EUROCASTLE INVESTMENT LIMITED

2010 ANNUAL REPORT

Eurocastle Investment Limited primarily owns and manages 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.

EUROCASTLE 2010 ANNUAL SHAREHOLDER LETTER

During 2010, the market environment showed signs of improvement which provided a supportive background for Eurocastle to make significant progress on achieving our two main objectives: repaying our short term recourse debt and realising value from our commercial real estate investment portfolio in Germany.

Operationally, 2010 was a solid year, with portfolio occupancy declining modestly from 86.1% to 85.7% on a like-for-like basis, while reletting over 266,000 square metres of space. Additionally, we continued our successful asset sales programme, with over €220 million of assets this year at an average cap rate of 6%, in line with their carrying values.

Significantly, through a combination of asset sales and operating cash flows from our investments, in December 2010 Eurocastle fully repaid the remaining €8.2 million of its corporate debt, fully settling the final balance. With this now taken care of, our focus for the coming year is to harvest returns from our real estate holdings, while continuing to invest in our portfolio to enhance its long term value.

FINANCIAL RESULTS

Eurocastle's corporate debt remained outstanding as of June 2010. This required Eurocastle to defer €17.6 million of annual interest due at that time on the €98.25 million of Convertible Securities it issued in 2009. Viewed on a fully converted basis, this deferred annual interest as well as further accrued interest of €11.7 million for the months from June until the end of 2010 resulted in incremental dilution of the Net Asset Value (NAV) per share. Eurocastle's adjusted NAV per fully diluted share was €0.55 at the year ended 31 December 2010, compared to €0.80 per fully diluted share at the end of 2009. Fully diluted shares outstanding increased 25% from approximately 393 million shares to approximately 490 million shares during the year. The adjusted real estate portion of the NAV was €0.73 per fully diluted share at the year ended 31 December 2010 compared to €1.12 per fully diluted share at the end of 2009. Of the reduction in the adjusted real estate NAV per fully diluted share, €0.18 is due to dilution from the deferral of interest on Convertible Securities and €0.21 from the decline in property values.

Although the operating results from our real estate investments compared favourably to the second half of 2009 and were in line with expectations, 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 have resulted in a net loss after taxation for the year ended 31 December 2010 of €124.9 million, compared to a net loss of €605.9 million for the year ended 31 December 2009. Our Normalised Funds from Operations for the year ended 31 December 2010 totalled €34.6 million compared to €38.6 million for the year ended 31 December 2009. No dividends were paid or declared in 2010.

REAL ESTATE PORTFOLIO

We remain focused on improving and realising the value of our real estate investment portfolio. At the year end 2010, Eurocastle owned 523 German commercial real estate assets, with a value of €3.4 billion. Taking into account our current 50% ownership of the Mars portfolios, we have €2.8 billion of real estate investments with an NOI yield of 6.3%. The portfolio is comprised of a diversified mix of high quality office and retail properties concentrated in the five major German cities (Berlin, Hamburg, Frankfurt, Düsseldorf and Munich).

In 2010, Eurocastle sold 30 properties with sales proceeds of €223.4 million, and since the start of 2011 has closed another 16 sales, including the sale of the Bastion (retail) portfolio, with a combined sales price of €74.5 million. In addition, Eurocastle has committed to sell a further nine properties with estimated sales proceeds of €42.3 million. We expect our sales activity in 2011 to be buoyed by the positive outlook for the German economy as well as by increasing demand for assets in the core plus segment.

The 2010 German economic upswing is expected to continue into 2011. We believe this improved economic environment should be supportive towards German commercial real estate which in the last 18 months has already shown signs of recovery. The five major German office markets accounted for 45% of the overall investment activity in 2010. The major German occupier markets also recorded positive rental take-up figures in 2010, up 30% compared to 2009. Despite the positive trend in take-up, office vacancy rates in the major office markets have increased from 10.3% at the end of 2009 to 11.0% at the end of 2010. However, prime office rents remained almost unchanged in the five major office markets with an average rent of €25.6 per sqm and are forecast to increase in 2011. For Eurocastle specifically, physical occupancy on a like-for-like basis decreased modestly from 86.1% at the end of 2009 to 85.7% at the end of 2010. Our average portfolio lease term in the portfolio is 4.8 years, with 10.8% of our rental income expiring in 2011.

DEBT INVESTMENT PORTFOLIO

Within our debt investment portfolio, we have €1.8 billion face value of assets which are financed through non-recourse financings. Despite the relatively stable cash flow performance of our investments, due to the average ratings on €1.7 billion face value of collateral within our public CDO financings, certain collateral performance ratios continue to be below certain triggers, diverting cash generated by our collateral to pay down senior CDO debt. During 2010, these ratios have benefited from our re-investment of cash received from repayments of principal into higher yielding new assets and the repurchase of our own senior liabilities at a discount. We expect to continue focus on improving these ratios by making further reinvestments and debt buy-backs. 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 senior debt tranches have been repaid.

FINANCING

With the repayment of our short term recourse obligations, at year end 2010, we had €4.5 billion in financing with a weighted average life of 3.6 years. We remain active in managing our debt. We have successfully completed the restructuring of the Mars Fixed 2 facility and we have outlined terms of a restructuring of the Mars Fixed 1 facility which we expect to finalise during the first half of 2011 and we expect to focus on restructuring the Mars Floating facility in the second half of 2011. All of the Mars facilities continue to apply excess cash to repay debt. While the Group is not currently projecting significant residual value from its Mars Fixed 1 and Mars Floating portfolios following various debt restructurings, it is expecting to receive some current income out of these portfolios in respect of continued asset management of the underlying real estate. In addition, as a result of the Drive Junior facility amendment in December 2010, cash flow from the Drive portfolio is being retained in a Group subsidiary to accumulate cash reserves for reinvestment into the Drive portfolio.

After the repayment of our recourse obligations and the sale of the Bastion portfolio in January 2011, our remaining real estate financings are now in 12 separate portfolios.

OUTLOOK

We have made significant progress this year in addressing our capital structure by repaying the last of our corporate debt obligations. We believe the large discount to NAV of our share price reflects market concerns regarding our medium term debt maturities. To this end, we will continue to enhance property values through proactive asset management and will explore further steps to stabilise our overall long term capital structure. Furthermore we will continue to opportunistically sell assets we consider to be fully valued.

The Germany commercial real estate market has shown signs of improvement in 2010. Although we have not yet seen this translate into improvements in our NAV per share, we expect real estate values, leasing and transaction market activity to increase further during 2011. Real estate capital markets activity in Germany has been limited thus far, but as the debt and equity markets continue to improve, we believe Eurocastle is positioned to benefit and take advantage of opportunities in a changing market.

Thank you for your continued support.

Wesley R. Edens
Chairman of the Board of Directors

BUSINESS REVIEW

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 2010, Eurocastle owned a €3.4 billion portfolio of commercial property investments generating an average NOI* yield of 6.0%. The investment property portfolio is a diversified mix of high-quality office and retail properties, and comprised 523 properties with approximately 2.0 million square metres (sqm) of lettable space. The portfolio had a total occupancy of 85.7%, and a weighted average remaining lease term of 4.8 years. The Group derives 60% 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 cash flows 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 (years)	NOI yield on valuation %
Core	474	1,158,374	91.2%	156.1	141.1	2,039	4.3	6.9%
Mars	49	534,105	75.9%	79.2	63.1	1,349	5.7	4.6%
Grand Total	**523**	**1,692,479**	**85.7%**	**235.3**	**204.2**	**3,388**	**4.8**	**6.0%**
Core plus 50% Mars Adjustment	**N/A**	**N/A**	**87.8%**	**198.8**	**175.2**	**2,763**	**4.6**	**6.3%**

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 91.2% at 31 December 2010, the same as at 31 December 2009 on a like-for-like basis. This portfolio generated an average NOI yield of 6.9%. The Mars portfolios had lettable space of 704 thousand square metres at 31 December 2010 with occupancy of 75.9%, less than 76.8% as at 31 December 2009 on a like-for-like basis. The Mars portfolio generated an average NOI yield of 4.6%.

During the year ended 31 December 2010, the Group signed 432 commercial leases for approximately 266,700 sqm. This comprised 220 new leases for approximately 59,600 sqm, and 212 lease renewals for approximately 207,100 sqm. The renewal rate for 2010 was 79.1%, compared to 82.4% in 2009.

Overall, the level of physical portfolio occupancy, on a like-for-like basis, decreased to 85.7% from 86.1% in 2009. Since the year end, approximately 3,200 sqm of new leases and 4,300 sqm of renewals have been completed, with a further 22,000 sqm of new leases and 135,000 sqm of renewals currently under negotiation.

As part of its ongoing sales programme, for the year ended 31 December 2010, the Group has completed the sale of 30 properties for total sales proceeds of €223 million, compared to a carrying value of €222 million. These sales realised cash of €25.0 million, 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.

Since the year end, the Group has sold the Bastion real estate portfolio consisting of 13 assets, for a sale price of €31.8 million and generated €4.2 million of cash after repayment of asset level financings. In addition to the Bastion portfolio, the Group has sold a further three properties subsequent to year end for €42.7 million generating €0.3 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 €42.3 million. Once completed, these sales are expected to generate up to €6.0 million of cash, after repayment of asset level financings.

As at 31 December 2010, the Group had signed 25 new leases for approximately €1.0 million of rental income per annum on approximately 8,000 sqm of vacant space, which will become effective during the first quarter 2011 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, geographical location and portfolio as at 31 December 2010.

Rental Data

By Use

			Passing rent*		
Use	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Office	1,095,128	80.5%	130.4	55.4%	12.3
Retail	434,173	97.3%	49.4	21.0%	9.7
Bank Hall	92,986	97.7%	14.7	6.2%	13.4
Other	352,346	84.4%	40.8	17.4%	11.4
Total portfolio	**1,974,633**	**85.7%**	**235.3**	**100%**	**11.6**

By Location

			Passing rent*		
Location	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Frankfurt	543,976	83.7%	85.6	36.4%	15.7
Munich	202,797	76.7%	25.4	10.8%	13.6
Hamburg	81,190	83.9%	10.6	4.5%	13.0
Berlin	89,853	86.7%	9.6	4.1%	10.3
Düsseldorf	71,925	90.4%	10.9	4.6%	14.0
Subtotal – top 5 markets	**989,741**	**83.1%**	**142.1**	**60.4%**	**14.4**
Remaining West	780,316	89.0%	76.5	32.5%	9.2
Remaining East	204,576	86.1%	16.7	7.1%	7.9
Total portfolio	**1,974,633**	**85.7%**	**235.3**	**100%**	**11.6**

By Portfolio

			Passing rent*		
Portfolio	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Mars – Fixed 1	463,506	83.4%	59.9	25.4%	12.9
Mars – Fixed 2	36,898	87.4%	6.3	2.7%	16.2
Mars – Floating	203,489	56.6%	13.0	5.5%	9.4
Drive	483,467	86.8%	66.0	28.0%	13.1
Bridge	191,769	95.0%	29.6	12.6%	13.6
Wave	175,192	82.0%	15.9	6.7%	9.2
Zama	30,461	94.7%	3.5	1.5%	10.1
Turret	140,631	98.2%	15.1	6.4%	9.1
Truss	81,280	99.3%	8.5	3.6%	8.7
Belfry	54,159	98.6%	5.3	2.3%	8.3
Rapid	38,355	100.0%	4.4	1.9%	9.5
Tannenberg	49,498	95.9%	5.1	2.2%	9.0
Bastion	25,928	100.0%	2.7	1.2%	8.8
Total portfolio	**1,974,633**	**85.7%**	**235.3**	**100%**	**11.6**

* 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 Years	Passing rent* 2011** €m	2012 €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Office	3.4	20.3	31.4	10.3	14.4	9.6	42.2	2.4
Retail	5.9	1.5	4.6	4.6	6.8	5.2	20.3	6.3
Bank Hall	4.0	0.3	1.8	0.4	2.7	5.5	3.5	0.5
Other	7.9	3.4	8.9	1.5	2.2	2.1	8.2	14.4
Total portfolio	**4.8**	**25.5**	**46.7**	**16.8**	**26.1**	**22.4**	**74.2**	**23.6**
Percentage of portfolio		10.8%	19.8%	7.2%	11.1%	9.5%	31.5%	10.1%

By Location

Location	Average lease term Years	Passing rent* 2011** €m	2012 €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Frankfurt	4.1	9.9	25.2	3.9	5.0	4.2	31.1	6.3
Munich	6.9	7.5	2.7	2.1	1.9	1.0	4.8	5.6
Hamburg	3.5	2.0	2.2	1.3	2.6	0.4	1.3	0.8
Berlin	3.4	1.8	1.3	1.6	1.8	0.5	2.3	0.2
Düsseldorf	5.5	0.5	3.8	0.8	1.1	0.5	2.0	2.2
Subtotal – top 5 markets	**4.6**	**21.7**	**35.2**	**9.7**	**12.4**	**6.6**	**41.5**	**15.1**
Remaining West	5.2	2.7	9.7	4.5	8.0	15.0	28.7	7.8
Remaining East	3.9	1.1	1.8	2.6	5.7	0.8	4.0	0.7
Total portfolio	**4.8**	**25.5**	**46.7**	**16.8**	**26.1**	**22.4**	**74.2**	**23.6**

By Portfolio

Portfolio	Average lease term Years	Passing rent* 2011** €m	2012 €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Mars – Fixed 1	6.5	6.6	12.9	6.4	6.0	2.9	10.1	15.2
Mars – Fixed 2	3.8	0.4	1.7	0.3	1.1	0.9	1.8	-
Mars – Floating	3.0	2.4	3.4	1.5	2.3	1.1	1.9	0.3
Drive	3.2	12.8	15.6	2.1	7.7	3.3	22.8	1.8
Bridge	4.2	1.4	9.1	1.5	1.8	0.5	15.4	-
Wave	4.0	0.7	1.1	0.8	1.5	9.7	2.0	-
Zama	5.1	0.1	0.2	0.2	0.3	0.2	2.5	-
Turret	5.0	0.3	0.7	2.3	3.9	1.7	5.1	1.1
Truss	5.6	0.2	0.7	0.8	0.6	1.4	4.3	0.5
Belfry	5.1	0.4	0.4	0.7	0.5	0.5	2.8	-
Rapid	10.8	-	-	-	-	-	1.4	3.0
Tannenberg	6.5	0.2	0.9	0.2	0.4	0.2	1.8	1.3
Bastion	9.7	-	-	-	-	-	2.3	0.4
Total portfolio	**4.8**	**25.5**	**46.7**	**16.8**	**26.1**	**22.4**	**74.2**	**23.6**

* Passing rent is defined as the contractual annual gross rental income at the period end, excluding the net effects of straight lining lease incentives.
** Included in the Drive passing rent due to expire in 2011 is €11.8 million of leases that have been terminated and will not be renewed.

