EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE NINE MONTHS AND QUARTER ENDED 30 SEPTEMBER 2008

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

Highlights

Financial

- **FFO*** was €14.7 million or €0.23 per share for the quarter ended 30 September 2008 and €69.8 million or €1.09 per share for the nine months ended 30 September 2008, compared with €33.1 million or €0.52 per share and €118.2 million or €1.85 per share for the quarter and nine months ended 30 September 2007 respectively.

- **NAV** per share of €17.60 as at 30 September 2008 comprising of (€0.35) for the debt investment business and €17.95 for the commercial property portfolio (31 December 2007: €23.05 comprising €2.11 for the debt investment business and €20.94 for the commercial property portfolio).

- **Adjusted NAV**** reflects the estimated value of all our financial assets and liabilities within the debt investment portfolio and amounted to €23.32 per share for the group as a whole and to €5.37 per share for the debt investment business (31 December 2007: €23.47 per share for the group as a whole and €2.54 per share for the debt investment business).

- **Net loss after tax** was €74.6 million for the quarter ended 30 September 2008 and €190.3 million for the nine months ended 30 September 2008, compared with a profit of €49.4 million and €340.0 million for the quarter and nine months ended 30 September 2007 respectively. The losses primarily relate to non-cash valuation adjustments to our portfolio.

Business review

- Sold five properties during the quarter, for total sales proceeds of €109.2 million, recognising a gain on book cost, net of all transaction costs of €3.1 million.

- Occupancy remained stable at 84.5% when compared with 30 June 2008 on a like-for-like basis.

- During the quarter the Group signed 174 commercial leases for approximately 85,000 square metres, including 68 new leases for approximately 30,000 square metres.

* For an explanation of FFO, see Note 20.
** For a reconciliation of NAV to adjusted NAV, see the section headed "Net asset value" on page 8.

Conference Call

Management will conduct a conference call today, 24 November 2008, to review the Group's financial results for the nine months and quarter ended 30 September 2008. The conference call is scheduled for 1:00 P.M. London time (08:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialling +1-877-717-3044 (from within the U.S.) or +1-706-679-1521 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference “Eurocastle Third Quarter Earnings Call.”

A webcast of the conference call will be available to the public on a listen-only basis at www.eurocastleinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. A replay of the webcast will be available for three months following the call.

For those who are not available to listen to the live call, a replay will be available until 11:59 P.M. New York time on Monday, 1 December 2008 by dialling +1-800-642-1687 (from within the U.S.) or +1-706-645-9291 (from outside of the U.S.); please reference access code “73383515.”

Forward-Looking Statements

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE NINE MONTHS AND QUARTER ENDED 30 SEPTEMBER 2008

Key Financial Information

Income Statement Data **(in €'000, except per share data)**	**Nine months ended 30 September 2008 (Unaudited)**	**Nine months ended 30 September 2007 (Unaudited)**	**Quarter ended 30 September 2008 (Unaudited)**	**Quarter ended 30 September 2007 (Unaudited)**
Interest income	117,725	105,122	41,252	38,627
Rental income	214,770	225,563	65,348	76,686
Real estate fund unit interest income	-	16,244	-	8,732
(Decrease) / increase in fair value of investment properties	(250,822)	255,134	(86,541)	(25,243)
Increase in fair value of real estate fund units	-	16,751	-	12,140
Interest expense	(210,531)	(205,179)	(68,276)	(76,011)
Property operating expenses	(20,396)	(17,452)	(8,271)	(5,721)
Other operating expenses	(37,476)	(40,117)	(13,643)	(10,457)
Net (loss) / profit before taxation	(196,728)	370,582	(78,321)	21,118
Net (loss) / profit after taxation	(190,263)	339,979	(74,557)	49,430
Funds from operations ("FFO")	69,812	118,164	14,701	33,051
(Loss) / earnings per weighted average basic share	(2.98)	5.33	(1.17)	0.77
(Loss) / earnings per weighted average diluted share	(2.98)	5.17	(1.17)	0.76
FFO per weighted average basic share	1.09	1.85	0.23	0.52
FFO per weighted average diluted share	1.09	1.80	0.23	0.51
Weighted average ordinary shares outstanding				
Basic	63,858,262	63,743,369	63,721,026	63,823,403
Diluted	63,858,262	65,806,299	63,721,026	65,352,474
Ordinary shares outstanding	**60,731,646**	**63,825,060**	**60,731,646**	**63,825,060**

