EUROCASTLE INVESTMENT LIMITED

2009 Annual Report

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." Eurocastle is managed by an affiliate of Fortress Investment Group LLC.

LETTER TO OUR SHAREHOLDERS,

The market environment in 2009 continued to be challenging for Eurocastle, but we made significant progress during the year in dealing with our two main objectives; reducing our short-term and recourse debt, and realizing value from our commercial real estate investment portfolio in Germany.

Most significantly, during the year, we raised approximately €100 million of new funding by issuing a convertible bond that was taken up by both existing shareholders and new investors. This, along with cash from operating activities and asset sales, enabled us to repay a substantial portion of our short-term recourse debt, reducing it from €155 million at the beginning of 2009 to €25 million today. We plan to repay this remaining amount from a combination of asset sales and operating cash flows from our investments during the course of 2010.

The issue of the convertible bond has resulted in an additional dilution of the Net Asset Value (NAV) per share when viewed on a fully converted basis. Our adjusted NAV per fully diluted share ended the year at €0.80, compared to €13.35 at 2008. The adjusted real estate portion of the NAV was €1.12 per fully diluted share compared to €13.62 per fully diluted share at 2008. Of the reduction in the adjusted real estate NAV, €11.29 per fully diluted share is the result of the issue of the convertible bond and €1.21 per fully diluted share from the decline in values.

While 2009 was a solid year for our real estate investments from an operational perspective, the non-cash valuation declines in the value of our property portfolio together with the non-cash valuation impairments of some of our debt investments has resulted in a net loss after taxation for the year of €605.9 million, compared to a net loss of €454.1 million for the year ended 2008. Our Normalised Funds from Operations for 2009 totalled €38.6 million. No dividends were paid in 2009.

Real Estate Portfolio

At the year end, Eurocastle owned 553 German commercial real estate assets, with a value of €3.7 billion. Taking into account our 50% ownership of the Mars portfolios, we have €3.0 billion of real estate investments with an NOI yield of 6.4%. The portfolio is comprised of a diversified mix of high-quality office and retail properties concentrated in the five major German cities.

We continue to believe that one of the attractive traits of the German real estate market is that, historically, it has been more resilient than many other markets. Despite the continued challenging economic backdrop, the real estate market in Germany started to show signs of greater confidence and activity in the second half of the year. The reawakening of investors' interest in Germany reflects, in part, the fact that properties are now valued at the lower end of their long-term valuation range. Based upon our experience in recent transactions, we believe that this trend of increasing activity and stabilising or improving values will continue.

The occupier markets in Germany have remained active and, although the economic downturn has led to a decrease in new leasing activity, there has been some offsetting increase in lease renewals as some companies delay or cancel office moves.

Rents and vacancy rates have tended to be generally weaker than those seen in 2008. Prime office rents in the five major markets decreased 5.9% on average in 2009 from 2008 levels and vacancy across the same markets increased from 9.2% to 10.3%. For Eurocastle specifically, we have maintained occupancy at the same level as last year, at approximately 86%. Our average lease term in the portfolio is 5.2 years, with 5.9% of our rental income expiring this year versus 5.6% last year.

We continue to sell assets that we believe are fully valued. In the challenging markets of 2009, we sold 23 properties with sale proceeds of €138 million, in line with their carrying value. Since the year end, the Group has sold two properties for €1.0 million and expect to sell a further nine properties for estimated total proceeds of €179 million.

Debt Investment Portfolio

Within our debt investment portfolio, we have €1.8 billion face value of assets that are financed with term, non-recourse CDO financings in three separate facilities. Despite the relatively stable cash flow performance of our investments, rating agency downgrades have caused our CDO financings to trigger financial ratios that direct the cash they generate to pay down senior CDO financing. We have begun a process to improve these ratios by reinvesting cash received from repayments of principal into higher yielding new assets or repurchasing our own senior liabilities at a discount. However, while these ratios remain below their triggers, our returns from these portfolios are likely to be driven primarily from the return of capital once the senior debt has been repaid.

Financing

Our main focus on the financing front has been to reduce our short-term recourse obligations, which we have successfully reduced from €155 million at year end 2008 to €25 million today. We plan to fully repay the balance by the end of this year.

The remainder of our financings at Eurocastle are long-term, non-recourse financing. At the year end, we had €4.9 billion in financing with a weighted average life of 4.4 years. We have also been active in managing these facilities, extending the maturity date on a €236 million loan by a year to 31 December 2013.

Once we have repaid the remaining balance of our recourse obligations, our remaining real estate financings will be in 13 separate portfolios, giving us significant flexibility.

Outlook

We have made significant progress this year and will continue to focus on our main priorities of reducing debt and realising the value of our real estate investment portfolio. To this end, we plan to continue to opportunistically sell assets we consider to be fully valued and take further steps to improve our overall long-term capital structure.

For the most part, we believe that the large discount to NAV of our share price reflects market concerns with regards to repaying the balance of our short-term recourse obligations. Once these obligations have been repaid through additional asset sales and cash flow, we believe Eurocastle will be well positioned to benefit from a recovery in the German commercial real estate market.

Thank you for your continued support.

Wesley R. Edens
Chairman of the Board of Directors

Eurocastle Investment Limited ("Eurocastle") and its consolidated subsidiaries (together with Eurocastle, the "Group") primarily own and manage German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". 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 2009, Eurocastle owned a €3.7 billion portfolio of commercial property investments generating an average NOI* yield of 6.1%. The investment property portfolio is a diversified mix of high-quality office and retail properties, and comprised 553 properties with approximately 2.1 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 86.2%, and a weighted average remaining lease term of 5.2 years. The Group derives 61% of its rental income from the five major German markets.

The properties are held in 13 separate financings. The table below shows the split between the three Mars financings (the "Mars" portfolio), the cashflows from which are currently being retained to repay debt, and the remaining portfolios (the "Core" portfolio).

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 %
Core	502	1,234,766	91.6%	170.6	156.5	2,279	5.2	6.9%
Mars	51	546,762	76.1%	82.5	68.3	1,405	5.4	4.9%
Grand Total	**553**	**1,781,528**	**86.2%**	**253.1**	**224.8**	**3,684**	**5.2**	**6.1%**
Core plus 50% Mars Adjustment	**N/A**	**N/A**	**88.4%**	**215.1**	**193.3**	**3,031**	**5.2**	**6.4%**

The Core plus 50% Mars adjustment shown in the table above consists of the assets within the Core portfolio, Mars Fixed 2 portfolio, and 50% of the Mars Fixed 1 and Mars Floating portfolios. This is intended to show the effect of the Mars Floating portfolio refinancing, whereby the Group transferred 50% of the equity in the Mars Fixed and Mars Floating portfolios to the Mars Floating lender.

The Core portfolio had lettable space of 1.3 million square metres with occupancy of 91.6% at 31 December 2009, the same as at 31 December 2008 on a like-for-like basis. This portfolio generated an average NOI yield of 6.9%. The Mars portfolios had lettable space of 718 thousand square metres at 31 December 2009 with occupancy of 76.1%, slightly higher than 75.2% as at 31 December 2008 on a like-for-like basis. The Mars portfolio generated an average NOI yield of 4.9%.

During the year ended 31 December 2009, the Group signed 345 commercial leases for approximately 143,000 sqm. This comprised 233 new leases for approximately 68,000 sqm, and 112 lease renewals for approximately 75,000 sqm. The renewal rate for 2009 was 82.4%.

Overall, the level of physical portfolio occupancy, on a like for like basis, increased to 86.2% from 85.9% in 2008. Since the year end, approximately 2,600 sqm of new leases and 2,300 sqm of renewals have been completed, with a further 10,500 sqm of new leases and 29,900 sqm of renewals currently under negotiation.

As part of its ongoing sales programme, for the year ended 31 December 2009, the Group has completed the sale of 23 properties for total sales proceeds of €138 million, compared to a carrying value of €140 million. These sales realised cash of €8.1 million, after repayment of asset level financings.

Since the year end, the Group has sold two properties for €1.0 million generating €0.4 million of cash after repayment of asset level financings, and has entered into binding agreements to sell a further nine properties for estimated total proceeds of €179 million. Once completed, these sales are expected to generate up to €21 million of cash, after repayment of asset level financings.

* 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 2009, the Group had signed 20 new leases for approximately €1.1 million of rental income per annum on approximately 9,000 sqm of vacant space, which will become effective during the first quarter 2010 or later. These leases have not been included in the tables below.

The following tables show the split of real estate property investments by use and geographical location as at 31 December 2009.

Rental Data

By Use

Use	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Office	1,161,230	81.0%	142.9	56.4%	12.7
Retail	456,345	98.0%	54.6	21.6%	10.2
Bank Hall	103,831	98.2%	16.6	6.6%	13.6
Other	344,499	84.6%	39.0	15.4%	11.1
Total portfolio	**2,065,905**	**86.2%**	**253.1**	**100%**	**11.8**

By Location

Location	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Frankfurt	543,815	85.4%	88.3	34.9%	15.9
Munich	204,954	74.5%	25.4	10.0%	13.9
Hamburg	88,631	85.4%	11.6	4.6%	12.8
Berlin	90,821	83.3%	9.6	3.8%	10.5
Düsseldorf	107,928	95.9%	19.0	7.5%	15.3
Subtotal – top 5 markets	**1,036,149**	**84.1%**	**153.9**	**60.8%**	**14.7**
Remaining West	815,255	89.8%	81.9	32.4%	9.3
Remaining East	214,501	82.8%	17.3	6.8%	8.1
Total portfolio	**2,065,905**	**86.2%**	**253.1**	**100%**	**11.8**

By Portfolio

Portfolio	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Mars – Fixed 1	463,553	83.4%	61.6	24.3%	13.3
Mars – Fixed 2	36,939	88.0%	6.4	2.5%	16.4
Mars – Floating	217,723	58.6%	14.5	5.7%	9.5
Drive	547,659	88.2%	78.6	31.2%	13.6
Bridge	192,038	94.6%	29.9	11.8%	13.7
Wave	186,608	83.4%	17.5	6.9%	9.4
Zama	30,545	92.4%	3.4	1.4%	10.2
Turret	140,633	98.9%	15.0	5.9%	9.0
Truss	81,280	99.5%	8.5	3.4%	8.7
Belfry	55,889	99.3%	5.4	2.1%	8.2
Rapid	37,612	100.0%	4.4	1.7%	9.7
Tannenberg	49,498	95.8%	5.2	2.0%	9.1
Bastion	25,928	100.0%	2.7	1.1%	8.8
Total portfolio	**2,065,905**	**86.2%**	**253.1**	**100%**	**11.8**

* Passing rent is defined as the contractual 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	Passing rent*						
		2010	2011	2012	2013	2014	2015-2019	2020+
	Years	€m	€m	€m	€m	€m	€m	€m
Office	4.0	11.2	41.6	18.8	7.0	13.6	41.8	8.8
Retail	6.9	1.6	3.8	4.3	4.8	6.8	18.6	14.8
Bank Hall	4.8	-	0.5	3.9	0.3	2.9	7.4	1.6
Other	7.7	2.0	9.5	4.3	1.0	2.2	8.9	11.1
Total portfolio	**5.2**	**14.8**	**55.4**	**31.3**	**13.1**	**25.5**	**76.7**	**36.3**
Percentage of portfolio		5.9%	21.9%	12.3%	5.2%	10.1%	30.3%	14.3%

By Location

Location	Average lease term	Passing rent*						
		2010	2011	2012	2013	2014	2015-2019	2020+
	Years	€m	€m	€m	€m	€m	€m	€m
Frankfurt	4.5	4.7	28.8	9.9	2.8	5.0	31.3	6.0
Munich	6.8	1.7	10.0	2.6	1.6	1.7	2.2	5.7
Hamburg	3.6	1.2	3.2	2.2	0.7	2.6	0.6	1.1
Berlin	3.6	0.8	2.6	1.0	1.3	1.5	2.1	0.1
Düsseldorf	7.1	2.0	3.0	3.3	0.2	0.4	1.1	9.1
Subtotal – top 5 markets	**5.1**	**10.4**	**47.6**	**19.0**	**6.6**	**11.2**	**37.3**	**22.0**
Remaining West	5.7	3.4	5.6	11.4	4.0	8.6	35.6	13.1
Remaining East	4.5	1.0	2.2	0.9	2.5	5.7	3.8	1.2
Total portfolio	**5.2**	**14.8**	**55.4**	**31.3**	**13.1**	**25.5**	**76.7**	**36.3**

By Portfolio

Portfolio	Average lease term	Passing rent*						
		2010	2011	2012	2013	2014	2015-2019	2020+
	Years	€m	€m	€m	€m	€m	€m	€m
Mars – Fixed 1	6.0	6.4	15.0	12.2	4.1	5.7	3.8	14.5
Mars – Fixed 2	4.2	0.5	0.7	1.7	0.2	1.0	2.1	0.2
Mars – Floating	3.2	2.3	4.1	2.2	1.1	2.3	1.7	0.9
Drive	4.3	2.5	24.7	8.0	1.9	8.4	24.1	8.8
Bridge	4.9	0.9	6.7	4.7	1.1	0.9	15.5	-
Wave	4.7	0.9	1.7	0.4	0.7	1.8	10.8	1.2
Zama	5.9	0.1	0.3	0.1	0.1	0.3	2.5	-
Turret	5.7	0.4	0.9	0.5	2.4	3.6	5.4	1.9
Truss	6.2	0.4	0.4	0.7	0.7	0.6	4.8	0.9
Belfry	5.9	0.1	0.6	0.3	0.7	0.5	2.5	0.7
Rapid	11.8	-	-	-	-	-	1.4	3.0
Tannenberg	7.5	0.3	0.3	0.5	0.1	0.4	2.0	1.6
Bastion	10.7	-	-	-	-	-	0.1	2.6
Total portfolio	**5.2**	**14.8**	**55.4**	**31.3**	**13.1**	**25.5**	**76.7**	**36.3**

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

Valuation Data

By Location

Markets	Number of properties	Occupancy	Lettable space	Property valuation	% of Portfolio	Net operating income	NOI yield on valuation
		%	(sqm)	€m*		€m***	%
Top 5 markets							
Frankfurt	48	85.4%	543,815	1,336	36.2%	80.0	6.0%
Munich	16	74.5%	204,954	419	11.4%	21.7	5.2%
Hamburg	12	85.4%	88,631	194	5.3%	10.2	5.3%
Berlin	10	83.3%	90,821	150	4.1%	8.5	5.6%
Düsseldorf	7	95.9%	107,928	306	8.3%	17.8	5.8%
Subtotal – top 5 markets	**93**	**84.1%**	**1,036,149**	**2,405**	**65.3%**	**138.2**	**5.7%**
Remaining West	360	89.8%	815,255	1,082	29.3%	71.6	6.6%
Remaining East	100	82.8%	214,501	197	5.4%	15.0	7.6%
Total portfolio	**553**	**86.2%**	**2,065,905**	**3,684**	**100%**	**224.8**	**6.1%**

By Portfolio

Portfolio	Number of properties	Occupancy	Lettable space	Property valuation	% of Portfolio	Net operating income	NOI yield on valuation
		%	(sqm)	€m*		€m***	%
Mars – Fixed 1	28	83.4%	463,553	994	27.0%	52.4	5.3%
Mars – Fixed 2	3	88.0%	36,939	100	2.7%	5.3	5.3%
Mars – Floating	20	58.6%	217,723	311	8.4%	10.6	3.4%
Drive	225	88.2%	547,659	1,077	29.4%	71.9	6.7%
Bridge	6	94.6%	192,038	431	11.7%	28.8	6.7%
Wave	73	83.4%	186,608	231	6.3%	15.3	6.6%
Zama	8	92.4%	30,545	46	1.2%	3.0	6.6%
Turret	63	98.9%	140,633	177	4.8%	13.7	7.7%
Truss	41	99.5%	81,280	99	2.7%	7.6	7.7%
Belfry	28	99.3%	55,889	64	1.7%	5.0	7.8%
Rapid	18	100.0%	37,612	56	1.5%	4.1	7.4%
Tannenberg	27	95.8%	49,498	63	1.7%	4.6	7.4%
Bastion	13	100.0%	25,928	35	0.9%	2.5	7.3%
Total portfolio	**553**	**86.2%**	**2,065,905**	**3,684**	**100%**	**224.8**	**6.1%**

* The above valuation does not include €19.5 million relating to head leases.

