EUROCASTLE INVESTMENT LIMITED

ANNUAL REPORT 2008

EUROCASTLE INVESTMENT LIMITED OWNS AND INVESTS PRIMARILY IN GERMAN COMMERCIAL PROPERTY. THE COMPANY IS EURO DENOMINATED AND LISTED ON EURONEXT AMSTERDAM, UNDER THE SYMBOL "ECT" AND ON THE FRANKFURT STOCK EXCHANGE, UNDER THE SYMBOL "EUI1." EUROCASTLE IS MANAGED BY AN AFFILIATE OF FORTRESS INVESTMENT GROUP LLC.

LETTER TO OUR SHAREHOLDERS,

2008 was a challenging year for Eurocastle, with the debt and property markets coming under considerable pressure in Europe. Our business is built with a focus on long term, stable cash flows from both our debt and equity portfolios, and overall the cash flow aspects of our portfolios performed well for the year. Although much of the debt that we use to finance our investments is long term in nature, we do have certain short term financings and the tremendous volatility in the markets means it has been a challenging market in which to sell or finance assets.

In Germany, we have 576 properties in our commercial real estate portfolio with a value of €4.2 billion. The portfolio is comprised of a diversified mix of high quality office and retail properties concentrated in the five major German cities. One of the aspects of the German real estate market that we have found attractive is that, historically, it has been more stable than many other markets around the world. However, given the difficult economic situation in Germany, in 2008 it did not escape the market turmoil. As the German economy weakened, commercial real estate values declined modestly—prime office yields increased approximately 0.75% to 5.5% and are now valued at the lower end of their long term valuation range. However, liquidity in the markets has been sharply reduced. Our focus for this year was twofold—1) increasing cash flow and occupancy in our real estate portfolio, and 2) repaying or refinancing our short term debt. Despite the very challenging environment, overall, we had a highly productive year as we made significant progress on both fronts.

FINANCIAL RESULTS The net loss after taxation for the year was €454.1 million, compared to a net profit after taxation of €134.9 million for the year ended 2007. The losses primarily relate to non-cash valuation adjustments to our portfolio. Our Funds from Operations (FFO) for 2008 totaled €57.1 million or €0.91 per share, compared with €186.3 million or €2.92 per share for 2007. The 2007 results included significant gains from sales and other one off items. We paid total dividends of €0.60 per share in 2008, compared to €1.79 per share in 2007. We also reduced the number of shares outstanding through buy-backs to 60.7 million. Our Net Asset Value (NAV) per share ended the year at €13.35, compared to €23.05 at 2007. The real estate portion of the NAV was €13.62 per share, compared to €20.94 in the prior year; pro forma for the effect of an agreement to extend a portion of our financing, this would be €11.07 per share.

REAL ESTATE BUSINESS Our strategy for the real estate portfolio is to sell assets which we believe are stable and fully valued and focus on increasing occupancy and cash flows on the rest of the portfolio. The occupier markets in Germany were fairly stable last year through the autumn, with rents and vacancy rates generally similar to, or somewhat better than, those seen in 2007. Prime office rents in the five major markets increased 1.5% on average in 2008 from 2007 levels and vacancy across the same markets declined from 9.7% to 9.2%. Our average lease term in the portfolio is 5.9 years and we have made good progress in maintaining occupancy and leasing vacant space. Although economic occupancy dropped during the year due to the expiry of rental guarantees, physical occupancy increased from 84.3% at end of 2007 to 85.8% at year end. In 2008 we signed 295 new leases for 102,000 sqm and renewed 363 leases for over 208,000 sqm of existing space. Our renewal rate was 69% for the year. We expect that the current economic environment will slow the pace of new leasing in 2009 but that this should be mitigated to a degree by a higher renewal rate of expiring leases as we believe that tenants are somewhat less likely to spend the capital required to move. In terms of re-letting, approximately 5.6% of our rental income expires this year, versus 13% last year. On a same store basis, our objective is to maintain or modestly improve our overall vacancy rate this year.

We had an active year in terms of selling some of our stabilized properties—in total we sold or contracted to sell €575 million in assets during the year. Overall transaction volumes in German commercial property were approximately €20 billion last year, down substantially from the peak volumes seen in 2006 and 2007. As the economy stabilizes, we expect transaction volumes to revert back to their long term averages of approximately €15 billion per year. Notwithstanding the decline in overall activity, the German property investment market has remained active and domestic demand for real estate remains solid, particularly for individual properties rather than portfolios. We intend to continue our sales program this year for stabilized assets, with an increased emphasis on selling smaller assets in more localized markets.

DEBT BUSINESS In our €1.7 billion European real estate debt portfolio, the cash flow performance of our securities remains stable, with only approximately €11 million, or less than 1% of the portfolio, in payment default. Our debt business is largely financed with €1.7 billion of term, non-recourse financing in three separate facilities. Although the debt portfolio continues to perform well from a cash flow standpoint, since year end, the rating agencies have altered their approach to assessing credit grades and refinancing risk, which has resulted in a large volume of downgrades across the entire CMBS and ABS universe. As a consequence, it is likely that our CDO financings will hit triggers that would divert much or all cash flow in excess of interest to be used to pay down our financings prior to maturity. This has the effect of reducing or eliminating run rate cash flow to Eurocastle from these investments while the debt de-levers. As a result, our returns from each portfolio will be driven primarily from the return of capital to us once the debt is substantially retired. We continue to actively manage these investments and are very focused on optimizing returns over the long run.

FINANCING The majority of our financing at Eurocastle is long term, non-recourse financing at or below market rates. Of our total of €5.3 billion in financing at year end, we had approximately €539 million of short term financing exposure. In the current environment, almost any short term, mark–to-market or recourse debt can be a challenge. While they form a modest percentage of our total debt, we have been very focused on repaying or extending out our short term debt maturities. We have made substantial progress on this front and since year end the total amount of short term financing has been reduced to €251 million, against which the maximum recourse to Eurocastle is €80 million.

This follows on the heels of a very active and productive 2008 in this regard. During 2008 we repaid, extended or refinanced over €1.3 billion of debt. Since the year end, we agreed to extend a €236 million short term loan due in June 2009 and our maturing €125 million corporate loan to 2012 and 2011, respectively. These facilities have scheduled amortization payments prior to maturity. As announced previously, we expect to go to the markets to raise additional capital in the near term to further amortize and pay down the remaining debt outstanding. We already have a conditional undertaking from an existing shareholder regarding a portion of any such capital raise. Turning to the remainder of our debt, there are only two financings which mature in 2009, totaling €165 million.

Other than the financings described above, Eurocastle has no debt due before September 2012. If we are successful in our anticipated capital raising activities, this will leave us with our real estate financed primarily in 13 separate non-recourse portfolios, giving us significant flexibility.

OUTLOOK Overall, the operating performance of our German commercial real estate portfolio remains solid, and although the German economy has been impacted by the worldwide recession, it continues to be a stable market with a great deal of resilience.

For the most part, we believe that the large discount to Net Asset Value of our share price reflects market concerns with regards to our short term debt maturities, which we have been, and continue to be, very focused on. As described above, in the near future we expect to announce a capital raising initiative, which once completed will significantly enhance Eurocastle's flexibility.

We expect the environment in 2009 to continue to be challenging but have made a great deal of progress in our primary initiatives thus far in the year and look forward to a successful year ahead. Our priority will remain to continue to strengthen the balance sheet and actively manage our assets, increasing both occupancy and cash flow. Our dedicated team of over 80 people has done an excellent job on staying focused on the business at hand and focusing on the future. We still have much hard work to do but are happy with our progress in the past 18 months and look forward to updating you as the year unfolds.

Thank you for your continued support.

Wesley R. Edens
Chairman

Eurocastle Investment Limited owns and invests primarily in German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT" and on the Frankfurt Stock Exchange, under the symbol "EUI1." Eurocastle is managed by an affiliate of Fortress Investment Group LLC. For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com.

Commercial Property Portfolio

As at 31 December 2008, Eurocastle owned a €4.2 billion portfolio of commercial property investments generating an average NOI* yield of 5.5%. The investment property portfolio comprised 576 properties with approximately 2.1 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 85.8%, and a weighted average remaining lease term of 5.9 years.

We view our commercial property portfolio as having two categories of assets as shown in the table below. Approximately 518 properties, or €2.5 billion, are long-term leased and retail assets with average terms of 7.3 years, approximately 93.3% occupancy, and stable cash flows. These assets give us good, stable returns, with a modest amount of near-term growth. The other 58 properties, or approximately €1.8 billion, is the active asset management component of the portfolio. The average lease term is 3.2 years and occupancy is approximately 74.1%. These are the value-add assets which require leasing or repositioning and are where the majority of our asset management activity is focused and will have the greatest potential upside. This part of the portfolio is valued at an NOI yield of 4.4%. We aim to continue to lease up these assets, improve occupancy and look to sell those which have limited further upside, are non-core asset classes, or are in peripheral markets.

Portfolio composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation €m	Average lease term	NOI yield on valuation %
Stable**	518	1,203,189	93.3%	167.0	156.3	2,465	7.3	6.3%
Value Add***	58	608,406	74.1%	91.9	77.7	1,765	3.2	4.4%
Grand Total	**576**	**1,811,595**	**85.8%**	**258.9**	**234.0**	**4,230**	**5.9**	**5.5%**

** Stable assets are those assets with long term leases and high occupancy.
*** Value add assets are those assets with upside valuation potential through active asset management (lease-up and repositioning).

During the year ended 31 December 2008, the Group has signed 658 commercial leases for approximately 310,000 sqm, of which new leases accounted for approximately 102,000 sqm. Included is over 38,000 sqm of renewals of leases with a major bank which were due to expire at the end of 2008 and over 28,000 sqm due to expire in 2009.

As part of our ongoing sales programme, for the year ended 31 December 2008, the Group has completed the sale of 15 properties for total sales proceeds of €461 million, realising gains on book cost of €4.7 million, net of all transaction costs (on a non-IFRS basis). Subsequent to year end, the Group has sold eight further properties for total sale proceeds of €100.1 million. In addition, the Group has entered into binding agreements to sell four properties for estimated total proceeds of €13.7 million.

* Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses on an annualised basis, excluding the investment properties held for sale.

As at 31 December 2008, the Group had signed 28 new leases for approximately €1.5 million of rental income per annum on approximately 11,000 sqm of vacant space, which will become effective during the first quarter 2009 or later. These leases have not been included in the following tables.

The following tables show the split of real estate property investments by use and geographical location as at 31 December 2008.

Rental Data

By Use

Use	Lettable (sqm)	Occupancy (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Office	1,174,333	946,227	80.6%	143.6	55.5%	12.6
Retail	462,230	455,230	98.5%	57.7	22.3%	10.6
Bank Hall	106,953	104,678	97.9%	17.4	6.7%	13.9
Other	367,382	305,460	83.1%	40.2	15.5%	11.0
Total portfolio	**2,110,898**	**1,811,595**	**85.8%**	**258.9**	**100.0%**	**11.9**

By Location

Location	Lettable (sqm)	Occupancy (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Frankfurt	545,993	466,123	85.4%	88.1	34.0%	15.8
Munich	203,615	143,833	70.6%	24.0	9.3%	13.9
Hamburg	91,807	83,540	91.0%	12.6	4.9%	12.6
Berlin	101,925	86,084	84.5%	14.6	5.6%	14.1
Düsseldorf	107,912	102,434	94.9%	18.3	7.1%	14.9
Subtotal – top 5 markets	**1,051,252**	**882,014**	**83.9%**	**157.6**	**60.9%**	**14.9**
Remaining West	842,189	750,117	89.1%	84.3	32.5%	9.2
Remaining East	217,457	179,464	82.5%	17.0	6.6%	6.9
Total portfolio	**2,110,898**	**1,811,595**	**85.8%**	**258.9**	**100.0%**	**11.9**

* Passing rent is defined as the annual gross rental income at the period end, excluding the net effects of straight lining for lease incentives.

Lease Expiry Data

By Use

Use	Average lease term Years	Passing rent* 2009 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014-2018 €m	2019+ €m
Office	4.6	8.2	15.4	38.7	15.6	6.9	49.0	9.8
Retail	7.6	1.4	2.0	3.4	4.2	4.7	24.8	17.1
Bank Hall	5.4	-	0.1	2.4	2.3	0.2	11.0	1.3
Other	8.1	5.0	3.4	5.7	3.3	0.9	10.6	11.4
Total portfolio	**5.9**	**14.6**	**20.9**	**50.2**	**25.4**	**12.7**	**95.4**	**39.6**

By Location

Location	Average lease term Years	Passing rent* 2009 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014-2018 €m	2019+ €m
Frankfurt	5.3	3.7	7.5	25.9	8.2	2.8	32.8	7.3
Munich	7.2	2.4	2.6	7.7	2.5	1.4	2.1	5.3
Hamburg	4.0	1.9	1.3	2.9	1.7	0.8	3.0	1.1
Berlin	4.5	1.2	1.1	2.3	1.0	1.2	6.8	1.0
Düsseldorf	8.0	0.2	2.5	2.5	2.9	0.3	1.0	8.9
Subtotal – top 5 markets	**5.8**	**9.4**	**15.0**	**41.3**	**16.3**	**6.5**	**45.7**	**23.6**
Remaining West	6.3	4.1	4.9	7.7	8.3	4.0	40.1	15.0
Remaining East	5.3	1.1	1.0	1.2	0.8	2.2	9.6	1.0
Total portfolio	**5.9**	**14.6**	**20.9**	**50.2**	**25.4**	**12.7**	**95.4**	**39.6**

* Passing rent is defined as the annual gross rental at the period end, excluding the net effects of straight lining lease incentives.

Valuation Data

Markets	Number of properties	Occupancy %	Lettable space (sqm)	Property valuation €m*	Property cost €m**	% of Portfolio €m	Net operating income €m***	NOI yield on cost %	NOI yield on valuation %
Top 5 markets									
Frankfurt	49	85.4%	545,993	1,533	1,730	36.8%	80.7	4.7%	5.3%
Munich	16	70.6%	203,615	490	584	12.4%	21.2	3.6%	4.3%
Hamburg	14	91.0%	91,807	211	248	5.3%	11.9	4.8%	5.6%
Berlin	11	84.5%	101,925	261	272	5.8%	12.8	4.7%	4.9%
Düsseldorf	7	94.9%	107,912	321	357	7.6%	17.4	4.9%	5.4%
Subtotal – top 5 markets	**97**	**83.9%**	**1,051,252**	**2,816**	**3,191**	**67.9%**	**144.0**	**4.5%**	**5.1%**
Remaining West	376	89.1%	842,189	1,204	1,290	27.5%	74.8	5.8%	6.2%
Remaining East	103	82.5%	217,457	210	215	4.6%	15.2	7.0%	7.2%
Total portfolio	**576**	**85.8%**	**2,110,898**	**4,230**	**4,696**	**100.0%**	**234.0**	**5.0%**	**5.5%**

* The above valuation does not include €24.0 million relating to head leases.

** Includes leasing commissions and tenant incentives disclosed separately in other assets.

*** Net operating income excludes the amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 5 for details.

Like for like* occupancy analysis

By Use

Use	31 December 2008 Occupancy (sqm)	31 December 2008 Occupancy %	31 December 2008 Passing rent** €m	31 December 2007 Occupancy (sqm)	31 December 2007 Occupancy %	31 December 2007 Passing rent** €m
Office	946,227	80.6%	143.6	912,044	77.9%	144.5
Retail	455,230	98.5%	57.7	454,077	98.5%	57.5
Bank Hall	104,678	97.9%	17.4	105,098	97.5%	17.4
Other	305,460	83.1%	40.2	314,607	82.8%	40.3
Total portfolio	**1,811,595**	**85.8%**	**258.9**	**1,785,826**	**84.3%**	**259.7**

By Location

Location	31 December 2008 Occupancy (sqm)	31 December 2008 Occupancy %	31 December 2008 Passing rent** €m	31 December 2007 Occupancy (sqm)	31 December 2007 Occupancy %	31 December 2007 Passing rent** €m
Frankfurt	466,123	85.4%	88.1	463,249	84.6%	90.8
Munich	143,833	70.6%	24.0	146,538	72.2%	25.0
Hamburg	83,540	91.0%	12.6	75,714	82.9%	11.4
Berlin	86,084	84.5%	14.6	84,131	82.3%	14.8
Düsseldorf	102,434	94.9%	18.3	99,194	92.2%	17.7
Subtotal – top 5 markets	**882,014**	**83.9%**	**157.6**	**868,826**	**82.6%**	**159.7**
Remaining West	750,117	89.1%	84.3	737,153	87.5%	82.9
Remaining East	179,464	82.5%	17.0	179,847	80.1%	17.1
Total portfolio	**1,811,595**	**85.8%**	**258.9**	**1,785,826**	**84.3%**	**259.7**

* Like for like represents common properties that are held at the end of both reporting periods.

** Passing rent excludes the impact of the rental guarantee.

Top 5 Tenants

Tenant name	Business sector	Passing rent €'000	% of total portfolio	Square meters
Dresdner Bank	Banking	64,200	24.8%	390,212
Deutsche Bank	Banking	15,467	6.0%	123,220
Edeka	Retail	12,787	4.9%	121,990
Starman Hotels	Hotel	9,229	3.6%	40,988
Deutsche Bahn	Railway	7,795	3.0%	43,388
Total portfolio		**109,478**	**42.3%**	**719,798**

Financing

The Group continues to finance its core real estate portfolio with fixed rate term loans, which has substantially eliminated its exposure to fluctuating interest rates. This is consistent with the objective of locking in the spread between the yield on its investments and the cost of financing those investments.