Summarised Balance Sheet **(in €'000, except per share data)**	**30 September 2008 (Unaudited)**	**31 December 2007**	**30 September 2007 (Unaudited)**
Cash and cash equivalents	155,310	146,707	197,653
Investment property (including properties held for sale)	4,547,993	5,171,086	5,535,244
Debt investments	1,861,471	2,059,753	2,170,519
Real estate fund units	-	-	164,475
Other assets	132,447	130,649	131,125
Total assets	**6,697,221**	**7,508,195**	**8,199,016**
Interest bearing debt financing	(5,486,528)	(5,859,058)	(6,154,403)
Other liabilities	(141,803)	(175,443)	(260,581)
Total liabilities	**(5,628,331)**	**(6,034,501)**	**(6,414,984)**
Net assets	**1,068,890**	**1,473,694**	**1,784,032**
Net assets per share	**17.60**	**23.05**	**27.95**

Adjusted NAV per share at 30 September 2008 was €23.32 Refer to page 8 for a reconciliation of adjusted NAV.

FFO Reconciliation **(in €'000, except per share data)**	**Nine months ended 30 Sept 2008 (Unaudited)**	**Nine months ended 30 Sept 2007 (Unaudited)**	**Quarter ended 30 Sept 2008 (Unaudited)**	**Quarter ended 30 Sept 2007 (Unaudited)**
Reconciliation of FFO to net profit after taxation				
Net (loss) / profit after taxation	(190,263)	339,979	(74,557)	49,430
Decrease / (increase) in fair value of investment properties	250,822	(255,134)	86,541	25,243
Decrease / (increase) in fair value of interest rate swaps	5,350	(15,397)	4,134	(2,724)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)	196	-	426	-
(Increase) in fair value of real estate fund units	-	(16,751)	-	(12,140)
Realised gain on sale of investment properties	11,206	37,312	2,246	1,157
Deferred tax (benefit) / charge on investment properties	(7,499)	28,155	(4,089)	(27,915)
Funds from operations (FFO)	**69,812**	**118,164**	**14,701**	**33,051**

Investment Portfolios

Investment property portfolio (on a like for like basis)

Markets	Property valuation* 30 Sept 2008	Property valuation* 30 June 2008	Occupancy 30 Sept 2008	Occupancy 30 June 2008	Annualised Net operating income** 30 Sept 2008	Annualised Net operating income** 30 June 2008	NOI yield on valuation 30 Sept 2008	NOI yield on valuation 30 June 2008
	€m	€m	%	%	€m	€m	%	%
Top 5 markets								
Frankfurt	1,639	1,666	83.5%	83.5%	78.3	78.0	4.8%	4.7%
Munich	591	599	70.9%	74.7%	22.8	24.3	3.9%	4.1%
Hamburg	223	222	90.4%	89.9%	11.6	11.3	5.2%	5.1%
Berlin	272	280	80.7%	82.1%	12.8	13.2	4.7%	4.7%
Düsseldorf	339	345	93.7%	93.7%	17.3	17.5	5.1%	5.1%
Subtotal – top 5 markets	**3,064**	**3,112**	**82.3%**	**83.1%**	**142.8**	**144.3**	**4.7%**	**4.6%**
Remaining West	1,255	1,276	88.7%	87.9%	74.4	73.6	5.9%	5.8%
Remaining East	224	227	78.6%	78.5%	14.6	14.7	6.6%	6.5%
Total portfolio	**4,543**	**4,615**	**84.5%**	**84.5%**	**231.8**	**232.6**	**5.1%**	**5.0%**

* The above valuation does not include €24.0 million (30 June 08: €24.0 million) relating to head leases.

** Net operating income excludes amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 3 for details.

Portfolio composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation €m	Average lease term	NOI yield on valuation %
Stable	521	1,200,902	93.1%	166.9	156.2	2,575	7.5	6.1%
Value Add	62	606,228	71.4%	92.7	75.6	1,968	3.5	3.8%
Grand Total	**583**	**1,807,130**	**84.5%**	**259.6**	**231.8**	**4,543**	**6.1**	**5.1%**

* Stable assets are those assets with long term leases and high occupancy.

** Value add assets are those assets with upside valuation potential through active asset management (lease-up and repositioning).