** Includes leasing commissions and tenant incentives disclosed separately in Other Assets.

*** Net operating income is after deducting €4.9 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

Like for like* occupancy analysis

By Use

Use	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m	31 December 2008 Occupancy (sqm)	31 December 2008 Occupancy %	31 December 2008 Passing rent** €m
Office	940,719	81.0%	142.9	929,193	80.6%	140.7
Retail	447,351	98.0%	54.6	449,496	98.5%	54.6
Bank Hall	102,009	98.2%	16.6	100,203	98.2%	16.1
Other	291,449	84.6%	39.0	295,841	83.2%	39.4
Total portfolio	**1,781,528**	**86.2%**	**253.1**	**1,774,733**	**85.9%**	**250.8**

By Location

Location	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m	31 December 2008 Occupancy (sqm)	31 December 2008 Occupancy %	31 December 2008 Passing rent** €m
Frankfurt	464,167	85.4%	88.3	464,946	85.3%	88.1
Munich	152,602	74.5%	25.4	143,833	70.6%	24.0
Hamburg	75,716	85.4%	11.6	80,986	90.9%	12.4
Berlin	75,620	83.3%	9.6	74,928	82.5%	9.5
Düsseldorf	103,537	95.9%	19.0	102,434	94.9%	18.3
Subtotal – top 5 markets	**871,642**	**84.1%**	**153.9**	**867,127**	**83.7%**	**152.3**
Remaining West	732,211	89.8%	81.9	730,129	89.4%	81.7
Remaining East	177,675	82.8%	17.3	177,477	82.7%	16.8
Total portfolio	**1,781,528**	**86.2%**	**253.1**	**1,774,733**	**85.9%**	**250.8**

By Portfolio

Portfolio	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m	31 December 2008 Occupancy (sqm)	31 December 2008 Occupancy %	31 December 2008 Passing rent** €m
Mars – Fixed 1	386,649	83.4%	61.6	381,201	82.5%	60.5
Mars – Fixed 2	32,491	88.0%	6.4	33,365	90.3%	6.5
Mars – Floating	127,622	58.6%	14.5	125,848	57.2%	14.8
Drive	482,921	88.2%	78.6	484,477	88.4%	77.5
Bridge	181,576	94.6%	29.9	180,285	93.9%	29.5
Wave	155,560	83.4%	17.5	155,976	83.4%	17.6
Zama	28,224	92.4%	3.4	27,028	88.3%	3.3
Turret	139,131	98.9%	15.0	139,642	99.3%	15.0
Truss	80,897	99.5%	8.5	80,335	98.9%	8.4
Belfry	55,494	99.3%	5.4	55,613	99.5%	5.4
Rapid	37,612	100.0%	4.4	37,612	100.0%	4.4
Tannenberg	47,423	95.8%	5.2	47,423	95.8%	5.2
Bastion	25,928	100.0%	2.7	25,928	100.0%	2.7
Total portfolio	**1,781,528**	**86.2%**	**253.1**	**1,774,733**	**85.9%**	**250.8**

* 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
Commerzbank	Banking	68,119	26.9%	395,231
Deutsche Bank	Banking	13,920	5.5%	112,155
Edeka	Retail	13,051	5.2%	125,194
Starman Hotels	Hotel	9,560	3.8%	40,988
Deutsche Bahn	Railway	8,801	3.5%	50,479
Total portfolio		**113,451**	**44.9%**	**724,047**

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	31 December 2009	31 December 2008
Carrying value of total debt investments (excluding restricted cash) (€'000)	**1,494,599**	**1,586,895**
Implied discount margin (above Euribor) at carrying value	**8.43%**	**6.17%**
Amortised cost of total debt investments (excluding restricted cash) (€'000)	**1,537,356**	**1,620,505**
Weighted average asset margin (above Euribor)	**2.04%**	**1.81%**
Weighted average liability spread	**0.59%**	**0.58%**
Weighted average net spread	**1.45%**	**1.23%**
Weighted average credit rating	**BB-**	**BB+**
Percentage investment grade of debt investment portfolio	**34%**	**55%**
Number of securities and loans	**191**	**187**
Nominal value of impaired assets (€'000)	**319,720**	**32,671**
Number of impaired assets	**37**	**6**

Eurocastle's €1.5 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 2009:

Asset/liability structure for debt investment portfolio

31 December 2009	Assets			Cash in hand	Liabilities			
Funding structure	Nominal €'000	Average life	Average rating	Nominal €'000	Drawn amount €'000	Average life	Legal maturity	M-T-M provisions
Eurocastle CDO II PLC	338,082	3.9	BB+	497	296,186	4.0	Dec 2060	No
Eurocastle CDO III PLC	721,193	4.7	BB+	1,036	676,575	5.2	Dec 2060	No
Eurocastle CDO IV PLC	90,529	3.0	BB+	-	54,611	0.9	Dec 2010	No
Duncannon CRE CDO I PLC**	727,531	3.2	B	33	547,404	6.4	Jun 2047	No
Eurocastle Funding Limited (unlevered)	7,437	2.7	CCC-	-	-	-	-	-
Eurocastle Funding Limited (financed)*	117,869	3.8	B+	-	97,350	0.1	Jan 2010	No
Total	**2,002,641**	**3.9**	**BB-**	**1,566**	**1,672,126**	**4.9**	**-**	**-**

* The legal maturity of Eurocastle Funding Limited's liabilities is based on the weighted average maturity of all its liabilities. Subsequent to year end, the Group transferred all of the collateral securing the acquisition facility as described in Note 19.4 to the lender in order to discharge the facility in full, as well as repaying €15 million of the related finance guarantee obligation.

** Includes Balance Guaranteed Swap Asset of €72.1 million on the nominal value of some non Euro assets.

Debt Investment Portfolio Composition (31 December 2009)

Asset class	Nominal* €'000	Total debt portfolio %
Commercial real estate backed	1,537,802	79.6%
Residential real estate backed	356,770	18.5%
Other	35,988	1.9%
	1,930,560	**100.0%**

* Excludes the balance guaranteed swap asset of €72.1 million on the nominal value of some non-Euro assets.

Commercial Real Estate Backed Debt

At 31 December 2009, 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 2009, the Group made purchases of €90 million, no sales and had principal repayments of €79 million. The Group had 5 CMBS securities upgraded totalling €65 million and 144 CMBS downgrades totalling €1.4 billion during the year.

As at 31 December 2009, 17 CMBS securities with a nominal value of €221.4 million had been impaired by a total amount of €159.2 million.

Asset class	Nominal €'000	Total debt book %	Average rating*
CMBS	880,032	45.5%	BB
Commercial real estate loans	490,534	25.4%	B-
NPL securitisation	3,814	0.2%	AA-
SME CLO	94,761	4.9%	BB-
Whole business securitisation	68,661	3.6%	BB
	1,537,802	**79.6%**	**BB-**

* 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	B	CCC	CC	D	Total	Total portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	%
UK	6,956	30,922	40,617	71,693	71,034	67,827	150,664	80,768	44,918	**565,399**	**29.2%**
Germany	11,250	19,072	19,218	81,772	34,711	61,363	192,356	-	-	**419,742**	**21.7%**
Italy	-	3,225	18,646	15,077	32,682	45,100	32,045	-	-	**146,775**	**7.6%**
France	-	-	-	-	10,000	39,430	13,525	-	2,271	**65,226**	**3.4%**
Netherlands	-	-	-	10,974	12,698	11,000	11,937	-	-	**46,609**	**2.4%**
Switzerland		-	-	-	7,000	21,875	9,093	-	-	**37,968**	**2.0%**
Spain	-	-	12,200	3,800	-	4,334	5,998	-	-	**26,332**	**1.4%**
Pan-European	8,617	19,883	30,678	-	37,214	42,744	83,705	6,910	-	**229,751**	**11.9%**
Total	**26,823**	**73,102**	**121,359**	**183,316**	**205,339**	**293,673**	**499,323**	**87,678**	**47,189**	**1,537,802**	**79.6%**
% of total debt portfolio	**1.4%**	**3.8%**	**6.3%**	**9.5%**	**10.6%**	**15.2%**	**25.9%**	**4.5%**	**2.4%**	**79.6%**	
% of total debt portfolio - 2008	2.9%	5.5%	7.7%	23.3%	11.9%	23.4%	2.2%	0.0%	2.6%	79.5%	

Residential Real Estate Debt

At 31 December 2009, the Group owned €357 million face amount of residential mortgage backed securities (“RMBS”). During the year ended 31 December 2009, the Group made purchases of €52 million, made no sales and had principal repayments of €7 million. The current average rating of the RMBS portfolio is BBB. The Group had 18 securities totalling €64 million upgraded and 37 downgraded totalling €171 million during the year.

As at 31 December 2009, 20 RMBS securities with a nominal value of €98.3 million had been impaired by a total amount of €86.6 million.

The composition of the residential mortgage backed securities portfolio as at 31 December 2009 is shown below:

RMBS type	Nominal	Total debt book	Average rating*
	€’000	%	
Prime	189,826	9.8%	BBB+
Mixed	66,842	3.5%	BB+
Non conforming	100,102	5.2%	BBB-
Total	**356,770**	**18.5%**	**BBB**

* 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	B	CCC	CC	C	Total	Total portfolio
	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	%
United Kingdom	17,040	14,420	34,956	77,964	59,086	3,200	11,039	6,000	-	**223,705**	**11.6%**
Italy	-	-	-	28,000	-	2,750	-	-	-	**30,750**	**1.6%**
Netherlands	20,794	-	6,375	6,023	15,000	-	-	-	-	**48,192**	**2.5%**
Germany	-	-	-	5,000	6,200	-	-	-	-	**11,200**	**0.6%**
Spain	-	-	-	3,062	2,200	7,000	-	-	-	**12,262**	**0.6%**
Ireland	-	-	-	12,678	-	-	2,250	-	9,800	**24,728**	**1.3%**
Belgium	-	-	-	5,000	-	-	-	-	-	**5,000**	**0.3%**
Greece	-	-	-	933	-	-	-	-	-	**933**	**0.0%**
Total	**37,834**	**14,420**	**41,331**	**138,660**	**82,486**	**12,950**	**13,289**	**6,000**	**9,800**	**356,770**	**18.5%**
% of total debt portfolio	**2.0%**	**0.7%**	**2.1%**	**7.2%**	**4.3%**	**0.7%**	**0.7%**	**0.3%**	**0.5%**	**18.5%**	
% of total debt portfolio - 2008	0.0%	0.0%	1.8%	10.8%	3.5%	0.3%	0.0%	0.0%	0.0%	16.4%	

Other Debt

At 31 December 2009, the Group owned €36 million face amount of other structured finance debt (commercial & consumer loans). During the year ended 31 December 2009, the Group made no purchases, made sales of €5 million and had paydowns of €36 million. Six securities totalling €29 million were upgraded and six securities totalling €40 million downgraded during the year.

As at 31 December 2009, no securities were impaired.

Debt Type	Nominal €'000	Total debt book %	Average rating* %
Commercial leases & loans	20,628	1.1%	BB
Consumer leases & loans	15,360	0.8%	BBB
Total	**35,988**	**1.9%**	BB+

* 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	B	Total	Total portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	%
Italy	234	-	-	6,000	-	9,644	**15,878**	**0.9%**
Germany	-	-	-	4,750	-	-	**4,750**	**0.2%**
Sweden	-	-	-	3,500	-	-	**3,500**	**0.2%**
United Kingdom	-	-	-	10,000	-	-	**10,000**	**0.5%**
Portugal	-	-	-	1,860	-	-	**1,860**	**0.1%**
Total	**234**	**-**	**-**	**26,110**	**-**	**9,644**	**35,988**	**1.9%**
% of total debt portfolio	**0.0%**	**0.0%**	**0.0%**	**1.4%**	**0.0%**	**0.5%**	**1.9%**	
% of total debt portfolio - 2008	0.4%	0.2%	1.0%	1.8%	0.8%	0.0%	4.2%	

Credit Quality

Negative rating actions accelerated in 2009, peaking in the fourth quarter. This primarily reflected the substantial deterioration in commercial real estate values, in particular in the United Kingdom. The decline in values resulted in an increase in impairments in the portfolio, although actual realised losses remained at very low levels and cash flows from the underlying assets continued to be strong. Positive credit migration had up to 2009 outweighed negative movements in every quarter since the inception of the portfolio. The current lifetime rating upgrades versus downgrades ratio is 187:239, but was 29:187 for 2009. This however masks a rapid deterioration in the last quarter of the year, when 84 of the 187 negative ratings actions for the full year occurred. This trend is expected to level out in 2010 as the majority of rating agency reviews have taken place. While the United Kingdom experienced a larger and earlier drop in values than Continental Europe, it has already begun to see a recovery.

Financing and Liquidity

The Group improved its short-term financing and liquidity position in 2009 by raising additional capital, extending existing financings, selling assets, and generating cash from its real estate operations. Following Eurocastle level debt repayments made at the beginning of February 2010, the Group had a corporate cash balance of €13.1 million.

The Group's financing position as at 28 February 2010 was as follows:

Maturities and Mandatory Amortization								
Portfolio (€million)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 +**	**TOTAL**
Non - Recourse								
Mars - Fixed 1[(2)]	-	-	-	-	965.8	-	-	965.8
Mars - Floating [(1)]	34.2	50.0	50.0	100.0	-	-	-	234.2
Mars - Fixed 2[(2)]	-	-	-	80.0	-	-	-	80.0
Drive[(2)]	-	-	-	930.2	-	-	-	930.2
Bridge	-	-	-	-	372.1	-	-	372.1
Wave[(2)]	-	-	-	-	184.1	-	-	184.1
Turret	-	-	-	-	-	-	147.6	147.6
Truss	-	-	0.2	0.9	0.9	0.9	82.4	85.3
Belfry	-	-	-	-	-	56.2	-	56.2
Superstella	-	-	-	-	-	-	54.5	54.5
Tannenberg	-	-	-	-	53.0	-	-	53.0
Zama	-	-	-	-	39.9	-	-	39.9
Bastion	-	-	26.5	-	-	-	-	26.5
Real Estate Total	34.2	50.0	76.7	1,111.1	1,615.8	57.1	284.5	3,229.4
CDO IV	53.9	-	-	-	-	-	-	53.9
Debt Total	53.9	-	-	-	-	-	-	53.9
Total Non-Recourse	**88.1**	**50.0**	**76.7**	**1,111.1**	**1,615.8**	**57.1**	**284.5**	**3,283.3**
Recourse								
EFL Guarantee Line	15.0	-	-	-	-	-	-	15.0
Corporate Loan	9.6	-	-	-	-	-	-	9.6
Total Recourse	**24.6**	**-**	**-**	**-**	**-**	**-**	**-**	**24.6**
GRAND TOTAL	**112.7**	**50.0**	**76.7**	**1,111.1**	**1,615.8**	**57.1**	**284.5**	**3,307.9**

(1) The Mars Floating facility includes €10 million recourse to Eurocastle in respect of any interest shortfall only. This amount reduces to €7.5 million to the extent Eurocastle funds €5 million for use by Mars Floating for capital expenditure. There is also a suspended €10 million credit support obligation, which is reinstituted if Eurocastle fails to make available the abovementioned €5 million for capital expenditure for the Mars Floating portfolio. Under the suspended €10 million credit support obligation, Eurocastle is required to give credit support only to the extent assets are (i) sold and (ii) below their respective allocated loan amounts.

(2) Subsequent to the year end, there have been financing repayments in addition to the amounts disclosed in Note 19.1 of the Annual Report of €8.2 million in the Wave portfolio, €5.1 million in the Drive portfolio, €0.3 million in the Mars Fixed 1 portfolio, and €0.3 million in the Mars Floating portfolio.

Non Mandatory CDO Paydown Profile								
Portfolio (€million)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 +**	**TOTAL**
CDO II	19.7	19.6	53.4	96.0	61.5	45.3	-	295.5
CDO III	6.0	8.4	16.4	142.0	120.4	383.4	-	676.6
Duncannon	9.3	13.9	14.8	47.2	136.7	33.7	291.8	547.4
GRAND TOTAL	**35.0**	**41.9**	**84.6**	**285.2**	**318.6**	**462.4**	**291.8**	**1,519.5**

The repayment profiles of the CDOs do not constitute mandatory amortisations. The repayments represent the expected amortisations from excess interest and, once the reinvestment period in each CDO has elapsed, the expected cash receipts from the underlying investments.