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	83.7%	543,976	1,287	38.0%	75.0	5.8%
Munich	14	76.7%	202,797	402	11.9%	21.8	5.4%
Hamburg	9	83.9%	81,190	179	5.3%	8.9	4.9%
Berlin	10	86.7%	89,853	147	4.3%	8.0	5.4%
Düsseldorf	5	90.4%	71,925	174	5.1%	9.5	5.5%
Subtotal – top 5 markets	**86**	**83.1%**	**989,741**	**2,189**	**64.6%**	**123.2**	**5.6%**
Remaining West	342	89.0%	780,316	1,011	29.9%	66.4	6.6%
Remaining East	95	86.1%	204,576	188	5.5%	14.6	7.8%
Total portfolio	**523**	**85.7%**	**1,974,633**	**3,388**	**100%**	**204.2**	**6.0%**

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%	463,506	984	29.0%	48.7	5.0%
Mars – Fixed 2	3	87.4%	36,898	98	2.9%	5.1	5.2%
Mars – Floating	18	56.6%	203,489	267	7.9%	9.3	3.5%
Drive	201	86.8%	483,467	869	25.7%	59.1	6.8%
Bridge	6	95.0%	191,769	425	12.5%	27.7	6.5%
Wave	69	82.0%	175,192	214	6.3%	13.4	6.2%
Zama	8	94.7%	30,461	45	1.3%	3.2	7.0%
Turret	63	98.2%	140,631	175	5.2%	13.8	7.9%
Truss	41	99.3%	81,280	98	2.9%	7.7	7.9%
Belfry	28	98.6%	54,159	64	1.9%	4.9	7.7%
Rapid	18	100.0%	38,355	56	1.7%	4.2	7.4%
Tannenberg	27	95.9%	49,498	61	1.8%	4.5	7.3%
Bastion	13	100.0%	25,928	32	0.9%	2.6	8.1%
Total portfolio	**523**	**85.7%**	**1,974,633**	**3,388**	**100%**	**204.2**	**6.0%**

* The above valuation does not include €13.2 million relating to head leases.

** Net operating income is after deducting €6.7 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 2010 Occupancy (sqm)	31 December 2010 Occupancy %	31 December 2010 Passing rent** €m	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m
Office	881,868	80.5%	130.4	883,789	80.7%	133.1
Retail	422,486	97.3%	49.4	426,475	97.9%	49.8
Bank Hall	90,892	97.7%	14.7	92,739	98.1%	14.6
Other	297,233	84.4%	40.8	296,477	84.8%	41.3
Total portfolio	**1,692,479**	**85.7%**	**235.3**	**1,699,480**	**86.1%**	**238.8**

By Location

Location	31 December 2010 Occupancy (sqm)	31 December 2010 Occupancy %	31 December 2010 Passing rent** €m	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m
Frankfurt	455,505	83.7%	85.6	464,156	85.3%	88.3
Munich	155,514	76.7%	25.4	149,974	74.0%	24.6
Hamburg	68,099	83.9%	10.6	69,719	85.9%	10.8
Berlin	77,900	86.7%	9.6	75,618	84.2%	9.6
Düsseldorf	64,992	90.4%	10.9	67,970	94.5%	11.6
Subtotal – top 5 markets	**822,010**	**83.1%**	**142.1**	**827,437**	**83.6%**	**144.9**
Remaining West	694,367	89.0%	76.5	697,879	89.4%	76.9
Remaining East	176,102	86.1%	16.7	174,164	85.1%	17.0
Total portfolio	**1,692,479**	**85.7%**	**235.3**	**1,699,480**	**86.1%**	**238.8**

By Portfolio

Portfolio	31 December 2010 Occupancy (sqm)	31 December 2010 Occupancy %	31 December 2010 Passing rent** €m	31 December 2009 Occupancy (sqm)	31 December 2009 Occupancy %	31 December 2009 Passing rent** €m
Mars – Fixed 1	386,576	83.4%	59.9	386,767	83.4%	61.6
Mars – Fixed 2	32,260	87.4%	6.3	32,444	87.9%	6.4
Mars – Floating	115,269	56.6%	13.0	121,486	59.7%	13.7
Drive	419,859	86.8%	66.0	418,417	86.5%	66.4
Bridge	182,103	95.0%	29.6	181,574	94.7%	29.9
Wave	143,611	82.0%	15.9	145,072	82.8%	16.2
Zama	28,843	94.7%	3.5	28,224	92.7%	3.4
Turret	138,075	98.2%	15.1	139,129	98.9%	15.0
Truss	80,724	99.3%	8.5	80,897	99.5%	8.5
Belfry	53,401	98.6%	5.3	53,764	99.3%	5.4
Rapid	38,355	100.0%	4.4	38,355	100.0%	4.4
Tannenberg	47,475	95.9%	5.1	47,423	95.8%	5.2
Bastion	25,928	100.0%	2.7	25,928	100.0%	2.7
Total portfolio	**1,692,479**	**85.7%**	**235.3**	**1,699,480**	**86.1%**	**238.8**

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

** 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, and excludes any impact of the rental guarantee.

Top 5 Tenants

Tenant name	Business sector	Passing rent €'000	% of total portfolio	Square metres
Commerzbank	Banking	56,248	23.9%	329,064
Edeka	Retail	13,248	5.6%	127,020
Deutsche Bank	Banking	12,558	5.3%	103,221
Starman Hotels	Hotel	9,632	4.1%	40,988
Deutsche Bahn	Railway	8,709	3.7%	49,542
Total portfolio		**100,395**	**42.6%**	**649,835**

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	31 December 2010	31 December 2009
Carrying value of total debt investments (excluding restricted cash) (€'000)	**1,301,705**	**1,494,599**
Implied discount margin (above Euribor) at carrying value	**7.45%**	**8.43%**
Amortised cost of total debt investments (excluding restricted cash) (€'000)	**1,327,491**	**1,537,356**
Weighted average asset margin (above Euribor)	**1.75%**	**2.04%**
Weighted average liability spread	**0.56%**	**0.59%**
Weighted average net spread	**1.19%**	**1.45%**
Weighted average credit rating	**BB-**	**BB-**
Percentage investment grade of debt investment portfolio	**34%**	**34%**
Number of securities and loans	**176**	**191**
Nominal value of impaired assets (€'000)	**469,117**	**319,720**
Number of impaired assets	**48**	**37**

Eurocastle's €1.3 billion debt 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 2010:

Asset/liability structure for debt investment portfolio

31 December 2010	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*	331,990	6.4	BB	435	289,178	4.3	Dec 2060	No
Eurocastle CDO III PLC	712,816	6.0	BBB-	10,074	664,603	4.7	Dec 2060	No
Eurocastle CDO IV PLC	79,850	3.7	BB-	-	42,936	1.5	Mar 2013	No
Duncannon CRE CDO I PLC**	654,023	2.9	B	-	445,005	4.7	Jun 2047	No
Eurocastle Funding Limited (unlevered)	7,678	0.6	CCC-	-	-	-	-	-
Total	**1,786,357**	**4.8**	**BB-**	**10,509**	**1,441,722**	**4.5**	-	-

* As a result of the event of default that occurred on 9 September 2010, the Group has designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the debt has become payable on demand.

** Includes Balance Guaranteed Swap Asset of €53.7 million on the nominal value of some non Euro assets.

Debt Investment Portfolio Composition (31 December 2010)

Asset class	Nominal* €'000	Total debt portfolio %
Commercial real estate backed	1,253,761	72.4%
Residential real estate backed	444,065	25.6%
Other	34,880	2.0%
	1,732,706	**100.0%**

* Excludes the balance guaranteed swap asset of €53.7 million on the nominal value of some non-Euro assets.

Commercial Real Estate Backed Debt

At 31 December 2010, the Group owned €1.3 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 2010, the Group made purchases of €12 million, sales of €207 million, and had principal repayments of €113 million. The Group had six CMBS securities upgraded totalling €19 million and 50 CMBS downgrades totalling €454 million during the year.

As at 31 December 2010, 28 CMBS securities with a nominal value of €370.2 million had been impaired by a total amount of €257.2 million.

Asset class	Nominal €'000	Total debt book %	Average rating*
CMBS	728,777	42.1%	BB
Commercial real estate loans	371,948	21.5%	B-
SME CLO	81,532	4.7%	B+
Whole business securitisations	71,504	4.1%	BB-
	1,253,761	**72.4%**	**B+**

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

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	1,769	23,109	34,231	67,149	41,063	80,910	64,754	141,235	67,274	**521,494**	**30.2%**
Germany	9,795	5,988	4,922	27,094	27,043	82,623	116,953	-	-	**274,418**	**15.9%**
Italy	-	-	11,400	15,000	23,810	45,100	35,401	-	-	**130,711**	**7.5%**
France	-	-	-	-	10,000	32,626	10,000	-	-	**52,626**	**3.0%**
Netherlands	-	-	-	-	2,500	11,000	20,125	-	-	**33,625**	**1.9%**
Switzerland		-	-	-	7,000	25,378	-	-	-	**32,378**	**1.9%**
Spain	-	-	12,200	3,800	-	4,334	4,600	1,398	-	**26,332**	**1.5%**
Pan-European	7,770	19,883	30,678	-	9,304	24,898	82,734	6,910	-	**182,177**	**10.5%**
Total	**19,334**	**48,980**	**93,431**	**113,043**	**120,720**	**306,869**	**334,567**	**149,543**	**67,274**	**1,253,761**	**72.4%**
% of total debt portfolio	**1.1%**	**2.8%**	**5.4%**	**6.5%**	**7.0%**	**17.7%**	**19.4%**	**8.6%**	**3.9%**	**72.4%**	
% of total debt portfolio - 2009	1.4%	3.8%	6.3%	9.5%	10.6%	15.2%	25.9%	4.5%	2.4%	79.6%	

Residential Real Estate Debt

At 31 December 2010, the Group owned €444 million face amount of residential mortgage backed securities ("RMBS"). During the year ended 31 December 2010, the Group made purchases of €127 million, made sales of €20 million and had principal repayments of €23 million. The current average rating of the RMBS portfolio is A-. The Group had 11 securities totalling €25 million upgraded and 23 securities downgraded totalling €88 million during the year.

As at 31 December 2010, 20 RMBS securities with a nominal value of €98.9 million had been impaired by a total amount of €40.6 million.

The composition of the residential mortgage backed securities portfolio as at 31 December 2010 is shown below:

RMBS type	Nominal €'000	Total debt book %	Average rating*
Prime	288,213	16.7%	A+
Mixed	57,980	3.3%	BB
Non conforming	97,872	5.6%	BBB-
Total	**444,065**	**25.6%**	**A-**

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

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	90,526	4,137	31,411	47,360	70,708	9,033	11,039	6,000	-	**270,214**	**15.6%**
Italy	-	-	-	28,000	-	-	2,750	-	-	**30,750**	**1.8%**
Netherlands	33,083	-	6,375	5,185	15,000	-	-	-	-	**59,643**	**3.4%**
Germany	16,592	-	-	-	6,200	-	-	-	-	**22,792**	**1.3%**
Spain	-	-	-	2,568	2,200	-	7,000	-	-	**11,768**	**0.7%**
Ireland	-	-	-	-	11,562	1,000	2,250	-	9,800	**24,612**	**1.4%**
Belgium	18,487	-	-	5,000	-	-	-	-	-	**23,487**	**1.4%**
Greece	-	-	-	799	-	-	-	-	-	**799**	**0.0%**
Total	**158,688**	**4,137**	**37,786**	**88,912**	**105,670**	**10,033**	**23,039**	**6,000**	**9,800**	**444,065**	**25.6%**
% of total debt portfolio	**9.2%**	**0.2%**	**2.2%**	**5.1%**	**6.1%**	**0.6%**	**1.3%**	**0.3%**	**0.6%**	**25.6%**	
% of total debt portfolio – 2009	2.0%	0.7%	2.1%	7.2%	4.3%	0.7%	0.7%	0.3%	0.5%	18.5%	

Other Debt

At 31 December 2010, the Group owned €35 million face amount of other structured finance debt (commercial and consumer loans). During the year ended 31 December 2010, the Group made purchases of €7 million, no sales and had paydowns of €8 million. One security totalling €4 million was upgraded and two securities for €16 million were downgraded during the year.