Debt investment portfolio

Asset class	Nominal €'000	Total debt book %	Average rating*	Average credit spread* Bps	Number of issues/assets
Commercial real estate backed	1,629,072	80.3%	BBB-	936	99
Residential real estate backed	323,541	15.9%	BBB	1,241	56
Other	77,948	3.8%	BBB+	992	34
	2,030,561	**100%**	**BBB-**	**987**	**189**

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

Financial Review

Funds from operations (FFO)

FFO is an appropriate measure 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 16 allocated between the segments on the basis disclosed below the table. The segmental analysis prepared according to IFRS has been disclosed in Note 16.

Income statement data Quarter ended 30 September 2008 (Unaudited)	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Revenue[1]	39,324	81,500	**120,824**
Other operating losses	-	(90,675)	**(90,675)**
Impairment losses	(1,121)	(2,317)	**(3,438)**
Interest expense	(29,654)	(38,622)	**(68,276)**
Service charge and property operating expenses	-	(22,495)	**(22,495)**
Other operating expenses (including foreign currency gains/(losses)[2]	(2,410)	(11,851)	**(14,261)**
Operating profit/(loss) before taxation	**6,139**	**(84,460)**	**(78,321)**
Taxation credit/(expense)	-	3,764	**3,764**
Net profit/(loss)	**6,139**	**(80,696)**	**(74,557)**
Decrease / (increase) in fair values	426	90,675	**91,101**
Realised gains on sale	-	2,246	**2,246**
Deferred tax	-	(4,089)	**(4,089)**
Funds from operations	**6,565**	**8,136**	**14,701**
Funds from operations per ordinary share[3] €	**0.10**	**0.13**	**0.23**
Funds from operations (excluding gains and impairment losses)	**7,686**	**7,364**	**15,050**
Funds from operations (excluding gains and impairment losses) per ordinary share[4] €	**0.12**	**0.12**	**0.24**

[1] Unallocated revenue of €0.6 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.1 million and investment properties: €0.5 million.

[2] Unallocated other operating expenses of €6.6 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €1.1 million and investment properties: €5.5 million.

[3] Earnings per share and FFO per share are calculated on the weighted average number of shares at 30 September 2008.

Quarter ended (Unaudited)	**30 September 2008 €'000**	**30 June 2008 €'000**	**30 September 2007 €'000**
Funds from operations	14,701	32,464	33,051
FFO per ordinary share	0.23	0.51	0.52

FFO, including gains and impairment losses, for the third quarter 2008 was €14.7 million. This compares to €33.1 million for the third quarter 2007 and €32.5 million for the second quarter 2008.

FFO for the third quarter 2008 was lower than the second quarter 2008, due mainly to:

- lower gains on sales of investment properties compared to the second quarter (€6.7million);
- the expiry of rental and service charge guarantees in the Mars portfolio towards then end of the second quarter (€7.3 million); and
- impairment losses recognised in the third quarter 2008 (€3.4 million).

The decrease in FFO against the third quarter 2007 is due mainly to:

- the expiry of rental and service charge guarantees in the Mars portfolio (€6.9 million); and
- real estate fund unit income (€8.7 million) in the third quarter 2007; and
- impairment losses recognised in the third quarter 2008 (€3.4 million).

Operating Income

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

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

Operating income (excluding fair value movements)

Quarter ended (Unaudited)	30 September 2008 €'000	30 June 2008 €'000	30 September 2007 €'000
Interest income	41,252	38,427	38,627
Rental income	65,348	74,426	76,686
Service charge income	14,224	15,495	15,433
Real estate fund unit income	-	-	8,732
Total	**120,824**	**128,348**	**139,478**

The increase in interest income compared with the three months ended 30 September 2007 and 30 June 2008, was principally due to a combination of additional real estate loan fee income and higher relative interest rates.

The decrease in rental income compared with the three months ended 30 September 2007, reflects the sale of real estate assets in the year since the end of the third quarter 2007 and the expiry of the rental guarantee in the second quarter 2008. The decrease in rental income when compared with the three months ended 30 June 2008 is due to the expiry of the rental guarantee in the second quarter of 2008 (€5.7 million) and the sale of real estate assets at the end of the previous quarter (€2.6 million) and during the third quarter (€0.6 million).