Convertible Securities

During 2009, the Group raised €99.75 million in Perpetual Subordinated Convertible Securities ("Convertible Securities") in three separate issuances on the following terms:

- The first issue of €75 million of Convertible Securities was issued at par and will be entitled to a coupon of 20 per cent, payable annually in arrear. Interest may accrue and is capable of being paid in shares at the conversion price at the Company's discretion upon conversion. No interest may be paid out until the corporate loan facility has been paid off in full.
- The second and third issue of €15 million and €9.75 million, respectively, were issued on terms that economically represented a premium on par.
- The Convertible Securities are perpetual but the Company may redeem the securities after 2 years at a premium of 20 per cent.
- The securities are convertible into shares at the holder's option at a conversion price per ordinary share of €0.30.
- The securities have a minimum denomination of €50,000, are unlisted, but can be transferred.

The proceeds of the first two Convertible Securities net of transaction costs of €88.8 million, together with cash from operating activities and asset sales, were used to repay a substantial portion of the Group's corporate loan facility; from a balance of €125 million at the start of the year to €9.6 million at the beginning of February 2010. The proceeds of the third instalment of €9.75 million, together with operating cash, were used to reduce the Group's obligation under a guarantee from €30 million to €15 million at the beginning of February 2010, as described below under Other Bank Financing.

Short-Term Financing

Corporate Loan Facility

As at 31 December 2009, €12.75 million was outstanding under the corporate loan facility. As noted above, the loan was paid down to €9.6 million at the end of February 2010. The terms of the loan were amended in April (in consideration for which an immediate €10 million repayment was made) and October 2009. The amended loan now matures on 31 December 2010 and mandatorily amortises pro rata to any repayment made under the EFL Guarantee Line (see "Other Bank Financing" below for further detail on this facility). 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) are required to be used to amortise the outstanding loan balance on quarterly 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. 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 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. To the extent that any fees due to the Manager are used to amortise the corporate loan facility, such fees will be deferred by the Manager and will become due to the Manager once the corporate facility has been repaid. To the extent Eurocastle passes its financial covenant tests, any escrowed fees due to the Manager are released to the Manager. Eurocastle may not pay dividends or make any payments to convertible securityholders while any amounts under the corporate loan facility are outstanding.

In addition, an event of default under any Group indebtedness would trigger an event of default under the corporate facility if such default would have a material adverse effect on the ability of Eurocastle to meet its payment obligations under the corporate loan facility. While the Group does not believe that it is currently in default of any indebtedness which would have a material adverse affect, there can be no assurance that events of default in relation to the Group indebtedness will not occur in the future, thereby triggering a cross default of the corporate facility.

Under the terms of the October 2009 amendment, the corporate loan facility lenders agreed to Eurocastle assuming the EFL Guarantee Line (see "Other Bank Financing" below for further detail on this facility) in the amount of €20 million primarily on the condition that the corporate loan facility was prepaid at least pro rata to any amounts used to prepay the EFL Guarantee Line.

Other Bank Financing

Other bank financing relates to Eurocastle Funding Limited's (a consolidated subsidiary) €97.35 million acquisition facility for certain real estate loans and CMBS assets in respect of which Eurocastle had a guarantee obligation of €30 million. In 2009 the Group secured a short-term extension to the facility, which was due to mature on 30 September 2009, pending a more comprehensive restructuring. Eurocastle made a cash deposit of €10 million with the lender shortly after securing this extension. Subsequent to year-end, Eurocastle successfully concluded a comprehensive restructuring of this facility. In January 2010, the acquisition facility and related Eurocastle guarantee was discharged in full against the transfer of the assets financed by the facility and the €10 million deposit to the lender and the assumption by Eurocastle of a €20 million unsecured loan facility due in September 2010, amortising by €5 million on or about the end of January, March, and June (the "EFL Guarantee Line").

Mars Floating Facility

The Mars Floating facility of €236 million was refinanced in February 2009. This amended facility was due to mature on 31 December 2012 and had 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 agreed to transfer to the Mars Floating facility lender half of its equity investment in the combined Mars Fixed 1 and Floating portfolios as at 31 January 2009. The Group had also provided an interest top-up guarantee up to a maximum of €10 million, and €10 million credit support to the Mars Floating portfolio allowing assets to be sold in aggregate up to €10 million below their respective facility allocated loan amounts.

In December 2009 and January 2010, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments have also been extended by 12 months, with the first payment of €36 million falling due on 31 December 2010, €50 million due at the end of 2011 and 2012, and €100 million due at the end of 2013. In addition, Eurocastle's €10 million allocated loan amount shortfall credit support obligation has been suspended pending the contribution by Eurocastle of €5 million in two equal instalments at the end of June 2010 and December 2010 for capital expenditure for the Mars Floating portfolio. The interest shortfall guarantee of €10 million provided by Eurocastle will also be reduced to €7.5 million upon the making of the €5 million contribution. Failure by Eurocastle to contribute will trigger a default of the Mars Floating facility but for the avoidance of doubt, is not a financial obligation of Eurocastle.

The facility remains fully cash swept which means that any operating cashflows, net of interest expenses, will be used to amortise the outstanding loan balance on the quarterly interest payment dates.

CDO IV Financing

The Group has a non-recourse facility for €54.6 million with CDO IV as the borrower. This facility was successfully extended for a further 12 months on the same terms and now matures in December 2010. This facility continues to be cash swept, although cashflows are permitted to fund direct running expenses.

Real Estate Portfolio Financing

The Group finances its core real estate portfolio with fixed rate term loans, which, during the period of ownership, has substantially eliminated its exposure to increased 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.

Mars Fixed 1 Facility

As at 28 February 2010, €965.8 million was outstanding under the Mars Fixed 1 Facility. This is a non-recourse facility. The Group is currently in negotiations with lenders to effect a restructuring of certain covenants that could be breached in the coming months. The Group expects to advance these negotiations in the near future.

Mars Fixed 2 Facility
As at 28 February 2010, €80 million was outstanding under the Mars Fixed 2 Facility. This is a non-recourse facility. The Group has in principle agreed with the lender a restructuring of, amongst other things, financial covenants in this facility and is expecting to conclude a binding amendment in the near future.

As at 31 December 2009, the Group's €3.7 billion real estate portfolio was financed with €3.2 billion of non-recourse loans with a weighted average maturity of 4.1 years.

Debt Investment Portfolio Financing

The Group has no mark-to-market or recourse exposure on its debt portfolio. As at 28 February 2010, out of total financing facilities of €1.6 billion, the Group has financing totalling €88.9 million maturing within the year, of which €53.9 million is repayable in December 2010, and €35.0 million relates to non mandatory amortisations as a result of expected interest from the underlying investments.

During the year, the Group repurchased €140.4 million of senior liabilities within the CDO financings with restricted cash at an average price of 58.9%, realising a net book gain of €56.6 million.

At 31 December 2009, approximately 89.2% of the debt investment portfolio benefited from financing maturing beyond the maturity date of its assets.

A significant portion of the Group's debt investments are financed with non-recourse collateralised debt obligations, known as CDOs. As a consequence of the non-compliance with certain covenants, where compliance is generally a function of the default rate and external credit ratings of the underlying investments, substantially all the interest receipts are mandatorily being diverted to amortise senior debt, as are principal receipts unless, where appropriate, they are reinvested within strict timeframes in substitute eligible collateral. Eurocastle currently receives no cash from its debt investment business.

CDO Compliance Test Summary as at 29 January 2010

Overcollateralisation Compliance Summary

€'000	**Eurocastle CDO II PLC**	**Eurocastle CDO III PLC**	**Duncannon CRE CDO I PLC**
Nominal value of assets	298,739	739,320	723,681
Balance of the principal cash accounts	1,167	3,760	5,582
Sum of applied haircuts[(1)]	(48,244)	(89,044)	(286,763)
Overcollateralisation (par value) numerator (A)	251,662	654,036	442,500
Aggregate principal amount of rated liabilities[(2)] (B)	272,274	684,929	573,218
Interest diversion test (A / B)	92.4%	95.5%	77.2%
Trigger	103.5%	102.5%	102.0%
Collateral shortfall	**(30,142)**	**(48,017)**	**(142,183)**

Interest Coverage Compliance Summary

€'000	**Eurocastle CDO II PLC**	**Eurocastle CDO III PLC**	**Duncannon CRE CDO I PLC**
Interest coverable amount (C)	1,303	3,774	3,965
Quarterly interest due on the liabilities[(2)] (D)	770	1,873	1,725
Mezzanine interest coverage ratio (C / D)	169.2%	201.5%	229.8%
Trigger	112.0%	112.0%	103.0%
Interest cushion	**441**	**1,676**	**2,188**

(1) An amount is subtracted from the nominal value of assets that are held as collateral within the CDO. The size of this haircut reflects the perceived risk as defined by the minimum rating associated with holding the assets and thus primarily depends on the credit ratings assigned to the collateral. For example, in Duncannon CRE CDO I Plc (1) assets rated below CCC- with a nominal value of €132 million on 29 January 2010 were treated as defaulted obligations and haircut to their respective recovery levels (4% on average) based on collateral type and (2) assets rated between CCC+ and CCC- with an aggregate nominal value of €221 million were treated as Haircut Obligations and haircut by 72%.

(2) Excludes the Class E Notes for Eurocastle CDO II and Eurocastle CDO III.

The interest cash used during 2009 to paydown senior liabilities since the first interest diversion test breach during 2009 is outlined below:

€'000	Eurocastle CDO II PLC	Eurocastle CDO III PLC	Duncannon CRE CDO I PLC
Second quarter 2009	933	3,668	3,746
Third quarter 2009	748	2,023	2,629
Fourth quarter 2009	882	2,421	2,617
Total interest diverted	**2,563**	**8,112**	**8,992**

The interest diversion test is a customary CDO test based on collateral quality and is used primarily to determine whether interest on the mezzanine and subordinated notes may be paid and whether principal cash must on certain dates be used to amortise senior notes rather than remain available for reinvestment.

Cashflows at the Holding Company level

The ability of Eurocastle to service the corporate level loans, pay interest on the Convertible Securities and satisfy other corporate costs and guarantees is dependent on the cashflows from its consolidated subsidiaries. The cashflows from the Mars portfolios and the Debt investment portfolios are currently being retained within these portfolios, either to repay senior debt or to reinvest, and are therefore not available for distribution to Eurocastle.

Set out in the table below is a pro-forma illustration of the potential cash generation to Eurocastle in 2010 based on in-place cashflows from the commercial property portfolios, excluding Mars, as at 31 December 2009:

Portfolio Performance Illustration – 31 December 2009 Portfolio Results*

	Total Group (€'million)	Mars portfolio[1] (€'million)	Core portfolios (€'million)
Real estate NOI[2]	224.8	68.3	156.5
Capital expenditure[3]	(18.9)	(8.7)	(10.2)
Interest expense[4]	(143.1)	(55.1)	(88.0)
Corporate overhead[5]	(40.0)	(1.6)	(38.4)
Net Cashflow[6, 7]	**22.8**	**2.9**	**19.9**

1 The Mars Portfolio does not generate cash flows for distribution to Eurocastle. Corporate overheads for the Mars portfolio represents only those direct expenses paid within those portfolios.

2 Real Estate NOI, including service charge recoveries, is assumed to take place when contractually due.

3 The capital expenditure is based on actual expenditure for 2009.

4 The cash amount of interest paid is calculated by multiplying the weighted average funding cash coupon by the current face amount on an Actual/360 basis. Interest on the corporate level loans has been excluded.

5 The Corporate overhead is based on other operating expenses of €40.0 million for the year ended 31 December 2009, excluding
(a) sales related costs of €4.4 million.
(b) depreciation and amortization of €0.9 million.
(c) operating expenses borne directly out of cashflows from the debt investment business of €1.6 million, but including
(d) professional fees and general expenses related to the non-Mars real estate business included in property operating expenses of €5.3 million.

6 No debt investment cash flows have been assumed.

7 Properties under binding agreements to be sold have not been excluded.

* The cashflows shown are not an indication of expected future cashflows and assume no change in portfolio occupancy, rental income, operating costs, capital expenditure and management costs and that cashflows arise when contractually due.

Liquidity Outlook

The Group has continued to upstream cash to the holding company level which is available for repaying the corporate loan and other corporate purposes. However, as described above, the cashflows from the Mars portfolios and the debt investment portfolios are being retained within those portfolios, to repay senior debt, and so currently cannot be distributed to Eurocastle.

The Group's sales strategy is to sell assets that are believed to be stable or fully valued. During 2009, 23 properties were sold with proceeds of €138 million, compared to carrying value of €140 million. In addition, since the year end, the Group has sold two properties for €1.0 million, and has entered into binding agreements to sell a further nine properties for estimated total proceeds of €179 million. Net proceeds received from the sale of properties under binding agreements, after repayment of debt, are estimated at €21 million and is expected to be used to repay the Group's short-term recourse obligations.

The Group continues to seek to reduce capital expenditure committed on new leasing, focusing it on those leases and portfolios achieving the greatest economic benefit and thus maximising cashflow available to Eurocastle.

Within the Group's debt investment business, the underlying cashflow from its assets remains stable with approximately 3% of the portfolio in payment default or interest diversion. However, changes in the rating agencies' approach to assessing credit grades and refinancing risks has resulted in a large volume of downgrades across the entire CMBS and ABS universe. There were 29 upgrades and 187 downgrades in 2009. Mainly as a result of these credit downgrades, the Group's three CDO financings started failing their over collateralization triggers in the second quarter of 2009, resulting in net interest received being required to pay down senior debt. If these triggers continue not to be met in the future, then future net interest receipts will also be used to repay CDO debt. As a result, the Group's returns from these portfolios are likely to be driven primarily from the return of capital once the debt has been repaid.

In the event that the sales of properties under binding agreements are not completed, the following additional courses of action would be available:

- Eurocastle could seek to use management fees amounting to €8.5 million to amortize Eurocastle's short-term liabilities due by the end of September 2010.
- The Group has good visibility over its real estate asset sales pipeline and could seek to pursue further asset sales.
- Eurocastle may determine not to make the €5 million contribution for capital expenditure into the Mars Floating portfolio without breaching its recourse obligations.
- Given the Group's positive track record in extending its debt facilities over the course of 2009, the Group may reasonably seek to negotiate further extensions with its lenders.
- Eurocastle received corporate authorisation to issue up to €130 million of convertible securities in 2009. It could consider a further issuance of approximately up to €30 million of Convertible Securities.

Key Financial Information

Income Statement Data (in €'000, except per share data)	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	68,362	155,382
Rental income	251,607	281,118
(Decrease) in fair value of investment properties	(420,313)	(499,151)
Impairment losses	(232,075)	(16,794)
Interest expense	(221,150)	(285,596)
Property operating expenses	(43,354))	(34,449)
Other operating expenses	(40,022)	(47,641)
Net (loss) before taxation	(612,103)	(467,916)
Net (loss) after taxation	(605,916)	(454,073)
Funds from operations ("FFO")	(195,894)	57,087
Normalised funds from operations	38,610	65,046
(Loss) per weighted average basic share and diluted share	(9.98)	(7.20)
FFO per weighted average basic share	(3.23)	0.91
FFO per weighted average diluted share	(0.94)	0.91
Normalised FFO per weighted average basic share	0.64	1.03
Normalised FFO per weighted average diluted share	0.18	1.03
Normalised FFO per fully diluted share	0.10	1.03
Weighted average number of ordinary shares, outstanding, basic	60,733,761	63,072,337
Dilutive effect of ordinary share options and convertible securities*	148,643,836	-
Weighted average number of ordinary shares outstanding, diluted	**209,377,597**	63,072,337
Ordinary shares outstanding	**60,735,646**	**60,731,646**
Fully diluted ordinary shares outstanding*	**393,235,646**	**60,731,646**

* For the year ended 31 December 2009, fully diluted ordinary shares represent the impact of converting €99,750,000 of Convertible Securities at €0.30 per share. The weighted average dilutive effect for year ended 31 December 2009 comprises a time weighting of the impact of fully converting the securities against the relative periods from the date of each Convertible Securities issue.

Balance Sheet Data (in €'000, except per share data)	31 December 2009	31 December 2008
Cash and cash equivalents	122,545	119,869
Investment property (including properties held for sale)	3,678,298	4,230,111
Debt investments	1,496,840	1,733,942
Other assets	103,398	164,387
Total assets	**5,401,081**	**6,248,309**
Interest bearing debt financing	(4,895,334)	(5,300,880)
Other liabilities	(142,383)	(136,377)
Total liabilities	**(5,037,717)**	**(5,437,257)**
Net assets	**363,364**	**811,052**
Net assets per fully diluted share	**0.92**	**13.35**
Real estate net assets per fully diluted share	**1.24**	**13.62**
Debt investment portfolio net assets per fully diluted share	**(0.32) ****	**(0.27) ****

** 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 2009 IFRS net asset value reflects approximately €173 million, or €0.44 per fully diluted share, 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.