As at 31 December 2010, no securities were impaired.

Debt Type	Nominal €'000	Total debt book %	Average rating* %
Commercial leases & loans	14,381	0.8%	BB
Consumer leases & loans	20,499	1.2%	BBB
Total	**34,880**	**2.0%**	BBB-

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

Rating distribution / country exposure	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Total**	**Total portfolio**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	%
Italy	-	-	-	6,000	-	7,130	**13,130**	**0.9%**
Germany	-	-	-	1,250	-	-	**1,250**	**0.1%**
Sweden	-	-	-	3,500	-	-	**3,500**	**0.2%**
United Kingdom	-	-	-	17,000	-	-	**17,000**	**0.8%**
Total	**-**	**-**	**-**	**27,750**	**-**	**7,130**	**34,880**	**2.0%**
% of total debt portfolio	**0.0%**	**0.0%**	**0.0%**	**1.6%**	**0.0%**	**0.4%**	**2.0%**	
% of total debt portfolio - 2009	0.0%	0.0%	0.0%	1.4%	0.0%	0.5%	1.9%	

Credit Quality

In 2010 credit quality stabilised further for all asset classes in the European debt market. Although downgrades continued to outpace upgrades, the magnitude of downgrades has decreased from 2009 levels. Commercial real estate values in Europe have stabilised and in some markets actually increased over the last year which has been supportive of the CMBS market, while decreases in delinquencies and foreclosures have supported the RMBS market. Cash flows in the portfolio have remained strong; actual, realised losses have been very small to date and have been primarily in the CMBS market.

Financing and Liquidity

The Group achieved its core goal of eliminating its short-term recourse financing when it paid down in full its corporate loan facilities in December 2010. The Group's liquidity continues to be provided through cash flow from its real estate operations, the extension of its existing financings and asset sales. As at 28 February 2011, Eurocastle had an unrestricted corporate cash balance of €7.0 million.

The Group's financing position as at 28 February 2011 was as follows:

Maturities and Mandatory Amortisation								
Portfolio (€million)	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 +**	**TOTAL**
Non - Recourse								
Mars - Fixed 1 (2) (3)	-	-	-	965.8	-	-	-	965.8
Mars - Floating (1) (3)	34.0	50.0	100.0	-	-	-	-	184.0
Mars - Fixed 2 (2)	-	-	79.7	-	-	-	-	79.7
Drive (2) (3)	-	-	759.2	-	-	-	-	759.2
Bridge	-	-	-	372.1	-	-	-	372.1
Wave (2)	-	-	-	173.8	-	-	-	173.8
Turret	-	-	-	-	-	147.6	-	147.6
Truss	-	0.2	0.9	0.9	0.9	82.4	-	85.3
Belfry	-	-	-	-	54.8	-	-	54.8
Superstella	-	-	-	-	-	-	54.5	54.5
Tannenberg	-	-	-	53.0	-	-	-	53.0
Zama	-	-	-	39.9	-	-	-	39.9
Bastion	-	-	-	-	-	-	-	-
Real Estate Total	34.0	50.2	939.8	1,605.5	55.7	230.0	54.5	2,969.7
CDO IV	19.6	11.7	11.7	-	-	-	-	43.0
Debt Total	19.6	11.7	11.7	-	-	-	-	43.0
GRAND TOTAL	**53.6**	**61.9**	**951.5**	**1,605.5**	**55.7**	**230.0**	**54.5**	**3,012.7**

(1) The Mars Floating facility includes €10 million recourse to Eurocastle in respect of any interest shortfall only. There is also a suspended €10 million credit support obligation, which is expected to remain suspended until the facility is restructured in full in 2011. Under this 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, the Bastion financing of €26.5 million was fully repaid. Additionally, there have been financing repayments of €40.3 million in the Mars Floating portfolio, €4.4 million in the Wave portfolio, €6.5 million in the Drive portfolio, and €1.4 million in the Belfry portfolio.

(3) Prior to year end, the Mars Fixed 1, Mars Floating and Drive Junior loans breached certain loan covenants as described on pages 13 and 14. The table above assumes contractual amortisation. The legal maturities of these loans are July 2014, December 2013, and January 2013, respectively.

Non-Mandatory CDO Paydown Profile

Portfolio (€million)	2011	2012	2013	2014	2015	2016	2017 +	TOTAL
CDO II [(1)]	16.9	51.3	65.9	43.7	19.7	19.6	72.1	289.2
CDO III	8.6	32.7	100.1	131.9	84.6	41.4	265.3	664.6
Duncannon	7.1	6.6	75.2	102.9	28.4	52.9	171.9	445.0
GRAND TOTAL	**32.6**	**90.6**	**241.2**	**278.5**	**132.7**	**113.9**	**509.3**	**1,398.8**

(1) As a result of the event of default that occurred on 9 September 2010 (as detailed on page 14), the Group has designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the debt has become payable on demand.

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

In February 2010, convertible security holders presented €1.5 million of convertible securities for conversion. The Group duly converted these securities and issued 5,000,000 shares. No cash interest was paid on the securities that were converted.

In June 2010, in accordance with the terms of the convertible securities, interest was mandatorily deferred on the basis that the Group's corporate facility remained outstanding. Interest of €17.6 million on €98.25 million of securities was deferred.

The Group does not currently expect to pay interest on its convertible securities in the near to medium term.

Short-Term Financing

As at 31 December 2010, Eurocastle had repaid in full both its corporate loan facility and the Excalibur line. The Group no longer has any short-term recourse debt facilities in place.

As at 31 December 2010, the Group's €3.4 billion real estate portfolio was financed with €3.0 billion of asset level financing with a weighted average maturity of 3.2 years.

Drive Junior Facility

The Drive portfolio assets are held through a German real estate fund. A Group subsidiary holds its interest in the fund through the ownership of units issued by this fund. The structure is financed by a senior loan made to the fund and through a junior loan made to the Group subsidiary holding the fund units and secured by, amongst other things, the fund units. As at 31 December 2010, the combined debt on the Drive portfolio (all of which is non-recourse) was €765.8 million, split between the senior or fund level loan (€426.4 million) and the junior facility (€339.4 million).

Under the terms of the first phase of the restructuring of the Drive Junior Facility executed in the fourth quarter of 2010, €9.6 million was released to Eurocastle for the repayment of its corporate obligations with all further cash flow being retained in a Group subsidiary to build a reserve for projected future capital expenditure on Drive real estate assets and finance costs. The Group is currently in the process of concluding the second phase of the restructuring in relation to receiving limited cash flow from its Drive portfolio to contribute to the Group's share of related overheads whilst also addressing certain of the tighter financial covenants. The Group expects this facility to be restructured during 2011 with the lending syndicate being in a position to review their commitment on a regular basis.

Mars Fixed 1 Facility

As at 31 December 2010, €965.8 million was outstanding under the Mars Fixed 1 Facility. This is a non-recourse facility and is subject to a standstill. The Group has agreed, in principle, the terms of a restructuring which it expects to finalise during the first half of 2011.

While the Group is not currently projecting significant residual value from the Mars Fixed 1 portfolio following the restructuring, it is expecting to receive some current income out of this portfolio in respect of continued asset management of the underlying real estate.

Mars Floating Facility

As at 31 December 2010, €224.3 million was outstanding under the Mars Floating facility, the terms of which were described in the 2009 financials. The facility is subject to a temporary standstill pending negotiations with the lender around a restructuring. The Group does not expect to finalise a restructuring of this facility until at least the second half of 2011, after which the Group does not expect significant residual value from the portfolio.

Eurocastle continues to have in place a €10 million interest shortfall guarantee and credit support obligation of up to €10 million (in respect of asset sales executed at under the lender's allocated loan amounts) to the Mars Floating portfolio. There is currently no amount owing under this credit support obligation.

All operating cash flows, net of agreed costs and expenses (including agreed capital expenditure costs), continue to be used to amortise the outstanding loan balance on the quarterly interest payment dates.

Mars Fixed 2 Facility

As at 31 December 2010, €79.7 million was outstanding under the Mars Fixed 2 Facility. This is a non-recourse facility. A restructuring of this facility was signed in July 2010 under which the financial covenants have been reset to the benefit of the Group. In addition, any operating cash flows, net of agreed costs and expenses (including agreed capital expenditure costs), may be used by the lender to amortise the outstanding loan balance on quarterly interest payment dates.

CDO II Bonds Payable

In September 2010, an event of default occurred as a result of a breach in the Class A Overcollateralisation test. Under such a breach, the Notes can be declared immediately due and payable should the majority of the Senior Noteholders elect to do so and the Trustee is satisfied that the liquidation proceeds will be sufficient to repay all of the outstanding debt. Separate to this condition, the liabilities could also be declared payable should more than two thirds of each class holder direct the Trustee to do so.

Currently, the majority of the Senior Noteholders have not elected to accelerate and the Trustee has not determined that liquidation proceeds would be sufficient to repay all outstanding debt. Moreover, 66.67% of each Class of Senior and Mezzanine Notes has not directed the sale of the collateral.

It is also deemed highly unlikely that such an event will occur in the near future due to the current negative equity position of the Senior Notes, the Senior Noteholders' inability to direct a liquidation of the collateral unless sufficient proceeds are expected to be recovered to satisfy all issued debt, and the low likelihood of the value of the collateral rising to match the outstanding issued debt within 12 months.

CDO IV Financing

As at 31 December 2010, the Group had a non-recourse facility for €42.9 million with CDO IV as the borrower. This facility was restructured in December 2010, which resulted in an extension of the maturity date to 31 March 2013 with semi annual amortisation targets. The scheduled repayments are to be met through a combination of asset sales and excess cash flow that will continue to be retained in the portfolio. In addition, all financial covenants have been removed and the Lender is entitled to 25% of all principal receipts upon full repayment of the facility.

Debt Investment Portfolio Financing

The Group has no mark-to-market or recourse exposure on its debt portfolio. As at 31 December 2010, out of total financing facilities of €1.4 billion, the Group has financing totalling €52.2 million maturing within the year, €32.6 million of which relates to non-mandatory amortisations as a result of expected interest from the underlying investments.

During the year ended 31 December 2010, the Group repurchased €93.9 million of senior liabilities within the CDO financings with restricted cash at an average price of 74.0%, realising a net book gain of €23.7 million.

At 31 December 2010, approximately 95.1% of the debt investment portfolio benefited from financing maturing beyond the maturity date of its assets. Included within this amount is nominal value of €332.0 million of assets within CDO II with a weighted average life of 6.4 years, compared to financing of €289.2 million with a weighted average life of 4.3 years. As outlined above, CDO II is currently in breach of its Class A Overcollateralisation test, and as such in Note 25 the value of the CDO II financing has been classified as due within one year, as the bonds are repayable on demand.

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 31 January 2011

Overcollateralisation Compliance Summary

€'000	**Eurocastle CDO II PLC**	**Eurocastle CDO III PLC**	**Duncannon CRE CDO I PLC**
Nominal value of assets	284,286	726,815	650,841
Balance of the principal cash accounts	882	17,868	2,760
Sum of applied haircuts[(1)]	(72,195)	(96,294)	(272,556)
Overcollateralisation (par value) numerator (A)	212,973	648,389	381,045
Aggregate principal amount of rated liabilities[(2)] (B)	258,067	673,148	473,912
Interest diversion test (A / B)	82.5%	96.3%	80.4%
Trigger	103.5%	102.5%	102.0%
Collateral shortfall	**(54,126)**	**(41,587)**	**(102,346)**

Interest Coverage Compliance Summary

€'000	**Eurocastle CDO II PLC**	**Eurocastle CDO III PLC**	**Duncannon CRE CDO I PLC**
Interest coverable amount (C)	1,056	4,089	2,382
Quarterly interest due on the liabilities[(2)] (D)	838	2,377	1,817
Mezzanine interest coverage ratio (C / D)	126.0%	172.0%	131.1%
Trigger	112.0%	112.0%	103.0%
Interest cushion	**117**	**1,427**	**510**

(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 €168 million on 31 January 2011 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 €158 million were treated as Haircut Obligations and haircut by 69%.

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

The interest cash used 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
First quarter 2010	557	1,985	2,270
Second quarter 2010	579	1,793	2,966
Third quarter 2010	433	1,779	1,041
Fourth quarter 2010	449	2,131	1,293
Total interest diverted	**4,581**	**15,800**	**16,562**

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.