As at 31 December 2008, the Group's €4.2 billion real estate portfolio was financed with €3.4 billion of non-recourse loans with a weighted average maturity of 4.7 years. €3.1 billion of the total loan financings have maturities falling between September 2012 and November 2017. The non-core part of the Mars portfolio, totalling €366.5 million was financed with a loan for €232.3 million maturing in June 2009. Since year-end, an agreement has been reached to extend the terms of the loan with yearly mandatory amortisations to 2012. This is further described in Note 3 within the Notes to Consolidated Financial Statements.

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	31 December 2008	31 December 2007
Carrying value of total debt investments (excluding restricted cash) (€'000)	**1,586,895**	2,052,913
Implied discount margin (above Euribor) at carrying value	**6.17%**	3.35%
Amortised cost of total debt investments (excluding restricted cash) (€'000)	**1,620,505**	2,182,133
Weighted average asset margin (above Euribor)	**1.81%**	1.79%
Weighted average liability spread	**0.58%**	0.57%
Weighted average net spread	**1.23%**	1.22%
Weighted average credit rating	**BB+**	BBB-
Percentage investment grade of debt investment portfolio	**55%**	65%
Number of securities and loans	**187**	201

Eurocastle's €1.6 billion investment portfolio (excluding restricted cash) consists primarily of commercial real estate backed and residential real estate backed debt. The following describes the investment portfolio as at 31 December 2008:

Asset/liability structure for debt investment portfolio

31 December 2008	Assets			Cash in hand	Liabilities				
Funding structure	**Nominal €'000**	**Average life**	**Average rating**	**Nominal €'000**	**Drawn amount €'000**	**Facility amount €'000**	**Average life €'000**	**Legal maturity**	**M-T-M provisions**
Eurocastle CDO II PLC	295,622	3.4	BBB	22,414	285,926	285,926	6.5	Dec 2060	No
Eurocastle CDO III PLC	675,566	4.0	BBB-	62,626	704,250	704,250	6.5	Dec 2060	No
Eurocastle CDO IV PLC	102,040	3.6	A	-	80,920	80,920	0.9	Dec 2009	No
Duncannon CRE CDO I PLC**	760,490	3.8	BB-	47,855	697,000	697,000	5.9	Jun 2047	No
Eurocastle Funding Limited (unlevered)*	6,885	2.9	CCC	-	-	-	-	-	-
Eurocastle Funding Limited (financed)	121,223	3.1	BB+	-	100,597	100,597	0.7	Sep 2009	No
Total	**1,961,826**	**3.8**	**BB+**	**132,895**	**1,868,693**	**1,868,693**	**5.8**	-	-

* The legal maturity of Eurocastle Funding Limited's liabilities is based on the weighted average maturity of all its liabilities.
**Includes Balance Guaranteed Swap Asset of €90 million on the nominal value of non Euro assets.

Debt Investment Portfolio Composition (31 December 2008)

Asset class	Nominal €'000	Total debt portfolio %
Commercial real estate backed	1,489,019	79.6%
Residential real estate backed	305,864	16.3%
Other	77,114	4.1%
	1,871,997	**100.0%**

Commercial Real Estate Backed Debt

At 31 December 2008, the Group owned €1.5 billion face amount of commercial assets (Commercial mortgage backed securities ("CMBS"), Mezzanine Loans, B-Notes, Whole Business Securitisations ("WBS"), NPL Securitisations and Real Estate Loans and SME CLOs. During the year ended 31 December 2008, the Group made purchases of €108 million, sold €3.8 million and had principal repayments of €207 million. The Group's €804.7 million CMBS portfolio continues to perform in line with expectations notwithstanding the highly stressed credit environment, with only 0.48% underlying loans delinquent or in payment default and a further 5.4% of loans in breach of their covenants. To date only one security having a par outstanding amount of €2.3 million has defaulted on an interest payment, which was due to the bankruptcy of Lehman Brothers. In addition, of its Mezzanine Loans, B-Notes and Real Estate Loans, the Group had 1.8% of loans in either payment default or interest diversion and 3.16% in breach of a loan covenant at the end of the period. The Group had 13 CMBS securities upgraded totalling €89m and 19 CMBS downgrades totalling €180 million during the full period.

Asset class	Nominal €'000	Total debt book %	Average rating*	Average credit spread* Bps	Average LTV %
CMBS	804,730	43.0%	BBB+	1,456	65.7%
Commercial real estate loans	507,225	27.1%	B	1,152	79.5%
NPL securitisation	18,165	1.0%	A	1,084	16.7%
SME CLO	96,334	5.1%	BB+	2,348	N/A
Whole business securitisation	62,565	3.3%	BBB-	1,506	56.0%
	1,489,019	**79.5%**	**BB+**	**1,408**	

***** Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current estimated carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	CCC €'000	D €'000	Total €'000	% of total portfolio
UK	9,741	27,780	62,725	166,391	100,059	122,387	40,743	-	**529,826**	**28.3%**
Germany	18,882	19,724	8,690	135,191	35,354	171,481	-	-	**389,322**	**20.8%**
Italy	-	6,000	12,165	57,170	28,957	47,600	-	-	**151,892**	**8.1%**
France	-	-	2,220	10,000	-	69,570	-	2,271	**84,061**	**4.5%**
Netherlands	-	-	-	19,699	17,602	-	-	-	**37,301**	**2.0%**
Switzerland		-	-	-	18,440	25,858	-	-	**44,298**	**2.4%**
Spain	-	-	12,200	3,800	8,934	1,398	-	-	**26,332**	**1.3%**
Pan-European	24,883	48,803	45,596	44,896	13,908	-	-	47,901**	**225,987**	**12.1%**
Total	**53,506**	**102,307**	**143,596**	**437,147**	**223,254**	**438,294**	**40,743**	**50,172**	**1,489,019**	**79.5%**
% of total debt portfolio	**2.9%**	**5.5%**	**7.7%**	**23.3%**	**11.9%**	**23.4%**	**2.2%**	**2.6%**	**79.5%**	

** The Pan-European CMBS securities rated 'D' as at 31 December 2008 were subsequently upgraded to BB- (€38.3 million) and B- (€9.6 million) after year end.

Residential Real Estate Debt

At 31 December 2008, the Group owned €305.9 million face amount of residential mortgage backed securities ("RMBS"). During the year ended 31 December 2008, the Group made no purchases or sales and had principal repayments of €30.4 million. The current average rating of the RMBS portfolio is BBB-. The Group had 16 securities totalling €31 million upgraded and 13 downgrades totalling €90 million during the full period.

The composition of the residential mortgage backed securities portfolio as at 31 December 2008 is shown below:

RMBS type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%		Bps
Prime	141,617	7.6%	BBB-	2,108
Mixed	65,332	3.5%	BBB-	2,633
Non conforming	98,915	5.3%	BBB	1,948
Total	**305,864**	**16.4%**	**BBB-**	**2,168**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current estimated carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	AA	A	BBB	BB	B	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	
United Kingdom	543	27,800	115,789	39,792	5,839	**189,763**	**10.1%**
Italy	-	-	30,750	-	-	**30,750**	**1.6%**
Netherlands	-	6,375	8,500	15,000	-	**29,875**	**1.6%**
Germany	-	-	5,000	6,200	-	**11,200**	**0.6%**
Spain	-	-	10,368	2,200	-	**12,568**	**0.7%**
Ireland	-	-	22,908	2,800	-	**25,708**	**1.4%**
Belgium	-	-	5,000	-	-	**5,000**	**0.3%**
Greece	-	-	1,000	-	-	**1,000**	**0.1%**
Total	**543**	**34,175**	**199,315**	**65,992**	**5,839**	**305,864**	**16.4%**
% of total debt portfolio	**0.0%**	**1.8%**	**10.8%**	**3.5%**	**0.3%**	**16.4%**	

UK Non-Conforming RMBS

Within the larger residential mortgage backed securities portfolio the current average rating of the €87 million UK non-conforming loan backed securities sub-portfolio is BBB. The performance of these assets has been in-line with the Group's expectations notwithstanding some increases in foreclosures and loss severities and declines in prepayment rates since June 2008. It is a well seasoned portfolio (backed by residential mortgages with a weighted average seasoning of 3.5 years). The benefits of the seasoning effect are threefold; firstly, there is a strong payment history from the underlying borrowers, secondly the deals have benefited from strong UK house price growth, and thirdly the portfolio has avoided some of the weaker underwriting and structuring practices prevalent in the 2006/2007 vintage.

Year of mortgage origination*	Nominal	Total debt book	Average rating**	Average credit spread**
	€'000	%	%	Bps
2004	19,417	1.0%	BBB+	1,860
2005	55,875	3.0%	BBB	2,017
2006	11,573	0.6%	BB	2,023
Total	**86,865**	**4.6%**	**BBB**	**1,983**

* Year of mortgage origination refers to the weighted average date of origination of the underlying residential mortgage loans rather than either the issue date, or the purchase date, of the securitized debt securities held by the Group.

** Average ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current estimated carrying value, weighted by the current nominal par amount outstanding.

Other Debt

At 31 December 2008, the Group owned €77.1 million face amount of other structured finance debt (commercial & consumer loans). During the year ended 31 December 2008, the Group made purchases of €3.5 million, no sales and had paydowns of €4.9 million. Additionally two securities totalling €7 million were upgraded and two securities totalling €20m downgraded.

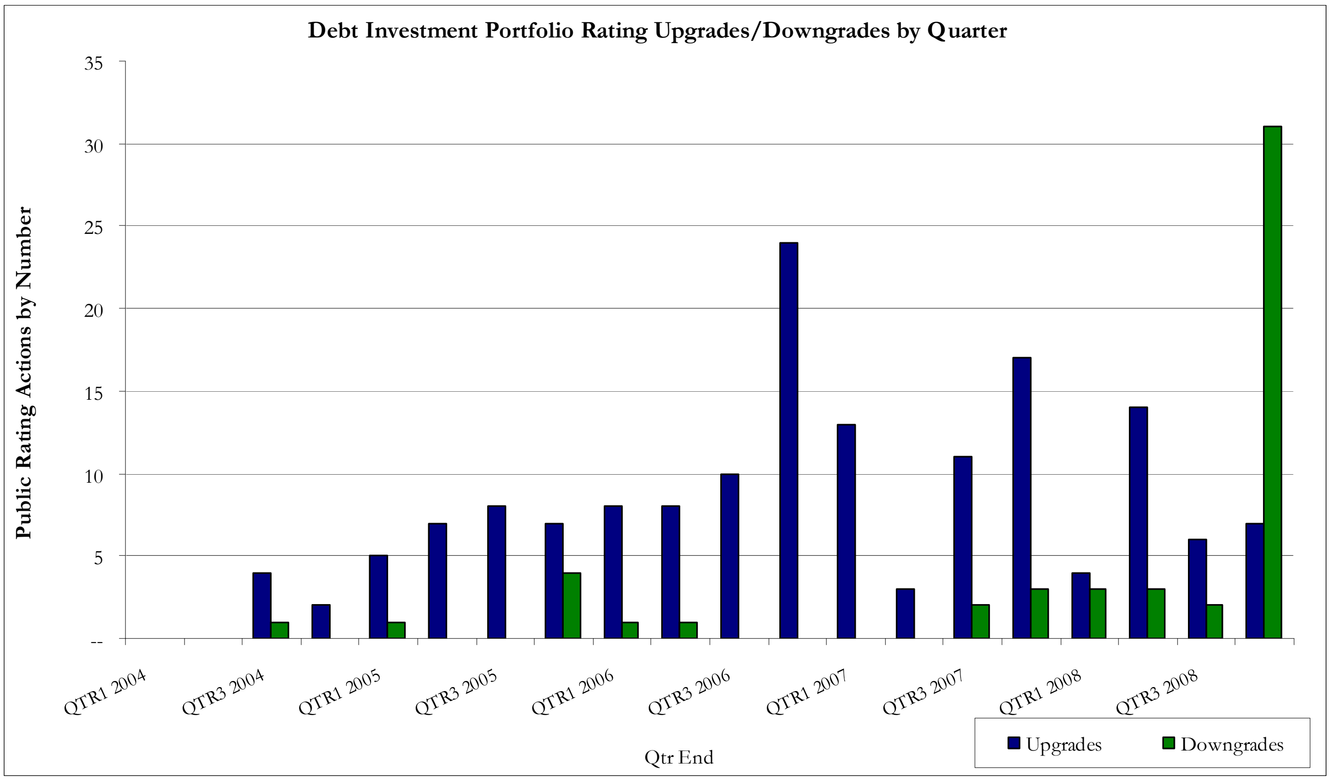
Debt Type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%	%	Bps
Commercial leases & loans	30,464	1.6%	BBB+	1,540
Consumer leases & loans	46,650	2.6%	BBB+	1,212
Total	**77,114**	**4.2%**	BBB+	1,341

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current estimated carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	AAA	AA	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	
Italy	7,014	4,500	19,400	11,000	7,700	**49,614**	**2.7%**
Germany	-	-	-	4,750	-	**4,750**	**0.3%**
Sweden	-	-	-	3,500	-	**3,500**	**0.2%**
United Kingdom	-	-	-	10,000	-	**10,000**	**0.5%**
Portugal	-	-	-	2,250	7,000	**9,250**	**0.5%**
Total	**7,014**	**4,500**	**19,400**	**31,500**	**14,700**	**77,114**	**4.2%**
% of total debt portfolio	**0.4%**	**0.2%**	**1.0%**	**1.8%**	**0.8%**	**4.2%**	

Credit Quality

Despite a highly stressed credit environment in 2008 the credit quality of the debt investment portfolio has remained relatively stable over the year. Positive credit migration had up to 2008 outweighed negative movements in every quarter since the inception of the portfolio. The current lifetime rating upgrades versus downgrades ratio is 158:52 but was 31:39 for 2008. This however masks a rapid deterioration in the last quarter of the year, when 31 of the 39 negative ratings actions for the full year occurred. This trend is expected to continue through 2009 although credit losses, both at an underlying and securities level remain at very low absolute levels. The graph below shows ratings action experienced in the portfolio on a quarterly basis.



Financing

During the year the Group eliminated all its mark-to-market and any full recourse exposure on its debt investment portfolio, and all debt investment portfolio financing facilities with maturities during 2008 were successfully extended to between September and December 2009 with the remaining full recourse facility replaced by a facility with recourse limited to €30 million.

Following these transactions approximately 87.7% of the portfolio benefits from financing maturing beyond the maturity date of our assets.

INCOME STATEMENT DATA

(in €'000, except per share data)	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	155,382	144,697
Rental income	281,118	303,744
Service charge income	55,790	60,878
(Decrease) / increase in fair value of interest rate swaps	(19,015)	13,262
Real estate fund unit interest income	-	17,185
(Decrease)/increase in fair value of investment properties	(499,151)	35,004
Increase in fair value of real estate fund units	-	16,751
Other than temporary impairment on securities	(16,794)	-
Interest expense	(285,596)	(281,414)
Property operating expenses	(34,449)	(22,473)
Other operating expenses	(47,641)	(67,890)
Service charge expense	(55,790)	(60,878)
Net (loss) / profit before taxation	(467,916)	155,787
Net (loss) / profit after taxation	(454,073)	134,915
Loss / (earnings) per weighted average basic share	(7.20)	2.12
Loss / (earnings) per weighted average diluted share	(7.20)	2.06

BALANCE SHEET DATA

(in €'000, except per share data)	31 December 2008	31 December 2007
Cash and cash equivalents	119,869	146,707
Investment property (including properties held for sale)	4,230,111	5,171,086
Debt investments	1,733,942	2,059,753
Other assets	164,387	130,649
Total assets	**6,248,309**	**7,508,195**
Interest bearing debt financing	(5,300,880)	(5,859,058)
Other liabilities	(136,377)	(175,443)
Total liabilities	**(5,437,257)**	**(6,034,501)**
Net assets	**811,052**	**1,473,694**
Net asset value per ordinary share	**13.35**	**23.05**

Adjusted NAV per share at 31 December 2008 was €18.56. Refer to page 15 for a reconciliation of adjusted NAV.

	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average ordinary shares outstanding		
Basic	63,072,337	63,787,016
Diluted	63,072,337	65,569,559
Ordinary shares outstanding	**60,731,646**	**63,927,634**

FUNDS FROM OPERATIONS (FFO)

(in €'000, except per share data)	Year ended 31 December 2008	Year ended 31 December 2007
Reconciliation of FFO to net profit after taxation		
Net (loss) / profit after taxation	(454,073)	134,915
Decrease / (increase) in fair value of investment properties	499,151	(35,004)
Decrease / (increase) in fair value of interest rate swaps	19,015	(13,262)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)*	595	507
Decrease / (increase) in fair value of real estate fund units	-	(16,751)
Realised gain on sale of investment properties	5,872	96,500
Deferred tax (benefit) / charge on investment properties	(13,473)	19,381
Funds from operations (FFO)	**57,087**	**186,286**
FFO per weighted average basic share	0.91	2.92
FFO per weighted average diluted share	0.91	2.84

* During the year ended 31 December 2008, the group recognised fair value gains on currency swaps that it had entered into to hedge certain debt investments denominated in Pounds Sterling and Swiss Francs (see Note 9 and 15 of the consolidated financial statements for further details). In the table above the fair value gains of the currency swaps have been netted against the translation losses on the related assets, and the resulting unrealised net loss of €595k has been excluded from FFO.

FFO is an appropriate measure of the underlying operating performance of companies primarily involved in real estate because it provides investors with information regarding the Group's ability to service debt and make capital expenditures. Furthermore, FFO is used to compute incentive compensation to the Manager. FFO, as defined by Eurocastle, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties net of attributable deferred taxation, changes in the fair value of interest rate swaps that are taken to the income statement, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units. The Group considers the realisation of gains and losses on its investments to be a normal part of its recurring operations and therefore does not exclude such gains and losses when arriving at FFO. FFO does not represent cash generated from operating activities in accordance with IFRS and therefore should not be considered an alternative to cash flow as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs. Eurocastle's calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

The table below shows the summarised financial data of the Group's business segments with the unallocated amounts per Note 29 allocated between the segments on the basis disclosed below the table. The segmental analysis prepared according to IFRS has been disclosed in Note 29.