FFO Reconciliation **€'000**	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Reconciliation of FFO to net loss after taxation		
Net loss after taxation	(605,916)	(454,073)
Decrease in fair value of investment properties	420,313	499,151
(Increase) / decrease in fair value of interest rate swaps	(1,156)	19,015
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)	(1,443)	595
Realised (loss) / gain on sale of investment properties	(649)	5,872
Deferred tax benefit on investment properties	(7,043)	(13,473)
Funds from operations (FFO)	**(195,894)**	**57,087**
Net realised losses / (gains) on investment property sales after sales costs and closure of swaps	7,338	(6,515)
(Gains) / losses on foreign currency contracts, translation and swaps	(504)	906
Impairment losses	232,075	16,794
Realised loss on sale of available-for-sale securities	4,819	269
Amortisation of cost of Mars refinancing	13,803	-
Interest rate swap adjustments	3,531	(3,495)
Gain on repurchase of debt in CDO V	(56,558)	-
Finance guarantee loss	30,000	-
Normalised FFO	**38,610**	**65,046**

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.

Normalised FFO is a non-IFRS financial measure used to provide investors with information regarding the true underlying performance of the Group and its ability to service debt and make capital expenditure. This measure excludes realised losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements, and accounting adjustments related to the Mars refinancing.

Funds from operations (FFO)

FFO and Normalised FFO are appropriate measures of underlying operating performance of companies primarily involved in real estate as it provides investors with information regarding the Group's ability to service debt and make capital expenditure.

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 2009**	**Debt investments** **€'000**	**Investment properties** **€'000**	**Total Eurocastle** **€'000**
Revenue	67,420	299,242	**366,662**
Other operating gains / (losses)	26,299	(423,717)	**(397,418)**
Impairment losses	(232,075)	-	**(232,075)**
Interest expense	(43,919)	(177,231)	**(221,150)**
Service charge and property operating expenses	-	(90,047)	**(90,047)**
Other operating income / (expenses) (including foreign currency gains/(losses))[1]	(2,955)	(35,120)	**(38,075)**
Operating loss before taxation	**(185,230)**	**(426,873)**	**(612,103)**
Taxation credit	-	6,187	**6,187**
Net loss	**(185,230)**	**(420,686)**	**(605,916)**
Decrease / (increase) in fair values	(1,443)	419,157	**417,714**
Realised gains on sale	-	(649)	**(649)**
Deferred tax credit	-	(7,043)	**(7,043)**
Funds from operations	**(186,673)**	**(9,221)**	**(195,894)**
Net realised losses on investment property sales after sales costs and closure of swaps	-	7,338	7,338
(Gains) on foreign currency contracts, translation and swaps	(504)	-	(504)
Impairment losses	232,075	-	232,075
Realised loss on sale of available-for-sale securities	259	4,560	4,819
Amortisation of cost of Mars refinancing[2]	-	13,803	13,803
Interest rate swap adjustments	-	3,531	3,531
Gain on repurchase of debt in CDO V	(56,558)	-	(56,558)
Finance guarantee loss	30,000	-	30,000
Normalised funds from operations[3]	**18,599**	**20,011**	**38,610**
Funds from operations per ordinary share[4] **€**	(3.07)	(0.16)	(3.23)
Normalised funds from operations per ordinary share[4] **€**	**0.31**	**0.33**	**0.64**

1 Unallocated other operating expenses of €25.0 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €2.8 million and investment properties: €22.2 million.

2 See the Balance Sheet Review for an explanation of the accounting for the Mars refinancing.

3 Normalised funds from operations exclude realised losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements, and accounting adjustments related to the Mars refinancing.

4 Normalised FFO per share and FFO per share are calculated on the weighted average number of shares at 31 December 2009.

€'000	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Funds from operations	(195,894)	57,087
FFO per ordinary share	(3.23)	0.91

FFO for the year ended 31 December 2009 was a loss of €195.9 million and included impairments of €232.1 million (31 December 2008: €16.8 million).

FFO for the year ended 31 December 2009 decreased by €253.0 million against the year ended 31 December 2008 mainly due to:

- higher impairments of debt investments by €215.3 million
- interest income decreased by €87.0 million due to lower interest rates
- rental and service charge income was lower by €38.6 million due mainly to investment property disposals, expiry of Mars guarantee in Q208 and impact of prior years' service charge reconciliations being at lower recovery levels than previously estimated
- a provision for €30.0 million relating to a subsidiary's recourse guarantee obligation for an acquisition facility
- realised losses on sale of investment properties in 2009 of €0.6 million compared to €5.9 million realised gain in 2008 resulting in a net decrease of €6.5 million
- higher losses on sale of debt investments by €4.6 million
- higher taxation charge by €1.2 million

Offset by:

- interest expense declined by €64.4 million due to debt repayments and lower interest rates
- gain on the repurchase of CDO financing of €56.6 million
- foreign exchange movements increased by €1.4 million
- other operating expenses decreased by €7.6 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 and interest rate swaps.

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

Operating income (excluding fair value movements) €'000	**Year ended 31 December 2009**	**Year ended 31 December 2008**
Interest income	68,362	155,382
Rental income	251,607	281,118
Service charge income	46,693	55,790
Total	**366,662**	**492,290**

The decrease in interest income compared to 2008 was principally due to lower interest rates.

The decrease in rental income compared to 2008 reflects the sale of properties and the expiry of rental guarantees 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. Lower service charge income compared to 2008 mainly reflects the completion of prior years' service charge reconciliations resulting in lower recovery levels than previously estimated, the expiry of service charge guarantees in the second quarter of 2008 and the sale of properties.

Fair value movements / impairment losses €'000	Year ended 31 December 2009	Year ended 31 December 2008
Decrease in fair value of investment properties (a)	(420,313)	(499,151)
Loss on sale of asset back securities, available-for-sale (b)	(4,819)	(269)
Increase / (decrease) in fair value of interest rate swaps (c)	1,156	(19,015)
Gain on repurchase of debt financing (d)	56,558	-
Impairment losses (e)	(232,075)	(16,794)
Finance guarantee loss (f)	(30,000)	-
Total	**(629,493)**	**(535,229)**

(a) The Group's investment properties are revalued for the purposes of the Group's financial statements on a semi-annual 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. Valuations continue to reflect current uncertainties in the German real estate market related to a weak economic environment.

(b) The Group sold 6 securities out of the Drive Liquidity fund during the year for total proceeds of €11.3 million, as well as one security from the debt investment portfolio. The Drive Liquidity fund sales generated realised losses of €4.5 million, and there were losses of €0.3 million on the sale of debt investments. During 2008, there were no asset sales out of the Drive Liquidity fund and there was a loss of €0.3 million on sale of debt investments.

(c) The increase in the fair value of interest rate swaps is due to decrease in Euro interest rates in 2009 when compared to 2008.

(d) The Group repurchased debt issued by CDO V and realised a gain on repurchase of €56.6 million during 2009. No debt was repurchased during 2008.

(e) During the year ended 31 December 2009, the Group recognised €232.1 million of impairment losses within the debt investment portfolio on 37 assets, compared to €16.8 million on 7 assets in 2008.

(f) The Group provided for a €30.0 million recourse guarantee obligation in respect of a subsidiary's (EFL) acquisition facility which was settled post year end 2009. Refer Note 19.4 for further details.

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:

Operating expenses €'000	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense	221,150	285,596
(Gains) / losses on foreign currency contracts, translation and swaps	(1,947)	1,501
Service charge expenses	46,693	55,790
Property operating expenses	43,354	34,449
Other operating expenses	40,022	47,641
Total operating expenses	**349,272**	**424,977**
Operating income (excluding fair value movements and impairment losses)	**366,662**	**492,290**

A significant proportion of the Group's operating expenses represent interest expense (63% for 2009, against 67% for 2008). The decrease in interest expense from 2008 was due mainly to lower interest rates and the repayment of debt through net proceeds from approximately €100 million of Convertible Securities raised, the sale of properties and cash generated from the CDOs.

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 as compared to 2008 was predominantly due to an increase in non recoverable expenses relating to prior years' service charge reconciliations and an increase in amortisations of tenant incentives and leasing commissions.

The Group's other operating expenses include management fees paid to the Manager of €21.7 million compared to €21.9 million in 2008. Other operating expenses decreased by €7.6 million in 2009 when compared to 2008, due mainly to lower transaction costs incurred relating to the sale of properties and cost control measures.

Corporation Tax

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

€'000	Year ended 31 December 2009	Year ended 31 December 2008
Current tax charge / (credit)	856	(370)
Deferred tax credit	(7,043)	(13,473)
Total tax credit	**(6,187)**	**(13,843)**

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 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 on a pro-forma basis with the unallocated amounts per Note 29 allocated between the segments on the basis disclosed in the table below.

Balance sheet data

As at 31 December 2009	**Debt investments** €'000	**Investment properties** €'000	**Total Eurocastle** €'000
Investments	1,496,165	3,678,973	**5,175,138**
Other assets[1]	78,854	147,089	**225,943**
Total assets	**1,575,019**	**3,826,062**	**5,401,081**
Interest-bearing debt financing[3]	(1,664,486)	(3,230,848)	**(4,895,334)**
Other liabilities[2]	(34,239)	(101,377)	**(135,616)**
Total liabilities	**(1,698,725)**	**(3,332,225)**	**(5,030,950)**
Segment net (liabilities) /assets	**(123,706)**	**493,837**	**370,131**
Tax liability	-	(6,767)	**(6,767)**
Minority interest	(2)	(4)	**(6)**
Net (liabilities) / assets	**(123,708)**	**487,066**	**363,358**
Net assets / (liabilities) per fully diluted share €	**(0.32)**	**1.24**	**0.92**
Adjusted NAV for 50% Mars transfer[4]	**-**	**(48,518)**	**(48,518)**
Adjusted net assets / (liabilities) after transfer	**(123,708)**	**438,548**	**314,840**
Adjusted net assets / (liabilities) per fully diluted share after transfer	**(0.32)**	**1.12**	**0.80**

1 Unallocated other assets of €11.9 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €1.3 million and investment properties: €10.6 million.

2 Unallocated other liabilities of €4.4 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: €0.5 million and investment properties: €3.9 million.

3 Included in the interest-bearing debt financing is the corporate loan balance of €12.7 million, split between the debt investments: €1.4 million and investment properties: €11.3 million.

4 Represents the economic (non-IFRS) impact of transferring 50% of the Group's equity in the Mars portfolios to the lender as part of the Mars Floating refinancing (see Financing Review for a fuller explanation of the Mars refinancing).

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 2009 IFRS net asset value reflects approximately €173 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.

Accounting for the Mars Refinancing

The Group's Mars portfolio equity transfer to the Mars lender in respect of the Mars Floating portfolio refinancing settled on 27 May 2009, and comprised (i) of the transfer of 50% of the loan notes and shareholder loans held by Eurocastle in the Mars Fixed 1 and Mars Floating portfolios and (ii) an obligation of Eurocastle to ensure that any receipts from these portfolios not received through the notes and shareholder loans are paid over to maintain a 50% economic ownership for the Mars Floating lender.

Eurocastle's investment in the loan notes and shareholder loans, and the corresponding liabilities in the Mars Fixed 1 and Mars Floating portfolios, are recorded at amortised cost.

The liabilities within the Mars Fixed 1 and Mars Floating portfolios have been re-measured against cash flows available from the Mars Fixed 1 and Mars Floating investment properties, and this has resulted in a reduction in their amortised cost. Consequently, the Mars Fixed 1 and Mars Floating portfolio has recorded a transfer of reduced liabilities to the lender, which is shown as an external liability to the Group (refer Note 19.2).

Eurocastle's transfer of its interest in these investments to the lender is considered to be a cost of refinancing and is therefore amortised over the life of the new loan facility. The adjusted NAV for the 50% transfer is a non-IFRS adjustment that reflects the economic substance of the transaction. The economic benefit pertaining to 50% of the NAV of Mars Fixed 1 and Mars Floating portfolios has been transferred to the lender, and the Group no longer benefits from this. This 50% of NAV is hence excluded from total Group NAV.

Total Assets

Total assets as at 31 December 2009 amounted to €5.4 billion, representing a 13.6% decrease from €6.2 billion as at 31 December 2008. This primarily reflects the reduction in value of the commercial property portfolio of €412 million, and the sale of 23 assets within the commercial property portfolio, valued at €140 million. In addition debt investments declined by €237 million, through a combination of impairment charges, sales and redemptions.

Real Estate Investments

As at 31 December 2009, the Group's real estate portfolio comprised €3.7 billion of commercial property investments compared with €4.1 billion as at 31 December 2008, on a like-for-like basis. This represents a decrease of 9.9% in the fair value of investment properties on the 31 December 2008 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 €168.2 million unrealised loss.

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. In the event of a significant rising interest rate environment and/or economic downturn, mortgage and loan defaults may increase and result in credit losses that may be expected to affect the Group's liquidity and operating results adversely. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the Group's control.

The Group's general financing strategy for its debt business 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 seeks to match fund interest rates on its investments with like-kind debt directly or through the use of interest rate swaps.

However, for a variety of reasons, the Group finances certain assets on a short-term basis, including the use of a floating rate corporate loan. The Group anticipates that, in most cases, for any period during which its assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of its borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence the Group's net income.

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. Changes in interest rates can affect the cost of unwinding these hedging arrangements and thus affect the gains from the disposal of the group's real estate assets.

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposure relates to its non-Euro denominated portfolio of securities and loans as the Group's accounts are denominated in Euro while investments may be made and realised in other currencies. 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 and can impact the gain from disposal of such assets. In the past, the Group has mitigated this impact through a combination of (i) non-Euro denominated financing; (ii) the use of balance guaranteed hedging; and (iii) 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 located in Germany and, therefore, the performance of such assets depends on the strength of the German economy and other factors affecting German real estate values. A decline in the German economy or the commercial property market may have an immediate effect on the net income of the properties and could lead to higher rates of delinquency or defaults under leases. The Group is also subject to general property market risks including, among other things, fluctuations in rental levels and property yields. These risks are assessed by the Group at the point of acquisition and are then monitored on an ongoing basis. In addition, external third party valuations of the Group's real estate assets are obtained during each financial year. These appraisals take current market developments into consideration.

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 has affected and may continue to affect the Group's ability to dispose of assets or the level of proceeds received in relation to any such disposals. 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 effected swiftly enough to avoid default of the Group's existing financings. The Group also recognises that the economic situation may result in a lower leasing or renewals volume or in a reduction in rents including as a result of tenant defaults. In addition, the Group's top five tenants accounted for 44.9% of its passing rental income for the year ended 31 December 2009. Loss of any one of these tenants could have a significant impact on the Group's performance. All of these factors could result in a cashflow shortfall compared to budget which may affect the Group's ability to, among other things, repay its debt obligations as they become due.

The Group is also exposed to market risk in respect of its interest rate swaps where it receives floating rate and pays fixed rate. A significant decrease in underlying interest rates and variations in the yield curve could have an 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, 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 12) 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 in its real estate business, primarily in relation to its underlying tenants. The Group is also subject to credit risk with respect of its debt investment business by virtue of the risk of delinquency, foreclosure and loss on the loans underpinning the securities in which the Group invests.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes including, among other things, structural features that divert such payments to those classes when the delinquency of the pool exceeds certain levels. The securities do benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction but if such support is exhausted, in the event of default, the Group may not be able to recover all of its investment in the securities purchased. 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 assessing the creditworthiness of its larger tenants and its securities portfolio and the underlying credit quality of its holdings and where appropriate, repositioning such 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 2009, 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 2008: BB+).

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 carry on its business for the long-term 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, asset sales, the issuance of debt, convertible debt and equity securities. Except as noted below, the Group's loans and debt securities are generally secured directly over its assets with no recourse to Eurocastle itself. The Group expects that its cash in hand and cashflow provided by operations including net proceeds from the selective sale of assets will satisfy its liquidity needs over the next twelve months. However, the Group recognises that there is a risk that such sales will not materialise and that if they do, proceeds received could be lower than anticipated. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through the liquidation, refinancing or repayment of its assets at or before maturity. However, although the Group has historically been able to obtain and renegotiate financing on acceptable terms, there can be no assurance that future financing and/or renegotiation of existing terms will be available or, if it is, that it will be available on terms that the Group considers acceptable. In particular, should the current difficult financial market conditions persist, the Group may have difficulty in renewing, extending or refinancing its existing facilities in the future.

