



EUROCASTLE INVESTMENT LIMITED

Q2 2014 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.



Eurocastle Overview

Eurocastle (ECT:NA) is a publicly traded European property company focused on making new investments in Italy

- **We primarily target Italian distressed debt and real estate**

- **Our key objectives are:**
 - Identify attractive investment opportunities in Europe with potential to generate mid to high teens returns
 - Harvest value in our legacy business to optimize proceeds

- **So far we have invested €59.2 million or 57% of equity raised in May 2013**
 - New Investments NAV of €44 million has increased by €30 million since the end of 2013

- **Our Italian investments continue to outperform expectations**
 - Already received 72% of capital invested in 2013
 - Estimated lifetime IRR of 23%



Recent Investment Activity

Italian NPLs

- In June, invested €7.4 million to acquire an interest in a portfolio of Italian NPLs with GBV of €883 million
- In July, invested €0.3 million to acquire an interest in an additional pool of NPLs with a GBV of €15 million

RE Conversions

- In July, invested initial €12.6 million of an anticipated €15.4 million for a 49.25% share in two office buildings for conversion into luxury residential units in Rome
- Investment is expected to generate 15% IRR, 1.4x cash multiple

Near Term Investments

- In final stages to acquire an interest in a new pool of NPLs with GBV of €66 million
- In active negotiations for a large NPL portfolio with GBV of over €4 billion and a captive servicer



Second Quarter 2014 Overview

- **NAV:** €293.6 million or €9.00 per share
 - €19.6 million or €0.60 per share decline in NAV mainly due to revaluations and sales on German commercial real estate assets
- **Normalized FFO:** €1.4 million or €0.04 per share
 - Investing net corporate cash of €116 million at a 16% return increases quarterly normalized FFO by €0.14 per share
- **Dividends:** Paid Q2 2014 dividend on July 31, 2014 of €0.125 per share, total of €4.1 million
 - Currently trading at over 7% dividend yield⁽¹⁾

Key Metrics		
	Q2 2014	Q1 2014
NAV/Share ⁽²⁾	€9.00	€9.60
Normalized FFO/Share	€0.04	€0.05
Dividend/Share	€0.125	€0.125

(1) Based on €6.84 per share as of August 6, 2014.

(2) Excludes the negative net asset value of the Mars Floating portfolio.



Business Snapshot

Italian Investments NAV has increased since end of 2013

- 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 €223 million⁽¹⁾ less New Investments and Corporate Cash, implies a €68 million valuation for the legacy business
 - Approximately 53% discount to current NAV⁽²⁾

	(€ mm)	Jun-30 Assets	Jun-30 NAV	Dec-31 NAV
New Investments	Italian Investments ⁽³⁾	44	44	14
	Net Corporate Cash	116	116	130
Legacy Business	Commercial Real Estate ⁽²⁾	1,188	113	133
	Other Debt Investments ⁽³⁾	267	20	51
TOTAL		€1,615 mm	€294 mm	€328 mm

(1) Based on closing share price of €6.84 as at August 6, 2014.

(2) As of June 30, 2014 and excludes the negative NAV of the Mars Floating portfolio.

(3) Includes a reallocation of €4 million relating to a repurchase of existing debt at a 49% discount, in February 2014, from Other Debt to Italian Investments.



Business Line Overview

- 1 **Current Investments – Italian Loans and Real Estate Related Assets**
- 2 **Commercial Real Estate & Other Debt**



1 Italian Investment Track Record

Invested €59.2 million to date at an expected IRR of 23%

- ~57% of equity raised in May 2013 has been deployed in Italian investments
- The investments are expected to generate a profit of €31.8 million with an average return of ~23% over an average life of 2.7 years

(€ in mm)	Closing Date	Equity Invested	CF to Date	Exp. Future CF	Lifetime Estimates ⁽¹⁾			
					Est. Total CF	Total Life Profit	CF Multiple	Total Life IRR
Existing Italian Loans	2013	16.6	12.0	14.1	26.1	9.4	1.6x	44%
RE Fund Units	Mar-14	22.3	-	32.4	32.4	10.0	1.5x	14%
NPL Pool 7	Jun-14	7.4	1.1	12.5	13.6	6.3	1.9x	21%
Cumulative First Half 2014		46.3	13.1	59.0	72.1	25.8	1.6x	26%
NPL Pool 8	Jul-14	0.3	-	0.5	0.5	0.3	1.9x	18%
RE Conversion ⁽²⁾	Jul-14	12.6	-	21.2	21.2	5.8	1.4x	15%
Total		€59.2	€13.1	€80.7	€93.8	€31.8	1.5x	23%

- (1) Estimated Returns are not a prediction of actual investment results and are based on a variety of estimates and assumptions by the Company, including, among others, exit cap rate, investment life, cash yield of the portfolio in question, recoveries and recovery timelines dependent on relevant real estate market environment and legal process, collection ratios from consensual resolutions with borrowers and the prevailing legal environment. These estimates and assumptions are inherently uncertain and are subject to numerous business, industry, market, regulatory, geo-political, competitive and financial risks that are outside of the Company's control. There can be no assurance that the estimated returns noted above will ultimately prove accurate, and actual results may differ materially, including the possibility that an investor may lose some or all of any invested capital.
- (2) RE Conversion Equity Invested reflects amount invested up to July 31, 2014 (€12.6 million). The anticipated total investment amount for the RE conversion is €15.4 million. Return metrics above are on the total anticipated investment.