Income statement data **Year ended 31 December 2008**	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Revenue[1]	150,019	342,271	**492,290**
Other operating losses	(269)	(518,166)	**(518,435)**
Impairment losses	(14,476)	(2,318)	**(16,794)**
Interest expense	(115,560)	(170,036)	**(285,596)**
Service charge and property operating expenses	-	(90,239)	**(90,239)**
Other operating expenses (including foreign currency gains/(losses)[2]	(7,645)	(41,497)	**(49,142)**
Operating profit/(loss) before taxation	**12,069**	**(479,985)**	**(467,916)**
Taxation credit	-	13,843	**13,843**
Net profit/(loss)	**12,069**	**(466,142)**	**(454,073)**
Decrease / (increase) in fair values	595	518,166	**518,761**
Realised gains on sale	-	5,872	**5,872**
Deferred tax	-	(13,473)	**(13,473)**
Funds from operations	**12,664**	**44,423**	**57,087**
Funds from operations per ordinary share[3] €	**0.20**	**0.71**	**0.91**
Funds from operations (excluding gains, sales related costs and impairment losses)	**27,409**	**40,640**	**68,049**
Funds from operations (excluding gains, sales related costs and impairment losses) per ordinary share €	**0.44**	**0.64**	**1.08**

1 Unallocated revenue of €1.3 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.2 million and investment properties: €1.1 million.

2 Unallocated other operating expenses of €27.7 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €4.5 million and investment properties: €23.2 million.

3 Earnings per share and FFO per share are calculated on the weighted average number of shares at 31 December 2008.

Year ended	**31 December 2008 €'000**	**31 December 2007 €'000**
Funds from operations	57,087	186,286
FFO per ordinary share	0.91	2.92

FFO, including gains and impairment losses, for 2008 was €57.1 million. This compares to €186.3 million for 2007.

The decrease in FFO against 2007 of €129 million is mainly due to:

- lower rental and service charge income due to the expiry of guarantees in the Mars portfolio and sales of investment properties (€26 million)
- lower gains on sales of investment properties compared to 2007 (€71million);
- real estate fund unit income received in 2007 but not in 2008 (€17 million);
- gain on sale of real estate units in 2007 (€20 million) and nil in 2008; and
- impairment losses in 2008 (€17 million).
- Higher property operating expenses (€11 million)

Offset by:

- no management incentive fee paid in 2008 (2007: €22 million); and
- higher debt investments operating income (€11 million).

Operating Income

The Group's operating income consists of rental and service charge income from German commercial property, interest income from debt investments, gains/losses on sale of available for sale assets, impairment losses on securities and fair value movements on investment properties, real estate fund units and interest rate swaps.

Operating income, excluding fair value movements is shown in the table below:

Operating income (excluding fair value movements) **Year ended**	**31 December 2008** **€'000**	**31 December 2007** **€'000**
Interest income	155,382	144,697
Rental income	281,118	303,744
Service charge income	55,790	60,878
Real estate fund unit income	-	17,185
Total	**492,290**	**526,504**

The increase in interest income compared with 2007 was principally due to a combination of additional real estate loan fee income and higher relative interest rates.

The decrease in rental income compared 2007, reflects the sale of real estate assets and the expiry of rental guarantee in the second quarter 2008.

Service charge income represents the service costs that have been charged to the tenants and includes common area maintenance, insurance, utilities costs and property taxes and a service charge guarantee on the Mars portfolio. The reduction in service charge income of €5.1 million from 2007 mainly reflects the expiry of service charge guarantees in the second quarter of 2008 (€3.0 million received in 2008 compared to €5.1 million in 2007).

Real estate fund unit income decreased to nil due to the sale of the real estate fund units in October 2007.

Fair value movements / impairment **Year ended**	**31 December 2008** **€'000**	**31 December 2007** **€'000**
(Decrease) / increase in fair value of investment properties	(499,151)	35,004
(Loss) on disposal of asset backed securities, available for sale	(269)	(1,084)
(Decrease) / increase in fair value of interest rate swaps	(19,015)	13,262
Increase in fair value of real estate fund units	-	16,751
Impairment losses	(16,794)	-
Total	**(535,229)**	**63,933**

The Group's investment properties are revalued on a quarterly basis by external valuers. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, relettability and marketability of properties.

The fair value of interest rate swaps declined by €19 million due to significant falls in interest rates, particularly in the last quarter of 2008 while the Group remained a net fixed interest rate payer.

During the year ended 31 December 2008, the Group has recognised impairment losses on seven securities or loans, €14.5 million within the debt investment portfolio and €2.3 million within the Drive liquidity fund. These impairments relate to a real estate loan which has breached an event of default covenant and where ultimate losses are expected, four RMBS securities, purchased at a discount, and two securities where the impairment is as result of the bankruptcy of Lehman Brothers.

Operating Expenses

The Group's operating expenses consist of interest expenses, service charge expenses, property operating expenses and other operating expenses as shown in the table below:

Year ended	31 December 2008 €'000	31 December 2007 €'000
Interest expense	285,596	281,414
Losses on foreign currency contracts, translation and swaps	1,501	1,995
Service charge expenses	55,790	60,878
Property operating expenses	34,449	22,473
Other operating expenses	47,641	67,890
Total operating expenses	**424,977**	**434,650**
Operating income (excluding fair value movements)	**492,290**	**526,504**

A significant proportion of the Group's operating expenses represent interest expense (67% for 2008, against 65% for the 2007). The increase from 2007 was due to higher interest rates during most of 2008 and higher drawn balances, affecting floating rate debt, offset by repayment of debt through commercial property sales and lower realised gains on closure of interest rate swaps.

The Group's property operating expenses include common area maintenance, insurance, utilities costs and property taxes that cannot be recovered from tenants or that relate to vacant space. The increase in 2008 was predominantly due to the expiry of the service charge guarantee, in respect of the Mars portfolio, as mentioned above in Operating Income.

The Group's other operating expenses include Management and Incentive fees paid to the Manager (see Note 28). There was no Incentive fee payable in 2008 (€22.2 million in 2007) and excluding this, other operating expenses are in line with 2007.

Corporation Tax

The Group's corporation tax on operating profit is shown in the table below:

Year ended	31 December 2008 €'000	31 December 2007 €'000
Current tax (credit) / charge	(370)	1,491
Deferred tax (credit) / charge	(13,473)	19,381
Total tax (credit) / charge	**(13,843)**	**20,872**

The deferred tax represents temporary timing differences between the fair value and the German tax book value of all investment properties, except those within the Drive portfolio (which are exempt from corporation tax on all income generated and revaluation gains). The deferred tax credit of €13.5 million in 2008 is primarily due to reductions in the fair values of the Group's commercial property portfolios.

The Group has structured its investments in a tax efficient manner but changes in tax legislation or management non-compliance with certain tax principles in relevant jurisdictions (including Guernsey, Luxembourg, Ireland, United Kingdom and Germany) could affect the Group's effective rate of taxation.

Balance Sheet Review

The segmental analysis prepared according to IFRS has been disclosed in Note 29. The table below shows the summarised financial data of the Group's business segments with the unallocated amounts per Note 29 allocated between the segments on the basis disclosed below the table.

Balance sheet data

As at 31 December 2008	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Investments	1,719,790	4,244,263	**5,964,053**
Other assets[1]	148,381	135,875	**284,256**
Total assets	**1,868,171**	**4,380,138**	**6,248,309**
Interest-bearing debt financing	(1,876,231)	(3,424,649)	**(5,300,880)**
Other liabilities[2]	(8,164)	(115,266)	**(123,430)**
Total liabilities	**(1,884,395)**	**(3,539,915)**	**(5,424,310)**
Segment net (liabilities) / assets	**(16,224)**	**840,223**	**823,999**
Tax liability	-	(12,947)	**(12,947)**
Minority interest	(2)	(4)	**(6)**
Net (liabilities) / assets	**(16,226)**	**827,272**	**811,046**
Net (liabilities) / assets per share €	**(0.27)**	**13.62**	**13.35**

1 Unallocated other assets of €21.6 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €3.5 million and investment properties: €18.1 million.

2 Unallocated other liabilities of €5.3 million have been allocated between debt investment and investment property segments based on each segment's share of invested equity. Amounts allocated were: debt investments: €0.9 million and investment properties: €4.4 million.

Adjusted Net Asset Value

The debt investment securities portfolio is predominantly financed to maturity with long-term collateralised debt obligations ("CDOs") that are not callable as a result of changes in value and are non-recourse to the Group. While the assets in the CDOs are consolidated in the financial statements for IFRS purposes, the Group's exposure to losses is limited to its initial investment in each CDO. The 31 December 2008 IFRS net asset value reflects approximately €149.9 million of unrealised losses in assets within the Group's CDOs that exceeds its investment in the CDOs and, therefore, could not be realised in cash terms by the Group.

The Group believes that another measure of shareholder value is the adjusted net asset value which estimates the fair value of all of our financial assets and liabilities within the debt investment portfolio. At 31 December 2008, the Group's adjusted book value per share is estimated to be €18.56 (31 December 2007: €23.47).

Adjusted net asset value

As at 31 December 2008	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Reported net asset value	**(16,226)**	**827,272**	**811,046**
Estimated fair value adjustment of loans and receivables	(480,188)	-	**(480,188)**
Estimated fair value adjustment of financial liabilities within the debt investment portfolio	796,161	-	**796,161**
Adjusted net asset value	**299,747**	**827,272**	**1,127,019**
Adjusted net asset value per share €	**4.94**	**13.62**	**18.56**

Total Assets

Total assets as at 31 December 2008 amounted to €6.2 billion, representing a 17.3% decrease from €7.5 billion as at 31 December 2007. This primarily reflects the reduction in value of the commercial property portfolio of €499.1 million, and the sale of 15 assets within the commercial property portfolio, valued at €456 million. In addition debt investments declined by €326 million.

Real Estate Investments

As at 31 December 2008, the Group's real estate portfolio comprised €4.2 billion of commercial property investments compared with €4.7 billion as at 31 December 2007, on a like-for-like basis. This represents a decrease of 11.9% in the fair value of investment properties on the 31 December 2007 values.

Debt Investments

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available for sale securities within CDO II, CDO III and CDO V to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 it had the intention and the ability to hold to maturity or the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

The accounting treatment for loans and receivables allows the securities to be carried at their amortised cost (based on the carrying value at the date of reclassification), with no adjustment for changes in the market value unless there has been any impairment. The change in the value of the reclassified securities during the year, had they been held as available for sale, would have been a €496 million unrealised loss.

Financing Activities

Real Estate Portfolio Financing

The Group continues to finance its core real estate portfolio with fixed rate term loans, which, during the period of ownership, has substantially eliminated its exposure to fluctuating interest rates. This is consistent with the objective of locking in the spread between the yield on its investments and the cost of financing those investments.

Debt Investment Portfolio Financing

The Group has no mark-to-market or full recourse exposure on its debt portfolio, with all financing facilities maturing in one year or more, and one facility with limited recourse of €30 million, described in Note 3 of the Notes to Consolidated Financial Statements, under the heading Short Term Financing.

At 31 December 2008, approximately 87.7% of the debt investment portfolio benefits from financing maturing beyond the maturity date of its assets.

Short Term Financing

At 31 December 2008, €125 million was outstanding under the Group's Corporate Loan Facility. The terms of this loan were amended in April 2009 and involved an immediate repayment of €10 million, leaving the principal amount outstanding at the publication date of these financial statements of €115 million. The Corporate Loan Facility now matures on 30 June 2011 and has planned semi-annual amortisations reducing it to €95 million by 30 June 2009, to €65 million by 31 December 2009, to €45 million by 30 June 2010, and to €20 million by 31 December 2010.

The Mars Floating Facility was due to be paid down to €200 million by 31 December 2008, with the balance due on 30 June 2009. Since the year end, the Group refinanced the Facility; the amended Facility matures on 31 December 2012 and has scheduled amortisation payments of €36 million, €50 million, and €75 million at the end of 2009, 2010, and 2011, respectively. In consideration of the extension of this facility, the Group has agreed to transfer to the Mars Floating Facility lender approximately half of its equity investment in the combined Mars portfolios as at 31 January 2009. The Group's investment in the combined Mars portfolio as at 31 December 2008 was €310 million.

Additional details on the Corporate Loan Facility and Mars Floating Facility, together with the Directors' assessment of the Group's ability to continue as a going concern are set out in Note 3 of the Notes to the Consolidated Financial Statements.

Risks

Interest Rate Risk

The Group's primary interest rate exposure relates to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate swaps. Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the disposal of such assets.

The Group's general financing strategy focuses on the use of match-funded structures, meaning that it seeks to match the maturities of its debt obligations with the maturities of its investments to minimise the risk that the Group will have to refinance its liabilities prior to the maturities of its assets, reducing the impact of changing interest rates on its earnings. In addition, the Group match funds interest rates on its investments with like-kind debt directly or through the use of interest rate swaps. However, based on a variety of factors, the Manager finances certain assets on a short term basis, including the use of a floating rate corporate loan. The Group generally finances its core real estate portfolios with fixed rate loans for original terms ranging from 7 to 13 years, or where it takes out floating rate term loans, it enters into hedging instruments (such as interest rate swaps), to lock in a fixed rate for the duration of the loan.

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposure relates to its non-euro denominated portfolio of securities and loans. Changes in the currency exchange rates can adversely impact the fair values and earnings streams of the Group's non-euro denominated assets and liabilities. In the past, the Group has mitigated this impact through a combination of (i) non-euro denominated financing; and (ii) rolling forward foreign exchange contracts to hedge its net non-euro equity investment.

Recognising the liquidity risk and related margin requirements associated with entering into forward foreign exchange contracts and the increased uncertainty as to the future cash flows from, and value of, its equity investments in the debt portfolio, the Group stopped hedging its net non-euro equity investments from the beginning of 2009.

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its investments and derivative financial instruments.

The Group's real estate investment assets are based in Germany and are subject to general property market risks. These risks are assessed by the Group at the point of acquisition and are then monitored on an ongoing basis. In addition, external valuations of the Group's real estate assets are obtained during each financial year.

The Group recognises that the significant deterioration in economic conditions on the back of the global credit crises have adversely impacted the property valuations. This may in turn affect disposal values. Due to the current market conditions and the nature of the assets in which the Group invests, sales of assets by the Group could result in significantly lower proceeds than the carrying value of those assets in the consolidated financial statements included herein. Also, due to the nature of the Group's assets, asset sales may not be affected swiftly enough to avoid default of the Group's existing financings.

The Group is also exposed to market risk in respect of its interest rate swaps where it receives floating and pays fix. A significant decrease in underlying interest rates and variations in the yield curve could have adverse impact on the valuations of its interest rate swaps.

The Group's available-for-sale securities are predominantly floating rate and as such are valued based on a market credit spread over Euribor and Libor and CHF benchmarks for euro and non-euro denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

The Group's securities that were reclassified as Loans and Receivables (see note 13) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financing.

Credit Risk

The Group is subject to credit risk with respect to its investments in real estate, and other asset backed securities and loans.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group minimises credit risk by actively monitoring its securities portfolio and the underlying credit quality of its holdings and where appropriate, repositioning its investments to upgrade the credit quality and yield on the investments.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. At 31 December 2008, the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BB+ (31 December 2007: BBB-).

The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case.

Liquidity and Capital Resources

The Group's ability to execute its business strategy depends to a significant degree on the Group's ability to obtain additional capital and funds in markets where uncertainties currently prevail.

The Group's primary source of funds for liquidity consists of net cash provided by operating activities, borrowings under loans and credit facilities and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash in hand, extension of borrowings maturing within the next twelve months, additional capital raising and cash flow provided by operations including net proceeds from the selective sale of assets will satisfy its liquidity needs over the next twelve months, although there are material uncertainties which may affect the company's liquidity and cash flow which are described in Note 3. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through additional borrowings, a convertible debt issue and the liquidation, refinancing or repayment of its assets at maturity.

A significant portion of the Group's investments are financed with non-recourse collateralised debt obligations, known as CDOs. Proceeds from the sale of real estate and other asset backed securities that serve as collateral for the Group's CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are therefore not available to fund current cash needs. In addition, there is a strong likelihood that the net cash flows within the CDOs will be diverted to repay debt, rather than be available to the Group.

As a necessary consequence of the existence of certain covenants, where compliance is a function of the default rate and external credit ratings of the underlying investments, there is currently a material risk that, in the event of a breach of those covenants, that a substantial proportion of the net cash flows attributable to the debt business could be mandatorily applied to the repayments of the debt funding those underlying investments. The Directors consider that there are material risks to the cash flows from the Group's debt investment operations. In particular, since the year-end, CDO II, III and V have fallen out of compliance in respect of certain tests where compliance is a function of the default rate and external credit ratings of the underlying investments. Continuing failure of those tests will lead to a substantial proportion of the net cash flows attributable to the debt business being mandatorily applied to the repayments of debt funding those underlying investments. Furthermore there are additional covenants, also where compliance is a function of the default rate and credit ratings of the underlying investments, which if breached would constitute an event of default under the terms of those borrowings and as such give a right of acceleration to the respective lenders. The underlying investments in the CDOs are continuing to generate cash flows. However, in the current environment, where the frequency and more importantly severity of negative ratings actions has increased exponentially, the risk of a diversion of net cash flows has become very likely and the risk of an event of default while previously quite remote has become a material risk.

Glossary of Terms

Average invested capital

The sum of the average share capital outstanding and undistributed FFO for the period.

Adjusted NAV

The net asset value of the Group adjusted for the market value of all financial assets and liabilities within the debt investment portfolio.

Fair value

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently, and without compulsion.