Service charge income represents the service costs that have been charged to the tenants and includes common area maintenance, insurance, utilities costs and property taxes and a service charge guarantee on the Mars portfolio. The reduction in service charge income of €1.3 million from the second quarter 2008 and €1.2 million from the third quarter 2007 reflects the expiry of the service charge guarantee of €1.5 million in the second quarter 2008.

Real estate fund unit income decreased from €8.7 million for the three months ended 30 September 2007 to nil due to the sale of the real estate fund units in October 2007.

Fair value movements / impairment

Quarter ended (Unaudited)	30 September 2008 €'000	30 June 2008 €'000	30 September 2007 €'000
(Decrease) in fair value of investment properties	(86,541)	(64,445)	(25,243)
Increase in fair value of real estate fund units	-	-	12,140
(Loss) on disposal of asset backed securities, available for sale	-	(269)	-
(Decrease) / increase in fair value of interest rate swaps	(4,134)	8,842	2,724
Impairment losses	(3,438)	-	-
Total	**(94,113)**	**(55,872)**	**(10,379)**

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

During the quarter ended 30 September 2008, the Group has recognised impairment losses on two securities, €1.1 million within the debt investment portfolio and €2.3 million within the Drive liquidity fund. Both impairments are as a result of the bankruptcy of Lehman Brothers.

Operating Expenses

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

Quarter ended (Unaudited)	30 September 2008 €'000	30 June 2008 €'000	30 September 2007 €'000
Interest expense	68,276	66,834	76,011
Losses on foreign currency contracts, translation and swaps	618	1,398	359
Service charge expenses	14,224	15,495	15,433
Property operating expenses	8,271	6,591	5,721
Other operating expenses	13,643	15,116	10,457
Total operating expenses	**105,032**	**105,434**	**107,981**
Operating income (excluding fair value movements)	**120,824**	**128,348**	**139,478**

A significant proportion of the Group's operating expenses represent interest expense (65.0% for the third quarter of 2008, against 70.4% for the third quarter of 2007 and 63.4% for the second quarter of 2008). Interest expense of the Group for the third quarter of 2008 amounted to €68.3 million compared with €76.0 million for the third quarter of 2007 and €66.8 million for the second quarter of 2008. The decrease from the third quarter of 2007 was primarily due to the repayment of debt resulting from commercial property sales and €6.0 million of gains recognised on the closure of interest rate swaps. The increase in interest expense when compared with the second quarter 2008 is the result of higher relative interest rates within the debt portfolio, €2.6 million lower gains on interest rate swap closures, which are partly offset by repayment of debt resulting from commercial property sales.

The Group's property operating expenses include common area maintenance, insurance, utilities costs and property taxes that cannot be recovered from tenants or that relate to vacant space. The increase in the third quarter 2008 was predominantly due to the expiry of the service charge guarantee, in respect of the Mars portfolio, during the second quarter 2008 (€1.5 million).

The Group's other operating expenses include costs related to the sale of commercial property of €4.5m (30 June 2008: €6.1 million and 30 September 2007: €0.1 million). Excluding the sale costs, other operating expenses are in line with the second quarter 2008, with the decrease from the third quarter 2007 due to the incentive fee of €1.0 million payable to the Manager during that period.

Corporation Tax

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

Quarter ended (Unaudited)	30 September 2008 €'000	30 June 2008 €'000	30 September 2007 €'000
Current tax charge / (credit)	325	355	(397)
Deferred tax credit	(4,089)	(1,739)	(27,915)
Total tax credit	**(3,764)**	**(1,384)**	**(28,312)**

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 16. The table below shows the summarised financial data of the Group's business segments with the unallocated amounts per Note 16 allocated between the segments on the basis disclosed below the table.

Balance sheet data

As at 30 September 2008 (Unaudited)	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Investments	1,846,471	4,547,993	**6,394,464**
Other assets[1]	102,704	200,053	**302,757**
Total assets	**1,949,175**	**4,748,046**	**6,697,221**
Interest-bearing debt financing	(1,961,800)	(3,524,728)	**(5,486,528)**
Other liabilities[2]	(8,517)	(112,898)	**(121,415)**
Total liabilities	**(1,970,317)**	**(3,637,626)**	**(5,607,943)**
Segment net assets / (liabilities)	**(21,142)**	**1,110,420**	**1,089,278**
Tax liability	-	(20,389)	**(20,389)**
Minority interest	(2)	(4)	**(6)**
Net assets / (liabilities)	**(21,144)**	**1,090,027**	**1,068,883**
Net assets / (liabilities) per share €	**(0.35)**	**17.95**	**17.60**

1 Unallocated other assets of €68.6 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €12.0 million and investment properties: €56.6 million.