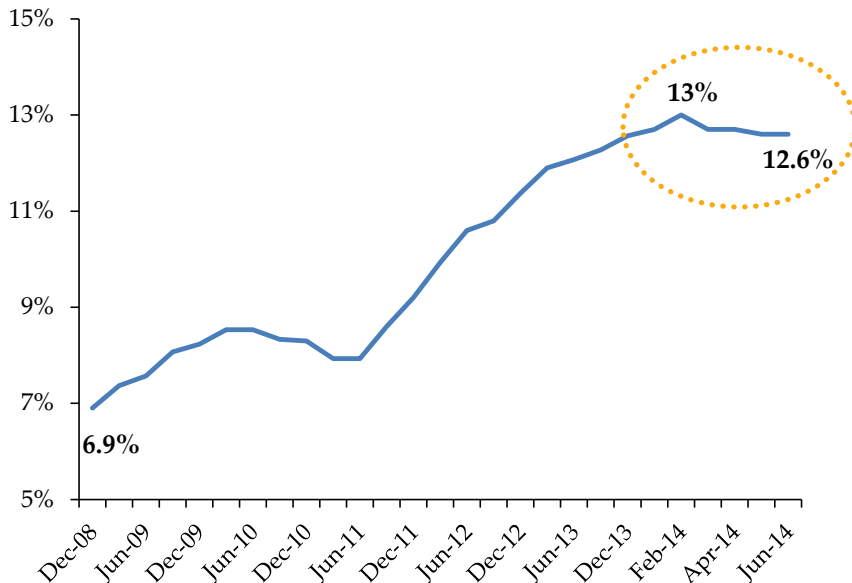


1 Italy – Large Economy, Emerging From Distress

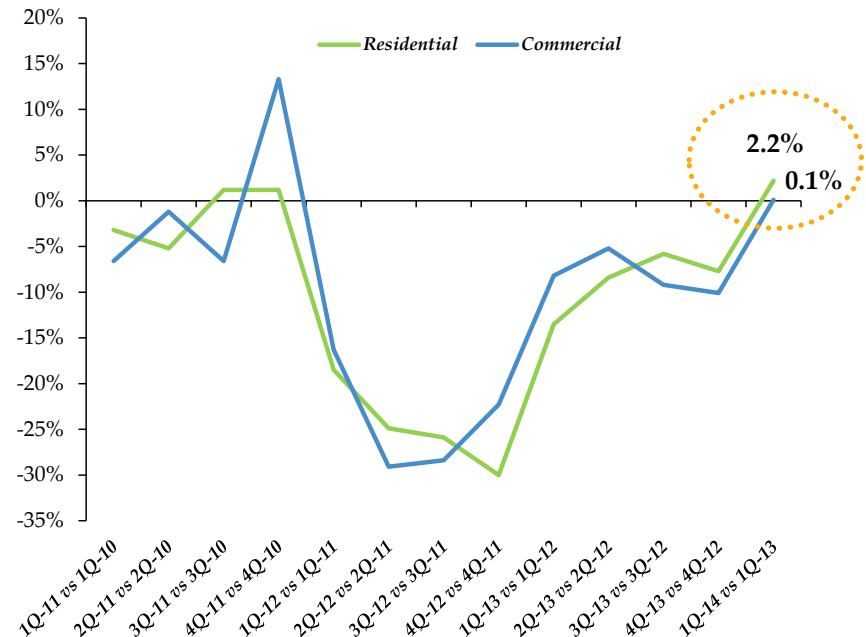
We continue to believe the dynamics of the Italian economy create a truly unique investment opportunity

- Italian economy is expected to expand by 1.1% in 2015⁽¹⁾
 - Fitch revised Italy's outlook from negative to stable⁽²⁾
 - Unemployment rate declined to 12.6% in June 2014 after reaching its historical high of 13% in January 2014
- Italian real estate market is showing tentative signs of recovery
 - Both bank lending and volume of real estate transactions has increased in Q1 2014 for the first time since 2011
 - We expect residential real estate prices to start increasing in 2015

Italy's Unemployment Rate^(1,4)



Italian Real Estate Transactions Volume⁽³⁾



(1) Source: Bloomberg: "Distressed-Debt Investors Flock to Italy for Bad Loans" July 28, 2014.
 (2) Source: Reuters "Fitch Revises Italy's Outlook to Stable, Affirms at 'BBB+' April 25, 2014.
 (3) Source: Osservatorio Del Mercato Immobiliare, Primo Trimestre 2014, June 3, 2014.
 (4) Source: Bloomberg (EHUPIT Index).