Fund from operations (FFO)

A measure of the underlying operating performance of the Company, calculated as net profit after taxation, excluding changes in the fair value of investment properties net of attributable deferred taxation, changes in the fair value of interest rate swaps that are taken to the income statement, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units.

Gross rental income

Contractual rental income from let properties, after taking into account the net effects of straightlining for lease incentives and indexation.

Head leases

The lease whereby the owner of the property pays ground rent to the lessor.

Lettable space

Any part of a property that can be leased to a tenant.

Leasing commissions

Any consideration or expense leading to a reduction in income in order to secure a lease which is amortised over the term of the lease.

Like-for-like

Comparable information relating to elements which existed for the whole of the current and prior period.

Net operating income

Gross rental income less net service charge expenses and property operating expenses.

Passing rent

The annual gross rental income as per a certain date, excluding the net effects of straightlining for lease incentives and indexation.

Property operating expenses

The expenses directly relating to a property for the account of the landlord including service charges not recoverable because of vacancy.

Service charge expenses

The amounts paid and/or accrued by the landlord relating to lettable space for which it has been agreed with tenants to recover these amounts.

Service charge income

The amounts received and/or accrued by the landlord in respect of service charge expenses.

Tenant incentives

The refurbishment expenses to (re)let vacant space, to relet space becoming vacant at the expiry date of a lease or to renew a lease which is amortised over the term of the lease.

Vacant space

Unrented lettable space.

Incorporation

Eurocastle Investment Limited (the "Group") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003.

Activities

The principal activities of the Group include investing in, financing and management of high quality German commercial properties. In addition, the Group also invests in European real estate related debt which is complementary to its core business. The Group is externally managed by its manager (the "Manager"), an affiliate of Fortress Investment Group LLC , a global alternative asset manager with approximately US$29.5 billion of assets under management as of 31 December 2008. The Group has entered into a management agreement (the "Management Agreement") under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group's Board of Directors. The Group has no direct employees. For its services, the Manager receives an annual management fee (which includes a reimbursement for expenses) and incentive compensation, as defined in the Management Agreement. The Group has no ownership interest in the Manager.

Review of Business

The consolidated income statement for the year is set out on page 24. A review of the development and performance of the business has been set out in the letter to shareholders, business review and financial review. This includes an analysis of the performance and position of the business. Principal risks facing the business have been set out in the financial review.

Dividends

On 14 August 2008, the Board of Directors declared a semi-annual cash dividend of €0.30 (2007: €0.60). The Board has determined that retaining a portion of its earnings is in the best long-term interests of the Company and its shareholders. The aggregate dividend for the year was €0.30 compared to €1.95 in 2007.

Management Agreement

The Independent Directors have reviewed the continued appointment of the Manager. In carrying out the review, the Independent Directors considered the past performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance. The Independent Directors also considered the length of notice period of the Management Agreement and the management and incentive fees payable to the Manager, together with the standard of the other services provided.

The Independent Directors conclude that the continued appointment of the Manager was in the best interest of the shareholders.

Directors

The Directors who held office during the year and subsequently were:

Wesley R. Edens
Randal A. Nardone
Keith Dorrian
Paolo Bassi
Simon Thornton
Udo Scheffel

Directors' Interests

The interests of the Directors in the ordinary shares of the Company as at 31 December 2008 were as follows:

	31 December 2008	31 December 2007
Paolo Bassi	38,800	37,800
Keith Dorrian	5,000	4,000
Wesley R. Edens*	50,000	50,000
Randal A. Nardone*	20,000	20,000
Udo Scheffel	2,000	1,000
Simon Thornton	2,000	1,000

* Wesley R. Edens and Randal A. Nardone are members of Fortress Operating Entity II LP which is the registered holder of 1,005,000 Shares and as a result of this relationship Wesley R. Edens and Randal A. Nardone are interested in the shares owned by this entity or in some of such shares.

Substantial Shareholdings

As at 28 April 2009, the Group had notification that the following shareholders had an interest in 3% or more of Eurocastle Investment Limited's share capital:

	% Holdings
Euroclear Nominees Limited	38.11%
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV*	37.77%
Goldman Sachs Securities (Nominees) Limited**	14.58%

* Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV is the Dutch central securities depositary (otherwise known as Euroclear Netherlands)

**The Company has been informed that certain entities constituting Fortress Investment Fund III own at least 12.3% of outstanding shares in the Company through a Goldman Sachs nominee company.

Auditors

Ernst & Young LLP were re-appointed during the period. Ernst & Young LLP have expressed their willingness to continue in office.

Registered Office

International Administration (Guernsey) Limited
Regency Court
Glategny Esplanade
St. Peter Port, Guernsey, GY1 1WW

On behalf of the Board

Wesley R. Edens
Date: 29 April 2009

Statement of Directors' Responsibility in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Companies (Guernsey) Law 1994 and International Financial Reporting Standards.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the group for that period. In preparing those financial statements, the Directors are required to:

• Select suitable accounting policies and then apply them consistently;

• Present information, including accounting policies, in a manner that provides relevant, reliable comparable and understandable information;

• Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

• State that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 1994.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

To the members of Eurocastle Investment Limited

We have audited the consolidated financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2008 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law 1994. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state them in an auditor's report and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards (IFRS) are set out in the Statement of Directors' Responsibilities in respect of the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law 1994. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Business Review, Financial Review, Letter to Shareholders and Director's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted out audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law 1994.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the company's ability to continue as a going concern. The conditions described in note 3 indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Ernst & Young LLP

Ernst & Young LLP
London
Date: 29 April 2009

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Operating income			
Interest income	4	155,382	144,697
Rental income	5	281,118	303,744
Service charge income	5	55,790	60,878
Real estate fund unit interest income		-	17,185
Loss on disposal of asset backed securities, available-for-sale		(269)	(1,084)
(Decrease) / increase in fair value of investment properties	8,16	(499,151)	35,004
Increase in fair value of real estate fund units		-	16,751
(Decrease) / increase in fair value of interest rate swaps		(19,015)	13,262
Impairment losses	10	(16,794)	-
Total operating (loss) / income		**(42,939)**	**590,437**
Operating expenses			
Interest expense	6	285,596	281,414
Losses on foreign currency contracts, translation and swaps	9	1,501	1,995
Service charge expenses	5	55,790	60,878
Property operating expenses	5	34,449	22,473
Other operating expenses	7	47,641	67,890
Total operating expenses		**424,977**	**434,650**
Operating (loss) / profit before taxation		**(467,916)**	**155,787**
Taxation (credit) / expense - current	8	(370)	1,491
Taxation (credit) / expense - deferred	8	(13,473)	19,381
Net (loss) / profit after taxation		**(454,073)**	**134,915**
(Losses) / earnings per ordinary share			
Basic	22	(7.20)	2.12
Diluted	22	(7.20)	2.06
Weighted average ordinary shares outstanding			
Basic	22	63,072,337	63,787,016
Diluted	22	63,072,337	65,569,559

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2008 €'000	31 December 2007 €'000
Assets			
Cash and cash equivalents	11	119,869	146,707
Investment properties held for sale	16	117,790	-
Other assets	14	71,560	81,988
Available for sale securities	12	104,548	1,488,837
Loans and receivables (includes cash to be invested)	13	1,629,394	570,916
Fixtures and fittings	18	284	754
Derivative assets	15	90,225	44,839
Investment property	16	4,112,321	5,171,086
Intangible assets	17	2,318	3,068
Total assets		**6,248,309**	**7,508,195**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	23	1,426,617	1,446,172
Accumulated (loss) / profit		(383,347)	109,082
Net unrealised (loss) on available for sale securities	12	(265,253)	(129,221)
Hedging reserve	24	15,709	30,335
Other reserves	23	17,320	17,320
Total shareholders' equity		**811,046**	**1,473,688**
Minority interest		**6**	**6**
Total equity		**811,052**	**1,473,694**
Liabilities			
Trade and other payables	21	88,152	121,846
CDO bonds payable	19	1,674,758	1,742,746
Bank borrowings	20	3,626,122	4,116,312
Derivative liabilities	15	11,218	-
Finance lease payable	16	24,001	26,709
Current taxation payable	8	1,621	2,030
Deferred taxation liability	8	11,385	24,858
Total liabilities		**5,437,257**	**6,034,501**
Total equity and liabilities		**6,248,309**	**7,508,195**

See notes to the consolidated financial statement.

The accounts were approved by the Board of Directors on 29 April 2009 and signed on its behalf by:

Wesley R. Edens
Chairman

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Cash flows from operating activities		
Operating (loss) / profit before taxation	(467,916)	155,787
Adjustments for:		
Interest income	(155,382)	(144,697)
Interest expense	285,596	281,414
Unrealised loss on foreign currency contracts	1,501	1,995
Amortisation of (discounts) on securities	(2,142)	(1,018)
Amortisation of borrowing costs	8,735	12,188
Amortisation of tenant incentives and leasing commissions	4,210	1,364
Realised loss on disposal of available for sale securities	269	1,084
Impairment losses	16,794	-
Shares granted to directors	20	98
Taxation paid	(39)	-
Amortisation of intangibles	744	593
Depreciation	68	63
(Increase) in fair value of real estate fund units	-	(16,751)
Decrease / (increase) in fair value of investment properties	499,151	(35,004)
Decrease / (increase) in fair value of interest rate swap	19,015	(13,262)
(Increase) / decrease in other assets	1,661	4,997
Interest received	158,129	137,323
Interest paid	(286,688)	(267,275)
Increase in trade and other payables	(21,382)	14,032
Net cash flows from operating activities	**62,344**	**132,931**
Cash flows from investing activities		
Purchase of investment property / capital expenditure	(37,555)	(2,367,085)
Proceeds from sale of investment properties	460,865	528,749
Proceeds on sale / prepayment of available for sale securities	21,602	365,725
Purchase of available for sale securities	(95,302)	(554,219)
Sale of securities pledged under repurchase agreements	-	78,646
Purchase of loans and receivables	(139,458)	(301,462)
Sale / prepayment of loans and receivables	224,819	136,417
Proceeds of disposal of real estate fund units	-	164,475
Return of capital of real estate fund units	-	764
Purchase of fixtures and fittings	-	(817)
Purchase of intangible assets	-	(1,833)
Net cash flows from investing activities	**434,971**	**(1,950,640)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	-	6,916
Costs related to issuance of ordinary shares	-	(359)
Repurchase of ordinary shares	(19,200)	-
Costs related to the repurchase of ordinary shares	(375)	-
Proceeds from issuance of bonds	17,311	923,106
Costs related to issuance of bonds	-	(9,245)
Repayments under repurchase agreements	-	(75,490)
Repayments of bonds issued	(1,667)	(351,000)
(Decrease) / increase of bank borrowings	(481,866)	1,462,080
Dividends paid to shareholders	(38,356)	(114,291)
Net cash flows from financing activities	**(524,153)**	**1,841,717**
Net (decrease) / increase in cash and cash equivalents	**(26,838)**	**24,008**
Cash and cash equivalents, beginning of year	**146,707**	**122,699**
Cash and cash equivalents, end of year	**119,869**	**146,707**

See notes to the consolidated financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2007	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**
Net unrealised loss on available for sale securities	-	-	-	(131,340)	-	-	-	(131,340)
Share options exercised during the period	404,551	6,916	-	-	-	-	-	6,916
Issuance of ordinary shares to Directors	4,000	98	-	-	-	-	-	98
Additional costs related to Dec 06 share issue	-	(359)	-	-	-	-	-	(359)
Realised losses reclassified to the income statement*	-	-	-	237	-	-	-	237
Net unrealised gain on hedge instruments	-	-	-	-	5,052	-	-	5,052
Realised gain on hedge instruments reclassified to the income statement**	-	-	-	-	4,850	-	-	4,850
Amortisation of novated swap	-	-	-	-	(3,109)	-	-	(3,109)
Net gains/(losses) not recognised in the income statement	-	-	-	(131,103)	6,793	-	-	(98,886)
Net profit for the year	-	-	-	-	-	134,915	-	134,915
Total income and expense for the year	-	-	-	(131,103)	6,793	134,915	-	10,605
Dividends paid	-	-	-	-	-	(114,291)	-	(114,291)
At 31 December 2007	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**

* Realised (gains) / losses are reclassified to the gain / (loss) on disposal of available for sale securities in the income statement.

** Realised gains on hedge instruments are reclassified to the interest expense in the income statement.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Net unrealised gains/ (losses) €'000	Hedging Reserves €'000	Accumulated profit / (loss) €'000	Minority interest €'000	Total equity €'000
At 1 January 2008	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**
Repurchase of ordinary shares (Note 23)	(3,199,988)	(19,200)	-	-	-	-	-	(19,200)
Costs related to repurchase of ordinary shares (Note 23)	-	(375)	-	-	-	-	-	(375)
Shares issued to Directors	4,000	20	-	-	-	-	-	20
Full year net unrealised loss on asset backed securities, remaining as available for sale	-	-	-	(32,623)	-	-	-	(32,623)
Net unrealised losses (from 1 Jan 08 to 30 June 2008) of available-for-sale securities reclassified to loans and receivables	-	-	-	(143,699)	-	-	-	(143,699)
Realised gains reclassified to the income statement*	-	-	-	(26)	-	-	-	(26)
Amortisation of unrealized gains/losses on available-for-sale securities reclassified to loans and receivables movements released to the income statement****	-	-	-	31,918	-	-	-	31,918
Net unrealized losses released to Income Statement on impaired asset backed securities, available-for-sale (Note 12)	-	-	-	2,318	-	-	-	2,318
Net unrealized losses released to Income Statement on impaired available-for-sale securities reclassified to loans and receivables (Note 13)	-	-	-	6,080	-	-	-	6,080
Net unrealised loss on hedge instruments	-	-	-	-	(13,681)	-	-	(13,681)
Swaps novated during the year***	-	-	-	-	3,229	-	-	3,229
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	(2,456)	-	-	(2,456)
Amortisation of novated swaps	-	-	-	-	(1,718)	-	-	(1,718)
Net losses not recognised in the income statement	-	-	-	(136,032)	(14,626)	-	-	(150,658)
Net loss for the year	-	-	-	-	-	(454,073)	-	(454,073)
Total loss and expense for the year	-	-	-	(136,032)	(14,626)	(454,073)	-	(604,731)
Dividends paid	-	-	-	-	-	(38,356)	-	(38,356)
At 31 December 2008	**60,731,646**	**1,426,617**	**17,320**	**(265,253)**	**15,709**	**(383,347)**	**6**	**811,052**

* Realised (gains) / losses are reclassified to the gain / (loss) on disposal of available for sale securities in the income statement.
** Realised gains on hedge instruments are reclassified to the interest expense in the income statement.
*** In June 2008 €79 million of floating rate financing was converted to fixed rate by novating an interest rate swap to the lender.
****This represents the amortisation of the available-for-sale securities reserves due to the reclassification of available-for-sale securities to loans and receivables as at 1 July 2008 based on effective interest rate basis through income statement (netted off in interest income).

1. BACKGROUND

Eurocastle Investment Limited (the “Group”) was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle Investment Limited is a euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange) and on 20 June 2007 was admitted to trading on the Amtlicher Markt (Official Market) and the Official Market sub-segment of the Frankfurt Stock Exchange. The activities of the Group include the investing in, financing and managing of European real estate assets and European real estate related debt.

The Group is externally managed by its Manager, FIG LLC (the “Manager”). The Group has entered into a management agreement (the “Management Agreement”) under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group’s Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in the Management Agreement. The Group has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2007 and for the year then ended, other than taking advantage of IAS 39 amendments for reclassification of assets. The consolidated financial statements are presented in euros, the functional currency of the parent company, because the Group conducts its business predominantly in euros.

Critical accounting judgments and estimates

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Manager’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The critical accounting judgments and estimates and significant accounting policies are the same as those disclosed in the financial statements for the year ended 31 December 2007, although the Group has reclassified all available for sale securities within CDO II, III and V to loans and receivables as of 1 July 2008, further to the recent amendment to IAS 39 “Reclassification of financial assets” (see Note 13).

(i) Impairment of available for sale investments and loans and receivables

The Group assesses on a regular basis whether there is any objective evidence of impairment in respect of the available for sale investments and loans and receivables portfolios. In determining whether objective evidence of impairment exists, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable significant financial difficulty of the issuer or obligor, defaults or breaches of contract, the probability of the borrower entering bankruptcy or other financial reorganisation, adverse changes in the payment status of the borrowers in a group or external events that would imply a high probability of default and loss.

(ii) Valuation of available for sale investments

Available for sale investments are stated at fair value. The determination of the fair value of available-for-sale investments requires considerable judgment and the consideration of factors such as the nature of the securities, credit rating, quality of collateral, extent of active market and the reputation of the issuers. The fair value is based on indicative dealer price quotations.

(iii) Valuation of investment properties

Investment properties are stated at fair value. The determination of fair values requires considerable judgment, and includes certain assumptions which include passing rent, void periods, yield, relletability, marketability of properties, terms of lease and comparison with similar properties in the real estate market. The fair values are determined based on valuations by external valuers.

(iv) Fair value of derivatives

The fair values of derivatives are determined by using valuation techniques. Where valuation techniques including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical models use only observable data, however areas such as credit risk (both own and counter party) and volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2008. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 31 December 2008, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

Eurocastle Funding Limited ("EFL"), Eurocastle CDO I PLC ("CDO I"), Eurocastle CDO II PLC ("CDO II"), Eurocastle CDO III PLC ("CDO III"), Eurocastle CDO IV PLC ("CDO IV"), Duncannon CRE CDO I PLC (Duncannon) and FECO SUB SPV PLC (Feco) are all limited companies incorporated in Ireland. The ordinary share capital of these vehicles is held by outside parties and the Group has no voting rights. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation – Special Purpose Entities, the Group consolidates EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and FECO as it retains control over these entities and retains the residual risks of ownership of these entities.