Liquidity Outlook

Eurocastle's liquidity is generated by cash flows from its real estate portfolios other than its Drive and Mars portfolios, the majority of whose excess cash flow is and will continue to be retained within the relevant subsidiaries to fund capital expenditure, finance costs and amortisation. Since the repayment in full by the Group of its two corporate loan facilities in December 2010, debt service costs at the Group level have been eliminated. Cash received at the Group level is used to satisfy its general corporate and trade obligations. The Group does not currently expect to pay interest on its convertible securities.

Key Financial Information

Income Statement Data (**in €'000, except per share data)**	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Interest income	44,289	68,362
Rental income	236,030	251,607
Service charge income	49,826	46,693
Decrease in fair value of investment properties	(85,015)	(420,313)
Impairment losses	(66,127)	(232,075)
Interest expense	(192,560)	(221,150)
Service charges and property operating expenses	(86,395)	(90,047)
Other operating expenses	(39,040)	(40,022)
Net loss before taxation	(123,836)	(612,103)
Net loss after taxation	(124,922)	(605,916)
Funds from operations ("FFO")	(69,195)	(195,894)
Normalised funds from operations	34,600	38,610
Loss per weighted average basic share and diluted share	(1.92)	(9.98)
FFO per weighted average basic share	(1.06)	(3.23)
FFO per weighted average diluted share	(0.16)	(0.94)
Normalised FFO per weighted average basic share	0.53	0.64
Normalised FFO per weighted average diluted share	0.08	0.18
Normalised FFO per fully diluted share	0.07	0.10
Weighted average number of ordinary shares, outstanding, basic	64,984,347	60,733,761
Dilutive effect of ordinary share options and convertible securities*	356,904,091	148,643,836
Weighted average number of ordinary shares outstanding, diluted	**421,888,438**	**209,377,597**
Ordinary shares outstanding	**65,739,646**	**60,735,646**
Fully diluted ordinary shares outstanding*	**490,468,409**	**393,235,646**

* For the year ended 31 December 2010, fully diluted ordinary shares represent the impact of converting €98,250,000 of Convertible Securities at €0.30 per share, as well as the impact of converting the interest due on the Convertible Securities. The weighted average dilutive effect for the year ended 31 December 2010 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 2010**	**31 December 2009**
Cash and cash equivalents	113,990	122,545
Investment property (including properties held for sale)	3,375,536	3,678,298
Debt investments	1,312,214	1,496,840
Other assets	80,543	103,398
Total assets	**4,882,283**	**5,401,081**
Interest bearing debt financing	(4,482,377)	(4,895,334)
Other liabilities	(114,362)	(142,383)
Total liabilities	**(4,596,739)**	**(5,037,717)**
Net assets	**285,544**	**363,364**
Net assets per fully diluted share	**0.58**	**0.92**
Real estate net assets per fully diluted share	**0.76**	**1.24**
Debt investment portfolio net assets per fully diluted share	**(0.18) ****	**(0.32) ****

** 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 2010 IFRS net asset value reflects approximately €112 million, or €0.23 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 2010	Year ended 31 December 2009
Reconciliation of FFO to net loss after taxation		
Net loss after taxation	(124,922)	(605,916)
Decrease in fair value of investment properties	85,015	420,313
Increase in fair value of interest rate swaps	(3,523)	(1,156)
Unrealised movements on currency swaps (net of translation gains on related assets)	62	(1,443)
Realised loss on sale of investment properties	(25,000)	(649)
Deferred tax benefit on investment properties	(827)	(7,043)
Funds from operations (FFO)	**(69,195)**	**(195,894)**
Net realised losses on investment property sales after sales costs and closure of swaps	36,259	7,338
(Losses) / gains on foreign currency contracts, translation and swaps	363	(504)
Impairment losses	66,127	232,075
Realised loss on sale of available-for-sale securities	5,469	4,819
Realised loss on sale of loans and receivables	6,184	-
Amortisation of cost of Mars refinancing	9,537	13,803
Interest rate swap adjustments	3,567	3,531
Gain on repurchase of debt in CDO V	(23,711)	(56,558)
Finance guarantee loss	-	30,000
Normalised FFO	**34,600**	**38,610**

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 and unrealised movements on currency swaps (net of translation gains/losses of related assets). 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 additional information regarding the 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 2010	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Revenue [1]	44,204	285,941	**330,145**
Other operating gains / (losses)	12,193	(81,627)	**(69,434)**
Impairment losses	(66,127)	-	**(66,127)**
Interest expense	(24,183)	(168,377)	**(192,560)**
Service charge and property operating expenses	-	(86,395)	**(86,395)**
Other operating expenses (including foreign currency gains/(losses)[2]	(3,262)	(36,203)	**(39,465)**
Operating loss before taxation	**(37,175)**	**(86,661)**	**(123,836)**
Taxation expense	-	(1,086)	**(1,086)**
Net loss	**(37,175)**	**(87,747)**	**(124,922)**
Decrease in fair values	62	81,492	**81,554**
Realised loss on sale	-	(25,000)	**(25,000)**
Deferred tax credit	-	(827)	**(827)**
Funds from operations	**(37,113)**	**(32,082)**	**(69,195)**
Net realised losses on investment property sales after sales costs and closure of swaps	-	36,259	36,259
Losses on foreign currency contracts, translation and swaps	363	-	363
Impairment losses	66,127	-	66,127
Realised loss on sale of available-for-sale securities	5,334	135	5,469
Realised gain on sale of loans and receivables	6,184	-	6,184
Amortisation of cost of Mars refinancing[3]	-	9,537	9,537
Interest rate swap adjustments	-	3,567	3,567
Gain on repurchase of debt in CDO V	(23,711)	-	(23,711)
Normalised funds from operations[4]	**17,184**	**17,416**	**34,600**
Funds from operations per ordinary share[5] €	(0.57)	(0.49)	(1.06)
Normalised funds from operations per ordinary share[4] €	**0.26**	**0.27**	**0.53**

1 Unallocated other revenue of €0.05 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: nil and investment properties: €0.05 million.

2 Unallocated other operating expenses of €24.5 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: €23.2 million.

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

4 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.

5 Normalised FFO per share and FFO per share are calculated on the weighted average number of shares at 31 December 2010.

€'000	**Year ended 31 December 2010**	**Year ended 31 December 2009**
Funds from operations	(69,195)	(195,894)
FFO per ordinary share	(1.06)	(3.23)

FFO for the year ended 31 December 2010 was a loss of €69.2 million (31 December 2009 loss: €195.9 million) and included impairments of €66.1 million (31 December 2009: €232.1 million).

FFO for the year ended 31 December 2010 increased by €126.7 million against the year ended 31 December 2009 mainly due to:

- €166.0 million lower debt investment impairments
- €30.0 million prior year provision relating to a subsidiary's recourse guarantee obligation for an acquisition facility
- €6.8 million lower net service charge income and property expense
- €4.5 million lower net interest expense
- €1.0 million lower other operating expense

Offset by:

- €32.8 million lower gains on the repurchase of CDO financing
- €24.4 million higher realised losses on sale of investment properties
- €15.6 million lower rental income
- €6.8 million lower sale of debt investments
- €1.1 million higher taxation charge
- €0.9 million foreign exchange loss

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 2010**	**Year ended** **31 December 2009**
Interest income	44,289	68,362
Rental income	236,030	251,607
Service charge income	49,826	46,693
Total	**330,145**	**366,662**

The decrease in interest income compared to 2009 was mainly in the debt investment business due to:

- Lower average benchmark Euro interest rates in 2010
- An increase in the number of debt investment securities which are not cashflowing due to principal loss and/or interest deferral triggers failing
- Reinvestment of principal cash in the repurchase of CDO financing and higher rated assets yielding lower interest rates

The decrease in rental income compared to 2009 reflects the sale of properties and new lease-ups and renewals at lower rents than before.

Service charge income represents the recoverable service costs that have been charged to the tenants and includes common area maintenance, insurance, heating ventilation air-conditioning (HVAC), utilities costs and property taxes. Higher service charge income compared to 2009 reflects mainly the completion of prior years' service charge reconciliations in 2009 which resulted in lower recovery levels than previously estimated, partially offset by lower service charge income in 2010 due to the sale of properties.

Fair value movements / impairment losses **€'000**	**Year ended** **31 December 2010**	**Year ended** **31 December 2009**
Decrease in fair value of investment properties (a)	(85,015)	(420,313)
Loss on sale of asset back securities, available-for-sale (b)	(5,469)	(4,819)
Loss on sale of loans and receivables (b)	(6,184)	-
Increase in fair value of interest rate swaps (c)	3,523	1,156
Gain on repurchase of debt financing (d)	23,711	56,558
Impairment losses (e)	(66,127)	(232,075)
Finance guarantee loss (f)	-	(30,000)
Total	**(135,561)**	**(629,493)**

(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 as at 31 December 2010 in general showed market value declines which were stabilising, resulting from property related factors rather than negative market developments.

(b) During the year, 19 securities were sold from the debt investment portfolio and two assets were transferred from a subsidiary to its lender as part of the settlement terms for a subsidiary's acquisition facility, resulting in a total realised loss to the Group of €11.7 million split between available for sale asset backed securities (€5.6 million), and loans and receivables (€6.0 million). During the year, the Group sold three asset backed securities, classified as available for sale, which included one asset transferred to the lender as described above and one security out of the Drive Liquidity Fund. During the year, the Group sold 18 assets classified as loans and receivables, which included one asset transferred to the lender. During 2009, the Group sold six securities out of the Drive Liquidity fund for total proceeds of €11.3 million, as well as one security from the debt investment portfolio for a total realised loss on sale of €4.8 million.

(c) The increase in the fair value of interest rate swaps is due to a reduction in the total outstanding nominal as a result of prepayments from asset sales and the associated realisation of unrealised losses.

(d) The Group repurchased debt issued by CDO V of €93.9 million (2009: €140.9 million), realising a gain on repurchase of €23.7 million (2009: €56.6 million).

(e) During the year ended 31 December 2010, the Group recognised €66.1 million of impairment losses within the debt investment portfolio on 33 assets, compared to €232.1 million on 37 assets in 2009.

(f) In 2009, the Group provided for a €30.0 million recourse guarantee obligation in respect of a subsidiary's (EFL) acquisition facility which was settled in early 2010.

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 2010**	**Year ended** **31 December 2009**
Interest expense	192,560	221,150
Losses /(gains) on foreign currency contracts, translation and swaps	425	(1,947)
Service charge expenses	49,826	46,693
Property operating expenses	36,569	43,354
Other operating expenses	39,040	40,022
Total operating expenses	**318,420**	**349,272**
Operating income (excluding fair value movements and impairment losses)	**330,145**	**366,662**

A significant proportion of the Group's operating expenses represent interest expense (60% for 2010, against 63% for 2009). The decrease in interest expense from 2009 was due mainly to lower average benchmark interest rates, the repurchase and cancellation of senior notes in CDO V, the repayment of debt from sale of investment properties and operating cash flows.

Service charge expense represents the recoverable service costs that have been charged to the tenants and includes common area maintenance, insurance, HVAC, utilities costs and property taxes. Higher service charge expenses compared to 2009 reflects mainly the completion of prior years' service charge reconciliations in 2009 which resulted in lower recovery levels than previously estimated, partially offset by lower service charge expenses in 2010 due to the sale of properties.

The Group's property operating expenses include common area maintenance, insurance, HVAC, utilities costs and property taxes that cannot be recovered from tenants or that relate to vacant space. The decrease as compared to 2009 was predominantly due to higher non-recoverable service charge reconciliations for prior periods expensed in 2009 and impact from the sale of properties.

The Group's other operating expenses include management fees paid to the Manager of €21.7 million, unchanged from 2009. Other operating expenses decreased by €1.0 million in 2010 when compared to 2009, due mainly to cost control measures.

Corporation Tax

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

€'000	Year ended 31 December 2010	Year ended 31 December 2009
Current tax charge	1,913	856
Deferred tax credit	(827)	(7,043)
Total tax charge / (credit)	**1,086**	**(6,187)**

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 2010	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Investments	1,312,214	3,375,536	**4,687,750**
Other assets[1]	41,146	153,387	**194,533**
Total assets	**1,353,360**	**3,528,923**	**4,882,283**
Interest-bearing debt financing	(1,435,506)	(3,046,871)	**(4,482,377)**
Other liabilities[2]	(2,832)	(105,810)	**(108,642)**
Total liabilities	**(1,438,338)**	**(3,152,681)**	**(4,591,019)**
Segment net (liabilities) /assets	**(84,978)**	**376,242**	**291,264**
Tax liability	-	(5,720)	**(5,720)**
Non-controlling interest	(2)	(4)	**(6)**
Net (liabilities) /assets	**(84,980)**	**370,518**	**285,538**
Net (liabilities) /assets per fully diluted share €	**(0.18)**	**0.76**	**0.58**
Adjusted NAV for 50% Mars transfer[3]	**-**	**(14,531)**	**(14,531)**
Adjusted net (liabilities) /assets after transfer	**(84,980)**	**355,987**	**271,007**
Adjusted net (liabilities) /assets per fully diluted share after transfer	**(0.18)**	**0.73**	**0.55**

1 Unallocated other assets of €6.8 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.4 million and investment properties: €6.4 million.