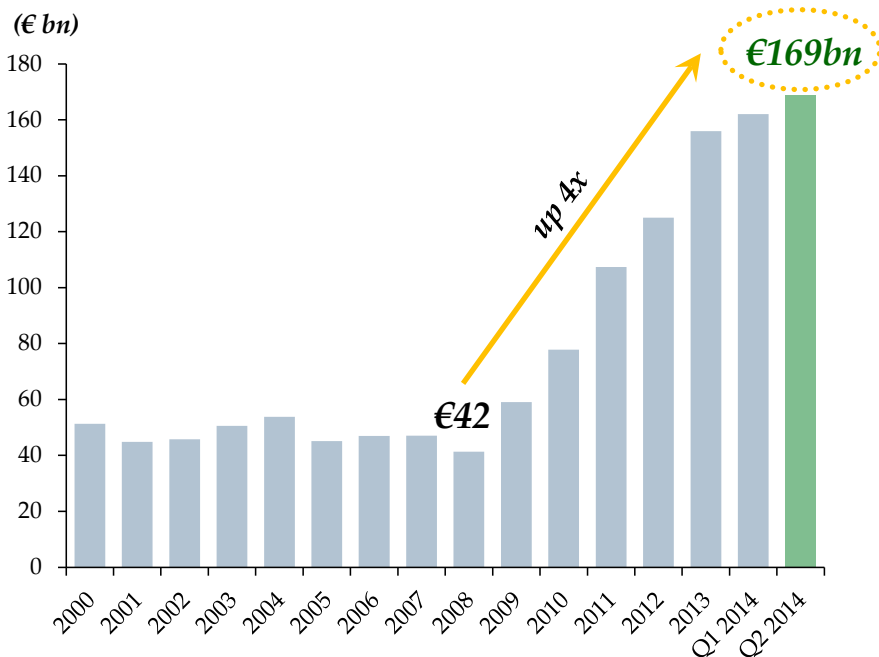


1 Historic NPL Opportunity Currently In Italy

Italian NPLs on banks' balance sheets grew to ~€169 billion in Q2 2014 – up 4x since 2008

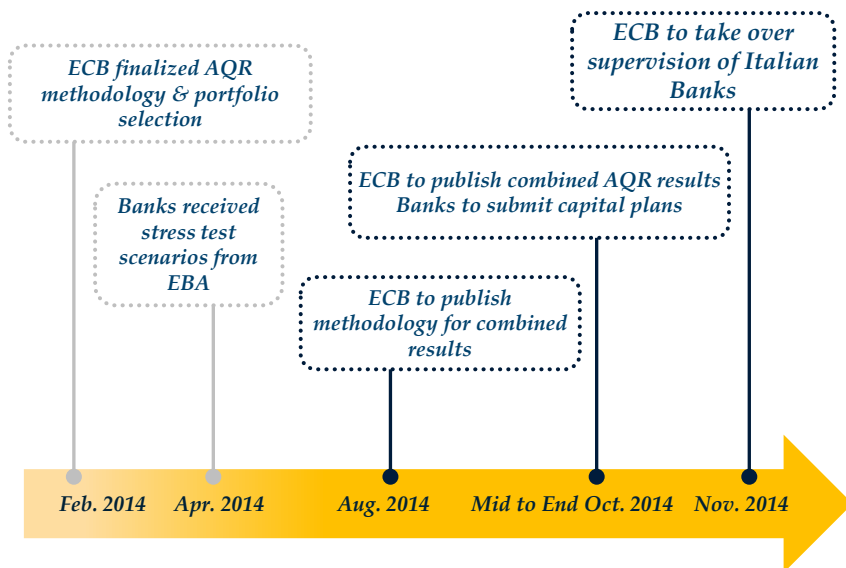
- Banks continue to be under pressure as ECB's asset quality review ("AQR") reaches its advanced stage
 - ECB conducting detailed asset quality review of Italy's largest banks focused on loan provisioning
 - Banks under pressure to sell loans to generate liquidity and address capital/regulatory requirements
- We expect AQR results to trigger significant increase in bad loan disposals by end of 2014

Italian NPLs At New Record High⁽¹⁾



ECB Inspection In Full Swing^(2,3)

AQR reached advanced stage with majority of the work completed on 15 Italian banks, which make up ~85% of NPL Inventory



(1) ABI Monthly Outlook as of July 2014.

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

(3) ECB – Note On The Comprehensive Assessments July 2014.