The Group owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg, Germany and Ireland, as disclosed in Note 30, which are consolidated into these financial statements.

Financial Instruments

Classification

Financial assets and liabilities classified at fair value through profit or loss include those designated as such in initial recognition, including total return swaps, interest rate swaps, foreign currency swaps and forward foreign exchange contracts that are not designated as effective hedging instruments and financial assets held for trading including real estate fund units.

Available-for-sale assets, including restricted cash balances, are financial assets that are not classified as instruments held at fair value through the income statement, loans and advances, or held to maturity.

Recognition

The Group recognises financial assets that are classified as held at fair value through the income statement and available-for-sale assets on the date it commits to purchase the assets (trade date). From this date, any gains and losses arising from changes in the fair value of the assets are recognised.

A financial liability is recognised on the date the Group becomes party to contractual provisions of the instrument.

Measurement

Financial instruments are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities that are not measured at fair value through profit or loss are included in the carrying amount.

Subsequent to initial recognition all instruments that are classified as held at fair value through the consolidated income statement and available-for-sale assets are carried at fair value.

All financial assets other than trading instruments and available-for-sale assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost, using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Reclassification of asset backed securities, available for sale to loans and receivable

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available for sale securities within CDO II, CDO III and CDO V to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 it had the intention and the ability to hold to maturity or the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

For an asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the new effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled in the income statement.

An analysis of reclassified assets is disclosed in Note 13.

Interest-bearing loans and borrowings (financial liabilities measured at amortised cost)

All loans and borrowings, including the Group's repurchase agreements, are initially recognised at fair value, being the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest income and interest expense

Interest income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the asset / liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fair value measurement principles

The fair value of a financial instrument is based on its quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is calculated using pricing models or discounted cash flow techniques, as applicable.

Where discounted cash flow techniques are used, expected future cash flows are based on the Manager's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is calculated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of instruments that are classified as held at fair value through the income statement are recognised directly in the income statement. Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity until the investment is derecognised (sold, collected, or otherwise disposed of) or impaired, at which time the related cumulative gain or loss previously recognised in equity is included in the income statement for the year.

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the calculated future cash flows of the financial asset or group of financial assets that can be reliably measured.

Loan and receivables investments

Loans and receivables investments are carried at amortised cost. The Group assesses individually each loan and receivable asset whether objective evidence of impairment as described above exists.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of the assets is reduced by the amount of the loss which is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the carrying amount of the asset is amended and the increase or decrease is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate ('EIR'). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified available-for-sale assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

Available-for-sale investments

Available-for-sale investments are carried at fair value. The Group assesses individually each available-for-sale asset whether objective evidence of impairment as described above exists.

If there is evidence of impairment, the cumulative unrealized loss previously recognized in equity, in net unrealized gains (losses), is removed from equity and recognized in the income statement for the period, reported in net gains (losses) on financial assets available-for-sale. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortization) and current fair value of the asset less any impairment loss on that investment previously recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest Income".

See Note 10, Note 12 and Note 13 for details of impairment losses on available-for-sale and loans and receivables investments.

Hedge accounting

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship and it meets the Group's risk management objective strategy for undertaking the hedge. Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged items affect the net profit and loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, short-term deposits and restricted cash with an original maturity of three months or less.

Restricted cash

Restricted cash comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, cash held by the trustees of securitisation vehicles as a reserve for future trustee expenses and cash held as part of the minimum liquidity requirement by property funds. As such, these funds are not available for use by the Group.

Investment properties

Investment properties comprise land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment properties are measured initially at cost, including transaction costs, and recognised when the customary conditions precedent under the relevant purchase agreement have been satisfied and the purchase price is paid to the vendor. The cost of replacing part of an existing investment property is included in the carrying amount when the cost is incurred, if the recognition criteria are met. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Tenant incentives and leasing commissions are held as other assets and are amortised over the life of the lease.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Properties that meet the definition of investment property held under operating leases are accounted for as investment property. In such cases the operating leases are accounted for as if they were finance leases with an associated liability representing the present value of future minimum lease payments included in finance lease liabilities on the balance sheet.

Leases

The determination of whether an arrangement is, or contains, a finance lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

Other leases are classified as operating leases and the expenses are taken on a straight line basis over the lease term, unless they relate to properties that meet the definition of investment property (see above).

Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease term. Incentives given to enter into lease agreements are spread evenly over the lease term as a reduction of rental expense, even if the payments are not made on such a basis.

Real Estate Fund Units

Real estate fund units are recorded at fair value in the consolidated balance sheet, with any change in fair value recognised in the consolidated income statement. The interest income is recognised in the income statement as it accrues, taking into account the effective yield of the real estate fund units.

Intangible Assets

Software costs and software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. These software costs are recognised in the consolidated income statement through amortisation of the capitalised software costs on a straight line basis over their expected useful life of 5 years.

Fixtures and Fittings

Fixtures and fittings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Fixtures and fittings are depreciated on a straight line basis over their expected useful life of 5 years.

Minority Interests

Minority interests represent interests held by outside parties in the Group’s consolidated subsidiaries.

Revenue

The Group considers revenue to comprise interest income and rental income as its principal business is investing in, financing and management of European real estate and other asset backed securities and other real estate related assets.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Service Charges

The Group acts as a principal bearing the risk of under recovering of service costs from its tenants. The service charge income earned from the tenants and the service costs incurred are shown separately in the consolidated income statement.

Service Income

Service income represents service costs recoverable from tenants and is recognised on the basis of services being provided.

Service Costs

Service costs represent service contracts entered into for the operation of the property, relating to lettable space for which it has been agreed with tenants to recover these amounts and are recognised on an accruals basis.

Property Expenses

Property expenses are expenses that are incurred on the property portfolio that are not able to be recovered from tenants or relate to vacant space. Property expenses are recognised on an accruals basis in the consolidated income statement.

Deferred Taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Foreign Currency Translation

The presentation currency of the Group and functional currency of the company and its subsidiaries is the Euro. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Share-Based Payments

Share-based payments are accounted for based on their fair value on grant date. The fair value is calculated by reference to an option pricing model. The fair value of the share options granted in relation to capital raises has been fully recognised (vested) on the date of grant as a cost relating to the issue of shares with a corresponding increase to other reserves.

Shares granted to Directors are recognised in the income statement over the period that the services are received.

International Financial Reporting Standards to be Adopted in 2009 and Later

IAS 1 Amendment – Presentation of Financial Statements and IFRS 8 – Operating Segments.

Upon adoption of IAS 1 Amendment, the Group will have to present a statement of comprehensive income either to replace or to complement the current income statement.

Upon adoption of IFRS 8, the Group will be required to disclose segment information based on the information management uses for internally evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement but the Group will provide an explanation for such differences. There will be no impact on the income, net assets or equity of the Group.

3. GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern. The Directors recognise the existence of material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. However, based on the actions taken and contemplated as described in the note below, the Directors have concluded that it is appropriate for the financial statements to be prepared on a going concern basis.

3.1 Short term financing exposure

The short term financing position of the Group as at 31 December 2008, following the repayment of €50 million of the corporate loan on 31 October 2008, is shown in the table below:

	Type of financing	Amount €'000	Maturity/Amortisation €'000
Corporate Loan	Recourse	125,000	31 March 2009
Mars Floating Facility – Amortisation	Non -recourse	32,403	31 January 2009
Mars Floating Facility – Final Repayment	Non -recourse	200,000	20 June 2009
CDO IV Financing (see Note 20.1)	Non -recourse	80,813	1 December 2009
Other Bank Financing	€30 million recourse	100,597	30 September 2009
Total		**538,813**	

However, since the year-end the terms of the Corporate Loan, the Mars Floating Loan and CDO IV Loan Facilities were amended as described below and the new short-term financing position as at the publication date of these financial statements is shown in the table below:

	Type of financing	Amount €'000	Maturity/Amortisation €'000
CDO IV Financing	Non -recourse	64,428	1 December 2009
Other Bank Financing	€30 million recourse	100,597	30 September 2009
Corporate Loan – first amortisation	Recourse	20,000	30 June 2009
Corporate Loan – second amortisation	Recourse	30,000	31 December 2009
Mars Floating Facility – amortisation	Limited recourse*	35,644	31 December 2009
Total		**250,669**	

* Details of the limited recourse are described in the section "Mars Floating Facility" below.

Corporate Loan Facility

On 9 May 2008, the Group converted its €300 million revolving credit facility into a term loan facility of €175 million and extended the maturity from October 2008 to 31 March 2009. In accordance with the loan agreement, €50 million was repaid on 31 October 2008.

The terms of this loan were amended in April 2009 and involved an immediate repayment of €10 million leaving the principal amount outstanding at the publication date of these financial statements of €115 million. The facility now matures on 30 June 2011 and has planned semi-annual amortisations reducing it to €95 million by 30 June 2009, to €65 million by 31December 2009, to €45 million by 30 June 2010 and to €20 million by 31 December 2010. Further, any excess cash flows from investment property sales and operations (after allowing for capital expenditure, operating expenses and the maintenance of a minimum operating cash balance) will be used to amortise the outstanding loan balance on the quarterly interest payment dates. The facility contains a net asset value covenant and a cash flow covenant, both of which have been renegotiated to the significant benefit of the Group. No event of default can occur upon the breach of either covenant for up to six months in any period. In addition, the Manager has agreed that the Group may escrow the majority of its Management Fee (approximately €940,000 per month) and use this retained portion to amortise the facility if semi-annual amortisation targets are not met from cash flows generated by the Group or where financial covenants are breached. Eurocastle may not pay dividends while any amounts under the Corporate Loan Facility are outstanding.

In addition, the Group expects to raise additional capital as noted below, and under the terms of the facility, is required to raise at least €15.4 million by 30 June 2009.

The interest rate on the amended loan has increased to 8% over three month Euribor.

Mars Floating Facility

The Mars Floating facility was due to be paid down to €200 million by 31 December 2008, with the balance due on 30 June 2009. However, since year-end, the Group has refinanced this Facility. The amended facility matures on 31 December 2012 and has scheduled amortisation payments of €36 million, €50 million and €75 million at the end of 2009, 2010 and 2011, respectively. The interest rate of the loan has increased from 1% to 1.75% over three month Euribor. This facility continues to contain no loan to value covenants and benefits from a Eurocastle interest top-up guarantee of up to a maximum of €10 million in the event that there is insufficient net operating cash flow from the portfolio to meet current interest. Eurocastle has also provided €10 million credit support to the Mars Floating Portfolio allowing (at the Group's discretion) assets to be sold in aggregate up to €10 million below their respective facility-allocated loan amounts (when the Corporate Loan is repaid, this amount will increase to €30 million). The Mars Floating Facility is subject to a full cash sweep which means that any operating cash flows, net of interest expenses, will be used to amortise the outstanding loan balance on the quarterly interest payment dates.

In consideration of the extension of this facility, the Group has agreed to transfer to the Mars Floating Facility lender approximately half of its equity investment in the combined Mars portfolios as at 31 January 2009. The Group's total equity investment in the combined Mars portfolios as at 31 December 2008 was €310 million. The Mars Floating Facility restructuring is subject to, amongst other things, the final legal transfer of the equity and associated documentation which must be effected by 11 May 2009. The Directors expect that all relevant conditions will be satisfied by this deadline.

To the extent that the relevant conditions are not satisfied by the appointed deadline, the Mars Floating Facility would default and an additional €20 million penalty fee would become payable to the Mars Floating lender (whose recourse for this fee will not extend beyond the Mars Floating Portfolio).

Mars Fixed Facility

Due to an interest cover test not being satisfied with respect to the Mars Fixed Facility, any net cash flows generated by the Mars Fixed Assets are being applied on each interest payment date to amortise the Mars Fixed Facility. This cash sweep of the Mars Fixed Facility is expected to subsist for the foreseeable future as a result of which the Group does not expect net cash flows generated for its benefit by the Mars Fixed Portfolio.

CDO IV Financing

This was originally a €400 million 3 year extendable facility secured over a portfolio of debt securities and real estate loans. In January 2008 the financing was extended out to 1 December 2009 and remains fully non-recourse.

In January 2009, the Group agreed with the lender to apply all surplus cash flows to pay down the debt. In return for this paydown, the lender agreed that the rating agency model used to determine the level of equity contribution (see Note 20.1) the Group is required to make would not incorporate any changes in rating agency methodologies. Through a combination of net interest income and repayments of principal on the underlying portfolio, the balance outstanding under this loan as at the date of publication of the financial statements was approximately €64 million.

Other Bank Financing

The other bank financing was raised to finance the sub-participation in a real estate loan and to finance the acquisition of certain CMBS assets. The financing has limited recourse to the Group of €30 million and has security over the financed assets. The Group has entered into discussions with the lender to extend the facility but the Directors recognise that in current market conditions, there is uncertainty over the willingness of the lender to extend.

Raising Additional Capital

The Group is considering the issue up to €130 million of debt securities convertible into Ordinary Shares of Eurocastle. The Group would use any such additional funds to pay down the Corporate Loan Facility (partially or completely). The raising of at least €15.4 million in additional capital by 30 June 2009 is a condition of the Corporate Loan Facility. The Directors confirm that a major shareholder has conditionally undertaken to subscribe for a minimum of €15.4 million of any such convertible debt securities if issued. The undertaking is subject, among other things, to the final terms of the issue being acceptable to this major shareholder.

Short Term Liquidity Sources

While the Directors recognise the existence of a material uncertainty over the next year, the Group expects to meet its funding requirements through a combination of:

- i) cash flows from operating activities (including principal repayments on the Group's debt investment portfolio)
- ii) selective sales of commercial properties
- iii) negotiating extensions with existing lenders
- iv) refinancing of existing financings with other banks
- v) raising additional capital

Since July 2007, the Group has raised or extended financing totalling €1.9 billion. During 2009 the Group has extended the Corporate Loan Facility and the Mars Floating Facility before their respective maturities. The Directors believe that the Group may be successful in renegotiating and extending the remaining financing arrangements (CDO IV and Other Bank Financing) before their respective maturities. However, they recognise that in the current market environment, there is uncertainty over the willingness of our lending banks to extend existing financings or the inclination of banks to extend new financing.

The Directors also consider that there are material risks to the cash flows from the Group's debt investment operations. In particular, since the year-end, CDOs II, III and V have fallen out of compliance in respect of certain tests, where compliance is a function of the default rate and credit ratings of the underlying investments. Continuing failure of those tests will lead to a substantial proportion of the net cash flows attributable to the debt business being mandatorily applied to the repayments of the debt funding those underlying investments. Furthermore, there are additional tests, which, if breached, would constitute an event of default under the terms of those borrowings and as such give a right of acceleration to the respective lenders or bondholders (whose recourse will be limited to underlying investment collateral and not to the Group (with the exception of the €30 million guarantee given in respect of the Other Bank Financing). In the current environment, where the frequency and the severity of negative ratings actions has increased significantly, the risk of a diversion of net cash flows has become very likely and the risk of an event of default which was previously remote has become a more material risk.

Consequently, the Group's ability to generate sufficient cash to meet the amortisation targets in the Corporate Loan Facility and the Mars Floating Facility are likely to be increasingly dependent on future sales of properties, as well as the raising of additional capital from Shareholders in excess of the €15.4 million already conditionally committed by a major shareholder as described in Raising Additional Capital above. The Directors acknowledge that due to the current market conditions and the nature of the assets in which the Group invests, sales of assets by the Group could result in significantly lower proceeds than the carrying value of those assets in the consolidated financial statements included herein.

The Directors also acknowledge that due to the nature of the Group's assets, asset sales may not be effected swiftly enough to avoid default of the Group's existing financings.

Conclusion

Under International Accounting Standard 1 ("IAS 1") " Presentation of Financial Statements", financial statements are presented using the going concern basis of accounting unless management either (i) intends to liquidate the entity, or (ii) to cease trading, or (iii) has no realistic alternative but to do so.

Notwithstanding the material uncertainties described above, based on the actions taken and contemplated, the Directors have concluded that the presentation of the Group's financial statements on a going concern basis is appropriate.

4. INTEREST INCOME

Interest income for the year ended 31 December 2008 of €155.4 million (31 December 2007: €144.7 million), is primarily interest income earned on the asset backed securities, available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2008 includes interest calculated using the effective interest method of €145.0 million (31

December 2007: €135.6 million). Coupon interest earned of €142.9 million is split between asset backed securities, available for sale (€54.4 million), loans and receivables (€43.8 million), and real estate related loans (€44.7 million).

Interest earned using the effective interest method on impaired assets for the year ended 31 December 2008 of €1.8 million includes interest on asset backed securities, available for sale of €0.1 million, interest on loans and receivables of €1.4 million, and interest on real estate related loans of €0.3 million.

The interest income includes the effect of amortisation of the available for sale securities reserve amounting to €31.9 million as a result of reclassification of available for sale securities to loans and receivables.

There was no real estate fund unit income for the year ended 31 December 2008 (31 December 2007: €17.2 million).

5. RENTAL INCOME / PROPERTY OPERATING EXPENSE / SERVICE CHARGE INCOME AND EXPENSE

5.1 Rental income

Rental income for the year ended 31 December 2008 of €281.1 million (31 December 2007: €303.7 million) represents rental income earned on investment properties.

5.2 Property operating expense

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income for the year ended 31 December 2008 were €34.4 million, (31 December 2007: €22.5 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €4.2 million, (31 December 2007: €1.4 million) and fund costs relating to the Drive portfolio of €2.8 million, (31 December 2007: €3.7 million).

5.3 Service charge income and expense

Service charge income for the year ended 31 December 2008 of €55.8 million (31 December 2007: €60.9 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2008 of €55.8 million (31 December 2007: €60.9) represents the costs of operating the properties, that are recoverable from tenants.

