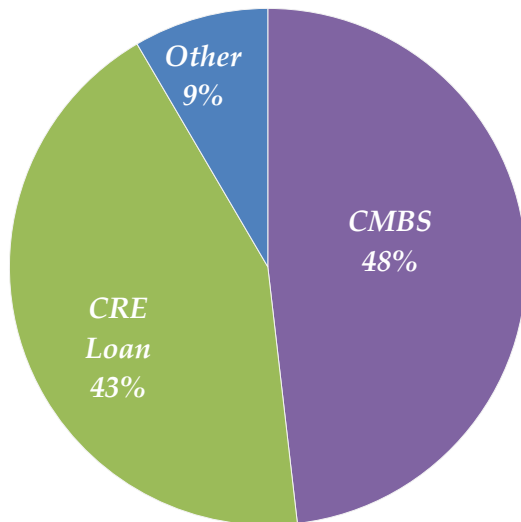
(6) LTV represents the market value of the assets over the outstanding debt face amount.



## 2 Legacy Business - RE Debt

- Overview: €356 million of assets held across 3 portfolios:
  - CDO IV – Low LTV term financed portfolio maturing in December 2014
  - CDO V – Long term non-recourse match funded financing with all cash flows diverted to pay down debt
  - Balance Sheet – Unlevered junior mezzanine positions booked at 6% of total Face Value
- Realised €22.5 million of CDO IV NAV in January 2014 from sale of all securities; two junior loans remain unlevered with NAV of €7.7 million
- CDO V reinvestment period now ended – Repaid €56.3 million of senior debt in 2013, €38.2 million of proceeds received in 2014 to repay debt<sup>(1)</sup>

### Asset Types



### Net Asset Breakdown

(€ in mm)

Portfolio	CDO IV	CDO V	Balance Sheet	Total
<b>Total Assets</b>	34.5	319.8	1.6	355.9
<b>Total Liabilities</b>	(4.3)	(300.3)	(0.0)	(304.7)
<b>Net Assets</b>	<b>30.2</b>	<b>19.4</b>	<b>1.6</b>	<b>51.2</b>
<i>FY Distribution<sup>(2)</sup></i>	<b>0.6</b>	<b>0.3</b>	<b>0.6</b>	<b>1.5</b>
<i>Jan. '14 Distribution</i>	22.5	-	0.1	22.6
<b>WA Credit Rating<sup>(3)</sup></b>	BB-	CCC	D	CCC
<b>% Investment Grade</b>	56%	18%	0%	20%
<b># of Securities<sup>(4)</sup></b>	7	54	4	58
<b>Debt Maturity</b>	Dec 2014	Jun 2047	-	-

(1) As at February 28, 2014.

(2) CDO V is currently cash trapped with its distributions reflecting management fees.

(3) Represents the average of the minimum rating of each security reported by Fitch, Moodys and S&P.

(4) Total securities eliminates positions that are held in two or more portfolios.