1 Portfolio Overview & Performance – Italian Loans⁽¹⁾

To date, ECT has invested €24.3 million in 8 pools with a total expected cash flow of €40.2 million

Existing Italian Loan Investments – continue to outperform expectations

- Received €12 million of cash flow to date (72% of the 2013 investments) vs. initial underwriting of €9 million for the same period
- Targeted IRR has increased to 44%

New Italian Loan Investments

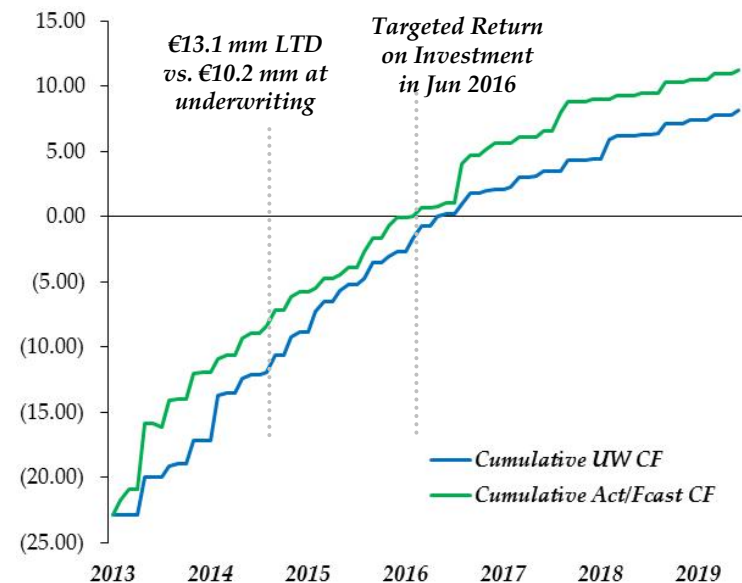
- In June, invested €7.4 million to acquire an interest in a portfolio of Italian NPLs with GBV of €883 million, received €1.1 million of cash flow to date
- In July, invested €0.3 million to acquire an interest in a pool of NPLs with GBV of €15 million as part of a series of anticipated transactions with an Italian banking group

Portfolio Overview

(€mm)	Acq. Date	Initial GBV	Purchase Price	CF to Date	Exp. Future CF
Existing Italian Loan Investments					
NPL: Pools 1-4,6	2013	3,260	12.0	8.5	11.0
PL: Pool 5	2013	8	4.6	3.5	3.1
Total – Existing		3,268	16.6	12.0	14.1
New Italian Loan Investments					
NPL Pool 7	Jun'14	883	7.4	1.1	12.5
NPL Pool 8 ⁽²⁾	Jul'14	15	0.3	-	0.5
Total – New		898	7.7	1.1	13.0
TOTAL		€4,166	€24.3	€13.1	€27.1

€40.2 mm

Collections (€mm)



(1) Represents Eurocastle's share of the investment in each loan pool.
 (2) Pool 8 represents three sub-pools of NPLs acquired in July.



1 Portfolio Overview & Performance – Italian RE Fund Units

- In March invested €22.3 million⁽¹⁾ in 11,929 units of a Real Estate fund (representing 7.5% of total equity)
- The fund consists of 14 mixed use properties with MV of €492.5 million with ~19% leverage
 - ~ 90% of properties concentrated in Milan, Rome and Stezzano
- Assuming the fund is liquidated close to NAV, the investment is expected to generate a return in the mid teens⁽²⁾

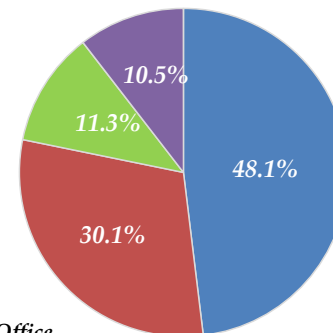
Projected Deal Economics

(€ in mm)

Closing Date	Mar. 2014
Equity Invested	22.3
Purchase Price (€/unit)	1,788
Discount to NAV at Acquisition	36.5%
Current Metrics	
NAV (€/unit) ⁽²⁾	2,791
Discount to NAV (at acquisition price)	35.9%
Lifetime Estimates	
Proceeds	32.4
Total Profit	10.0
Projected CF Multiple	1.45x
Total Lifetime Projected IRR	14%
WAL	2.9 yrs

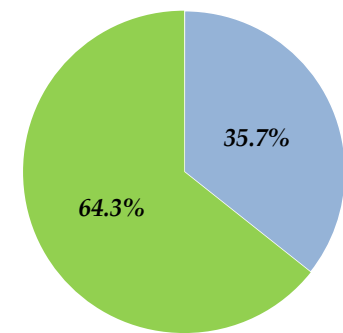
RE Assets Characteristics⁽⁴⁾

Type



- Office
- Resi Conversion
- Industrial
- Retail

Location



- Center
- North

(1) Including €1.0 million of closing costs.