6. INTEREST EXPENSE

Interest expense for the year ended 31 December 2008 of €285.6 million (31 December 2007: €281.4 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements. Interest expense is calculated using the effective interest method.

Included within the interest expense for the year are gains on the closure of interest rate swaps of €12.8 million (31 December 2007: €20.9 million) and capitalised financing costs written off of €1.4 million (31 December 2007: €4.6 million) relating to the sale of non-core assets.

7. OTHER OPERATING EXPENSES

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Professional fees	4,129	2,780
Sale related costs	9,954	9,888
Management fees (Note 28)	21,895	21,922
Incentive fees (Note 28)	-	22,162
Depreciation	68	63
Amortisation of intangible assets	744	593
Other*	10,851	10,482
	47,641	**67,890**

* Included within other operating expenses for the year ended 31 December 2008 are reimbursement of property related asset management services of €8.3 million (31 December 2007: €7.0 million) to FIG LLC (See Note 28).

8. TAXATION EXPENSE

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Current tax		
Germany	(370)	1,740
Luxembourg	-	(249)
Total current tax	**(370)**	**1,491**
Deferred tax		
Germany	(13,473)	19,381
Total deferred tax	**(13,473)**	**19,381**
Total tax (credit) / expense	**(13,843)**	**20,872**

Reconciliation of the total tax expense

The Group is exempt from Guernsey income tax. The tax expense in the consolidated income statement for the period is higher than Group's Guernsey income tax rate of 0%. The difference is reconciled below:

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Net (loss) / profit before taxation	(467,916)	155,787
Tax on ordinary activities based on Guernsey tax of 0 % (2007: 0%)	-	-
Overseas taxation - Germany	(13,843)	21,121
Overseas taxation – Luxembourg	-	(249)
Total tax (credit) / expense	**(13,843)**	**20,872**

Analysis of deferred tax:

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Tax losses carried forward	552	(3,000)
Temporary differences		
Loan expense	(631)	274
Tenant improvements and leasing commissions	65	727
Accelerated capital allowance	(1,168)	3,490
Revaluation of investment properties*	(13,226)	19,241
Acquisition expense	-	(244)
Capital expenditure	(104)	992
Other	1,039	92
Change in tax rate	-	(2,191)
Deferred tax (credit) / expense	**(13,473)**	**19,381**

* This represents deferred tax on the difference between the fair value and the German tax book value of the investment properties, except the Drive portfolio as the Group's investment in the underlying properties in relation to the Drive portfolio is by way of units in an open ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in the Drive portfolio.

Deferred tax on revaluation of investment properties:

Portfolio	Year ended 31 December 2008 (decrease) in fair value €'000	Year ended 31 December 2008 deferred tax €'000	Year ended 31 December 2007 (decrease) / increase in fair value €'000	Year ended 31 December 2007 deferred tax €'000
Mars*	(221,592)	(3,847)	(62,194)	5,020
Drive	(168,686)	-	9,027	-
Wave	(21,859)	(2,522)	49,143	6,818
Zama	(3,981)	-	(686)	-
Bridge	(42,730)	(3,530)	25,962	4,635
Retail	(40,303)	(3,327)	13,752	2,768
	(499,151)	**(13,226)**	**35,004**	**19,241**

* The Mars portfolio consists of 39 entities, each holding investment properties. Deferred tax represents the tax on the valuation losses/gains at the individual entity level.

Movement in taxation liability:

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Opening tax payable	26,888	6,016
Tax paid	(39)	-
Tax (credit)/expense for the year	(13,843)	20,872
Closing taxation payable	**13,006**	**26,888**
Split between:		
Current tax	1,621	2,030
Deferred tax	11,385	24,858
Closing taxation payable	**13,006**	**26,888**

Reconciliation of the total tax charge:

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
(Loss)/profit before tax	(467,916)	155,787
Tax at domestic tax rates applicable to profits in the respective countries	**-**	**29,434**
Movement in deferred tax assets	(887)	(1,282)
Tax effect of revaluation of investment properties	(16,113)	6,655
Tax effect of timing differences	5,440	(243)
Tax effect of non-deductible expenses	-	(1,651)
Tax effect of tax losses	(1,353)	-
Tax effect of changes in tax rates	-	(11,792)
Other	(930)	(249)
Total tax (credit)/expense	**(13,843)**	**20,872**

The taxation expense for the year ended 31 December 2008 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and Feco, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

The Group's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the year ended 31 December 2008 includes a provision relating to these subsidiaries.

The Group's subsidiary clusters Bastion, Belfry, Truss, Bridge, Turret, Mars, Zama, Tannenberg and Superstella are also subject to German income tax on rental income net of interest and other expense deductions on a cash basis.

The Group's investment in the underlying properties in relation to the Drive portfolio is by way of units in an open-ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in these units.

The Group's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries.

9. LOSSES ON FOREIGN CURRENCY CONTRACTS, TRANSLATION AND SWAPS

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Fair value movements on currency swaps	65,756	23,274
Foreign currency translation loss on assets subject to currency swap	(66,351)	(23,781)
Sub-total	**(595)**	**(507)**
Other currency losses	(906)	(1,488)
Total currency losses	**(1,501)**	**(1,995)**

* The foreign currency swap is disclosed in Note 15.2.

10. IMPAIRMENT LOSSES

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Impairment losses on asset backed securities, available-for-sale	2,318	-
Impairment losses on loans and receivables	11,900	-
Impairment losses on real estate related loans	2,576	-
	16,794	**-**

During the year ended 31 December 2008, the Group has recognised impairment losses on seven securities or loans, €14.5 million within the debt investment portfolio and €2.3 million within the Drive liquidity fund. These impairments relate to a real estate loan which has breached an event of default covenant and where ultimate losses are expected, four RMBS securities, purchased at a discount, and two securities where the impairment is as result of the bankruptcy of Lehman Brothers.

The carrying value of the impaired securities or loans as at 31 December 2008 after the impairment losses was €18.5 million.

11. CASH AND CASH EQUIVALENTS

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Corporate cash	40,160	6,577
Cash within the real estate operating companies	67,403	126,531
Cash within the CDO vehicles	12,306	13,599
	119,869	**146,707**

Included within corporate cash and cash within the real estate operating companies is restricted cash of €14.4 million and €54.3 million respectively (31 December 2007: €0.2 million and €80.7 million).

The cash within the CDO vehicles is restricted to repaying CDO interest as it falls due.

12. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's asset backed securities, available-for-sale at 31 December 2008:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Gross unrealised Gains €'000	Gross unrealised Losses €'000	Carrying value €'000	Weighted average Average Rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
Portfolio IV										
CMBS	68,754	67,907	-	-	(18,026)	49,881	AA	5.08%	0.65%	3.61
Other ABS	8,752	8,752	-	-	(1,508)	7,244	AA	3.95%	0.38%	3.92
	77,506	76,659	-	-	(19,534)	57,125	AA	4.95%	0.62%	3.64
Other securities										
CMBS	47,901	47,347	-	-	(14,076)	33,271	A+	5.98%	1.23%	4.09
Total portfolio	**125,407**	**124,006**	**-**	**-**	**(33,610)**	**90,396**	**AA-**	**5.34%**	**0.86%**	**3.81**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

The following is a summary of the Group's available for sale securities held within the Drive Liquidity Fund at 31 December 2008:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Gross unrealised Gains €'000	Gross unrealised Losses €'000	Carrying value €'000	Weighted average Average Rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
CMBS	3,000	3,006	-	-	(516)	2,490	AAA	5.31%	0.22%	2.69
Other ABS	10,141	10,148	-	-	(1,196)	8,952	AAA	5.01%	0.13%	5.01
Bank notes	6,000	5,996	(2,318)	-	(968)	2,710	AA	2.89%	0.20%	7.34
Total portfolio	**19,141**	**19,150**	**(2,318)**	**-**	**(2,680)**	**14,152**	**AA-**	**4.39%**	**0.17%**	**5.38**

Total available for sale securities	**104,548**

The following is a summary of the Group's available for sale securities at 31 December 2007.

	Current face amount	Amortised cost basis	Gross unrealised Gains	Gross unrealised Losses	Carrying value	Weighted average Average rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio II									
CMBS	246,323	244,677	88	(19,303)	225,462	BBB+	5.79%	1.27%	4.76
Other ABS	145,994	146,087	23	(11,425)	134,685	BBB	6.02%	1.20%	3.51
	392,317	390,764	111	(30,728)	360,147	BBB	5.88%	1.24%	4.29
Portfolio III									
CMBS	248,896	247,672	14	(21,758)	225,928	BBB+	5.91%	1.45%	6.00
Other ABS	471,431	468,712	259	(42,109)	426,862	BBB	6.14%	1.56%	3.56
	720,327	716,384	273	(63,867)	652,790	BBB	6.06%	1.52%	4.40
Portfolio IV									
CMBS	101,851	100,318	525	(4,238)	96,605	A+	5.22%	0.91%	4.92
Other ABS	25,671	25,639	-	(2,264)	23,375	BBB+	6.17%	2.47%	4.91
	127,522	125,957	525	(6,502)	119,980	A	5.41%	1.23%	4.91
Portfolio V									
CMBS	320,887	320,263	-	(23,906)	296,357	BBB+	6.08%	1.48%	4.41
Other ABS	42,589	42,615	-	(5,119)	37,496	BBB	5.80%	1.03%	5.30
	363,476	362,878	-	(29,025)	333,853	BBB+	6.05%	1.42%	4.51
Other securities									
Other ABS	15,235	15,235	-	(8)	15,227	AAA	5.67%	0.90%	0.16
	15,235	15,235	-	(8)	15,227	AAA	5.67%	0.90%	0.16
Total portfolio	**1,618,877**	**1,611,218**	**909**	**(130,130)**	**1,481,997**	**BBB+**	**5.96%**	**1.40%**	**4.40**
Restricted cash – cash to be invested					**6,840**				
Total securities (including cash to be invested)					**1,488,837**				

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

CMBS – Commercial Mortgage Backed Securities.
Other ABS – Other Asset Backed Securities.

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 19).

13. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2008.

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average Rating*	Weighted average: Coupon	Weighted average: Margin	Weighted average: Maturity (years)
Portfolio II								
CMBS	173,592	141,794	-	141,794	BBB	5.58%	1.21%	4.04
Other ABS	108,475	86,030	-	86,030	BBB	4.98%	1.20%	2.63
	282,067	227,824		227,824		5.35%	1.21%	3.50
Portfolio III								
CMBS	252,089	210,291	(597)	209,694	BBB	5.90%	1.26%	5.32
Other ABS	413,801	332,565	(11,303)	321,262	BBB-	5.45%	1.71%	3.23
	665,890	542,856	(11,900)	530,956	BBB-	5.62%	1.54%	4.02
Portfolio V								
CMBS	262,395	212,204	-	212,204	BBB	5.85%	1.52%	4.29
Other ABS	29,015	20,062	-	20,062	BBB-	4.72%	0.98%	4.46
	291,410	232,266	-	232,266	BBB	5.74%	1.47%	4.31
Total	1,239,367	1,002,946	(11,900)	991,046	BBB	5.59%	1.45%	3.97
Real estate related loans	507,223	508,029	(2,576)	505,453	B	7.59%	2.93%	3.28
Total portfolio	**1,746,590**	**1,510,975**	**(14,476)**	**1,496,499**	**BB+**	**6.17%**	**1.88%**	**3.77**

Restricted cash – cash to be invested	**132,895**
Total loans and receivables (including cash to be invested)	**1,629,394**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 19).

As at 31 December 2007:

	Current face amount €'000	Amortised cost basis €'000	Carrying value €'000	Weighted average: Average rating*	Weighted average: Coupon	Weighted average: Margin	Weighted average: Maturity (years)
Loans and receivables	573,956	570,916	570,916	B	7.29%	2.89%	4.27

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available for sale securities within CDO II, CDO III and CDO V to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 it had the intention and the ability to hold for maturity or the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The disclosures below detail the impact of the reclassifications to the Group:

The following table shows carrying values and fair values of the reclassified assets:

	01 July 08 Carrying value €'000	31 December 2008 Carrying value €'000	31 December 2008 Fair value €'000
Available for sale securities, reclassified to loans and receivables	1,077,560	991,046	625,419

As of the reclassification date, the effective interest rate on the reclassified available for sale securities was approximately 12%, with expected recoverable cash flows of €1.3 billion. The effective interest rate was determined based on an asset by asset basis.

If the reclassification had not been made, the Group's income statement for 2008 would have included €15.1 million on the reclassified available for sale securities of impairment losses, compared with €11.9 million after the reclassification. During 2008, shareholders' equity (net losses not recognised in the income statement) would have included €322.5 million of changes in unrealised fair value losses in respect of reclassified available for sale securities which were not impaired between 1 July 2008 and 31 December 2008.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year ended 31 December 2008:

	Year ended 31 December 2008 (€000)
Net interest income	91,108
Impairment losses on securities classified as loans and receivables	(11,900)
Income on available for sale securities reclassified to loans and receivables	**79,208**

Prior to reclassification in 2008, €143.7 million of unrealised fair value losses on reclassified financial assets available-for-sale that were not impaired were recorded directly in shareholders' equity during 2008 prior to the assets being reclassified.

In 2007, €123.9 million of unrealised fair value losses on reclassified financial assets available for sale that were not impaired were recorded directly in shareholders' equity during 2007.

As of the reclassification dates, unrealized fair value losses recorded directly in shareholders' equity amounted to €283.3 million. This amount will be released from shareholders' equity to the income statement on an effective interest rate basis.

If the asset subsequently becomes impaired the amount recorded in shareholders' equity relating to the impaired asset is released to the income statement at the impairment date. After the reclassification, €6.1 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale.

14. OTHER ASSETS

	As at 31 December 2008 €'000	**As at 31 December 2007 €'000**
Unsettled security transactions (prepayments)	5	15,112
Interest receivable	21,499	24,246
Rent receivable	4,409	16,698
Prepaid expenses	1,348	233
Service charge receivable	14,887	10,296
Other accounts receivable*	29,412	15,403
	71,560	**81,988**

* Other accounts receivable includes €23.6 million (31 December 2007: €12.0) of leasing commissions and tenant incentives.

15. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Foreign exchange forward contracts	1,195	1,412
Foreign currency swaps	89,030	23,274
Interest rate swaps	-	20,153
Total derivative assets	**90,225**	**44,839**

Derivative Liabilities

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Foreign exchange forward contracts	386	-
Interest rate swaps	10,832*	-
Total derivative liabilities	**11,218**	**-**

* Included within the derivative liabilities is a €5.2 million (€31 December 2007: nil) prepaid collateral deposit held by the swap counterparty, who holds a legal right of offset.

15.1 Derivative Assets and Liabilities

Derivative assets and liabilities represent the fair value of interest rate swaps, foreign exchange forward contracts and foreign currency swaps.

15.2 Foreign Currency Swaps

During 2007, a subsidiary entered into a series of foreign currency swaps with a major investment bank to cover the foreign exchange risk in relation to its Pound Sterling / Swiss franc denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling and / or Swiss Franc interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and with regards to interest Euribor plus a spread.

16. INVESTMENT PROPERTY

Total investment property consists of:

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Tenant incentives and leasing commission (included in other assets)	23,631	12,035
Investment property held for sale	117,790	-
Investment property	4,112,321	5,171,086
Closing balance	**4,253,742**	**5,183,121**

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions classified in other assets) as at 31 December 2008:

	Freehold land and buildings €'000	Leasehold property €'000	31 December 2008 Total €'000
Opening balance	5,025,494	157,627	5,183,121
Additions	32,618	727	33,345
Disposals	(460,865)	-	(460,865)
Decrease in minimum payments under head lease	-	(2,708)	(2,708)
Decrease in fair value	(490,677)	(8,474)	(499,151)
Total	**4,106,570**	**147,172**	**4,253,742**

As at 31 December 2007:

	Freehold land and buildings €'000	Leasehold property €'000	31 December 2007 Total €'000
Opening balance	3,182,130	126,742	3,308,872
Additions	2,312,141	54,944	2,367,085
Disposals	(513,174)	(15,575)	(528,749)
Increase in minimum payments under head lease	-	909	909
Increase in fair value	44,397	(9,393)	35,004
Total	**5,025,494**	**157,627**	**5,183,121**

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of investment being valued. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, relettability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

Lease arrangements over the land on which the 31 investment properties are built have unexpired terms ranging from 6 years to 91 years.

A reconciliation of investment property valuations to the balance sheet carrying value of property (including tenant incentives and leasing commissions within other assets) is shown below:

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Investment property at market value	4,229,741	5,156,412
Minimum payments under head leases separately included in trade and other payables on the balance sheet	24,001	26,709
Balance sheet carrying value of investment property	**4,253,742**	**5,183,121**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2008 €'000	Present value 31 December 2008 €'000	Total value 31 December 2007 €'000	Present value 31 December 2007 €'000
Under 1 year	1,559	1,496	1,572	1,393
From 2 to 5 years	6,510	5,295	6,574	5,044
More than 5 years	97,736	17,210	108,281	20,272
Total	**105,805**	**24,001**	**116,427**	**26,709**

Additional Information

The table below provides additional information for various portfolios within the group at 31 December 2008:

Portfolio	Net operating income* €'000	Property valuation** €'000	Term financing (face amount) €'000
Mars – fixed	54,482	1,124,070	969,961
Mars – fixed 2	5,712	112,710	79,000
Mars - floating	10,119	365,720	232,403
Drive	77,324	1,301,253	1,035,078
Bridge	27,648	484,180	372,090
Wave	17,970	274,617	210,000
Zama	2,917	48,920	39,896
Turret	13,801	187,452	147,556
Truss	7,733	102,730	85,280
Belfry	5,047	67,259	56,240
Rapid	4,080	58,390	54,500
Tannenburg	4,619	66,060	52,960
Bastion	2,504	36,380	26,500
Total	**233,956**	**4,229,741**	**3,361,464**

* Net operating income excludes the amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 5 for details.