2 Unallocated other liabilities of €3.9 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: €0.2 million and investment properties: €3.7 million.

3 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 Financial 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 2010 IFRS net asset value reflects approximately €112 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 2010 amounted to €4.9 billion, representing a 9.6% decrease from €5.4 billion as at 31 December 2009. This primarily reflects the reduction in value of the commercial property portfolio on a like-for-like basis of €73.3 million, and the sale of 30 assets within the commercial property portfolio for proceeds of €223.4 million. In addition, debt investments declined by €184.6 million, through a combination of impairment charges, sales and redemptions.

Real Estate Investments

As at 31 December 2010, the Group's real estate portfolio comprised €3.4 billion of commercial property investments compared with €3.5 billion as at 31 December 2009, on a like-for-like basis. This represents a decrease of 2.1% in the fair value of investment properties on the 31 December 2009 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 €174.6 million unrealised gain.

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. 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 42.6% of its passing rental income for the year ended 31 December 2010. 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 cash flow 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 2010, 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 2009: 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 generate sufficient revenue to meet its general corporate expenses.

The Group's liquidity is generated by cash flows from ordinary operations and asset sales from its real estate portfolios other than its Drive and Mars portfolios, the majority of whose excess net operating cash flow and sale proceeds is and will continue to be retained within the relevant subsidiaries to fund capital expenditure, finance costs and amortisation.

Since the repayment in full of its two corporate loan facilities in December 2010, debt service costs at the Eurocastle level have been eliminated. Cash received at the Eurocastle level is used to satisfy the Group's general corporate and trade obligations. Eurocastle does not currently expect to pay interest on its convertible securities.

The Group's loans and debt securities are generally secured directly over its assets with no direct recourse to Eurocastle itself, with the exception of contingent recourse obligations in relation to the Mars Floating Facility. The Group expects that its cash in hand and cash flow from operations, including net proceeds from asset sales, will satisfy its liquidity needs over the next twelve months. However, the Group recognises that i) there is a risk that planned sales will not materialise and that if they do, proceeds received could be lower than anticipated, and ii) lease terminations may outstrip lease renewals leading to a net reduction in the Group's main source of ordinary operating revenue.

The Group expects to meet its long-term liquidity requirements, especially in relation to its term financing maturities through negotiated extensions of its term debt, the refinancing of its term debt and asset sales 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.

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 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 $44.6 billion of assets under management as of 31 December 2010. 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 33. 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 or paid during 2010. The payment of dividends was blocked during the term of the Corporate Loan facility as described in Note 19.3 and until interest on the convertible securities is brought current.

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 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 2010 were as follows:

	31 December 2010	31 December 2009
Paolo Bassi	40,800	39,800
Keith Dorrian	7,000	6,000
Wesley R. Edens*	50,000	50,000
Randal A. Nardone*	20,000	20,000
Udo Scheffel	4,000	3,000
Simon Thornton	4,000	3,000

* 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 10,706,132 shares.

Substantial Shareholdings

As at 16 March 2011, 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*	66.83%
Goldman Sachs Securities (Nominees) Limited**	13.53%
Euroclear Nominees Limited	9.60%

* 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.

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 28. 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 and solvency outlook is described on page 16.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 28, confirms 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 Business Review 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: 17 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES 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 Group 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 Group 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 and its Subsidiaries

We have audited the financial statements of Eurocastle Investment Limited and its Subsidiaries ("the Group") for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Group'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 Group's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Business Review, Financial Review, Letter to the Shareholders, and the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

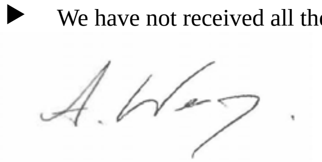
In our opinion the financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended;
- Have been properly prepared in accordance with IFRSs; and
- Have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:
- Proper accounting records have not been kept; or
- The financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit.



Andrew Woosey
for and on behalf of Ernst & Young LLP
London
Date: 17 March 2011

Notes:

1. The maintenance and integrity of the Eurocastle Investment Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Operating income			
Interest income	3	44,289	68,362
Rental income	4	236,030	251,607
Service charge income	4	49,826	46,693
Loss on disposal of asset backed securities, available-for-sale		(5,469)	(4,819)
Loss on disposal of loans and receivables		(6,184)	-
Decrease in fair value of investment properties	7,15	(85,015)	(420,313)
Gain on repurchase of debt financing	18	23,711	56,558
Increase in fair value of interest rate swaps	14	3,523	1,156
Impairment losses	9	(66,127)	(232,075)
Financing guarantee loss	20	-	(30,000)
Total operating profit / (loss)		**194,584**	**(262,831)**
Operating expenses			
Interest expense	5	192,560	221,150
Losses / (gains) on foreign currency contracts, translation and swaps	8	425	(1,947)
Service charge expenses	4	49,826	46,693
Property operating expenses	4	36,569	43,354
Other operating expenses	6	39,040	40,022
Total operating expenses		**318,420**	**349,272**
Net operating loss before taxation		**(123,836)**	**(612,103)**
Taxation expense - current	7	1,913	856
Taxation credit - deferred	7	(827)	(7,043)
Net loss after taxation		**(124,922)**	**(605,916)**
Loss per ordinary share			
Basic and diluted	21	(1.92)	(9.98)
Weighted average ordinary shares outstanding			
Basic	21	64,984,347	60,733,761
Diluted	21	421,888,438	209,377,597

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Net loss after taxation		**(124,922)**	**(605,916)**
Other comprehensive income			
Available-for-sale securities			
Unrealised loss on asset backed securities, available-for-sale	11	(2,959)	(10,184)
Unrealised losses / (gains) reclassified to the income statement on disposal of available-for-sale securities		19,932	3,717
Amortisation of unrealised gains/losses on available-for-sale securities reclassified to loans and receivables movements released to the income statement	12	33,898	46,320
Adjustment to amortisation of unrealised losses reflecting changes to expected cash flows	12	(15,174)	(7,441)
Unrealised losses reclassified to the income statement on disposal of available for sale securities, reclassified as loans and receivables		2,287	-
Net unrealised losses released to the income statement on impaired asset backed securities, available-for-sale	11	-	(49)
Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9, 12	13,787	37,746
Total available-for-sale securities		51,771	70,109
Cash flow hedges			
Net unrealised gain / (loss) on hedge instruments		125	(5,671)
Realised gains on hedge instruments reclassified to the income statement	23	(713)	(19)
Amortisation of novated swaps	23	(4,082)	(4,742)
Total cash flow hedges		(4,670)	(10,432)
Other comprehensive income		**47,101**	**59,677**
Total comprehensive loss for the year		**(77,821)**	**(546,239)**

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2010 €'000	31 December 2009 €'000
Assets			
Cash and cash equivalents	10	113,990	122,545
Investment properties held for sale	15	93,340	158,800
Other assets	13	49,976	48,335
Available-for-sale securities	11	36,313	66,396
Loans and receivables (includes cash to be invested)	12	1,275,901	1,430,444
Fixtures and fittings	17	216	301
Derivative assets	14	29,313	53,040
Investment property	15	3,282,196	3,519,498
Intangible assets	16	1,038	1,722
Total assets		**4,882,283**	**5,401,081**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	22	1,428,119	1,426,618
Accumulated loss		(1,143,354)	(997,071)
Net unrealised loss on available-for-sale securities, and loans and receivables	11,12	(143,373)	(195,144)
Hedging reserve	23	607	5,277
Perpetual subordinated convertible securities	24	126,219	106,358
Other reserves	22	17,320	17,320
Total shareholders' equity		**285,538**	**363,358**
Non-controlling interest		**6**	**6**
Total equity		**285,544**	**363,364**
Liabilities			
Trade and other payables	20	81,104	104,644
CDO bonds payable	18	1,392,570	1,511,134
Bank borrowings	19	3,089,807	3,384,200
Derivative liabilities	14	14,325	11,437
Finance lease payable	15	13,213	19,535
Current taxation payable	7	2,205	2,425
Deferred taxation liability	7	3,515	4,342
Total liabilities		**4,596,739**	**5,037,717**
Total equity and liabilities		**4,882,283**	**5,401,081**

See notes to the consolidated financial statements.

The financial statements were approved by the Board of Directors on 17 March 2011 and signed on its behalf by:

Wesley R. Edens
Chairman

CONSOLIDATED CASHFLOW STATEMENT

	Notes	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Cash flows from operating activities			
Operating loss before taxation		(123,836)	(612,103)
Adjustments for:			
Interest income		(41,065)	(65,219)
Interest expense		185,602	212,737
Unrealised loss / (gain) on foreign currency contracts		425	(1,947)
Amortisation of discounts on securities		(3,224)	(3,143)
Amortisation of borrowing costs		6,958	8,413
Amortisation of tenant incentives and leasing commissions		7,357	6,670
Realised loss on disposal of available-for-sale securities		5,469	4,819
Realised loss on disposal of loans and receivables		6,184	-
Realised gain on repurchase of debt financing		(23,711)	(56,558)
Impairment losses		66,127	232,075
Shares granted to directors		1	1
Taxation paid		(2,133)	(52)
Amortisation of intangibles		798	794
Depreciation of fixtures and fittings		85	90
Decrease in fair value of investment properties		85,015	420,313
Increase in fair value of interest rate swap		(3,523)	(1,156)
Decrease in other assets		2,627	7,247
Interest received		40,697	81,007
Interest paid		(185,195)	(220,762)
Increase / (decrease) in trade and other payables		8,941	(5,264)
(Decrease) / increase in provision for finance guarantee loss		(30,000)	30,000
Net cash flows from operating activities		**3,599**	**37,962**
Cash flows from investing activities			
Capital expenditures / tenant incentives		(19,932)	(18,897)
Proceeds from sale of investment properties		223,358	138,155
Proceeds on sale / prepayment of available-for-sale securities		38,807	30,176
Purchase of loans and receivables		(138,896)	(132,954)
Sale / prepayment of loans and receivables		310,102	112,296
Purchase of intangible assets		(114)	(198)
Purchase of fixtures and fittings		-	(107)
Net cash flows from investing activities		**413,325**	**128,471**
Cash flows from financing activities			
Proceeds of issuance of convertible securities		-	99,750
Costs related to issuance of convertible securities		-	(1,200)
Payments for the repurchase of bonds issued		(69,539)	(82,659)
Repayments of bonds issued		(41,340)	(53,081)
Decrease of bank borrowings		(305,657)	(257,896)
Net cash flows from financing activities		**(416,536)**	**(295,086)**
Net increase / (decrease) in cash and cash equivalents		**388**	**(128,653)**
Cash and cash equivalents, beginning of year		**122,545**	**119,869**
Restricted CDO cash, beginning of year		**1,566**	**132,895**
Cash and cash equivalents, beginning of year		**124,111**	**252,764**
Cash and cash equivalents, end of year	10	**113,990**	**122,545**
Restricted CDO cash, end of year	12	**10,509**	**1,566**
Cash and cash equivalents, end of year		**124,499**	**124,111**

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 loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2009	**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**
Loss for the year	-	-	-	-	-	-	(124,922)	-	(124,922)
Other comprehensive income / (loss)	-	-	-	-	51,771	(4,670)	-	-	47,101
Total comprehensive income / (loss)	-	-	-	-	51,771	(4,670)	(124,922)	-	(77,821)
Shares issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible Securities converted into ordinary shares	5,000,000	1,500	-	(1,500)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (Note 24)	-	-	-	21,361	-	-	(21,361)	-	-
At 31 December 2010	**65,739,646**	**1,428,119**	**17,320**	**126,219**	**(143,373)**	**607**	**(1,143,354)**	**6**	**285,544**

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 2009 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 2010:

- IFRS 3 *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Amended)
- IAS 17 *Leases* (amendment)

IFRS 3 - *(Revised) Business Combinations* and IAS 27 - *(Amended) Consolidated and Separate Financial Statements*

The revised standards are effective prospectively for business combinations affected in financial periods beginning on or after 1 July 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction. Therefore, such a transaction would no longer give rise to goodwill, nor give rise to a gain or loss. The adoption of this amendment did not have any impact on the financial position or the performance of the Group.

IAS 17 - *Leases (Amendment)*

This amendment is effective for financial periods beginning on or after 1 January 2010. This amendment deletes much of the existing wording in the standard to the effect all leases of land (where title does not pass) were operating leases. The amendment requires that in determining whether the lease of land (either separately or in combination with other property) is an operating or a finance lease, the same criteria are applied as for any other asset. All leases of land by the Group as lessee are already accounted for as finance leases under the fair value option for leases in IAS 40. The Group does not have finance leases of land as lessor. Therefore, this change has no impact on 2009 or 2010. However, this may have the impact in the future that disposals of land via a long lease will be treated as disposals under finance leases rather than the issue of operating leases.

Critical accounting judgements 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 judgements and estimates and significant accounting policies are the same as those disclosed in the financial statements for the year ended 31 December 2009.