Aside from the Corporate Facility, the EFL facility (subsequent to year end, the EFL Guarantee Line), and, to a limited extent, the Mars Floating Facility, Group indebtedness is non recourse to Eurocastle itself. However, a default of any non-recourse indebtedness would allow the relevant lenders, among other things, to accelerate indebtedness to which members of the Group are subject and to enforce security over the assets being financed by such indebtedness. There can be no assurance that, following a default of indebtedness by a member of the Group, there would remain any significant value in the Eurocastle's investment in that member of the Group. In addition, an event of default under any Group indebtedness would trigger an event of default under the Corporate Facility if such default would have a material adverse effect on the ability of Eurocastle to meet its payment obligations under the Corporate Facility. As a result, there is no assurance that, even though the default of Group non-recourse indebtedness may not result in direct financial liabilities for Eurocastle, the value of Eurocastle's ordinary shares or the Convertible Securities will not be adversely affected by the default of such indebtedness.

A significant portion of the Group's debt investments are financed with non-recourse collateralised debt obligations, known as CDOs. Certain coverage tests in each of the CDOs have failed, a result of which a substantial proportion of the net cash flows generated by the Debt business are being mandatorily applied to the repayments of the senior CDO debt. The Directors do not expect the Debt business to generate any cash to Eurocastle for the foreseeable future.

REPORT OF THE DIRECTORS

Incorporation
Eurocastle Investment Limited ("Eurocastle") 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, FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC, a global alternative asset manager with approximately US $31.8 billion of assets under management as of 31 December 2009. 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, of which a majority are independent of the Manager. Eurocastle 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 34. 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
No dividends have been declared during 2009. The payment of dividends is blocked during the term of the Corporate Loan facility as described in Note 19.3.

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 have concluded that the continued appointment of the Manager is 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 Eurocastle as at 31 December 2009 were as follows:

	31 December 2009	31 December 2008
Paolo Bassi	39,800	38,800
Keith Dorrian	6,000	5,000
Wesley R. Edens*	50,000	50,000
Randal A. Nardone*	20,000	20,000
Udo Scheffel	3,000	2,000
Simon Thornton	3,000	2,000

* 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. Wesley Edens and Randy Nardone participated in the first issuance of convertible securities during 2009. If their participation in the issuance were fully converted, they would both hold an additional 8,897,400 shares.

Substantial Shareholdings

As at 16 March 2010, the Group had notification that the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV*	59.23%
Euroclear Nominees Limited	19.20%
Goldman Sachs Securities (Nominees) Limited**	13.47%

* 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 13.0% of outstanding shares in the Company through a Goldman Sachs nominee company. Fortress Fund III also participated in the first issuance of convertible securities. If all of the convertible securities issued during the year were fully converted, Fortress Fund III would own at least 15.2% of the fully converted shares.

Auditors

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

Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving the Director's report are listed on page 29. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which Eurocastle's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Eurocastle's auditors are aware of that information.

Going Concern

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have reviewed the Group's processes to control those financial risks to which the Group is exposed, as disclosed in Note 25 to the financial statements, as well as reviewing the annual budget.

As a result of this review, the Directors do have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Group's liquidity outlook and ability to generate cash is described on page 17.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 29, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group and the undertakings included in the consolidation as a whole; and
- the Letter to Shareholders, the Group Operating and Financial Review and the Report of the Directors contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as whole, together with a description of the principal risk and uncertainties that they face.

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: 18 March 2010

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 the Companies (Guernsey) Law 2008 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 2008.

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 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, 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 262 of the Companies (Guernsey) Law 2008. 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 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, the financial statements are not in agreement with the 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 the Report of the Directors. 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 our 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 2009 and of its loss for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law 2008.

Ernst & Young LLP
London
Date: 18 March 2010

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Operating income			
Interest income	3	68,362	155,382
Rental income	4	251,607	281,118
Service charge income	4	46,693	55,790
Loss on disposal of asset backed securities, available-for-sale		(4,819)	(269)
Decrease in fair value of investment properties	7,15	(420,313)	(499,151)
Gain on repurchase of debt financing	18	56,558	-
Increase / (decrease) in fair value of interest rate swaps	14	1,156	(19,015)
Impairment losses	9	(232,075)	(16,794)
Financing guarantee loss	20	(30,000)	-
Total operating loss		**(262,831)**	**(42,939)**
Operating expenses			
Interest expense	5	221,150	285,596
(Gains) / losses on foreign currency contracts, translation and swaps	8	(1,947)	1,501
Service charge expenses	4	46,693	55,790
Property operating expenses	4	43,354	34,449
Other operating expenses	6	40,022	47,641
Total operating expenses		**349,272**	**424,977**
Net operating loss before taxation		**(612,103)**	**(467,916)**
Taxation expense / (credit) - current	7	856	(370)
Taxation credit - deferred	7	(7,043)	(13,473)
Net loss after taxation		**(605,916)**	**(454,073)**
Loss per ordinary share			
Basic and diluted	21	(9.98)	(7.20)
Weighted average ordinary shares outstanding			
Basic	21	60,733,761	63,072,337
Diluted	21	209,377,597	63,072,337

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Net loss after taxation		**(605,916)**	**(454,073)**
Other comprehensive income			
Available-for-sale securities			
Unrealised loss on asset backed securities, available-for-sale	11	(10,184)	(32,623)
Unrealised loss on asset backed securities, loans and receivables	12	-	(143,699)
Unrealised losses / (gains) reclassified to the income statement on disposal of available-for-sale securities		3,717	(26)
Amortisation of unrealized gains/losses on available-for-sale securities reclassified to loans and receivables movements released to the income statement	12	46,320	31,918
Adjustment to amortization of unrealized losses reflecting changes to expected cashflows	12	(7,441)	-
Net unrealized losses released to the income statement on impaired asset backed securities, available-for-sale	11	(49)	2,318
Net unrealized losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	12	37,746	6,080
Total available-for-sale securities		70,109	(136,032)
Cash flow hedges			
Net unrealised loss on hedge instruments		(5,671)	(13,681)
Swaps novated during the year		-	3,229
Realised gains on hedge instruments reclassified to the income statement	23	(19)	(2,456)
Amortisation of novated swaps	23	(4,742)	(1,718)
Total cash flow hedges		(10,432)	(14,626)
Other comprehensive income / (loss)		**59,677**	**(150,658)**
Total comprehensive loss for the year		**(546,239)**	**(604,731)**

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2009 €'000	31 December 2008 €'000
Assets			
Cash and cash equivalents	10	122,545	119,869
Investment properties held for sale	15	158,800	117,790
Other assets	13	48,335	71,560
Available-for-sale securities	11	66,396	104,548
Loans and receivables (includes cash to be invested)	12	1,430,444	1,629,394
Fixtures and fittings	17	301	284
Derivative assets	14	53,040	90,225
Investment property	15	3,519,498	4,112,321
Intangible assets	16	1,722	2,318
Total assets		**5,401,081**	**6,248,309**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	22	1,426,618	1,426,617
Accumulated loss		(997,071)	(383,347)
Net unrealised loss on available-for-sale securities, and loans and receivables	11,12	(195,144)	(265,253)
Hedging reserve	23	5,277	15,709
Perpetual subordinated convertible securities	24	106,358	-
Other reserves	22	17,320	17,320
Total shareholders' equity		**363,358**	**811,046**
Minority interest		**6**	**6**
Total equity		**363,364**	**811,052**
Liabilities			
Trade and other payables	20	104,644	88,152
CDO bonds payable	18	1,511,134	1,674,758
Bank borrowings	19	3,384,200	3,626,122
Derivative liabilities	14	11,437	11,218
Finance lease payable	15	19,535	24,001
Current taxation payable	7	2,425	1,621
Deferred taxation liability	7	4,342	11,385
Total liabilities		**5,037,717**	**5,437,257**
Total equity and liabilities		**5,401,081**	**6,248,309**

See notes to the consolidated financial statements.

The accounts were approved by the Board of Directors on 18 March 2010 and signed on its behalf by:

Wesley R. Edens
Chairman

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Cash flows from operating activities		
Operating loss before taxation	(612,103)	(467,916)
Adjustments for:		
Interest income	(65,219)	(153,240)
Interest expense	212,737	276,861
Unrealised loss on foreign currency contracts	(1,947)	1,501
Amortisation of discounts on securities	(3,143)	(2,142)
Amortisation of borrowing costs	8,413	8,735
Amortisation of tenant incentives and leasing commissions	6,670	4,210
Realised loss on disposal of available-for-sale securities	4,819	269
Realised gain on repurchase of debt financing	(56,558)	-
Impairment losses	232,075	16,794
Shares granted to directors	1	20
Taxation paid	(52)	(39)
Amortisation of intangibles	794	744
Depreciation of fixtures and fittings	90	68
Decrease in fair value of investment properties	420,313	499,151
(Increase) / decrease in fair value of interest rate swap	(1,156)	19,015
Decrease in other assets	7,247	1,661
Interest received	81,007	155,987
Interest paid	(220,762)	(277,953)
Decrease in trade and other payables	(5,264)	(21,382)
Increase in provision for finance guarantee loss	30,000	-
Net cash flows from operating activities	**37,962**	**62,344**
Cash flows from investing activities		
Capital expenditures	(18,897)	(37,555)
Proceeds from sale of investment properties	138,155	460,865
Proceeds on sale / prepayment of available-for-sale securities	30,176	21,602
Purchase of available-for-sale securities	-	(95,302)
Purchase of loans and receivables	(132,954)	(13,403)
Sale / prepayment of loans and receivables	112,296	224,819
Purchase of intangible assets	(198)	-
Purchase of fixtures and fittings	(107)	-
Net cash flows from investing activities	**128,471**	**561,026**
Cash flows from financing activities		
Proceeds of issuance of convertible securities	99,750	-
Costs related to issuance of convertible securities	(1,200)	-
Repurchase of ordinary shares	-	(19,200)
Costs related to the repurchase of ordinary shares	-	(375)
Proceeds from issuance of bonds	-	17,311
Proceeds from repurchase of bonds issued	(82,659)	-
Repayments of bonds issued	(53,081)	(1,667)
Decrease of bank borrowings	(257,896)	(481,866)
Dividends paid to shareholders	-	(38,356)
Net cash flows from financing activities	**(295,086)**	**(524,153)**
Net (decrease) / increase in cash and cash equivalents	**(128,653)**	**99,217**
Cash and cash equivalents, beginning of year	**119,869**	**146,707**
Restricted CDO cash, beginning of year	**132,895**	**6,840**
Cash and cash equivalents, beginning of year	**252,764**	**153,547**
Cash and cash equivalents, end of year	**122,545**	**119,869**
Restricted CDO cash, end of year	**1,566**	**132,895**
Cash and cash equivalents, end of year	**124,111**	**252,764**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group								
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Perpetual subordinated convertible securities €'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**
Loss for the year	-	-	-	-	-	-	(454,073)	-	(454,073)
Other comprehensive loss	-	-	-	-	(136,032)	(14,626)	-	-	(150,658)
Total comprehensive loss	-	-	-	-	(136,032)	(14,626)	(454,073)	-	(604,731)
Repurchase of ordinary shares	(3,199,988)	(19,200)	-	-	-	-	-	-	(19,200)
Costs related to repurchase of ordinary shares	-	(375)	-	-	-	-	-	-	(375)
Shares issued to Directors	4,000	20	-				-	-	20
Dividends	-	-	-	-	-	-	(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**
Loss for the year	-	-	-	-	-	-	(605,916)	-	(605,916)
Other comprehensive income / (loss)	-	-	-	-	70,109	(10,432)	-	-	59,677
Total comprehensive income / (loss)	-	-	-	-	70,109	(10,432)	(605,916)	-	(546,239)
Shares issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible Securities issued (Note 24)	-	-	-	99,750	-	-	-	-	99,750
Costs related to Convertible Securities issue (Note 24)	-	-	-	(1,200)	-	-	-	-	(1,200)
Capitalised interest on Convertible Securities issued (Note 24)	-	-	-	7,808	-	-	(7,808)	-	-
At 31 December 2009	**60,735,646**	**1,426,618**	**17,320**	**106,358**	**(195,144)**	**5,277**	**(997,071)**	**6**	**363,364**

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange). On 3 November 2009, the Group ceased to maintain a secondary listing on 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.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). Eurocastle 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 2008 and for the year then ended, except that the Group has adopted the following new and amended IFRS and IAS interpretations as of 1 January 2009:

- IAS 1 *Presentation of Financial Statements (Revised)*
- IFRS 8 *Operating Segments*
- Amendment to IFRS 7 *Financial Instruments: Disclosures*
- Amendment to IAS 23 *Borrowing Costs*
- Amendment to IAS 38 *Intangible Assets*

The principal effects of these changes are as follows:

IAS 1 - *Presentation of Financial Statements (Revised)*

The statement separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, companies have an option to continue presenting a 'traditional' income statement complemented by a second statement, the statement of comprehensive income (SOCI), or to present a single statement, also named 'statement of comprehensive income', that includes both elements. The Group has taken the option of presenting an income statement complemented by the statement of comprehensive income.

IFRS 8 - *Operating Segments*

IFRS 8 replaces IAS 14 Segmental Reporting. The Group concluded that the reportable segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

Amendment to IFRS 7 - *Financial Instruments: Disclosures*

The amendment to the standard requires an entity to provide a quantitative and qualitative analysis for those instruments recognised at fair value based on a three-level hierarchy. Furthermore, for those instruments which have significant unobservable outputs (classified as level 3), the amendment requires disclosures on the transfers into and out of level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognised in other comprehensive income, purchases, sales issues and settlements, and sensitivity analysis of reasonable possible changes in assumptions. In addition, disclosure is required of the movements between different levels of the fair value hierarchy and the reason for those movements. Finally, the standard amends the previous liquidity risk disclosures as required under IFRS 7 for non-derivative and derivative financial liabilities.

Entities are required to apply this amendment for annual periods beginning on or after 1 January 2009, with no requirement to provide comparatives on transition. However, the Group has voluntarily provided comparatives.

Amendment to IAS 23 - Borrowing Costs

The amendments to the standard require an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing borrowing costs is removed. The amendments also align the definition of borrowing costs with that in IAS39.

Amendment to IAS 38 – Intangible Assets

The amendment deletes wording that states that there is 'rarely, if ever' support for use of a method of amortisation that results in a lower rate than the straight line method

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 2008.

(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 which are carried out in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors. Accordingly, the values reflect the physical, economical, legal and regulatory status of the properties on the basis of the information available at the date of valuation.

(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 counterparty) 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 2009. 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 2009, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

Eurocastle Funding Limited ("EFL"), 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 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 and Germany, 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.

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 or classified as loans and receivables 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. 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 12.

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.

Loans 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 a 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 cashflows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest Income."

See Note 9, Note 11 and Note 12 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.

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.

Perpetual subordinated convertible securities

Perpetual subordinated convertible securities comprise the issuance of convertible securities, which are convertible into fully paid ordinary shares. The convertible securities and accrued interest are accounted for in equity under the guidance of IAS 32 as Eurocastle as the Issuer holds the option to redeem the securities (principal and interest), and does not have a present obligation to transfer financial assets to the shareholder. The redemption of the securities is solely at the discretion of Eurocastle. The option will be separated from the host contract and will be accounted for separately through the income statement.

Standards and interpretations that have been issued with an effective date after the date of these financial statements:

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them:

IFRIC 17 - 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The group and company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the group or company's financial statements.

IAS 27 (revised) - 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (revised) - 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 38 (amendment) - 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the group and company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the group or company's financial statements.

IFRS 5 (amendment) - 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The group and company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the group or company's financial statements.

IAS 1 (amendment) - 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group and company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the group or company's financial statements.

IFRS 2 (amendments) - 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the group's financial statements.

3. INTEREST INCOME

Interest income for the year ended 31 December 2009 of €68.4 million (31 December 2008: €155.4 million) is primarily interest income earned on the available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2009 includes interest calculated using the effective interest method of €66.7 million (31 December 2008: €145.0 million). Coupon interest earned of €63.6 million (31 December 2008: €142.9 million) is split between available-for-sale securities (€2.7 million), loans and receivables (€37.9 million), and real estate related loans (€23.0 million) (31 December 2008: €54.4 million, €43.8 million, and €44.7 million respectively).