** Property valuation excludes the leasehold gross-up of €24.0 million.

The tables below provide additional information for various portfolios within the group at 31 December 2007:

Portfolio	**Net operating income***	**Property valuation****	**Term financing (face amount)**
	€'000	**€'000**	**€'000**
Mars – fixed	78,261	1,329,260	1,029,465
Mars - floating	30,162	606,530	402,910
Drive	88,879	1,792,575	1,317,066
Bridge	27,862	524,270	372,090
Wave	17,133	292,677	210,000
Zama	3,368	52,600	39,896
Turret	13,093	202,092	147,556
Truss	7,435	110,939	85,280
Belfry	5,121	71,749	56,240
Rapid	4,159	62,910	54,500
Tannenburg	4,861	71,120	52,960
Bastion	2,571	39,690	26,500
Total	**282,905**	**5,156,412**	**3,794,463**

* Net operating income excludes the amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 5 for details.

** Property valuation excludes the leasehold gross-up of €26.7 million.

Under their respective financing arrangements, the Bastion and Drive portfolios have covenants. German public fund legislation (to which ECTGPROP1 is subject) requires that a fund may not have long term borrowing exceeding 50 per cent of the value of its real estate assets. For the purposes of this regulation, the value of real estate assets is determined with reference to the relevant Fund Manager's expert committee valuation of the Fund's real estate. In connection with this fund legislation, the Drive Senior Loan contains a valuation-based covenant, requiring the maintenance of a loan-to-expert committee valuation ratio of not more than 49.5%. A failure to comply would result in a mandatory prepayment obligation of the loan. Complying with this covenant could restrict the ability of ECTGPROP1 to distribute cash to EIL or to dispose of assets. As at 31 December 2008, this ratio was 47.6%

The financing arrangements on all portfolios additionally require the sale of investment properties to achieve minimum release price thresholds before the sale proceeds can be distributed for expenses and equity.

17. INTANGIBLE ASSETS

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	3,814	1,981
Additions	117	1,833
Disposals	(137)	
Balance at 31 December 2008	**3,794**	**3,814**
Amortisation		
Balance at 1 January	(746)	(153)
Charge for the period	(744)	(593)
Disposals	14	
Balance at 31 December 2008	**(1,476)**	**(746)**
Carrying amount		
At 1 January	**3,068**	**1,828**
At 31 December 2008	**2,318**	**3,068**

Intangible assets represent capitalised computer costs and are amortised over a period of five years.

18. FIXTURES & FITTINGS

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	817	-
Additions	-	817
Disposals	(430)	
Balance at 31 December 2008	**387**	**817**
Depreciation		
Balance at 1 January	(63)	-
Charge for the period	(68)	(63)
Disposals	28	
Balance at 31 December 2008	**(103)**	**(63)**
Carrying amount		
At 1 January	**754**	**-**
At 31 December 2008	**284**	**754**

19. CDO BONDS PAYABLE

As at 31 December 2008:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A, B and C notes	AAA/AA/A	285,926	284,317	3.60%	0.37%	6.5
CDO III	A, B, C and D notes	AAA/AA/A/BBB	704,250	700,082	3.54%	0.49%	6.5
Duncannon CRE CDO 1 Plc	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	AAA/AAA/AA/A/BBB/BBB-/BB+/BB/BB-/B/B-	697,000	690,359	3.74%	0.68%	5.9
Total			**1,687,176**	**1,674,758**	**3.63%**	**0.55%**	**6.3**

None of the CDO bonds are due to be repaid within one year of the balance sheet date.

As at 31 December 2007:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A, B and C notes	AAA/AA/A	372,431	369,830	5.23%	0.46%	7.5
CDO III	A, B, C and D notes	AAA/AA/A/BBB	704,250	699,156	5.36%	0.48%	7.5
Duncannon CRE CDO 1 Plc	A, B, C, D, E and X notes	AAA/AA/A/BBB+/BBB/BBB-/BB+/BB/BB-	681,356	673,760	4.96%	0.67%	6.4
Total			**1,758,037**	**1,742,746**	**5.18%**	**0.55%**	**7.1**

None of the CDO bonds are due to be repaid within one year of the balance sheet date.

20. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2008 €'000	As at 31 December 2007 €'000
Term finance	(Note 20.1)	3,400,925	3,914,003
Revolving credit facility	(Note 20.2)	124,600	143,049
Other bank financing – under 1 year	(Note 20.3)	100,597	59,260
Total		**3,626,122**	**4,116,312**

20.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**31 December 2008**	**31 December 2007**	**31 December 2008**	**31 December 2007**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	80,920	165,230	80,813	165,182	5.36%	Dec 2009
Investment property							
Mars - fixed	Jan 2007	969,961	1,029,465	951,748	1,008,975	4.71%	Jul 2014
Mars - fixed 2	Jul 2008	79,000	-	75,165	-	5.21%	Jun 2013
Mars - floating	Jan 2007	232,403	402,910	232,289	402,653	6.15%	Jun 2009
Drive	Feb 2006	1,035,078	1,317,066	1,028,570	1,306,946	4.27%	Jan 2013
Bridge	Oct 2006	372,090	372,090	368,138	367,381	4.74%	Jan 2014
Wave	Apr 2007	210,000	210,000	208,397	208,130	4.94%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,447	39,347	4.99%	May 2014
Turret	May 2006	147,556	147,556	146,203	146,041	4.93%	May 2016
Truss	Dec 2005	85,280	85,280	84,684	84,610	4.93%	Feb 2016
Belfry	Aug 2005	56,240	56,240	55,595	55,512	4.85%	Oct 2015
Rapid	Aug 2007	54,500	54,500	52,910	52,735	4.96%	Nov 2017
Tannenberg	May 2007	52,960	52,960	51,294	51,051	4.87%	Oct 2014
Bastion	Sep 2005	26,500	26,500	25,672	25,440	4.44%	Sep 2012
		3,361,464	**3,794,463**	**3,320,112**	**3,748,821**	**4.73%**	
Total		**3,442,384**	**3,959,693**	**3,400,925**	**3,914,003**	**4.74%**	

Debt Investments

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank. This facility was previously used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements. The lender uses a rating agency CDO model to determine the level of equity contribution the Group is required to make to support the portfolio from time to time. The facility is secured over, inter alia, the collateral making up the portfolio. The margin payable to the lender depends on the deemed rating levels of the portfolio as determined by the rating agency model.

In January 2008, the CDO IV term financing was extended out to 1 December 2009 under a €127 million facility. As at 31 December 2008, there was €80.8 million drawn on the facility (31 December 2007: €165.2 million) with no recourse.

Investment Properties

In order to finance the investment property portfolios, the Group entered into non-recourse loan facilities as described in the table on page 55. These facilities are secured in the customary manner for German real estate lending granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly.

On 14 May 2008, the short term financing on the Mars portfolio of €330 million (the outstanding balance at the time of signing) was signed for a 20 June 2009 maturity, amortising down to €250million by 30 June 2009 and €200 million by 31 December 2008. Since the year-end, as described in Note 3, this facility has been amended and extended. This amended facility is subject to a full cash sweep as described in Note 3. The Mars fixed facility is also subject to a full cash sweep by virtue of being in breach of an interest coverage test.

On 25 June 2008, the Group successfully refinanced three of the properties within the Mars floating portfolio, through a European bank, for an amount of €79.0 million. The new facility is non-recourse to Eurocastle, has an effective interest rate of 5.21% and matures in June 2013.

20.2 Corporate Loan (formerly Revolving Credit Facility)

In October 2007, the Group extended, for twelve months, a revolving €300 million credit facility with a syndicate of commercial investment banks as a means of securing access to working capital. The facility is secured by receivables flowing from the Group, with security assignments of the Group's rights under its management agreement with FIG LLC. The facility contained a number of financial covenants including leverage ratios relating to both the debt investment portfolio and the real estate portfolio, and interest cover ratios.

On 9 May 2008, the revolving credit facility was converted into a term loan facility of €175 million and extended to mature on 31 March 2009. The interest rates remained unchanged, however no further drawings were permitted on the facility and the facility was paid down to €125 million by 31 October 2008. As described in Note 3, this facility has been amended in April 2009.

As at 31 December 2008 the amount drawn on this facility was €125.0 million (31 December 2007: €144.2 million).

20.3 Other Bank Financing

In August 2006, in order to finance the sub-participation in a real estate loan secured on properties leased to a leading German retailer, the Group entered into an €80 million, 364 day credit facility with an investment bank, which was subsequently extended to expire in August 2008. Interest rates on the drawn amounts are 1.50% above Euribor. In January 2008 this facility was extended to expire in September 2009 with recourse limited to €30 million from the Group. There was no change in the interest rates. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €58.7 million at 31 December 2008 (31 December 2007: €59.3 million).

In January 2008 the facility was also increased by an additional €82.8 million in order to finance a €96.8 million acquisition of 4 classes from a recently issued CMBS transaction. The security facility is also backed by a security assignment over the financed assets and was drawn in an amount of €41.9 million at 31 December 2008 at a weighted average interest rate of 0.75% above Euribor.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Security deposit	6,004	6,249
Interest payable	35,916	37,008
Due to Manager (note 28)	4,382	26,951
Accrued expenses & other payables*	41,850	51,638
Total trade and other payables	**88,152**	**121,846**

* Accrued expenses and other payables include the purchase price retention on the Mars portfolio of €15.4 million (31 December 2007: €16.2 million).

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net (loss) / profit after taxation by the weighted average number of shares of ordinary stock outstanding during the period.

Diluted earnings per share is calculated by dividing net (loss) / profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period.

The Group's potential ordinary shares during the period were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements.

The following is a reconciliation of the weighted average number of ordinary shares outstanding on a diluted basis.

	As at 31 December 2008	As at 31 December 2007
Weighted average number of ordinary shares, outstanding, basic	63,072,337	63,787,016
Dilutive effect of ordinary share options	-	1,782,543
Weighted average number of ordinary shares outstanding, diluted	**63,072,337**	**65,569,559**

23. SHARE CAPITAL AND RESERVES

As at 31 December 2007, there were 63,927,634 shares issued and outstanding.

On 14 August 2008, 4,000 shares were issued to the Directors of the Group at nil proceeds. These shares are valued at fair value at the grant date.

On 25 September 2008, the Group repurchased 3,199,988 ordinary shares, representing 5% of the ordinary shares in issue, at a fixed price of €6.00 per share.

As at 31 December 2008, there were 60,731,646 shares issued and outstanding.

Under the Group's Articles of Association, the Directors have the authority to affect the issuance of additional ordinary shares or to create new classes of shares as they deem necessary.

Other Reserves

Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006 (Note 26).

24. HEDGE ACCOUNTING

The Group's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is applied to cash flow and fair value hedges of interest rate risk exposures. Interest rate swaps under which the Group pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowings. Interest rate swaps where the Group pays a fixed rate and receives a floating rate have been used to hedge the fair value of the loans and receivable assets in Feco Sub SPV Plc.

At 31 December 2008, cumulative unrealised gains on hedge instruments were €15.7 million (31 December 2007: €30.3 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €24.2 million (31 December 2007: €25.1 million) and the fair value loss of the interest rate swaps of €8.5 million (31 December 2007: gain of €5.2 million).

The gain or loss on measurement of the fair value of the interest rate swaps has been recognised in the statement of changes in equity to the extent that the swaps are effective, while gains and losses related to fair value hedges have been recognised in the income statement.

Novated Swaps

The details of the carrying value of swaps novated to lending banks in conjunction with the loans are as follows:

Portfolio	As at 31 December 2008 €'000	As at 31 December 2007 €'000
Mars	14,963	13,885
Drive	2,545	3,371
Bridge	2,581	3,094
Rapid	1,371	1,526
Tannenberg	980	1,149
Bastion	657	843
Turret	627	713
Zama	254	314
Truss	199	227
Total	**24,177**	**25,122**

The details of interest rate swaps entered into by the Group in respect of certain term financing agreements are as follows:

Cash Flow Hedges

31 December 2008	Wave	Mars 2*	Mars 3*	Drive*	Wave*
Nominal amount (€'000)	210,000	111,763	126,262	92,086	3,144
Pay rate	4.03%	3.92%	3.68%	3 Month Euribor	3 Month Euribor
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor	3.03%	3.71%
Remaining life	5.3	2.8	1.8	4.1	4.5
Fair value of swaps (€'000)	(8,468)	(3,783)	(2,820)	345	97

* These hedges are deemed ineffective for hedge accounting purposes and any gains or losses are recognised in the income statement.

31 December 2007	Wave	Mars 2*	Mars 3*
Nominal amount (€'000)	210,000	220,000	210,500
Pay rate	4.03%	4.00%	3.92%
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.3	6.6	6.6
Fair value of swaps (€'000)	5,213	6,063	6,774

* These hedges are deemed ineffective for hedge accounting purposes and any gains or losses are recognised in the income statement.

Fair Value Hedges

31 December 2008	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP Notes	Feco GBP Notes**
Nominal amount (€'000)	14,924	3,725	2,495	30,718	32,084
Pay rate	2.87%	2.00%	-	4.63%	-
Receive rate	3 Month Euribor	3 Month CHF	-	3 Month Libor	-
Remaining life	1.6	1.8	-	2.9	-
Fair value of swap liabilities (€'000)	(27)	(55)	(37)	(1,310)	(1,369)
Fair value of assets attributable to the risk hedged (€'000)	(29)	(55)	(37)	(1,323)	(1,382)

* The amount stated is a euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a euro notional, mark-to-market equivalent of GBP swaps.

31 December 2007	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP Notes	Feco GBP Notes**
Nominal amount (€'000)	29,895	3,685	2,228	30,533	41,539
Pay rate	3.38%	2.00%	-	4.63%	-
Receive rate	3 Month Euribor	3 Month CHF Libor	-	3 Month Libor	-
Remaining life	5.9	2.6	-	3.9	-
Fair value of swap assets (€'000)	1,366	92	56	501	681
Fair value of assets attributable to the risk hedged (€'000)	1,352	92	56	486	661

* The amount stated is a euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a euro notional, mark-to-market equivalent of GBP swaps.

25. FINANCIAL INSTRUMENTS

Risk Management

This section provides details of the Group's exposure to risk and describes the methods used by the Group to control risk. The most important types of financial risk to which the Group is exposed are market, credit, liquidity, interest rate and foreign currency risk.

Capital Risk Management Policy

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to support the business and to maximise shareholder value.

The Group recognises the effect on Shareholder returns of the level of equity capital employed within the Group and seeks to manage its capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. It maintains a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage.

In order to maintain an adequate capital structure in current uncertain market conditions, the Group considers strategies such as refinancing existing loan facilities, raising capital and asset sales to reduce outstanding loan balances. Capital management is under constant scrutiny of the Board. The payment of dividends is blocked during the term of the new Corporate Loan facility as mentioned in Note 3.

The Group maintains its capital position on the basis of the leverage ratio. This ratio is calculated as net borrowing compared to total capital. At 31 December 2008, the total capital under management was €1.44 billion (31 December 2007: €1.46 billion).

At 31 December 2008, the Group's leverage ratio was 78.6% (31 December 2007 80.2%).

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its investments and derivative financial instruments.

The Group's real estate investment assets are based in Germany and are subject to general property market risks. These risks are assessed by the Group at the point of acquisition and are then monitored on an ongoing basis. In addition, external valuations of the Group's real estate assets are obtained during each financial year.

The Group recognises that the significant deterioration in economic conditions on the back of the global credit crises have adversely impacted the property valuations. This may in turn affect disposal values.

The Group is also exposed to market risk in respect of its interest rate swaps where it receives floating and pays fix. A significant decrease in underlying interest rates and variations in the yield curve could have adverse impact on the valuations of its interest rate swaps.

The Group's available-for-sale securities are predominantly floating rate and as such are valued based on a market credit spread over Euribor and Libor and CHF benchmarks for euro and non-euro denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

At 31 December 2008, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €5.8 million (31 December 2007: €71.2 million).

The Group's securities that were reclassified as Loans and Receivables (see note 13) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financing.

Interest Rate Risk

The Group's primary interest rate exposures relate to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate and total return swaps.

Changes in interest rates affect net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with debt obligations and hedges.

The Group's general financing strategy focuses on the use of match-funded structures, meaning that it seeks to match the maturities of its debt obligations with the maturities of its investments to minimise the risk that the Group will have to refinance its liabilities prior to the maturities of its assets, reducing the impact of changing interest rates on its earnings. In addition, the Group match funds interest rates on its investments with like-kind debt directly or through the use of interest rate swaps. However, based on a variety of factors, the Manager finances certain assets on a short term basis, including the use of repurchase agreements.

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 31 December 2008, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €1.2 million per annum (31 December 2007: €0.7 million per annum).

Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets. Increasing interest rates would decrease the value of the fixed rate assets because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market. At 31 December 2008, the Group did not hold any fixed rate assets, therefore, a 100 basis point change in interest rates would not impact the net book value (31 December 2007: €0.3 million).

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposure relates to its non-euro denominated portfolio of securities and loans. Changes in the currency exchange rates can adversely impact the fair values and earnings streams of the Group's non-euro denominated assets and liabilities. In the past, the Group has mitigated this impact through a combination of (i) non-euro denominated financing; and (ii) rolling forward foreign exchange contracts to hedge its net non-euro equity investment.

Recognising the liquidity risk and related margin requirements associated with entering into forward foreign exchange contracts and the increased uncertainty as to the future cash flows from, and value of, its equity investments in the debt portfolio, the Group stopped hedging its net non-euro equity investments from the beginning of 2009.