(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 judgements 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 judgement 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 judgement, and includes certain assumptions which include passing rent, void periods, yield, relettability, 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 2010. 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 2010, 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 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 unrealised loss previously recognised in equity, in net unrealised gains (losses), is removed from equity and recognised 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 amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised 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 cash flows 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.

Non-controlling Interests

Non-controlling 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.

Accounting for the Mars Refinancing

The Group's Mars portfolio equity transfer to the Mars lender in respect of the Mars Floating portfolio comprises both the transfer of 50% of the loan notes and shareholder loans held by Eurocastle in the Mars Fixed 1 and Mars Floating portfolios, and 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 investments 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.

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.

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

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements. The directors have set out below only those which may have a material impact on the financial statements in future periods.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The Directors will quantify the effect on the Group in conjunction with the other phases, when issued, to present a comprehensive picture.

3. INTEREST INCOME

Interest income for the year ended 31 December 2010 of €44.3 million (31 December 2009: €68.4 million) is primarily interest income earned on the available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2010 includes interest calculated using the effective interest method of €44.1 million (31 December 2009: €66.7 million). Coupon interest earned of €40.9 million (31 December 2009: €63.6 million) is split between available-for-sale securities (€0.9 million), loans and receivables (€26.6 million), and real estate related loans (€13.4 million) (31 December 2009: €2.7 million, €37.9 million, and €23.0 million respectively).

Interest earned using the effective interest method on impaired assets for the year ended 31 December 2010 of €8.4 million (31 December 2009: €7.9 million) includes €0.03 million interest on available-for-sale securities, interest on loans and receivables of €3.6 million, and interest on real estate related loans of €4.8 million (31 December 2009: €0.03 million, €5.2 million, and €2.7 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €18.7 million (31 December 2009: €38.9 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 2010 of €236.0 million (31 December 2009: €251.6 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 2010 were €36.6 million, (31 December 2009: €43.4 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €7.4 million, (31 December 2009: €6.7 million) and fund costs relating to the Drive portfolio of €2.4 million, (31 December 2009: €2.7 million).

4.3 Service charge income and expense

Service charge income for the year ended 31 December 2010 of €49.8 million (31 December 2009: €46.7 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2010 of €49.8 million (31 December 2009: €46.7) represents the costs of operating the properties that are recoverable from tenants.

5. INTEREST EXPENSE

Interest expense for the year ended 31 December 2010 of €192.6 million (31 December 2009: €221.2 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 €6.5 million (31 December 2009: €1.5 million) and capitalised financing costs written off of €0.5 million (31 December 2009: €0.4 million) relating to the sale of non-core assets.

6. OTHER OPERATING EXPENSES

	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Professional fees	757	872
Sale related costs	4,229	4,392
Management fees (Note 28)	21,678	21,660
Depreciation	85	90
Amortisation of intangible assets	798	794
Other*	11,493	12,214
	39,040	**40,022**

* Included within other operating expenses for the year ended 31 December 2010 are reimbursement of property related asset management services of €8.5 million (31 December 2009: €8.5 million) to FIG LLC (See Note 28).

7. TAXATION EXPENSE

	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Current tax expense		
Germany	1,819	835
Luxembourg	94	21
Total current tax	**1,913**	**856**
Deferred tax (credit)		
Germany	(837)	(7,043)
Luxembourg	10	-
Total deferred tax	**(827)**	**(7,043)**
Total tax expense / (credit)	**1,086**	**(6,187)**

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 2010 €'000	Year ended 31 December 2009 €'000
Net loss before taxation	(123,836)	(612,103)
Tax on ordinary activities based on Guernsey tax of 0 % (2009: 0%)	-	-
Overseas taxation expense – Germany	982	(6,208)
Overseas taxation expense – Luxembourg	104	21
Total tax expense	**1,086**	**(6,187)**

Analysis of deferred tax:

	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Tax losses (utilised) / carried forward	(405)	87
Temporary differences		
Loan expense	(40)	(163)
Tenant improvements and leasing commissions	(274)	(365)
Accelerated capital allowance	568	366
Revaluation of investment properties*	(1,408)	(5,568)
Capital expenditure	534	55
Other	198	(1,455)
Deferred tax credit	**(827)**	**(7,043)**

* 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 2010 (decrease) in fair value €'000	Year ended 31 December 2010 deferred tax €'000	Year ended 31 December 2009 (decrease) in fair value €'000	Year ended 31 December 2009 deferred tax €'000
Mars*	(49,453)	(56)	(202,025)	(917)
Drive	(19,400)	-	(122,613)	-
Wave	(1,583)	(1,118)	(13,210)	(3,083)
Zama	(856)	-	(3,598)	-
Bridge	(6,247)	-	(54,179)	(195)
Retail	(7,476)	(234)	(24,688)	(1,373)
	(85,015)	**(1,408)**	**(420,313)**	**(5,568)**

* The Mars portfolio consists of 35 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 2010 €'000	As at 31 December 2009 €'000
Opening tax payable	6,767	13,006
Tax paid	(2,133)	(52)
Tax expense / (credit) for the year	1,086	(6,187)
Closing taxation payable	**5,720**	**6,767**
Split between:		
Current tax	2,205	2,425
Deferred tax	3,515	4,342
Closing taxation payable	**5,720**	**6,767**

Reconciliation of the total tax charge:

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Loss before tax	(123,836)	(612,103)
Tax at domestic tax rates applicable to profits in the respective countries	-	-
Movement in deferred tax assets	-	87
Tax effect of revaluation of investment properties	(840)	(7,273)
Tax effect of timing differences	408	2,283
Tax effect of non-deductible expenses	-	-
Tax effect of tax losses	(405)	(1,001)
Tax effect of changes in tax rates	-	-
Other*	1,923	(283)
Total tax expense / (credit)	**1,086**	**(6,187)**

* includes current taxes relating to Germany and Luxembourg of €1.8 million and €0.1 million, respectively.

Unrecognised tax losses

The Group has tax losses which arose in Germany of €202.8 million (2009: €168.0 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets of €32.1 million (2009: €26.6 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 2010 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 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 2010 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 2010 €'000	Year ended 31 December 2009 €'000
Fair value movements on currency swaps*	(23,727)	(17,149)
Foreign currency translation loss on assets subject to currency swaps*	22,176	18,592
Sub-total	**(1,551)**	**1,443**
Other currency gains	1,126	504
Total currency (losses) / gains	**(425)**	**1,947**

* The foreign currency swap is disclosed in Note 14.2.

9. IMPAIRMENT LOSSES

	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Impairment losses on asset backed securities, available-for-sale	-	49
Impairment (reversal) / losses on loans and receivables	(19,590)	138,496
Impairment losses on real estate related loans	71,930	55,784
Realisation of previously unrealised losses on impaired loans and receivables, previously held as available-for-sale	13,787	37,746
	66,127	**232,075**

During the year ended 31 December 2010, the Group has recognised impairment losses on 33 securities or loans (2009: 37) securities or loans). As at 31 December 2010, 48 securities had recognised impairment losses (2009: 38).

Included in the impairment losses for the year ended 31 December 2010 are losses on the derivative asset as a result of the impairment of the underlying loans and receivables held within CDO V of €8.1 million (2009: €18.8 million).

The carrying value of the impaired securities or loans as at 31 December 2010 after the impairment losses was €164.1 million (2009: €72.8 million).

10. CASH AND CASH EQUIVALENTS

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Corporate cash	7,014	9,697
Cash within the real estate operating companies	102,186	95,167
Cash within the CDO vehicles	4,790	7,585
Cash on deposit in relation to finance guarantee obligation	-	10,096
	113,990	**122,545**

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.

11. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 31 December 2010:

	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	60,365	59,766	-	-	(24,547)	35,219	BB+	1.25%	0.68%	3.28
Other ABS	2,333	2,333	(51)	-	(1,188)	1,094	BB	2.65%	1.75%	19.13
	62,698	62,099	(51)	-	(25,735)	36,313	BB+	1.30%	0.72%	3.87
Total portfolio	**62,698**	**62,099**	**(51)**	**-**	**(25,735)**	**36,313**	**BB+**	**1.30%**	**0.72%**	**3.87**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody's Investor Services, Standard & 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 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
Other securities										
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's Investor Services, Standard & 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:

				Gross unrealised			Weighted average			
	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Gains €'000	Losses €'000	Carrying value €'000	Average Rating*	Coupon	Margin	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**				

12. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2010:

	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	175,600	150,481	(23,490)	126,991	B	1.87%	1.28%	3.78
Other ABS	141,332	118,047	(13,043)	105,004	BBB-	2.22%	1.63%	10.05
Real estate related loans	15,058	14,848	(3,318)	11,530	CCC	2.69%	2.37%	2.93
	331,990	283,376	(39,851)	243,525	BB	2.06%	1.48%	6.41
Portfolio III								
CMBS	247,287	214,806	(17,832)	196,974	BB-	2.00%	1.39%	3.48
Other ABS	456,106	394,467	(12,420)	382,047	BBB	2.44%	1.67%	7.46
Real estate related loans	9,423	9,394	(3,308)	6,086	CCC	3.54%	2.50%	0.40
	712,816	618,667	(33,560)	585,107	BBB-	2.30%	1.58%	5.99
Portfolio IV								
Real estate related loans	17,152	17,125	(4,670)	12,455	CC	3.20%	2.65%	3.17
	17,152	17,125	(4,670)	12,455	CC	3.20%	2.65%	3.17
Portfolio V								
CMBS	245,525	207,601	(25,492)	182,109	BB-	1.92%	1.40%	3.55
Other ABS	32,210	25,117	(4,771)	20,346	BB-	1.68%	0.99%	4.83
Real estate related loans	322,637	323,317	(101,834)	221,483	CCC+	3.49%	2.87%	2.15
	600,372	556,035	(132,097)	423,938	B	2.76%	2.17%	2.87
Other Securities								
Real estate related loans	7,678	7,673	(7,306)	367	CCC-	1.63%	2.76%	0.63
	7,678	7,673	(7,306)	367	CCC-	1.63%	2.76%	0.63
Total portfolio	**1,670,008**	**1,482,876**	**(217,484)**	**1,265,392**	**BB-**	**2.42%**	**1.79%**	**4.90**
Restricted cash - cash to be invested				**10,509**				
Total loans and receivables (including cash to be invested)				**1,275,901**				

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody's Investor Services, Standard & 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 2009:

	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	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's Investor Services, Standard & Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

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

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

	01 July 2008 Carrying value €'000	31 December 2010 Carrying value €'000	31 December 2009 Carrying value €'000	31 December 2010 Fair value €'000	31 December 2009 Fair value €'000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	1,013,471	993,019	687,542	560,218

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 2010 would have included €18.2 million on the reclassified available-for-sale securities of impairment losses, compared with impairment reversals of €19.9 million after the reclassification. During 2010, shareholders' equity (net losses not recognised in the income statement) would have included €151.8 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 December 2010.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year ended 31 December 2010:

	Year ended 31 December 2010 €'000	Year ended 31 December 2009 €'000
Net interest income	25,837	40,090
Impairment reversals / (losses) on securities classified as loans and receivables	5,803	(168,871)
Income / (losses) on available-for-sale securities reclassified to loans and receivables	**31,640**	**(128,781)**

As of the reclassification dates, unrealised 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 2010, €13.8 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (2009: €37.7 million). Additionally, €18.7 million (31 December 2009: €38.9 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 €15.2 million to reflect changes in the expected cash flows (2009: €7.4 million).

At 31 December 2010, the net unrealised loss on loans and receivables was €117.6 million (31 December 2009: €152.4 million).

13. OTHER ASSETS

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Tenant incentives and leasing commissions	25,379	24,737
Service charge receivable	12,881	10,420
Interest receivable	6,079	5,711
Rent receivable	961	4,242
Prepaid expenses	1,828	1,015
Other accounts receivable	2,848	2,210
	49,976	**48,335**

14. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Foreign currency swaps	29,313	53,040
Total derivative assets	**29,313**	**53,040**

Derivative Liabilities

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Interest rate swaps*	14,325	11,437
Total derivative liabilities	**14,325**	**11,437**

* Included within the derivative liabilities is a €1.8 million (31 December 2009: €8.9 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 2010 €'000	As at 31 December 2009 €'000
Tenant incentives and leasing commission (included in other assets)	25,379	24,737
Investment property held for sale	93,340	158,800
Investment property	3,282,196	3,519,498
Closing balance	**3,400,915**	**3,703,035**

As at 31 December 2010, the investment property held for sale is financed by approximately €83.0 million of bank borrowings (31 December 2009: approximately €137 million).

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 2010:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Opening balance at 1 January 2010	3,574,379	128,656	3,703,035
Capital expenditure	20,196	-	20,196
Tenant incentives and leasing commissions	(7,357)	-	(7,357)
Free rent	(264)	-	(264)
Disposals	(191,820)	(31,538)	(223,358)
Increase in minimum payments under head lease	-	(6,322)	(6,322)
Decrease in fair value	(73,422)	(11,593)	(85,015)
Total	**3,321,712**	**79,203**	**3,400,915**

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	18,564	152	18,716
Tenant incentives and leasing commissions	(6,670)	-	(6,670)
Free rent	181	-	181
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**

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. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only rely on historical transactional comparables. 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 2010.