Interest earned using the effective interest method on impaired assets for the year ended 31 December 2009 of €7.9 million (31 December 2008: €1.8 million) includes €0.03 million interest on available-for-sale securities, interest on loans and receivables of €5.2 million, and interest on real estate related loans of €2.7 million (31 December 2008: €0.1 million, €1.4 million, and €0.3 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €38.9 million (31 December 2008: €31.9 million) as a result of reclassification of available-for-sale securities to loans and receivables. This amortisation is offset by the accretion of the carrying value of the reclassified loans and receivables, resulting in a net nil impact on the income statement. The amortisation and accretion have been adjusted to reflect changes in the anticipated cash flows.

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

4.1 Rental income

Rental income for the year ended 31 December 2009 of €251.6 million (31 December 2008: €281.1 million) represents rental income earned on investment properties.

4.2 Property operating expense

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income for the year ended 31 December 2009 were €43.4 million, (31 December 2008: €34.4 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €6.7 million, (31 December 2008: €4.2 million) and fund costs relating to the Drive portfolio of €2.7 million, (31 December 2008: €2.8 million).

4.3 Service charge income and expense

Service charge income for the year ended 31 December 2009 of €46.7 million (31 December 2008: €55.8 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2009 of €46.7 million (31 December 2008: €55.8) represents the costs of operating the properties that are recoverable from tenants.

5. INTEREST EXPENSE

Interest expense for the year ended 31 December 2009 of €221.2 million (31 December 2008: €285.6 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 losses on the closure of interest rate swaps of €1.5 million (31 December 2008: gains of €12.8 million) and capitalised financing costs written off of €0.4 million (31 December 2008: €1.4 million) relating to the sale of non-core assets.

6. OTHER OPERATING EXPENSES

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Professional fees	872	4,129
Sale related costs	4,392	9,954
Management fees (Note 28)	21,660	21,895
Depreciation	90	68
Amortisation of intangible assets	794	744
Other*	12,214	10,851
	40,022	**47,641**

* Included within other operating expenses for the year ended 31 December 2009 are reimbursement of property related asset management services of €8.5 million (31 December 2008: €8.3 million) to FIG LLC (See Note 28).

7. TAXATION EXPENSE

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Current tax		
Germany	835	(370)
Luxembourg	21	-
Total current tax	**856**	**(370)**
Deferred tax		
Germany	(7,043)	(13,473)
Total deferred tax	**(7,043)**	**(13,473)**
Total tax credit	**(6,187)**	**(13,843)**

Reconciliation of the total tax expense

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

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Net loss before taxation	(612,103)	(467,916)
Tax on ordinary activities based on Guernsey tax of 0 % (2008: 0%)	-	-
Overseas taxation – Germany	(6,208)	(13,843)
Overseas taxation – Luxembourg	21	-
Total tax credit	**(6,187)**	**(13,843)**

Analysis of deferred tax:

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Tax losses carried forward	87	552
Temporary differences		
Loan expense	(163)	(631)
Tenant improvements and leasing commissions	(365)	65
Accelerated capital allowance	366	(1,168)
Revaluation of investment properties*	(5,568)	(13,226)
Capital expenditure	55	(104)
Other	(1,455)	1,039
Deferred tax credit	**(7,043)**	**(13,473)**

* 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 2009 (decrease) in fair value €'000	Year ended 31 December 2009 deferred tax €'000	Year ended 31 December 2008 (decrease) in fair value €'000	Year ended 31 December 2008 deferred tax €'000
Mars*	(202,025)	(917)	(221,592)	(3,847)
Drive	(122,613)	-	(168,686)	-
Wave	(13,210)	(3,083)	(21,859)	(2,522)
Zama	(3,598)	-	(3,981)	-
Bridge	(54,179)	(195)	(42,730)	(3,530)
Retail	(24,688)	(1,373)	(40,303)	(3,327)
	(420,313)	**(5,568)**	**(499,151)**	**(13,226)**

* The Mars portfolio consists of 37 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 2009 €'000	As at 31 December 2008 €'000
Opening tax payable	13,006	26,888
Tax paid	(52)	(39)
Tax credit for the year	(6,187)	(13,843)
Closing taxation payable	**6,767**	**13,006**
Split between:		
Current tax	2,425	1,621
Deferred tax	4,342	11,385
Closing taxation payable	**6,767**	**13,006**

Reconciliation of the total tax charge:

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Loss before tax	(612,103)	(467,916)
Tax at domestic tax rates applicable to profits in the respective countries	**-**	**-**
Movement in deferred tax assets	87	(887)
Tax effect of revaluation of investment properties	(7,273)	(16,113)
Tax effect of timing differences	2,283	5,440
Tax effect of non-deductible expenses	-	-
Tax effect of tax losses	(1,001)	(1,353)
Tax effect of changes in tax rates	-	-
Other	(283)	(930)
Total tax credit	**(6,187)**	**(13,843)**

Unrecognised tax losses

The Group has tax losses which arose in Germany of €168.0 million (2008: €90.6 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets of €26.6 million (2008: €14.3 million) have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time.

The taxation expense for the year ended 31 December 2009 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 2009 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.

8. LOSSES ON FOREIGN CURRENCY CONTRACTS, TRANSLATION AND SWAPS

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Fair value movements on currency swaps	(17,149)	65,756
Foreign currency translation loss on assets subject to currency swaps	18,592	(66,351)
Sub-total	**1,443**	**(595)**
Other currency losses	504	(906)
Total currency gains / (losses)	**1,947**	**(1,501)**

* The foreign currency swap is disclosed in Note 14.2.

9. IMPAIRMENT LOSSES

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Impairment losses on asset backed securities, available-for-sale	49	2,318
Impairment losses on loans and receivables	138,496	5,820
Impairment losses on real estate related loans	55,784	2,576
Realisation of previously unrealised losses on impaired loans and receivables, previously held as available-for-sale	37,746	6,080
	232,075	**16,794**

During the year ended 31 December 2009, the Group has recognised impairment losses on 37 securities or loans, €232.1 million within the debt investment portfolio and nil within the Drive liquidity fund (31 December 2008: €14.5 million and €2.3 million respectively).

Included in the impairment losses for the year ended 31 December 2009 are losses on the derivative asset as a result of the impairment of the underlying loans and receivables held within CDO V of €18.8 million (2008: nil).

The carrying value of the impaired securities or loans as at 31 December 2009 after the impairment losses was €72.8 million (2008: €18.5 million).

10. CASH AND CASH EQUIVALENTS

	As at 31 December 2009 €'000	As at 31 December 2008 €'000 (restated)
Corporate cash	9,697	25,754
Cash within the real estate operating companies	95,167	67,403
Cash within the CDO vehicles	7,585	26,712
Cash on deposit in relation to finance guarantee obligation	10,096	-
	122,545	**119,869**

Cash within the real estate operating companies is held to cover interest obligations, operating expenses and other working capital.

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

The cash on deposit in relation to the finance guarantee obligation is restricted to paying down the Group's €30 million guarantee obligation and any associated interest as described in Note 19.4.

11. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 31 December 2009:

	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	61,845	61,119	(49)	-	(23,021)	38,049	BBB+	1.16%	0.72%	3.01
Other ABS	2,258	2,253	-	-	-	2,253	BBB	1.43%	1.21%	0.84
	64,103	63,372	(49)	-	(23,021)	40,302	BBB+	1.17%	0.74%	2.93
CMBS	45,536	45,106	-	-	(19,687)	25,419	BB-	1.71%	1.26%	3.08
	45,536	45,106	-	-	(19,687)	25,419	BB-	1.71%	1.26%	3.08
Total portfolio	**109,639**	**108,478**	**(49)**	**-**	**(42,708)**	**65,721**	**BBB-**	**1.39%**	**0.96%**	**2.99**

* 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 2009:

	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)
Bank notes	3,000	2,993	(2,318)	-	-	675	NR	0.00%	0.00%	6.64
Total portfolio	**3,000**	**2,993**	**(2,318)**	**-**	**-**	**675**	**NR**	**0.00%**	**0.00%**	**6.64**

Total available-for-sale securities	**66,396**

The following is a summary of the Group's available-for-sale securities 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**

12. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2009:

	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	191,476	161,274	(18,488)	142,786	BB	1.48%	1.38%	3.73
Other ABS	132,009	108,140	(23,233)	84,907	BBB	1.50%	1.74%	4.36
Real estate related loans	14,596	14,322	(606)	13,716	CCC	2.59%	2.52%	3.11
	338,081	283,736	(42,327)	241,409	BB+	1.53%	1.57%	3.95
Portfolio III								
CMBS	331,710	289,811	(7,674)	282,137	BB+	1.73%	1.88%	4.18
Other ABS	379,945	315,445	(49,729)	265,716	BB+	1.95%	1.68%	5.13
Real estate related loans	9,538	9,510	(4,684)	4,826	CCC	0.39%	2.58%	2.89
	721,193	614,766	(62,087)	552,679	BB+	1.83%	1.79%	4.66
Portfolio IV								
Real estate related loans	26,426	26,379	(202)	26,177	CCC	2.75%	2.34%	3.19
	26,426	26,379	(202)	26,177	CCC	2.75%	2.34%	3.19
Portfolio V								
CMBS	263,966	223,744	(25,537)	198,207	BB-	2.34%	1.72%	3.39
Other ABS	31,282	23,884	(4,618)	19,266	BB	1.78%	0.98%	4.49
Real estate related loans	360,202	361,304	(44,166)	317,138	CCC+	3.36%	3.22%	2.91
	655,450	608,932	(74,321)	534,611	B	2.88%	2.51%	3.18
Other Securities								
Real estate related loans	79,771	79,700	(5,698)	74,002	B+	4.23%	3.72%	4.14
	79,771	79,700	(5,698)	74,002	B+	4.23%	3.72%	4.14
Total portfolio	**1,820,921**	**1,613,513**	**(184,635)**	**1,428,878**	**BB-**	**2.27%**	**2.10%**	**3.95**

Restricted cash - cash to be invested	**1,566**
Total loans and receivables (including cash to be invested)	**1,430,444**

* 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 securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 18).

As at 31 December 2008:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average Average Rating*	Coupon	Margin	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
Real estate related loans	13,556	10,417	-	10,417	B+	7.12%	2.38%	1.94
	295,623	238,241	-	238,241	BBB	5.43%	1.25%	3.43
Portfolio III								
CMBS	252,089	204,211	(206)	204,005	BBB	5.90%	1.26%	5.32
Other ABS	413,801	332,565	(5,614)	326,951	BBB-	5.45%	1.71%	3.23
Real estate related loans	9,676	9,642	-	9,642	B-	7.21%	2.58%	3.89
	675,566	546,418	(5,820)	540,598	BBB-	5.65%	1.55%	4.02
Portfolio IV								
Real estate related loans	24,534	24,475	-	24,475	B-	7.31%	2.34%	3.43
	24,534	24,475	-	24,475	B-	7.31%	2.34%	3.43
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
Real estate related loans	379,250	383,397	(2,576)	380,821	BB-	7.40%	2.83%	3.47
	670,660	615,663	(2,576)	613,087	BB+	6.68%	2.24%	3.84
Other Securities								
Real estate related loans	80,207	80,098	-	80,098	B	8.72%	3.72%	2.50
	80,207	80,098	-	80,098	B	8.72%	3.72%	2.50
Total portfolio	**1,746,590**	**1,504,895**	**(8,396)**	**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's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

In 2009, the Group reclassified €6.1 million of the 2008 comparative impairment losses into amortised cost.

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 2008 Carrying value €'000	31 December 2009 Carrying value €'000	31 December 2008 Carrying value €'000	31 December 2009 Fair value €'000	31 December 2008 Carrying value €'000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	993,019	991,046	560,218	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 on an asset by asset basis.

If the reclassification had not been made, Eurocastle's income statement for 2009 would have included €180.2 million on the reclassified available-for-sale securities of impairment losses, compared with €168.9 million after the reclassification. During 2009, shareholders' equity (net losses not recognised in the income statement) would have included €147.2 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 2009.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year ended 31 December 2009:

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Net interest income	40,090	91,108
Impairment losses on securities classified as loans and receivables	(168,871)	(11,900)
Income on available-for-sale securities reclassified to loans and receivables	**(128,781)**	**79,208**

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.

After the reclassification, 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. During 2009, €37.7 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (2008: €6.1 million). Additionally, €38.9 million (31 December 2008: €31.9 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by €7.4 million to reflect changes in the expected cash flows.

At 31 December 2009, the net unrealised loss on loans and receivables was €152.4 million (31 December 2008: €229.0 million).

13. OTHER ASSETS

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Tenant incentives and leasing commissions	24,737	23,631
Service charge receivable	10,420	14,887
Interest receivable	5,711	21,499
Rent receivable	4,242	4,409
Prepaid expenses	1,015	1,348
Other accounts receivable	2,210	5,786
	48,335	**71,560**

14. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Foreign exchange forward contracts	-	1,195
Foreign currency swaps	53,040	89,030
Total derivative assets	**53,040**	**90,225**

Derivative Liabilities

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Foreign exchange forward contracts	-	386
Interest rate swaps*	11,437	10,832
Total derivative liabilities	**11,437**	**11,218**

* Included within the derivative liabilities is a €8.9 million (€31 December 2008: €5.2 million) prepaid collateral deposit held by the swap counterparty, who holds a legal right of offset.

14.1 Derivative Assets and Liabilities

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

14.2 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.

15. INVESTMENT PROPERTY

Total investment property consists of:

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Tenant incentives and leasing commission (included in other assets)	24,737	23,631
Investment property held for sale	158,800	117,790
Investment property	3,519,498	4,112,321
Closing balance	**3,703,035**	**4,253,742**

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 2009:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Opening balance at 1 January 2009	4,106,570	147,172	4,253,742
Capital expenditure	18,745	152	18,897
Tenant incentives and leasing commissions	(6,670)	-	(6,670)
Disposals	(138,155)	-	(138,155)
Increase in minimum payments under head lease	-	(4,466)	(4,466)
Decrease in fair value	(406,111)	(14,202)	(420,313)
Total	**3,574,379**	**128,656**	**3,703,035**

As at 31 December 2008:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Opening balance at 1 January 2008	5,025,494	157,627	5,183,121
Capital expenditure	36,828	727	37,555
Tenant incentives and leasing commissions	(4,210)	-	(4,210)
Disposals	(460,865)	-	(460,865)
Increase 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**

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.

Investment properties held for sale are stated at fair value, and are those properties that have been notarised for sale as at 31 December 2009.