(2) Assumes the assets of the fund are liquidated up to the fund maturity date in December, 2017.

(3) Fund NAV as at June 30, 2013.

(4) Based on assets' market value as of June 30, 2014.

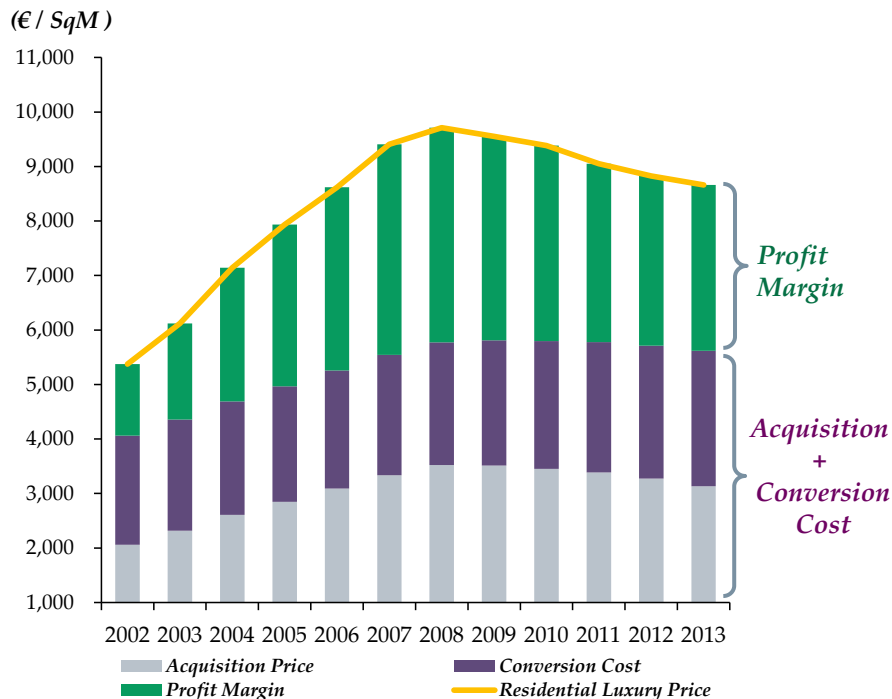


1 July Investment Update – Real Estate Conversions

Made first investment of €12.6 million with an expected IRR of 15%

- Partnered with local developer to source, acquire and redevelop inefficient RE assets in prime locations into luxury residential at discount to market value
- Invested initial €12.6 million of an anticipated €15.4 million for a 49.25% share⁽¹⁾ in two redevelopment projects in Rome
 - It is expected that the projects will be developed and fully sold by end of 2017

Rome RE – Luxury Residential vs. Office⁽²⁾



Projected Deal Economics⁽³⁾

(€ in mm)

Purchase Price	€ 27.0
Development Cost ⁽⁴⁾	€ 21.0

Financing & Pre Sales	€ 16.8
Total Equity Investment	€ 31.2

# of New Residential Units	71
Avg Size of Residential Units	78 sqm
Total Sales Proceeds⁽⁵⁾	€59.8

Projected Total Net Profit € 11.8

Projected Net IRR 15%



(1) The investment was made in partnership with another Fortress Affiliate and our local developer.
 (2) Nomisma “VI Rapporto sulla Finanza Immobiliare 2013”.
 (3) Reflects 100% of the deal economics of which 49.25% is Eurocastle’s share
 (4) Includes capital expenditure as well as financing, sales and structure related costs
 (5) Includes also sales proceeds for 3 retail units (€ 3.6 million) and for 78 parking units (€7.0 million)



1 Pipeline for Growth⁽¹⁾

The potential areas for investment in Italy continue to be robust

Target Investments	Pipeline for Growth
Italian NPLs	<ul style="list-style-type: none">✓ In active discussions on two portfolios with combined GBV of over €4 billion⁽¹⁾ and a captive servicer✓ Solid long term pipeline with total GBV of over €7 billion
RE Fund Units	<ul style="list-style-type: none">✓ Actively pursuing a potential co-investment of ~€10 million in units of an Italian closed-end RE Fund
RE Asset Conversions	<ul style="list-style-type: none">✓ Attractive market for investors with available capital✓ Currently evaluating pipeline of ~€200 million
Other Credit Opportunities	<ul style="list-style-type: none">✓ Expect to continue to pursue additional market-driven opportunities✓ Currently evaluating opportunities with estimated equity investment of over €200 million

(1) There can be no assurance that any part of the above mentioned Pipeline Investments will ultimately be consummated by Eurocastle.