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 2010 €'000	As at 31 December 2009 €'000
Investment property at market value	3,387,702	3,683,500
Minimum payments under head leases separately included in trade and other payables on the balance sheet	13,213	19,535
Balance sheet carrying value of investment property	**3,400,915**	**3,703,035**

The significant assumptions made relating to valuations are set out below:

2010	Office	Retail	Total
Passing rent per sqm per month (€)	12.4	8.9	11.6
Market rent per sqm per month (€)	12.5	8.5	11.6
Average net initial yield	5.8%	7.1%	6.0%
Vacancy rate	17.4%	1.5%	14.3%

2009	Office	Retail	Total
Passing rent per sqm per month (€)	12.5	8.9	11.7
Market rent per sqm per month (€)	12.7	8.5	11.9
Average net initial yield	5.8%	7.1%	5.9%
Vacancy rate	17.1%	1.1%	13.9%

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. Lease arrangements over the land on which the 26 investment properties are built have unexpired terms ranging from 4 years to 89 years. Most are at a fixed rental, but some contain an obligation to pay a contingent rental calculated by reference to a retail price index. The amount recognised as an expense in the year in respect of contingent rental is €1.6 million (2009: €2.1 million).

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2010 €'000	Present value 31 December 2010 €'000	Total value 31 December 2009 €'000	Present value 31 December 2009 €'000
Under 1 year	1,154	1,094	1,573	1,495
From 2 to 5 years	4,633	3,577	6,581	5,101
More than 5 years	49,990	8,542	96,003	12,939
Total	**55,777**	**13,213**	**104,157**	**19,535**

The carrying value of investment properties held under finance leases is approximately €65 million (2009: €109 million).

Sensitivity analysis

The table below presents the sensitivity of the valuation to charges in the most significant assumptions underlying the valuation of investment property.

2010 (€ million)	Office	Retail	Total
Market value	2,901	487	3,388
Increase in yield of 25 bps	2,849	479	3,328
Value sensitivity	(52)	(8)	(60)

2009 (€ million)	Office	Retail	Total
Market value	2,967	494	3,461
Increase in yield of 25 bps	2,914	486	3,400
Value sensitivity	(53)	(8)	(61)

Additional Information

The table below provides additional information for various portfolios within the Group at 31 December 2010:

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	983,690	965,750	9,950	48,782	5.0%	83.4%	5,472
Mars – Fixed 2	97,810	79,729	5,161	5,078	5.2%	87.4%	480
Mars – Floating	266,890	224,317	5,479	9,253	3.5%	56.6%	1,411
Drive	868,487	765,763	31,234	59,191	6.8%	86.8%	10,240
Bridge	424,900	372,090	1,429	27,712	6.5%	95.0%	869
Wave	214,430	178,245	(17,073)	13,396	6.2%	82.0%	1,205
Zama	44,990	39,896	339	3,161	7.0%	94.7%	114
Turret	175,310	147,556	1,600	13,777	7.9%	98.2%	120
Truss	98,180	85,280	970	7,716	7.9%	99.3%	186
Belfry	63,565	56,240	821	4,909	7.7%	98.6%	66
Rapid	56,220	54,500	1,283	4,150	7.4%	100.0%	1
Tannenburg	61,430	52,960	1,310	4,479	7.3%	95.9%	21
Bastion	31,800	26,500	(81)	2,568	8.1%	100.0%	11
Total	**3,387,702**	**3,048,826**	**42,422**	**204,172**	**6.0%**	**85.7%**	**20,196**

* Net operating income is after deducting €6.7 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 €13.2 million.

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

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

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	994,370	966,070	17,664	52,353	5.3%	83.4%	5,956
Mars – Fixed 2	99,870	80,000	5,426	5,269	5.3%	88.0%	164
Mars – Floating	310,510	231,261	1,355	10,634	3.4%	58.6%	2,479
Drive	1,077,640	935,267	35,687	71,856	6.7%	88.2%	5,168
Bridge	431,220	372,090	4,058	28,752	6.7%	94.6%	1,665
Wave	230,520	192,286	(10,354)	15,294	6.6%	83.4%	2,788
Zama	45,740	39,896	487	3,038	6.6%	92.4%	375
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%	52
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%**	**18,716**

* 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, but excludes €0.2 million of free rent disclosed under this heading in 2009.

*** 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.

Under their respective financing arrangements, the Bastion and Drive portfolios have loan to value 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 upstream or to dispose of assets. As at 31 December 2010, this ratio was 49.3% (31 December 2009: 48.0%).

The financing arrangements on all portfolios additionally require the sale of investment properties to achieve minimum release price thresholds before lenders will release security over the assets being sold. This release pricing varies from portfolio to portfolio. Release pricing in excess of current values is likely to hinder the ability of the Group to sell certain assets without specific lender waivers.

16. INTANGIBLE ASSETS

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Cost		
Balance at 1 January	3,992	3,794
Additions	114	198
Balance at 31 December 2010	**4,106**	**3,992**
Amortisation		
Balance at 1 January	(2,270)	(1,476)
Charge for the year	(798)	(794)
Balance at 31 December 2010	**(3,068)**	**(2,270)**
Carrying amount		
At 1 January	**1,722**	**2,318**
At 31 December 2010	**1,038**	**1,722**

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

17. FIXTURES AND FITTINGS

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Cost		
Balance at 1 January	494	387
Additions	-	107
Balance at 31 December 2010	**494**	**494**
Depreciation		
Balance at 1 January	(193)	(103)
Charge for the year	(85)	(90)
Balance at 31 December 2010	**(278)**	**(193)**
Carrying amount		
At 1 January	**301**	**284**
At 31 December 2010	**216**	**301**

18. CDO BONDS PAYABLE

As at 31 December 2010:

	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	289,178	288,303	1.69%	0.29%	4.3
CDO III	A1, A2, B, C and D notes	B/CCC/CC/ CC/C	664,603	662,352	1.51%	0.49%	4.7
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	B-/B/B- /CCC/CC/CC/C /C/C/C/C	445,005	441,915	1.89%	0.86%	4.7
Total			**1,398,786**	**1,392,570**	**1.67%**	**0.57%**	**4.6**

* CDO bonds payable are rated at the lower of S&P and Fitch

During the year, the Group repurchased €93.9 million of current face value of the Duncannon bonds payable, recognising a net gain of €23.7 million, compared to repurchasing €140.4 million of current face value of the Duncannon bonds payable during the year ended 31 December 2009, realising a net gain of €56.6 million,

As a result of the event of default that occurred on 9 September 2010, as detailed on page 14, the Group has designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the CDO II bonds are treated as payable on demand.

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**

* CDO bonds payable are rated at the lower of S&P and Fitch

19. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2010 €'000	As at 31 December 2009 €'000
Term financing	(Note 19.1)	3,051,936	3,211,872
Loans and notes relating to the Mars Portfolios	(Note 19.2)	37,871	62,321
Corporate loan	(Note 19.3)	-	12,657
Other bank financing – under 1 year	(Note 19.4)	-	97,350
Total		**3,089,807**	**3,384,200**

19.1 Term Financing

Portfolios	Month Raised	Current face amount €'000 As at 31 December 2010	Current face amount €'000 As at 31 December 2009	Carrying amount €'000 As at 31 December 2010	Carrying amount €'000 As at 31 December 2009	Hedged weighted average funding cost	Weighted average funding cash coupon	Maturity
Debt investments								
CDO IV	Jul 2005	42,936	54,611	42,936	54,611	1.35%	1.20%	Mar 2013
Investment property								
Mars – Fixed 1***	Jan 2007	965,750	966,070	953,938	950,991	5.18%	5.09%	Jul 2014
Mars – Fixed 2	Jun 2008	79,729	80,000	77,375	76,976	5.21%	5.07%	Jun 2013
Mars – Floating***	Jan 2007	224,317	231,261	224,131	230,381	2.79%	2.75%	Dec 2013
Drive***	Feb 2006	765,763	935,267	763,114	930,614	4.20%	4.09%	Jan 2013
Bridge	Oct 2006	372,090	372,090	369,649	368,874	4.74%	4.67%	Jan 2014
Wave	Apr 2007	178,245	192,286	177,315	191,051	4.94%	4.78%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,566	39,475	4.99%	4.86%	May 2014
Turret*	May 2006	147,556	147,556	146,539	146,369	4.93%	4.85%	May 2016
Truss*	Dec 2005	85,280	85,280	84,839	84,760	4.93%	4.85%	Feb 2016
Belfry*	Aug 2005	56,240	56,240	55,768	55,680	4.85%	4.66%	Oct 2015
Rapid*	Aug 2007	54,500	54,500	53,262	53,086	4.96%	4.91%	Nov 2017
Tannenberg*	May 2007	52,960	52,960	51,897	51,618	4.87%	4.66%	Oct 2014
Bastion*	Sep 2005	26,500	26,500	26,138	25,904	4.44%	4.24%	Jul 2012
		3,048,826	**3,239,906**	**3,023,531**	**3,205,779**	**4.64%**	**4.55%**	
Total		**3,091,762**	**3,294,517**	**3,066,467**	**3,260,390**	**4.60%**	**4.50%**	
Adjustment for costs of Mars refinancing**				**(14,531)**	**(48,518)**			
Total				**3,051,936**	**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 €9.5 million (2009 €13.8 million).
*** As per Note 25, these loans have been reclassified as payable within one year.

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. In December 2010, the CDO IV term financing was further extended to March 2013 with semi-annual amortisation targets. In addition the minimum equity contribution covenant was removed and the Lender is entitled to 25% of all principal receipts upon full repayment of the facility. As at 31 December 2010, there was €42.9 million drawn on the facility (31 December 2009: €54.6 million).

Investment Properties

In order to finance the investment property portfolios, the Group entered into loan facilities as described in the table on page 64. 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 were also extended by 12 months. The first payment to reduce the outstanding balance to below the required €200 million was in January 2011. A further €50 million is due at the end of 2011 and 2012, and €100 million due at the end of 2013.

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 2010 €'000	As at 31 December 2009 €'000
Within the Mars portfolio		
Loan Notes and Shareholder Loans	784,427	708,258
Less: Remeasurement adjustment to amortised cost	(708,685)	(583,617)
Adjusted amortised cost	75,742	124,641
Transfer of 50% of the adjusted amortised cost to the lender*	**37,871**	**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)

As at 31 December 2010 this facility had been fully paid down (31 December 2009: €12.75 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. 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. In February 2010, the Group successfully completed a restructuring in relation to its outstanding €20 million recourse obligation. This short term obligation was converted into a loan facility (the "Excalibur Line") with amortisations of €5 million in February, March and June 2010, with a final €5 million payment at maturity. As at 31 December 2010, the short term obligation had been fully repaid.

20. TRADE AND OTHER PAYABLES

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Security deposit	7,010	6,530
Finance guarantee obligation	-	30,000
Interest payable	28,298	27,891
Due to Manager (note 28)	4,057	4,059
Accrued expenses and other payables*	41,739	36,164
Total trade and other payables	**81,104**	**104,644**

* Accrued expenses and other payables include provisions relating to capital expenditure of €20.5 million (31 December 2009: €13.5 million).

In February 2010, the Group successfully completed a restructuring in relation to its outstanding recourse obligation as described in Note 19.4 and above as the "Finance guarantee obligation". This short term obligation was converted into the Excalibur Line facility maturing in September 2010, and had amortisations of €5 million in February, March and June 2010, with a final €5 million payment at maturity. In December 2010, this obligation had been repaid in full.

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 2010	As at 31 December 2009
Weighted average number of ordinary shares, outstanding, basic	64,984,347	60,733,761
Dilutive effect of ordinary share options and convertible securities	356,904,091	148,643,836
Weighted average number of ordinary shares outstanding, diluted	**421,888,438**	**209,377,597**

22. SHARE CAPITAL AND RESERVES

As at 31 December 2009, there were 60,735,646 shares issued and outstanding.

On 25 February 2010, convertible security holders presented €1.5 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 5,000,000 shares.

On 21 June 2010, 4,000 shares were issued to the Directors of the Group per their in-place compensation arrangements at nil consideration. These shares are valued at fair value.

As at 31 December 2010, there were 65,739,646 shares issued and outstanding.

Under the Group's Articles of Association, the Directors have the authority to effect 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 2010, cumulative unrealised gains on hedge instruments were €0.6 million (31 December 2009: €5.3 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €14.6 million (31 December 2009: €19.4 million) and the fair value loss of the interest rate swaps of €14.0 million (31 December 2009: €14.1 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 novated swaps represent derivatives initially used as cash flow hedges that were subsequently novated to the lending banks. The remaining amount of the cash flow hedge in the reserves is amortised over the remaining life of the loan. 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 2010 €'000	As at 31 December 2009 €'000
Mars	9,356	12,186
Drive	961	1,743
Bridge	1,557	2,069
Rapid	1,061	1,216
Tannenberg	642	811
Bastion	285	471
Turret	457	542
Zama	159	207
Truss	143	171
Total	**14,621**	**19,416**

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 2010	Wave	Mars 2*	Mars 2 Receiver*
Nominal amount (€'000)	173,807	111,763	111,763
Pay rate	4.03%	3.92%	3 Month Euribor
Receive rate	3 Month Euribor	3 Month Euribor	2.30%
Remaining life (years)	3.3	0.8	0.8
Fair value of swaps (€'000)	(14,014)	(2,586)	1,119

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

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.