Credit Risk

The Group is subject to credit risk with respect to its investments in real estate, and other asset backed securities and loans.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group further minimises credit risk by actively monitoring its securities portfolios and the underlying credit quality of its holdings and, where appropriate, repositioning its investments to upgrade the credit quality and yield on the investments.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. This diversification minimises the risk of capital loss. At 31 December 2008 , the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BB+ (31 December 2007: BBB-).

The maximum credit risk exposure in respect of debt investments as at 31 December 2008 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €1.9 billion (31 December 2007: €2.3 billion).

The Group's loans and receivables, available-for-sale asset backed securities and real estate loans portfolio was split between countries within Europe as follows:

	31 December 2008			31 December 2007		
	Number of securities/ loans	**Face value €'000**	**Location split**	**Number of securities/ loans**	**Face value €'000**	**Location split**
United Kingdom	87	729,589	39.0%	89	972,570	44.4%
Italy	16	232,257	12.4%	19	278,904	12.7%
Germany	32	405,274	21.6%	33	433,550	19.8%
Pan-European	9	225,983	12.1%	13	204,589	9.3%
France	10	84,062	4.5%	11	103,287	4.7%
Other	33	194,832	10.4%	36	199,933	9.1%
	187	**1,871,997**	**100%**	**201**	**2,192,833**	**100%**

The above table does not include the available-for-sale securities held within the Drive liquidity fund, which contains 7 securities split between Germany (€3 million) and other (€16.1 million).

The Group's hedging and trading transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case.

Liquidity Risk

The Group's ability to execute its business strategy and meet its ongoing financing obligations, depends to a significant degree on the Group's ability to obtain additional capital and funds in markets where material uncertainty currently prevails.

The Group's primary source of funds for liquidity consists of net cash provided by operating activities, net proceeds from the sale of commercial properties, borrowings under loans and credit facilities and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash in hand, extension of borrowings maturing within the next twelve months, additional capital raising and cash flow provided by operations including net proceeds from the selective sale of assets will satisfy its liquidity needs over the next twelve months, although there are material uncertainties which may alter the company's liquidity and cash flow that are described in Note 3.

The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through additional borrowings and the liquidation, refinancing or repayment of its assets at maturity.
A significant portion of the Group's investments are financed with collateralised debt obligations, known as CDOs. Proceeds from the sale of real estate and other asset backed securities that serve as collateral for the Group's CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are therefore not available to fund current cash needs.

The Group's debt investments are generally financed long-term, with 87.7% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored. One facility that is due to mature in the next twelve months (see Note 3) has limited recourse to the Group of €30 million with security over the financed assets. The Group has commenced discussion with the lender to extend the facility. The Group's operating real estate is also financed long-term and primarily leased to credit tenants with long-term leases and is therefore also expected to generate generally stable current cash flows.

The Group's investment property portfolio is generally financed with long-term, fixed rate, non-recourse financing with the exception of some non-core assets within the Mars portfolio which, as at 30 June 2008, were financed with a short-term floating facility of €243.5 million amortising down to €200 million by 31 December 2008 and maturing in June 2009. As discussed in Note 3, this facility was amended and extended after year-end.

At 30 June 2008, as described in Note 20.2, the Group had access to temporary working capital through a revolving €300 million credit facility, expiring in October 2008. On 9 May 2008, the revolving credit facility was converted into a term loan facility of €175 million and extended to mature on 31 March 2009. The interest rates remained unchanged, however no further drawings were permitted on the facility and the facility is required to be paid down to €125 million by 31 October 2008. This facility was amended in April 2009 as described in Note 3.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 31 December 2008 and 31 December 2007:

31 December 2008

Type	Total outstanding at 31 December 2008 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	119,869	119,869	-	-
Asset backed securities, available-for-sale	104,548	15,320	71,414	17,814
Loans and receivables (includes cash to be invested)	1,629,394	275,518	1,040,530	313,346
Derivative assets*	90,225	915	73,700	15,610
Total assets	**1,944,036**	**411,622**	**1,185,644**	**346,770**
Liabilities				
Interest payable**	35,916	224,591	776,138	147,266
Derivative liabilities*	11,218	6,169	13,581	485
CDO bonds payable	1,674,758	-	-	1,687,176
Bank loans	3,626,122	538,920	1,140,578	1,988,483
Finance leases payable ***	24,001	1,559	6,510	97,736
Total liabilities	**5,372,015**	**771,239**	**1,936,807**	**3,921,146**

* Derivative assets/liabilities reflects the cash flows over the remaining life of the assets.
** Interest payable reflects the interest payable over the life of the financing.
*** Finance leases payable represent all lease payments due over the lives of the leases.

Gross settled derivatives	Total outstanding at 31 December 2008 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(260,815)	(3,001)	(220,422)	(37,392)
Contractual amounts receivable	349,844	2,721	294,122	53,001
Total undiscounted gross settled derivatives outflow	89,029	(280)	73,700	15,609

31 December 2007

Type	Total outstanding at 31 December 2007 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	146,707	146,707	-	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,488,837	128,968	797,887	561,982
Real estate related loans	570,916	-	438,492	132,424
Derivative assets*	44,839	29,272	9,836	6,519
Total assets	**2,251,299**	**304,947**	**1,246,215**	**700,925**
Liabilities				
Interest payable**	37,008	267,992	982,648	363,770
CDO bonds payable	1,742,746	-	-	1,742,746
Bank loans	4,116,312	770,144	-	3,346,168
Finance lease payable***	26,709	1,572	6,574	108,281
Total liabilities	**5,922,775**	**1,039,708**	**989,222**	**5,560,965**

* Derivative assets reflects the cash flows over the remaining life of the assets.
** Interest payable reflects the interest payable over the life of the financing.
*** Finance leases payable represent all lease payments due over the lives of the leases.

Gross settled derivatives	Total outstanding at 31 December 2007 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(298,191)	(4,328)	(189,673)	(104,190)
Contractual amounts receivable	321,465	4,703	204,311	112,451
Total undiscounted gross settled derivatives outflow	23,274	375	14,638	8,261

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements excluding trade and other receivables and payables, and current liabilities whose carrying value is equal to fair value due to the short period before settlement.

	As at 31 December 2008 Carrying value €'000	As at 31 December 2007 Carrying value €'000	As at 31 December 2008 Fair value €'000	As at 31 December 2007 Fair value €'000
Financial assets				
Cash and cash equivalents	119,869	146,707	119,869	146,707
Asset backed securities, available-for-sale	104,548	1,488,837	104,548	1,488,837
Loans and receivables (includes cash to be invested)	1,629,394	570,916	1,141,206	570,916
Derivative assets	90,225	44,839	90,225	44,839
Financial liabilities				
CDO bonds payable	1,674,758	1,742,746	878,597	1,742,746
Bank loans	3,626,122	4,116,312	3,581,894	4,054,063
Finance lease payable	24,001	26,709	24,001	26,709
Derivative liabilities	11,218	-	11,218	-

26. SHARE OPTION PLAN

In December 2003, the Group (with the approval of the Board of Directors and pursuant to the confidential information memorandum dated August 2003) adopted a nonqualified share option plan (the “Group Option Plan”) for officers, Directors, employees, consultants and advisors, including the Manager. In December 2003, for the purpose of compensating the Manager for its successful efforts in raising capital for the Group, the Manager was granted options representing the right to acquire 1,185,767 ordinary shares at an exercise price of €10 per share (number of shares and exercise price adjusted for share consolidation). The fair value of the options at the date of grant was €0.2 million and was calculated by reference to an option pricing model.

In June 2004, following the IPO, the Manager was granted an additional 660,000 options at an exercise price of €12 per share. The fair value of the additional options at the date of grant was €0.2 million and was also calculated by reference to an option pricing model. In June 2005, following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of €17.25 per share. The fair value of the additional options at the date of grant was €0.6 million. The Manager’s options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In February 2006, following the third public offering, the Manager was granted 1,282,300 options at €30.00 per share and, pursuant to December 2005 Board action, an additional 857,142 options at an exercise price of €18.00 per share. The fair value of the additional options at the date of grant was €2.1 million and €4.8 million, respectively. The Manager’s options represent an amount equal to 10% of the ordinary shares issued by the Group in respect of the public and private offerings that preceded the Drive acquisition. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In December 2006, following the fourth public offering, the Manager was granted an additional 1,783,748 options at €37.00 per share. The fair value of the additional options at the date of grant was €9.4 million. The Manager’s options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

The fair value at the date of grant of options granted to the Manager has been offset against the proceeds from issuance of ordinary shares as the grant of options is a cost of capital.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

Date of grant	Options outstanding at 1 January 2007	Exercised in the year ended 31 December 2007	Exercised in the year ended 31 December 2008	Options remaining at 31 December 2008	Exercise price €	Date of expiration	Fair value at grant date €’000
31 Dec 03	1,114,621	(129,838)	-	984,783	10.00	31-Dec-2013	200
23 Jun 04	660,000	(59,400)	-	600,600	12.00	23-Jun-2014	200
24 Jun 05	574,000	(69,644)	-	504,356	17.25	24-Jun-2015	620
27 Jan 06	857,142	(65,856)	-	791,286	18.00	27-Jan-2016	4,800
27 Jan 06	1,282,300	(61,975)	-	1,220,325	30.00	27-Jan-2016	2,100
1 Dec 06	1,783,783	(17,838)	-	1,765,945	37.00	1-Dec-2016	9,400
Total	**6,271,846**	**(404,551)**	**-**	**5,867,295**			**17,320**

The weighted average fair value of the options at date of grant was determined using a trinomial model. The significant inputs into the model were the weighted average share price at the grant date, the exercise price, volatility, expected option life, dividend yield and a risk fee rate. The volatility is measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share price since the date of the initial public offering of Eurocastle Investments Limited.

27. DIVIDENDS PAID & DECLARED

	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Paid during the year:	38,356	114,292
Equity dividends on ordinary shares		
Fourth quarter dividend for 2007: €0.30 (2006: €0.14)	19,178	8,929
First quarter dividend for 2008: €0.00 (2007: €0.45)	-	28,711
Second quarter dividend for 2008: €0.30 (2007: €0.60)	19,178	38,295
Third quarter dividend for 2008: €0.00 (2007: €0.60)	-	38,357
	38,356	**114,292**
Fourth quarter dividend for 2008: €0.00 (2007: €0.60)	-	19,178

28. MANAGEMENT AGREEMENT & RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Group and the Manager, incentive compensation (as outlined below) will continue to be payable to the Manager post termination. Pursuant to the Management Agreement, the Manager, under the supervision of the Group's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, the Group will pay the Manager an annual fee (payable monthly in arrear) of 1.5% of the gross equity of the Group, as described in the Management Agreement. As at 31 December 2008, gross equity was €1.44 billion.

The Management Agreement provides that the Group will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Group's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Group by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the consolidated income statement.

To provide an incentive for the Manager to enhance the value of the Group's ordinary stock, the Manager is entitled to receive incentive compensation on a cumulative, but not compounding, basis (but not subject to clawback) in an amount equal to the product of (A) 25% of the euro amount by which (1) funds from operations ("FFO") of the Group before the incentive compensation per ordinary share, exceeds (2) an amount equal to (a) the weighted average of the price per ordinary share in any offerings by the Group (adjusted for any prior capital dividends or distributions) multiplied by (b) a simple interest rate of eight percent (8%) per annum multiplied by (B) the weighted average number of ordinary shares outstanding during such period.

FFO is used to compute the Company's incentive compensation to the Manager. FFO, for these purposes, represents net income (computed in accordance with International Financial Reporting Standards), excluding changes in fair value of investment properties net of attributable deferred taxation, changes in fair value of interest rate swaps that are taken to the income statement, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units, but including realised gains on the sale of investment properties.

At 31 December 2008, management fees, incentive fees and expense reimbursements of approximately €4.4 million (Note 21) (31 December 2007: €27.0 million) were due to the Manager. For the year ended 31 December 2008 management fees of €21.9 (Note 7) (31 December 2007: €21.9 million), no incentive fees (31 December 2007: €22.2 million), and expense reimbursements of €8.3 million (31 December 2007: €7.0 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.2 million payable quarterly in equal instalments. Wesley R. Edens and Randal A. Nardone do not receive any remuneration from the Group.

29. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group has conducted business through three primary segments: debt investments, real estate fund units and investment properties.

Summary financial data of the Group's business segments is provided below:

Year ended 31 December 2008	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	149,811	-	341,189	1,290	492,290
Other operating (loss) / income	(14,746)	-	(520,483)	-	(535,229)
Interest expense	(115,560)	-	(170,036)	-	(285,596)
Other operating expenses	(3,191)	-	(108,528)	(27,662)	(139,381)
Segment result	**16,314**	**-**	**(457,858)**	**(26,372)**	**(467,916)**
Taxation credit	-	-	13,843	-	13,843
Net profit	**16,314**	**-**	**(444,015)**	**(26,372)**	**(454,073)**
Decrease in fair values	595	-	518,166	-	518,761
Realised gains on sale of investment properties and real estate fund units	-	-	5,872	-	5,872
Deferred tax	-	-	(13,473)	-	(13,473)
Funds from operations	**16,909**	**-**	**66,550**	**(26,372)**	**57,087**

Year ended 31 December 2007	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	139,355	17,331	369,498	321	526,505
Other operating income / (loss)	(1,084)	16,751	48,265	-	63,932
Interest expense	(104,455)	(2,392)	(174,567)	-	(281,414)
Other operating expenses	(3,493)	(657)	(99,884)	(49,202)	(153,236)
Segment result	**30,323**	**31,033**	**143,312**	**(48,881)**	**155,787**
Taxation expense	-	(124)	(20,748)	-	(20,872)
Net profit	**30,323**	**30,909**	**122,564**	**(48,881)**	**134,915**
Decrease / (increase) in fair values	507	(16,751)	(48,266)	-	(64,510)
Realised gains on sale of real estate fund units	-	19,632	76,868	-	96,500
Deferred tax	-	-	19,381	-	19,381
Funds from operations	**30,830**	**33,790**	**170,547**	**(48,881)**	**186,286**

As at 31 December 2008	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,864,689	-	4,361,993	21,627	6,248,309
Total liabilities	(1,883,537)	-	(3,535,379)	(5,335)	(5,424,251)
Segment net assets	**(18,848)**	**-**	**826,614**	**16,292**	**824,058**
Tax liability	-	-	(13,006)	-	(13,006)
Minority interest	(2)	-	(4)	-	(6)
Net assets	**(18,850)**	**-**	**813,604**	**16,292**	**811,046**

* The real estate fund units were sold in October 2007.

As at 31 December 2007	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	2,140,672	32	5,360,189	7,302	7,508,195
Total liabilities	(2,001,689)	(182)	(3,977,004)	(28,738)	(6,007,613)
Segment net assets	**138,983**	**(150)**	**1,383,185**	**(21,436)**	**1,500,582**
Tax liability	-	(124)	(26,764)	-	(26,888)
Minority interest	(2)	(4)	-	-	(6)
Net assets	**138,981**	**(278)**	**1,356,421**	**(21,436)**	**1,473,688**

30. INVESTMENT IN SUBSIDIARIES

The legal entity group structure of the Group is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework.

The significant operating subsidiaries, in which the Group owns directly or indirectly a 100% equity interest, are listed by jurisdiction below:

Luxembourg:

Turret Lux Participation s.a.r.l.
Zama (Windhoek) s.a.r.l.
Sulzbach (Bridge) s.a.r.l.
Wiesbaden (Bridge) s.a.r.l.
Berlin (Bridge) s.a.r.l.
Galluspark (Bridge) s.a.r.l.
Dusseldorf Bridge) s.a.r.l.
Eschborn (Bridge) s.a.r.l.
Superstella s.a.r.l.
Tannenberg s.a.r.l.
Mars PropCo 2-40 s.a.r.l.
(37 real estate holding companies numbered 2, 4-20, 22-40)
Drive s.a.r.l.

Germany:

ECTGPROP1 (formerly known as Dresdner Grund-Fonds)
Shortwave Acquisition GmbH
Longwave Acquisition GmbH
Bastion GmbH & Co.KG
Belfry GmbH & Co.KG
Truss GmbH & Co.KG

Additionally, the Group has investments in Eurocastle Funding Limited, Eurocastle CDO I PLC, Eurocastle CDO II PLC, Eurocastle CDO III PLC, Eurocastle CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC that it consolidates in accordance with SIC 12.

31. SUBSEQUENT EVENTS

The Group refinanced the Corporate Loan and Mars Floating facilities. The Corporate Loan matures on 30 June 2011 with planned amortisation repayments every six months to that date. The facility pays down to €115 million immediately and restricts the use of cash until it is paid in full. Under the terms of the facility the Group is required to raise at least €15.4 million in additional capital by 30 June 2009 (see Note 3).

The Mars Floating facility of €232 million matures on 31 December 2012 with scheduled amortisation payments. In consideration of the extension of this facility, the Group has agreed to transfer to the Mars Floating lender approximately half of its equity investment in the combined Mars portfolios (see Note 3).

Since the year-end, CDOs II, III and V have fallen out of compliance in respect of certain covenant tests. Continuing failure of those tests will lead to a substantial proportion of the net cash flows attributable to the debt business being mandatorily applied to the repayments of the debt funding those underlying investments (see Note 3).

32. COMMITMENTS

As at 31 December 2008, the Group had no commitments that were not disclosed in these financial statements.

CORPORATE INFORMATION

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Chairman of the Board

Paolo Giorgio Bassi

Keith Dorrian

Randal A. Nardone

Dr. Udo Scheffel

Dr. Simon J. Thornton

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FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, availability of attractive investment opportunities, methods of funding portfolios, timing of completion of acquisitions, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavour," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue," "plan," "forecast" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including economic conditions globally and in the markets where we operate, the risk that leasing markets will continue to be strong or that Eurocastle will be able to achieve its targets regarding operational growth particularly any increase in leasing of vacant space on acceptable terms or take advantage of widening credit spreads to acquire good quality collateral at discounted prices.

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