2 Commercial Real Estate & Other Debt Portfolios

Projected recoveries of €2.91 to €5.06 per share from the Legacy Business

- €1.5 billion of assets financed with €1.3 billion of debt
 - Commercial Real Estate – €1.2 billion of assets financed with €1.1 billion of debt
 - Other Debt – €267 million of assets financed with €247 million of debt
- Actively harvesting portfolio to optimize proceeds
 - In H1 realized €28.3 million of cash, adjusting projected recovery scenarios from €125 – 200 million in Q4 2013 to €95 – 165 million in Q2 2014

(<i>€ mm</i>)	Q2 2014 NAV	H1 2014 Net Realizations	Current Proj. WAL	Projected Recovery Scenarios	
				Q2 2014	Q4 2013
Commercial Real Estate⁽¹⁾	€113.4 mm	€5.5mm	1.0 – 2.5 yrs	€90 - €140mm	€100 - €150mm
Other Debt⁽²⁾	€19.9 mm	€22.8mm	2.0 – 4.0 yrs	€5 - €25mm	€25 - €50mm
TOTAL	€133.4 mm	€28.3mm	1.1 – 2.7 yrs	€95 - €165mm	€125 - €200mm
Per Share	€4.09	€0.87		€2.91 – 5.06	€3.83 – 6.13

(1) As of June 30, 2014 and excludes the negative NAV of the Mars Floating RE portfolio.

(2) Adjusted for the reallocation of €4 million relating to a repurchase of existing debt at a 49% discount, in February 2014, from Other Debt to Italian Investments.



APPENDIX



Q2 2014 Financial Statements

Income Statement

<i>(€ in mm)</i>	Q2 2014	Q2 2013	H1 2014	H1 2013
Interest income	1.2	4.7	4.1	7.5
Rental and service charge income	25.8	38.8	53.8	83.7
Gain on purchase of mezzanine financing	-	-	2.0	-
Net loss on debt sales	-	-	(0.4)	-
Gain in fair value of Italian Investments ⁽¹⁾	0.6	0.9	1.3	0.9
Gain in fair value of Real Estate Fund Units	-	-	0.4	-
Decrease in fair value of investment properties	(30.7)	(24.7)	(34.5)	(32.8)
Other than temporary impairment on securities	(0.5)	(16.8)	(10.7)	(16.8)
Loss on deconsolidation of Bridge portfolio	-	-	(26.1)	-
Interest expense	(12.1)	(18.9)	(24.6)	(38.1)
Service charges and property operating expenses	(9.9)	(15.1)	(22.1)	(31.4)
Other operating expenses	(5.4)	(11.0)	(12.5)	(22.8)
Net Loss Before Taxation	(30.8)	(42.1)	(69.1)	(49.8)
Taxation	0.8	(2.7)	(1.2)	(2.7)
Net loss After Taxation	(30.0)	(44.8)	(70.3)	(52.5)

(1) The Gain In Fair Value Of Italian Investments in 2014 has been stated net of the Minority Interest of €0.1 million for Q2 2014 and €0.2 million for Q2 2013 (€0.2 million for H1 2014 and €0.2 million for H1 2013).



Q2 2014 Financial Statements (continued)

Summarised Balance Sheet

(€ in mm)	Q2 2014	Q4 2013
Cash and cash equivalents	172.5	193.2
RE investment property	1,208.4	1,722.5
Debt investments	257.6	343.5
Italian investments ⁽¹⁾	39.1	11.6
Other assets ⁽²⁾	27.3	43.6
Total assets	1,705.0	2,314.4
Interest bearing debt financing	(1,339.8)	(1,861.8)
Other liabilities ⁽²⁾	(116.4)	(128.5)
Total liabilities	(1,456.3)	(1,990.3)
Net assets	248.71	324.1
Net assets / liabilities of Mars Floating & Bridge portfolios ⁽³⁾	44.9	4.2
Adjusted net assets	293.6	328.4
Ordinary shares	32.6	32.6
Net assets €/share	9.00	10.06

(1) The Italian Investments have been stated net of the Minority Interest of €2.1 million (31 December 2013: €2.8 million).

(2) The other assets and other liabilities include the reclassification of the CHF derivative liability in 2013

(3) Adjusts to exclude the negative net asset value of the Mars Floating portfolio in 2014. 2013 excludes the Mars Floating portfolio and the net assets of the Bridge portfolio after adjusting for €2.6 million of cash distributed in January 2014. The Bridge portfolio was deconsolidated in 2014 following the failure to reach an agreement with its lenders on an extension of the facility.