Lease arrangements over the land on which the 31 investment properties are built have unexpired terms ranging from 5 years to 90 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 2009 €'000	As at 31 December 2008 €'000
Investment property at market value	3,683,500	4,229,741
Minimum payments under head leases separately included in trade and other payables on the balance sheet	19,535	24,001
Balance sheet carrying value of investment property	**3,703,035**	**4,253,742**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2009 €'000	Present value 31 December 2009 €'000	Total value 31 December 2008 €'000	Present value 31 December 2008 €'000
Under 1 year	1,573	1,495	1,559	1,496
From 2 to 5 years	6,581	5,101	6,510	5,295
More than 5 years	96,003	12,939	97,736	17,210
Total	**104,157**	**19,535**	**105,805**	**24,001**

Additional Information

The table below provides additional information for various portfolios within the Group at 31 December 2009:

Portfolio	Property valuation*** €'000	Term financing (face amount) €'000	Other assets / (liabilities)**** €'000	Net operating income* €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditure** €'000
Mars – Fixed 1	994,370	966,070	17,664	52,353	5.3%	83.4%	5,840
Mars – Fixed 2	99,870	80,000	5,426	5,269	5.3%	88.0%	183
Mars – Floating	310,510	231,261	1,355	10,634	3.4%	58.6%	2,647
Drive	1,077,640	935,267	35,687	71,856	6.7%	88.2%	4,920
Bridge	431,220	372,090	4,058	28,752	6.7%	94.6%	1,825
Wave	230,520	192,286	(10,354)	15,294	6.6%	83.4%	2,880
Zama	45,740	39,896	487	3,038	6.6%	92.4%	476
Turret	177,340	147,556	2,325	13,721	7.7%	98.9%	25
Truss	98,920	85,280	1,462	7,646	7.7%	99.5%	57
Belfry	64,010	56,240	985	4,989	7.8%	99.3%	32
Rapid	55,820	54,500	1,330	4,104	7.4%	100.0%	-
Tannenburg	62,750	52,960	1,526	4,641	7.4%	95.8%	11
Bastion	34,790	26,500	226	2,543	7.3%	100.0%	1
Total	**3,683,500**	**3,239,906**	**62,177**	**224,840**	**6.1%**	**86.2%**	**18,897**

* Net operating income is after deducting €4.9 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

** Capitalised expenditure represents actual expenditure for the year.

*** Property valuation excludes the leasehold gross-up of €19.5 million.

**** Other assets / liabilities do not include unallocated assets and liabilities per Note 29 - Segmental Reporting.

The tables below provide additional information for various portfolios within the Group at 31 December 2008:

Portfolio	Property valuation***	Term financing (face amount)	Other (assets / liabilities)****	Net operating income*	NOI yield on valuation	Occupancy	Capitalised expenditure**
	€'000	€'000	€'000	€'000	%	%	€'000
Mars – Fixed 1	1,124,070	969,961	19,996	54,482	4.8%	82.4%	11,958
Mars – Fixed 2	112,710	79,000	4,659	5,712	5.1%	90.3%	1,469
Mars – Floating	365,720	232,403	(3,615)	10,119	2.8%	56.8%	5,565
Drive	1,301,253	1,035,078	34,620	77,324	5.9%	88.1%	10,502
Bridge	484,180	372,090	5,033	27,648	5.7%	93.9%	2,939
Wave	274,617	210,000	(10,015)	17,970	6.5%	84.0%	4,743
Zama	48,920	39,896	551	2,917	6.0%	88.3%	283
Turret	187,452	147,556	4,322	13,801	7.4%	99.1%	8
Truss	102,730	85,280	1,842	7,733	7.5%	98.9%	-
Belfry	67,259	56,240	1,167	5,047	7.5%	99.5%	76
Rapid	58,390	54,500	1,597	4,080	7.0%	100.0%	-
Tannenburg	66,060	52,960	1,939	4,619	7.0%	95.8%	-
Bastion	36,380	26,500	501	2,504	6.9%	100.0%	12
Total	**4,229,741**	**3,361,464**	**62,597**	**233,956**	**5.5%**	**85.7%**	**37,555**

* Net operating income excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

** Capitalised expenditure represents actual expenditure for the year.

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

**** Other assets / liabilities do not include unallocated assets and liabilities per Note 29 - Segmental Reporting.

Under their respective financing arrangements, the Bastion and Drive portfolios have financial 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 Eurocastle or to dispose of assets. As at 31 December 2009, this ratio was 48.0% (31 December 2008: 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.

16. INTANGIBLE ASSETS

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Cost		
Balance at 1 January	3,794	3,814
Additions	198	117
Disposals	-	(137)
Balance at 31 December 2009	**3,992**	**3,794**
Amortisation		
Balance at 1 January	(1,476)	(746)
Charge for the year	(794)	(744)
Disposals	-	14
Balance at 31 December 2009	**(2,270)**	**(1,476)**
Carrying amount		
At 1 January 2009	**2,318**	**3,068**
At 31 December 2009	**1,722**	**2,318**

Intangible assets represent capitalised computer costs and are amortised over a period of 5 years.

17. FIXTURES AND FITTINGS

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Cost		
Balance at 1 January	387	817
Additions	107	-
Disposals	-	(430)
Balance at 31 December 2009	**494**	**387**
Depreciation		
Balance at 1 January	(103)	(63)
Charge for the year	(90)	(68)
Disposals	-	28
Balance at 31 December 2009	**(193)**	**(103)**
Carrying amount		
At 1 January 2009	**284**	**754**
At 31 December 2009	**301**	**284**

18. CDO BONDS PAYABLE

As at 31 December 2009:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A1, A2, B and C notes	BB/B/CC/CC	296,186	294,888	1.36%	0.31%	4.0
CDO III	A1, A2, B, C and D notes	B/CCC/CC/C C/C	676,575	673,374	1.21%	0.50%	5.2
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	B-/B/B- /CCC/CC/CC/C /C/C/C/C	547,404	542,872	1.48%	0.77%	6.4
Total			**1,520,165**	**1,511,134**	**1.33%**	**0.56%**	**5.4**

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

During the year, the Group repurchased €140.4 million of current face value of the Duncannon bonds payable, recognising a net gain of €56.6 million.

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

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/B BB	704,250	700,082	3.54%	0.49%	6.5
Duncannon	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 were due to be repaid within one year of the balance sheet date.

19. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2009 €'000	As at 31 December 2008 €'000
Term financing	(Note 19.1)	3,211,872	3,400,925
Loans and notes relating to the Mars Portfolios	(Note 19.2)	62,321	-
Corporate loan	(Note 19.3)	12,657	124,600
Other bank financing – under 1 year	(Note 19.4)	97,350	100,597
Total		**3,384,200**	**3,626,122**

19.1 Term Financing

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month Raised**	**As at 31 December 2009**	**As at 31 December 2008**	**As at 31 December 2009**	**As at 31 December 2008**	**Hedged weighted average funding cost**	**Weighted average funding cash coupon**	**Maturity**
Debt investments								
CDO IV	Jul 2005	54,611	80,920	54,611	80,813	1.38%	1.22%	Dec 2010
Investment property								
Mars – Fixed 1***	Jan 2007	966,070	969,961	950,991	951,748	4.70%	4.61%	Jul 2014
Mars – Fixed 2	Jun 2008	80,000	79,000	76,976	75,165	5.21%	5.07%	Jun 2013
Mars – Floating	Jan 2007	231,261	232,403	230,381	232,289	2.53%	2.49%	Dec 2013
Drive	Feb 2006	935,267	1,035,078	930,614	1,028,570	4.18%	4.07%	Jan 2013
Bridge	Oct 2006	372,090	372,090	368,874	368,138	4.74%	4.67%	Jan 2014
Wave	Apr 2007	192,286	210,000	191,051	208,397	4.94%	4.78%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,475	39,447	4.99%	4.86%	May 2014
Turret*	May 2006	147,556	147,556	146,369	146,203	4.93%	4.85%	May 2016
Truss*	Dec 2005	85,280	85,280	84,760	84,684	4.93%	4.85%	Feb 2016
Belfry*	Aug 2005	56,240	56,240	55,680	55,595	4.85%	4.66%	Oct 2015
Rapid*	Aug 2007	54,500	54,500	53,086	52,910	4.96%	4.91%	Nov 2017
Tannenberg*	May 2007	52,960	52,960	51,618	51,294	4.87%	4.66%	Oct 2014
Bastion*	Sep 2005	26,500	26,500	25,904	25,672	4.44%	4.24%	Jul 2012
		3,239,906	**3,361,464**	**3,205,779**	**3,320,112**	**4.45%**	**4.36%**	
Total		**3,294,517**	**3,442,384**	**3,260,390**	**3,400,925**	**4.40%**	**4.30%**	
Adjustment for costs of Mars refinancing**				**(48,518)**				
Total				**3,211,872**				

* These portfolios make up the retail property portfolio.

** Eurocastle transferred 50% of its interest in the Mars Fixed 1 and Floating portfolios to the lender and this is considered to be a cost of refinancing and is amortised over the life of the new loan facility (see Note 19.2). The amortised charge for the year ended 31 December 2009 was €13.8 million.

*** The interest margin on the Mars Fixed 1 loan will step up from 0.725% to 1.20% with effect from 1 January 2010.

The cash amount of interest paid is calculated by multiplying the weighted average funding cash coupon by the current face amount on an Actual/360 basis.

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. In December 2009, the CDO IV term financing was extended out to 31 December 2010. As at 31 December 2009, there was €54.6 million drawn on the facility (31 December 2008: €80.8 million).

Investment Properties

In order to finance the investment property portfolios, the Group entered into loan facilities as described in the table on page 65. 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 €250 million by 30 June 2008 and €200 million by 31 December 2008. The Mars Floating facility of €236 million was refinanced in February 2009. This amended facility was due to mature on 31 December 2012 and had 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, Eurocastle agreed to transfer to the Mars Floating facility lender half of its equity investment in the combined Mars Fixed 1 and Floating portfolios as at 31 January 2009. The Group had also provided an interest top-up guarantee up to a maximum of €10 million, and €10 million credit support to the Mars Floating portfolio allowing assets to be sold in aggregate up to €10 million below their respective facility-allocated loan amounts.

In December 2009 and January 2010, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments have also been extended by 12 months, with the first payment of €36 million falling due on 31 December 2010, €50 million due at the end of 2011 and 2012, and €100 million due at the end of 2013. In addition, Eurocastle's €10 million allocated loan amount shortfall credit support obligation has been suspended pending the contribution by Eurocastle of €5 million in two equal instalments at the end of June 2010 and December 2010 for capital expenditure for the Mars Floating portfolio. The interest shortfall guarantee of €10 million provided by Eurocastle will also be reduced to €7.5 million upon the making of the €5 million contribution. Failure by Eurocastle to contribute will trigger a default of the Mars Floating facility but for the avoidance of doubt, is not a financial obligation of Eurocastle.

On 25 June 2008, the Group successfully refinanced three of the properties out of the Mars Floating portfolio, with a major German bank, for an amount of €79.0 million. This facility, referred to as the Mars Fixed 2 facility, is non-recourse to Eurocastle, has an effective interest rate of 5.21% and matures in June 2013.

19.2 Loans and notes relating to the Mars Portfolios

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Within the Mars portfolio		
Loan Notes and Shareholder Loans	708,258	-
Less: Remeasurement adjustment to amortised cost	(583,617)	-
Adjusted amortised cost	124,641	-
Transfer of 50% of the adjusted amortised cost to the lender*	**62,321**	**-**

*As noted in the Financial Review, in consideration of the extension of the Mars Floating facility, the Group agreed to transfer to the Mars Floating lender half of its equity investment in the combined Mars portfolios. This transfer was legally affected on 27 May 2009 and comprised the transfer of Loan Notes and Shareholder's Loans relating to the lender's financing of the portfolios. The terms and conditions of the loan notes and shareholder loans provide that the holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying investment properties. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments.

19.3 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.

The terms of the loan were amended in April 2009 (in consideration for which an immediate €10 million repayment was made) and October 2009. The amended loan now matures on 31 December 2010 and mandatorily amortises pro rata to any repayment made under the EFL Guarantee Line (see Note 19.4 below for further detail on this facility). 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) are required to be used to amortise the outstanding loan balance on quarterly 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. 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 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. To the extent that any fees due to the Manager are used to amortise the corporate loan facility, such fees will be deferred by the Manager and will become due to the Manager once the corporate facility has been repaid. To the extent Eurocastle passes its financial covenant tests, any escrowed fees due to the Manager are released to the Manager. Eurocastle may not pay dividends or make any payments to convertible securityholders while any amounts under the corporate loan facility are outstanding.

In addition, an event of default under any Group indebtedness would trigger an event of default under the corporate facility if such default would have a material adverse effect on the ability of Eurocastle to meet its payment obligations under the corporate loan facility. While the Group does not believe that it is currently in default of any indebtedness which would have a material adverse affect, there can be no assurance that events of default in relation to the Group indebtedness will not occur in the future, thereby triggering a cross default of the corporate facility.

Under the terms of the October 2009 amendment, the corporate loan facility lenders agreed to Eurocastle assuming the EFL Guarantee Line (see “Other Bank Financing” below for further detail on this facility) assuming the €20 million indebtedness primarily on the condition that the corporate loan facility was prepaid at least pro rata to any amounts used to prepay the EFL Guarantee Line.

The interest rate on the corporate loan is 8% over three month Euribor.

As at 31 December 2009 the amount drawn on this facility was €12.75 million (31 December 2008: €125.0 million).

19.4 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 €57.5 million at 31 December 2009 (31 December 2008: €58.7 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 €39.8 million at 31 December 2008 at a weighted average interest rate of 0.75% above Euribor.

In 2009 the Group secured a short-term extension to the facility, which was due to mature on 30 September 2009, pending a more comprehensive restructuring. Eurocastle made a cash deposit of €10 million with the lender shortly after securing this extension. Subsequent to year-end, Eurocastle successfully concluded a comprehensive restructuring of this facility. In January 2010, the acquisition facility and related Eurocastle guarantee was discharged in full against the transfer of the assets financed by the facility and the €10 million deposit to the lender and the assumption by Eurocastle of a €20 million unsecured loan facility due in September 2010, amortising by €5 million on or about the end of January, March, and June (the “EFL Guarantee Line”).

20. TRADE AND OTHER PAYABLES

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Security deposit	6,530	6,004
Finance guarantee obligation	30,000	-
Interest payable	27,891	35,916
Due to Manager (note 28)	4,059	4,382
Accrued expenses and other payables*	36,164	41,850
Total trade and other payables	**104,644**	**88,152**

* Accrued expenses and other payables include provisions relating to capital expenditure of €13.5 million (31 December 2008: €15.4 million).

The finance guarantee obligation relates to a €30 million guarantee obligation for Eurocastle in respect of a consolidated subsidiary's acquisition facility for real estate loans and certain CMBS assets, as described in Note 19.4.

21. LOSS PER SHARE

Basic earnings per share is calculated by dividing net loss 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 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 2009	As at 31 December 2008
Weighted average number of ordinary shares, outstanding, basic	60,733,761	63,072,337
Dilutive effect of ordinary share options and convertible securities	148,643,836	-
Weighted average number of ordinary shares outstanding, diluted	**209,377,597**	**63,072,337**

22. SHARE CAPITAL AND RESERVES

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

On 22 June 2009, 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.

As at 31 December 2009, there were 60,735,646 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).

23. 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 2009, cumulative unrealised gains on hedge instruments were €5.3 million (31 December 2008: €15.7 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €19.4 million (31 December 2008: €24.2 million) and the fair value loss of the interest rate swaps of €14.1 million (31 December 2008: €8.5 million).

The gain or loss on measurement of the fair value of the interest rate swaps has been recognised in the statement of comprehensive income 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 2009 €'000	As at 31 December 2008 €'000
Mars	12,186	14,963
Drive	1,743	2,545
Bridge	2,069	2,581
Rapid	1,216	1,371
Tannenberg	811	980
Bastion	471	657
Turret	542	627
Zama	207	254
Truss	171	199
Total	**19,416**	**24,177**

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 2009	Wave	Mars 2*	Mars 2 Receiver*	Mars 3*	Mars 3 Receiver*	Drive*	Wave*
Nominal amount (€'000)	192,286	111,763	111,763	126,262	126,262	123,250	7,232
Pay rate	4.03%	3.92%	3 Month Euribor	3.68%	3 Month Euribor	3 Month Euribor	3 Month Euribor
Receive rate	3 Month Euribor	3 Month Euribor	2.30%	3 Month Euribor	2.00%	2.13%	2.42%
Remaining life (years)	4.3	1.8	1.8	0.8	0.8	3.1	4.3
Fair value of swaps (€'000)	(14,139)	(4,776)	1,506	(2,816)	1,094	12	(10)

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

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 (years)	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.

Fair Value Hedges

31 December 2009	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP B Notes	Feco GBP B Notes **
Nominal amount (€'000)	3,525	3,562	2,403	22,645	25,568
Pay rate	2.87%	2.00%	-	4.67%	-
Receive rate	3 Month Euribor	3 Month CHF	-	3 Month Libor	-
Remaining life (years)	0.6	0.8	-	1.5	-
Fair value of swap liabilities (€'000)	(56)	(58)	(39)	(948)	(1,071)
Fair value of assets attributable to the risk hedged (€'000)	(55)	(58)	(39)	(948)	(1,071)

* 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 2008	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP B Notes	Feco GBP B 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 (years)	1.6	1.8	-	2.9	-
Fair value of swap assets (€'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.

24. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	As at 31 December 2009 €'000	As at 31 December 2008 €'000
Convertible securities issued	99,750	-
Accrued interest	7,808	-
Capitalised issue costs	(1,200)	-
	106,358	**-**

On 25 June 2009, the Group issued €75 million of perpetual subordinated convertible securities (net of transaction costs of €1.2 million) on the following terms:

- The convertible securities were issued at par and will be entitled to a coupon of 20 per cent, payable annually in arrears. Interest may accrue and is capable of being paid in shares at the conversion price at the Company's discretion upon conversion. No interest will be paid out until the corporate loan facility has been paid off in full.
- The convertible securities are perpetual but the Company may redeem the securities after 2 years at a premium of 20 per cent.
- The securities will be convertible into shares at the holder's option at a conversion price per Ordinary Share of €0.30.
- The securities have a minimum denomination of €50,000, are unlisted but can be transferred.