Fair Value Hedges

31 December 2010	Feco GBP B Notes	Feco GBP B Notes *
Nominal amount (€'000)	5,366	6,260
Pay rate	5.11%	-
Receive rate	3 Month Libor	-
Remaining life (years)	3.6	-
Fair value of swap liabilities (€'000)	(578)	(674)
Fair value of assets attributable to the risk hedged (€'000)	(578)	(674)

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

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.

24. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Convertible securities issued	99,750	99,750
Accrued interest	29,169	7,808
Capitalised issue costs	(1,200)	(1,200)
Convertible securities converted into ordinary shares	(1,500)	-
	126,219	**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 upon conversion. The Company does not currently expect to pay interest on its convertible securities.
- 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.

In February 2010 convertible security holders presented €1.5 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 5,000,000 shares (see Note 22). No interest was payable on these converted securities.

Upon a full conversion of all convertible securities, the Group's number of shares outstanding would increase by 385,828,767, which includes 58,328,767 of shares related to deferred interest capitalised in June 2010.

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 until interest on the convertible securities is brought current.

At 31 December 2010, the Group had net equity of €286 million (2009: €363 million) and a leverage ratio of 94.0% (31 December 2009: 93.1%). The increase from 2009 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 91.9% (2009: 90.2%).

Market Risk

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

The Group's real estate investment assets are 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 42.6% of its passing rental income for the year ended 31 December 2010 (2009: 44.9%). 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 cash flow 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 2010, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €2.4 million (31 December 2009: €3.5 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. 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 2010, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €0.8 million per annum (31 December 2009: €0.9 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 2009: €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 2010, a 100 basis point change in interest rates would impact the net book value by €0.2 million (31 December 2009: €0.1 million).

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposure relates to its non-Euro denominated portfolio of securities and loans. Changes in the currency exchange rates can adversely impact the fair values and earnings streams of the Group's non-Euro denominated assets and liabilities. In the past, the Group has mitigated this impact through a combination of (i) non-Euro denominated financing; (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 2010, 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 2009: BB-).

The maximum credit risk exposure in respect of debt investments as at 31 December 2010 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €1.7 billion (31 December 2009: €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 2010			**31 December 2009**		
	Number of securities/ loans	**Face value €'000**	**Location split**	**Number of securities/ loans**	**Face value €'000**	**Location split**
United Kingdom	85	808,708	46.7%	89	799,105	41.4%
Italy	13	174,592	10.1%	16	193,402	10.0%
Germany	30	298,460	17.2%	34	435,693	22.6%
Pan-European	10	182,177	10.5%	10	229,751	11.9%
France	7	52,626	3.0%	9	65,226	3.4%
Other	31	216,143	12.5%	33	207,383	10.7%
	176	**1,732,706**	**100%**	**191**	**1,930,560**	**100%**

The above table does not include the available-for-sale securities held within the Drive liquidity fund, which in 2009 contained 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 generate sufficient revenue to meet its general corporate expenses.

Eurocastle's liquidity is generated by cash flows (from ordinary operations as well as asset sales) from its real estate portfolios other than its Drive and Mars portfolios, the majority of whose excess net operating cash flow and sale proceeds is and will continue to be retained within the relevant subsidiaries to fund capital expenditure, finance costs and amortisation.

Since the repayment in full by Eurocastle of its two corporate loan facilities in December 2010, debt service costs at the Eurocastle level have been eliminated. Cash received at the Eurocastle level is used to satisfy Eurocastle's general corporate and trade obligations. Eurocastle does not currently expect to pay interest on its convertible securities.

The Group's loans and debt securities are generally secured directly over its assets with no direct recourse to Eurocastle itself. The Group expects that its cash in hand and cash flow from operations including net proceeds from asset sales will satisfy its liquidity needs over the next twelve months. However, the Group recognises that i) there is a risk that planned sales will not materialise and that if they do, proceeds received could be lower than anticipated, and ii) lease terminations may outstrip lease renewals leading to a net reduction in the Group's main source of ordinary operating revenue.

The Group expects to meet its long-term liquidity requirements, especially in relation to its term financing maturities through negotiated extensions of its term debt, the refinancing of its term debt and asset sales 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.

The Group's debt investments are generally financed long-term, with 95.1% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored.

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 2010, were financed with a floating rate facility of €224.3 million. During 2009, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments were also extended by 12 months. The first payment to reduce the outstanding balance to below the required €200 million was met in January 2011. A further €50 million is 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, and as at 31 December 2010 had been fully repaid (refer Note 19.3).

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 31 December 2010 and 31 December 2009:

31 December 2010

Type	Total outstanding at 31 December 2010 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	113,990	113,990	-	-
Interest receivable(2)	6,079	41,058	110,913	42,578
Asset backed securities, available-for-sale	36,313	8,356	27,140	817
Loans and receivables (includes cash to be invested) (4)	1,275,901	342,869	816,132	116,900
Derivative assets(1)	29,313	8,889	20,424	-
Total assets	**1,461,596**	**515,162**	**974,609**	**160,295**
Liabilities				
Interest payable(2)	28,298	165,617	401,656	2,247
Derivative liabilities(1)	14,325	5,182	14,272	-
CDO bonds payable	1,392,570	289,178	-	1,109,608
Bank borrowings(5)	3,089,807	1,998,766	805,660	287,336
Finance leases payable (3)	13,213	1,154	4,633	49,990
Total liabilities	**4,538,213**	**2,459,897**	**1,226,221**	**1,449,181**

(1) Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.
(2) Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.
(3) Finance leases payable represent all lease payments due over the lives of the leases.
(4) As a result of the event of default that occurred on 9 September 2010 (as detailed on page 14), the Group has designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the debt has become payable on demand.
(5) As at 31 December 2010, the Group is in default for the Mars Fixed, Mars Floating, and Drive Junior loan. Therefore, the loans have been reclassified as payable within one year.

Gross settled derivatives	Total outstanding at 31 December 2010 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(155,005)	(32,409)	(122,596)	-
Contractual amounts receivable	184,318	41,298	143,020	-
Total undiscounted gross settled derivatives outflow	29,313	8,889	20,424	-

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 borrowings	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 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 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	15,318	236,362	8,931
Total undiscounted gross settled derivatives outflow	53,040	1,619	49,289	2,132

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 2010 Carrying value €'000	As at 31 December 2009 Carrying value €'000	As at 31 December 2010 Fair value €'000	As at 31 December 2009 Fair value €'000
Financial assets				
Cash and cash equivalents	113,990	122,545	113,990	122,545
Asset backed securities, available-for-sale	36,313	66,396	36,313	66,396
Loans and receivables (includes cash to be invested)	1,275,901	1,430,444	856,644	790,997
Derivative assets	29,313	53,040	29,313	53,040
Financial liabilities				
CDO bonds payable	1,392,570	1,511,134	451,675	540,293
Bank borrowings	3,089,807	3,384,200	3,307,411	3,608,777
Finance lease payable	13,213	19,535	13,213	19,535
Derivative liabilities	14,325	11,437	14,325	11,437

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 2010:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	36,313	36,313
Derivative assets	-	29,313	-	29,313
Financial liabilities				
Derivative liabilities	-	14,325	-	14,325

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

* 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:

	As at 31 December 2010 €'000	As at 31 December 2009 €'000
Opening balance at 1 January	66,396	104,548
Total losses recognised in the income statement	(8,249)	(1,460)
Total gains / (losses) recognised in other comprehensive income	16,973	(6,516)
Proceeds on sale/prepayment of available-for-sale securities during the year	(38,807)	(30,176)
Closing balance at 31 December	36,313	66,396

During the year ended 31 December 2010, 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 2010	Exercised in the year ended 31 December 2010	Options remaining at 31 December 2010	Exercise price €	Date of expiration	Fair value at grant date €'000
31 Dec 03	984,783	-	984,783	10.00	31-Dec-2013	200
23 Jun 04	600,600	-	600,600	12.00	23-Jun-2014	200
24 Jun 05	504,356	-	504,356	17.25	24-Jun-2015	620
27 Jan 06	791,286	-	791,286	18.00	27-Jan-2016	4,800
27 Jan 06	1,220,325	-	1,220,325	30.00	27-Jan-2016	2,100
1 Dec 06	1,765,945	-	1,765,945	37.00	1-Dec-2016	9,400
Total	**5,867,295**	**-**	**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 free rate. The volatility is measured at the standard deviation of continuously compounded share returns 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

No dividends were declared or paid during the year ended 31 December 2010 (2009: €nil).

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 2010, gross equity was €1.45 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 2010, management fees, incentive fees and expense reimbursements of approximately €4.1 million (Note 20) (31 December 2009: €4.1 million) were due to the Manager. For the year ended 31 December 2010: management fees of €21.7 million (Note 6) (31 December 2009: €21.7 million), no incentive fees (31 December 2009: €nil), and expense reimbursements of €8.5 million (31 December 2009: €8.5 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 2010	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue[(1)]	44,201	285,890	54	330,145
Impairment losses	(66,127)	-	-	(66,127)
Other operating income / (losses)	12,193	(81,627)	-	(69,434)
Total operating (losses) / income	**(9,733)**	**204,263**	**54**	**194,584**
Interest expense	(24,183)	(168,377)	-	(192,560)
Other operating expenses	(1,931)	(99,394)	(24,535)	(125,860)
Total operating expenses	**(26,114)**	**(267,771)**	**(24,535)**	**(318,420)**
Net operating loss	**(35,847)**	**(63,508)**	**(24,481)**	**(123,836)**
Taxation expense	-	(1,086)	-	(1,086)
Net loss	**(35,847)**	**(64,594)**	**(24,481)**	**(124,922)**
Decrease in fair values	62	81,492	-	81,554
Realised loss on sale of investment properties	-	(25,000)	-	(25,000)
Deferred tax	-	(827)	-	(827)
Funds from operations	**(35,785)**	**(8,929)**	**(24,481)**	**(69,195)**

(1) Included within revenue income is interest income of €44.2 million within the debt investment segment and €0.03 million within the investment properties segment.

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 loss	**(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.

As at 31 December 2010	Debt investment €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,352,963	3,522,501	6,819	4,882,283
Total liabilities	(1,438,113)	(3,149,030)	(3,876)	(4,591,019)
Segment net (liabilities) / assets	**(85,150)**	**373,471**	**2,943**	**291,264**
Tax liability	-	(5,720)	-	(5,720)
Minority interest	(2)	(4)	-	(6)
Net (liabilities) / assets	**(85,152)**	**367,747**	**2,943**	**285,538**

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 (liabilities) / assets	**(124,533)**	**487,133**	**7,531**	**370,131**
Tax liability	-	(6,767)	-	(6,767)
Minority interest	(2)	(4)	-	(6)
Net (liabilities) / assets	**(124,535)**	**480,362**	**7,531**	**363,358**

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.à r.l
Zama (Windhoek) S.à r.l
Sulzbach (Bridge) S.à r.l
Wiesbaden (Bridge) S.à r.l
Berlin (Bridge) S.à r.l
Galluspark (Bridge) S.à r.l
Dusseldorf Bridge) S.à r.l
Eschborn (Bridge) S.à r.l
Superstella S.à r.l
Tannenberg S.à r.l
Mars PropCo 2-40 S.à r.l
(35 real estate holding companies numbered 2, 4-13, 15-20, 22-24, 26-40)
Drive S.à 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 2009, 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, the Group has sold the Bastion real estate portfolio consisting of 13 assets, for a sale price of €31.8 million, and generated €4.2 million of cash after repayment of asset level financings. In addition to the Bastion portfolio, the Group has sold a further three properties subsequent to year end for €42.7 million generating €0.3 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 €42.3 million. Once completed, these sales are expected to generate up to €6.0 million of cash, after repayment of asset level financings.

Following financial covenant breaches of the Drive Junior Facility in January 2011, the Group has negotiated terms around a restructuring of this facility and is now in the process of documenting these changes. The renegotiated terms are expected to provide solutions for financial covenants breaches and address an arrangement for Eurocastle to receive limited cash flow from its Drive portfolio. The Group expects this restructuring to be concluded during 2011 with the lending syndicate reviewing their commitment on a regular basis.

32. COMMITMENTS

As at 31 December 2010, the Group had no material commitments that were not disclosed in these financial statements.

CORPORATE INFORMATION

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Wesley R. Edens
Chairman of the Board

Paolo G. Bassi

Keith Dorrian

Randal A. Nardone

Dr. Udo Scheffel

Dr. Simon J. Thornton

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FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future ability to make disposals, availability of financing and 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 the German economy will grow, the risk that investor interest in commercial real estate opportunities will continue to grow, the risk that leasing markets will continue to be positive or that Eurocastle will be able to achieve its targets of realising value from our commercial real estate investment portfolio or successfully restructuring or refinancing its existing credit facilities.

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