Q2 2014 Financial Statements (continued)

Q2 Segmental Normalized FFO and FFO

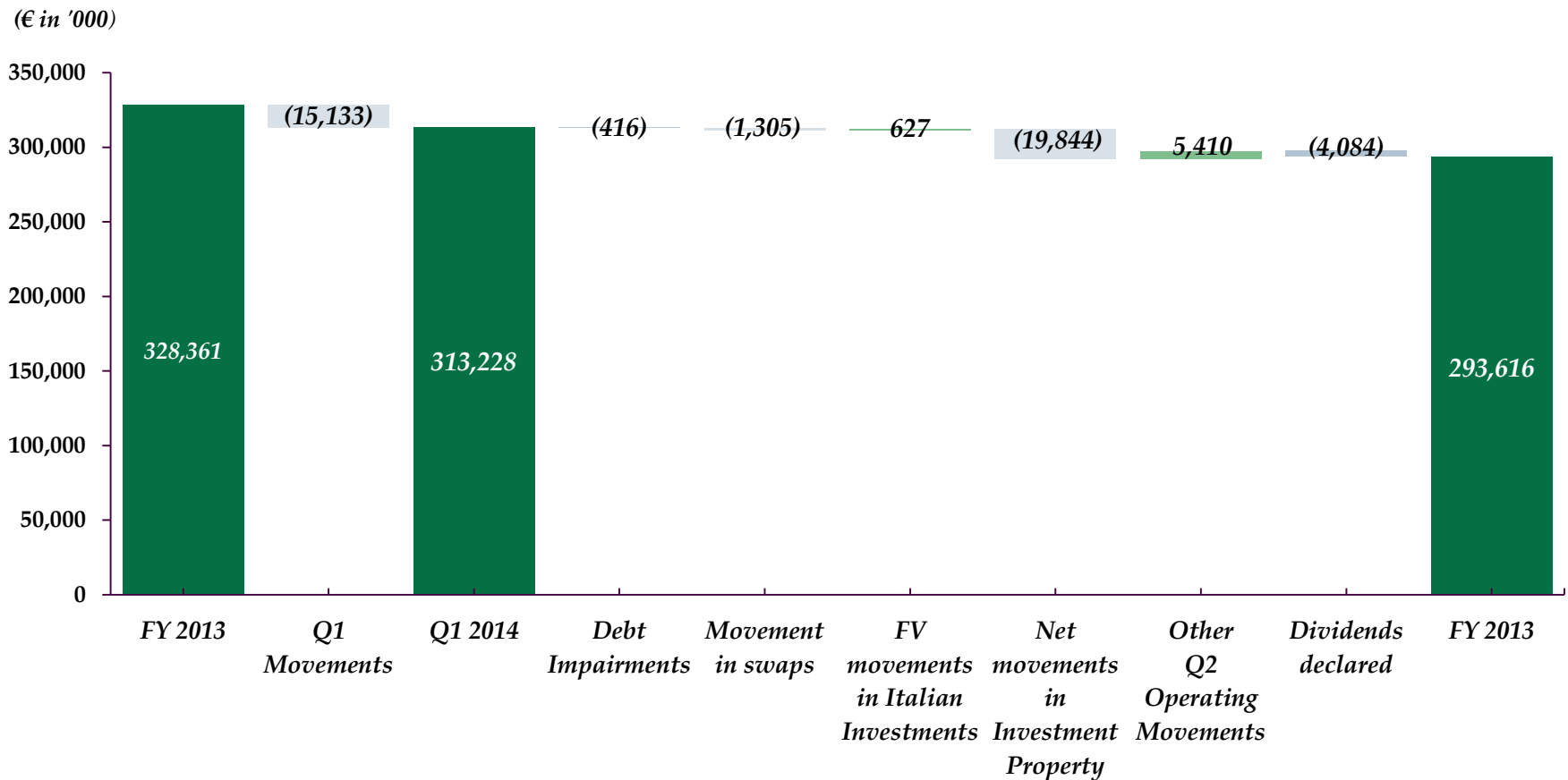
<i>(amounts in €'000)</i>	German RE		European RE Debt		Italian Investments	Corporate	Total Eurocastle	Total Cash-Flowing
	Cash-Flowing	Cash-Trapped	Cash-Flowing	Cash-Trapped				
Revenue	8.1	15.3	1.0	0.3	1.3	-	26.0	10.4
Service Charge And Operating Expense	(1.5)	(6.8)	-	-	-	-	(8.3)	(1.5)
Interest Expense	(4.2)	(6.2)	-	(1.2)	-	-	(11.6)	(4.2)
Amortisation Costs	(0.1)	(0.6)	-	(0.1)	-	-	(0.8)	(0.1)
Loss on sale of debt investments	-	-	-	-	-	-	-	-
Corporate And Other Expenses	-	-	-	(0.2)	-	(2.2)	(2.4)	(2.2)
Current Tax	(0.1)	(1.4)	-	-	-	-	(1.5)	(0.1)
Normalised FFO	2.2	0.3	1.0	(1.2)	1.3	(2.2)	1.4	2.3
<i>Normalised FFO per Share⁽¹⁾</i>	0.07	0.01	0.03	(0.04)	0.04	(0.07)	0.04	0.07
Impairment Losses	-	-	-	(0.5)	-	-	(0.5)	-
Net impact of FX movements	-	-	0.3	0.6	-	(0.3)	0.6	-
Transaction Costs of Acquisitions and FV Adjustments	-	-	-	-	(0.6)	-	(0.6)	(0.6)
Realised loss on Disposal of Investment Properties	-	(3.2)	-	-	-	-	(3.2)	-
FFO	2.2	(2.9)	1.3	(1.1)	0.7	(2.5)	(2.3)	1.7

(1) On a fully diluted weighted average basis.