On 6 October 2009, the Group raised an additional €15 million of capital through the issuance of further convertible securities on terms that economically represented a premium to par. On 19 October 2009, the Group issued a further €9.75 million of convertible securities on the same terms as the prior issuance.

Upon a full conversion of all convertible securities, the Group's number of shares outstanding would increase by 332,500,000.

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.

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 19.3.

At 31 December 2009, the Group had net equity of €363 million (2008: €811 million) and a leverage ratio of 93.1% (31 December 2008: 86.7%). The increase from 2008 is primarily as a result of the reduction in fair values of the investment properties and impairments of the debt investment securities during the year. Excluding the negative equity in the debt business, the leverage ratio would be 90.2% (2008: 85.3%).

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 located in Germany and therefore, the performance of such assets depends on the strength of the German economy and other factors affecting German real estate values. A decline in the German economy or the commercial property market may have an immediate effect on the net income of the properties and could lead to higher rates of delinquency or defaults under leases. The Group is also subject to general property market risks including, among other things, fluctuations in rental levels and property yields. These risks are assessed by the Group at the point of acquisition and are then monitored on an ongoing basis. In addition, external third party valuations of the Group's real estate assets are obtained during each financial year. These appraisals take current market developments into consideration.

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 has affected and may continue to affect the Group's ability to dispose of assets or the level of proceeds received in relation to any such disposals. 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 effected swiftly enough to avoid default of the Group's existing financings. The Group also recognises that the economic situation may result in a lower leasing or renewals volume or in a reduction in rents including as a result of tenant defaults. In addition, the Group's top five tenants accounted for 44.9% of its passing rental income for the year ended 31 December 2009. Loss of any one of these tenants could have a significant impact on the Group's performance. All of these factors could result in a cashflow shortfall compared to budget which may affect the Group's ability to, among other things, repay its debt obligations as they become due.

The Group is also exposed to market risk in respect of its interest rate swaps where it receives floating rate and pays fixed rate. A significant decrease in underlying interest rates and variations in the yield curve could have an 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, 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 2009, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €3.5 million (31 December 2008: €5.8 million).

The Group's securities that were reclassified as Loans and Receivables (see Note 12) 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 swaps. In the event of a significant rising interest rate environment and/or economic downturn, mortgage and loan defaults may increase and result in credit losses that may be expected to affect the Group's liquidity and operating results adversely. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the Group's control.

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 for its debt business 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 seeks to match fund interest rates on its investments with like-kind debt directly or through the use of interest rate swaps.

However, for a variety of reasons, the Group finances certain assets on a short-term basis, including the use of a floating rate corporate loan. The Group anticipates that, in most cases, for any period during which its assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of its borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence the Group's net income.

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. Changes in interest rates can affect the cost of unwinding these hedging arrangements and thus affect the gains from the disposal of the group's real estate assets.

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €0.9 million per annum (31 December 2008: €1.2 million per annum). The impact on equity due to the cash flow hedging would be an increase / (decrease) of approximately €0.1 million (31 December 2008: €0.1 million).

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 2009, a 100 basis point change in interest rates would impact the net book value by €0.1 million (31 December 2008: nil).

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; (ii) the use of balance guaranteed hedging; and (iii) 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.

No sensitivity analysis is presented for foreign exchange risk, as the impact of reasonably possible market movements on the Group's revenue and equity are not significant. The Group currently match-funds its debt investment portfolios, meaning that any non-Euro denominated debt investments are funded by financings in the same currency, therefore eliminating any material foreign currency exposure.

Credit Risk

The Group is subject to credit risk in its real estate business, primarily in relation to its underlying tenants. The Group is also subject to credit risk with respect of its debt investment business by virtue of the risk of delinquency, foreclosure and loss on the loans underpinning the securities in which the Group invests..

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes including, among other things, structural features that divert such payments to those classes when the delinquency of the pool exceeds certain levels. The securities do benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction but if such support is exhausted, in the event of default, the Group may not be able to recover all of its investment in the securities purchased. 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 assessing the creditworthiness of its larger tenants and its securities portfolio and the underlying credit quality of its holdings and where appropriate, repositioning such investments to upgrade the credit quality and yield on the investments.

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.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. At 31 December 2009, 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 2008: BB+).

The maximum credit risk exposure in respect of debt investments as at 31 December 2009 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 2008: €1.9 billion).

The Group's loans and receivables, available-for-sale securities and real estate loans portfolios were split between countries within Europe as follows:

	31 December 2009			31 December 2008		
	Number of securities/ loans	**Face value €'000**	**Location split**	**Number of securities/ loans**	**Face value €'000**	**Location split**
United Kingdom	89	799,105	41.4%	87	729,589	39.0%
Italy	16	193,402	10.0%	16	232,257	12.4%
Germany	34	435,693	22.6%	32	405,274	21.6%
Pan-European	10	229,751	11.9%	9	225,983	12.1%
France	9	65,226	3.4%	10	84,062	4.5%
Other	33	207,383	10.7%	33	194,832	10.4%
	191	**1,930,560**	**100%**	**187**	**1,871,997**	**100%**

The above table does not include the available-for-sale securities held within the Drive liquidity fund, which contains one security with a face value of €3 million located in the Other category.

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 carry on its business for the long-term 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, asset sales, the issuance of debt, convertible debt and equity securities. Except as noted below, the Group's loans and debt securities are generally secured directly over its assets with no recourse to Eurocastle itself. The Group expects that its cash in hand and cashflow provided by operations including net proceeds from the selective sale of assets will satisfy its liquidity needs over the next twelve months. However, the Group recognises that there is a risk that such sales will not materialise and that if they do, proceeds received could be lower than anticipated. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through the liquidation, refinancing or repayment of its assets at or before maturity. However, although the Group has historically been able to obtain and renegotiate financing on acceptable terms, there can be no assurance that future financing and/or renegotiation of existing terms will be available or, if it is, that it will be available on terms that the Group considers acceptable. In particular, should the current difficult financial market conditions persist, the Group may have difficulty in renewing, extending or refinancing its existing facilities in the future.

Aside from the Corporate Facility, the EFL facility (subsequent to year end, the EFL Guarantee Line), and, to a limited extent, the Mars Floating Facility, Group indebtedness is non recourse to Eurocastle itself. However, a default of any non-recourse indebtedness would allow the relevant lenders, among other things, to accelerate indebtedness to which members of the Group are subject and to enforce security over the assets being financed by such indebtedness. There can be no assurance that, following a default of indebtedness by a member of the Group, there would remain any significant value in the Eurocastle's investment in that member of the Group. In addition, an event of default under any Group indebtedness would trigger an event of default under the Corporate Facility if such default would have a material adverse effect on the ability of Eurocastle to meet its payment obligations under the Corporate Facility. As a result, there is no assurance that, even though the default of Group non-recourse indebtedness may not result in direct financial liabilities for Eurocastle, the value of Eurocastle's ordinary shares or the Convertible Securities will not be adversely affected by the default of such indebtedness.

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 89.2% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored. During the year, the Group had one facility that matured with limited recourse to the Group of €30 million with security over the financed assets. The Group agreed to split out the guarantee obligation into a separate facility and discharge the original facility in full against the transfer of all collateral securing this facility to the lender.

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 31 December 2009, were financed with a floating facility of €231.3 million. During the year, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments have also been extended by 12 months, with the first payment of €36 million falling due on 31 December 2010, €50 million due at the end of 2011 and 2012, and €100 million due at the end of 2013.

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 was required to be paid down to €125 million by 31 October 2008. This facility was amended in April 2009 and again in October 2009 as described in Note 19.3. The interest rate on the facility is 8% over Euribor.

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 2009 and 31 December 2008:

31 December 2009

Type	Total outstanding at 31 December 2009 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	122,545	122,545	-	-
Interest receivable**	5,711	42,844	118,281	948
Asset backed securities, available-for-sale	66,396	12,205	43,396	10,795
Loans and receivables (includes cash to be invested)	1,430,444	204,319	1,018,459	207,666
Derivative assets*	53,040	1,619	49,289	2,132
Total assets	**1,678,136**	**383,532**	**1,229,425**	**221,541**
Liabilities				
Interest payable**	27,891	168,091	512,820	37,471
Derivative liabilities*	11,437	7,115	20,087	-
CDO bonds payable	1,511,134	-	-	1,520,165
Bank loans	3,384,200	164,618	2,896,330	343,576
Finance leases payable ***	19,535	1,573	6,581	96,003
Total liabilities	**4,954,197**	**341,397**	**3,435,818**	**1,997,215**

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

Gross settled derivatives	Total outstanding at 31 December 2009 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(207,571)	(13,699)	(187,073)	(6,799)
Contractual amounts receivable	260,611	15,319	236,361	8,931
Total undiscounted gross settled derivatives outflow	53,040	1,620	49,288	2,132

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	-	-
Interest receivable**	21,499	115,292	312,340	5,170
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	**1,965,535**	**526,914**	**1,497,984**	**351,940**
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 reflect the cash flows over the remaining life of the assets.
** Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and 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

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 2009 Carrying value €'000	As at 31 December 2008 Carrying value €'000	As at 31 December 2009 Fair value €'000	As at 31 December 2008 Fair value €'000
Financial assets				
Cash and cash equivalents	122,545	119,869	122,545	119,869
Asset backed securities, available-for-sale	66,396	104,548	66,396	104,548
Loans and receivables (includes cash to be invested)	1,430,444	1,629,394	790,997	1,141,206
Derivative assets	53,040	90,225	53,040	90,225
Financial liabilities				
CDO bonds payable	1,511,134	1,674,758	540,293	878,597
Bank loans	3,384,200	3,626,122	3,608,777	3,581,894
Finance lease payable	19,535	24,001	19,535	24,001
Derivative liabilities	11,437	11,218	11,437	11,218

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognised in the balance sheet by level of hierarchy*:

31 December 2009:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	66,396	66,396
Derivative assets	-	53,040	-	53,040
Financial liabilities				
Derivative liabilities	-	11,437	-	11,437

31 December 2008:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	104,548	104,548
Derivative assets	-	90,225	-	90,225
Financial liabilities				
Derivative liabilities	-	11,218	-	11,218

* Explanation of the fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data.
- Level 3 – Use of a model with inputs that are not based on observable market data.

The following table shows a reconciliation for the Level 3 fair value measurements:

	Level 3 €'000
Opening balance at 1 January 2009	104,548
Total losses recognised in the income statement	(1,460)
Total losses recognised in other comprehensive income	(6,516)
Proceeds on sale/prepayment of available-for-sale securities during the year	(30,176)
Closing balance at 31December 2009	66,396

During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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	Exercised in the year ended 31 December 2009	Options remaining at 31 December 2009	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 Investment Limited.

27. DIVIDENDS PAID AND DECLARED

	Year ended 31 December 2009 €'000	Year ended 31 December 2008 €'000
Paid during the year:	-	38,356
Equity dividends on ordinary shares		
Fourth quarter dividend for 2008: €0.00 (2007: €0.30)	-	19,178
Second quarter dividend for 2009: €0.00 (2008: €0.30)	-	19,178
	-	**38,356**
Fourth quarter dividend for 2009: €0.00 (2008: €0.00)	-	-

28. MANAGEMENT AGREEMENT AND 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 12 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, Eurocastle 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 Eurocastle 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, and unrealised movements on currency swaps (net of translation gains/losses of related assets), but including realised gains or losses on the sale of investment properties.

At 31 December 2009, management fees, incentive fees and expense reimbursements of approximately €4.1 million (Note 20) (31 December 2008: €4.4 million) were due to the Manager. For the year ended 31 December 2009: management fees of €21.7 million (Note 6) (31 December 2008: €21.9 million), no incentive fees (31 December 2008: nil), and expense reimbursements of €8.5 million (31 December 2008: €8.3 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 is organised into two business units and conducts business through two primary segments: debt investments, relating to the Irish entities that it consolidates under SIC 12, and its German investment properties. The debt investments consist of investments in European real estate related debt, and the investment properties segment includes investing in, financing and management of high-quality German commercial properties.

The debt investment segment derives its income primarily from interest on the available-for-sale securities and loans and receivables.

The investment properties segment derives its income primarily from rental income and service charge income.

Segment assets for the debt investment segment include available-for-sale securities and loans and receivables. Segment assets for the investment properties segment represent investment properties (including investment properties available-for-sale).

Segment liabilities for the debt investment segment include CDO bonds payable and bank borrowings. Bank borrowings are also included as segment liabilities within the investment properties segment.

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

Year ended 31 December 2009	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue[1]	67,401	299,087	174	366,662
Impairment losses	(232,075)	-	-	(232,075)
Other operating income / (losses)	26,299	(423,717)	-	(397,418)
Total operating (losses) / income	**(138,375)**	**(124,630)**	**174**	**(262,831)**
Interest expense	(43,919)	(177,231)	-	(221,150)
Other operating expenses	(204)	(102,889)	(25,029)	(128,122)
Total operating expenses	**(44,123)**	**(280,120)**	**(25,029)**	**(349,272)**
Net operating loss	**(182,498)**	**(404,750)**	**(24,855)**	**(612,103)**
Taxation credit	-	6,187	-	6,187
Net profit	**(182,498)**	**(398,563)**	**(24,855)**	**(605,916)**
Decrease in fair values	(1,443)	419,157	-	417,714
Realised gains on sale of investment properties	-	(649)	-	(649)
Deferred tax	-	(7,043)	-	(7,043)
Funds from operations	**(183,941)**	**12,902**	**(24,855)**	**(195,894)**

(1) Included within revenue income is interest income of €67.4 million within the debt investment segment and €0.8 million within the investment properties segment.

Year ended 31 December 2008	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue[1]	149,811	341,189	1,290	492,290
Impairment losses	(16,794)	-	-	(16,794)
Other operating income / (losses)	2,048	(520,483)	-	(518,435)
Total operating income / (losses)	**135,065**	**(179,294)**	**1,290**	**(42,939)**
Interest expense	(115,560)	(170,036)	-	(285,596)
Other operating expenses	(3,191)	(108,528)	(27,662)	(139,381)
Total operating expenses	**(118,751)**	**(278,564)**	**(27,662)**	**(424,977)**
Net operating income / (loss)	**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	-	5,872	-	5,872
Deferred tax	-	(13,473)	-	(13,473)
Funds from operations	**16,909**	**66,550**	**(26,372)**	**57,087**

(1) Included within revenue income is interest income of €149.8 million within the debt investment segment and €4.3 million within the investment properties segment.

As at 31 December 2009	Debt investment €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,573,712	3,815,475	11,894	5,401,081
Total liabilities	(1,698,245)	(3,328,342)	(4,363)	(5,030,950)
Segment net assets	**(124,533)**	**487,133**	**7,531**	**370,131**
Tax liability	-	(6,767)	-	(6,767)
Minority interest	(2)	(4)	-	(6)
Net assets	**(124,535)**	**480,362**	**7,531**	**363,358**

As at 31 December 2008	Debt investment €'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**

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, 4-24, 26-40)
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 II PLC, Eurocastle CDO III PLC, Eurocastle CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC which are consolidated in accordance with SIC 12.

Following the restructuring of the Mars Floating finance facility during the year, the Mars Floating lender has acquired a 50% interest in the Mars Fixed 1 and Mars Floating portfolios.

31. SUBSEQUENT EVENTS

Subsequent to year end, Eurocastle Funding Limited transferred all of the collateral securing the acquisition facility as described in Note 19.4 to its lender in order to discharge this facility in full, as well as repaying €15 million of the finance guarantee obligation relating to the facility.

Also, since the year end, the Group has sold two properties for €1.0 million generating €0.4 million of cash after repayment of asset level financings.

In February 2010, convertible securityholders presented €1.5 million of Convertible Securities for conversion. Eurocastle duly converted these securities and issued 5,000,000 shares. No interest was payable on the converted securities.

32. COMMITMENTS

As at 31 December 2009, the Group had no material commitments that were not disclosed in these financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Wesley R. Edens
Chairman of the Board

Paolo Giorgio Bassi

Keith Dorrian

Randal A. Nardone

Dr. Udo Scheffel

Dr. Simon J. Thornton

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Stephen Charlton
Chief Financial Officer

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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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