Q2 2014 Financial Statements (continued)

NAV Walkdown⁽¹⁾



(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.



Legacy Business – Commercial RE⁽¹⁾

- 361 properties across Germany with appraised value of €1.12 billion, equivalent to an NOI yield of 5.3% held in 9 separate non-recourse financings
- Continue to focus on near term debt maturities:
 - Extended Wave for six months whilst exploring a portfolio sale; in addition received refinancing terms for both the short and long term
 - Comfortably met Drive senior loan July amortisation target releasing a further €1.2m of sales fees
 - Zama loan extended on a short term basis whilst negotiations continue

NAV & Cash Flow

(€ in mm)

Portfolio	Retail	Zama	Wave	Drive	Mars	Total
Assets	443.6	44.6	118.2	487.8	93.5	1,187.7
Liabilities	(407.3)	(40.6)	(92.3)	(460.5)	(73.7)	(1,074.3)
NAV	36.3	4.0	25.9	27.3	19.9	113.4
Annualized UCF⁽²⁾	28.7	2.8	3.7	10.8	0.0	46.1
Annualized LCF⁽²⁾	9.8	-	1.2	-	-	11.8
YTD Distribution⁽³⁾	4.9	0.3	(2.1)	1.9	0.5	5.5
Occupancy	93.7%	94.8%	75.6%	51.6%	89.8%	76.6%
WALT	5.3	2.8	5.5	3.2	3.1	4.4
LTV⁽⁴⁾	92.1%	91.6%	59.9%	91.5%	79.7%	87.6%
Debt Maturity⁽⁵⁾	2014-2017	Sep 2014	Oct 2014	Jan 2016	Dec 2014	-

(1) Excludes the Mars Floating portfolio.

(2) UCF represents annualized NOI less capital expenditure as per note 15 of the Q1 2014 Financial Report. LCF deducts the estimated interest cost given the information disclosed in note 17.1. 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.

(3) YTD distributions represent amounts received in 2014 relating to levered cash flows and sales CAD for the Retail, Zama and Wave portfolios and asset management and sales fees for Drive and Mars. YTD Distributions for the Wave portfolio is net of €6.1m paid into the portfolio to secure the recent extension.

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

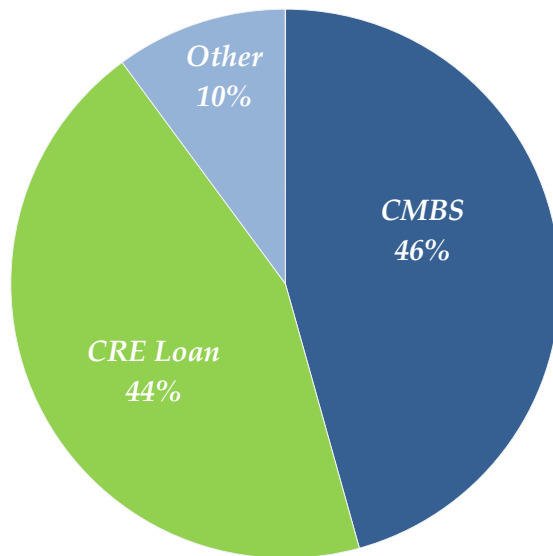
(5) Following the maturity of the Zama loan in May 2014, the Zama loan has been extended on a short term basis to September 2014



Legacy Business – RE Debt

- Overview: €271 million of assets held across 3 portfolios:
 - CDO IV – Realised €22.5 million of CDO IV NAV in January 2014 from sale of all securities; two remaining junior loans now held unlevered with NAV of €8.2 million (69% of face value)
 - 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 7% of total face value
- CDO V reinvestment period now ended – Repaid a further €12.4 million of senior debt since Q1 2014

Asset Types



Net Asset Breakdown

(€ in mm)

Portfolio	CDO IV	CDO V	Balance Sheet	Total
Total Assets	8.2	260.8	1.9	271.0
Total Liabilities	(0.0)	(246.9)	(0.1)	(247.0)
Net Assets	8.2	13.9	1.8	23.9
YTD Distribution⁽¹⁾	22.5	0.1	0.2	22.8
WA Credit Rating⁽²⁾	D	CCC	D	CCC
% Investment Grade	0%	16%	0%	14%
# of Securities⁽³⁾	2	51	4	48
Debt Maturity	-	Jun 2047	-	-

(1) CDO V is currently cash trapped with its distributions reflecting management fees.
 (2) Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.
 (3) Total securities eliminates positions that are held in two or more portfolios.