2 Unallocated other liabilities of €6.9 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: €1.2 million and investment properties: €5.7 million.

Adjusted Net Asset Value

The debt investment securities portfolio is predominantly financed to maturity with long-term collateralised debt obligations ("CDOs") that are not callable as a result of changes in value and are non-recourse to the Group. While the assets in the CDOs are consolidated in the financial statements for IFRS purposes, the Group's exposure to losses is limited to its initial investment in each CDO. The 30 September 2008 IFRS net asset value reflects approximately €136.7 million of unrealised losses in assets within the Group's CDOs that exceeds its investment in the CDOs and, therefore, could not be realised in cash terms by the Group.

The Group believes that a better measure of shareholder value is the adjusted net asset value which estimates the fair value of all of our financial assets and liabilities within the debt investment portfolio. At 30 September 2008, the Group's adjusted book value per share is estimated to be €23.32 (31 December 2007: €23.47).

Adjusted net asset value As at 30 September 2008 (Unaudited)	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Reported net asset value	**(21,144)**	**1,090,027**	**1,068,883**
Estimated fair value adjustment of loans and receivables	(211,636)	-	**(211,636)**
Estimated fair value adjustment of financial liabilities within the debt investment portfolio	558,781	-	**558,781**
Adjusted net asset value	**326,001**	**1,090,027**	**1,416,028**
Adjusted net asset value per share €	**5.37**	**17.95**	**23.32**

Total Assets

Total assets as at 30 September 2008 amounted to €6.7 billion, representing a 3.0% decrease from €6.9 billion as at 30 June 2008 and a 10.8% decrease from €7.5 billion as at 31 December 2007. This primarily reflects the reduction in value of the commercial property portfolio of €86.5 million and €250.8 million respectively, and the sale of 3 assets within the commercial property portfolio, in the second quarter, valued at €281 million and 5 assets in the third quarter valued at €109.2 million.

Real Estate Investments

As at 30 September 2008, the Group's real estate portfolio comprised €4.5 billion of commercial property investments compared with €4.6 billion as at 30 June 2008 and €4.8 billion as at 31 December 2007, on a like-for-like basis. This represents a decrease of 1.6% in the fair value of investment properties on the 30 June 2008 values and a decrease of 4.6% on the 31 December 2007 values.

Debt Investments

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

The accounting treatment for loans and receivables allows the securities to be carried at their amortised cost (based on the carrying value at the date of reclassification), with no adjustment for changes in the market value unless there has been any impairment. The change in the value of the reclassified securities during the quarter, had they been held as available for sale, would have been an €118 million unrealised loss.

Financing Activities

Real Estate Portfolio Financing

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

Debt Investment Portfolio Financing

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

At 30 September 2008, approximately 87.3% of the debt investment portfolio benefits from financing maturing beyond the maturity date of its assets.

Short Term Financing

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

	Amount €'000	Maturity €'000
Corporate Loan	125,000	31 March 2009
Mars Floating Facility	236,044	20 June 2009
Other Bank Financing	100,748	30 September 2009
Total	**461,792**	

Corporate Loan Facility

On 9 May 2008, the Group converted its €300 million revolving credit facility into a term loan facility of €175 million and extended the maturity from October 2008 to 31 March 2009. It should be noted that the corporate loan contains a cross default provision whereby a loan default within the Eurocastle Group will automatically result in a default of the corporate loan. In accordance with the loan agreement, €50 million was repaid on 31 October 2008. The interest margin on this loan remained unchanged at 2 % over three month Euribor.

Mars Floating Facility

The Mars floating facility is due to be paid down to €200 million by 31 December 2008, with the balance due on 30 June 2009.

The Mars floating facility is non-recourse to the Eurocastle Group and as of May 2008, is no longer cross collateralised with the assets the subject of the Mars fixed facility nor cross defaults to Mars fixed facility.

Other Bank Financing

The other bank financing was raised to finance the sub-participation in a real estate loan and to finance the acquisition of certain CMBS assets. The financing has limited recourse to the Group of €30 million and has security over the financed assets.

Short Term Liquidity Sources

The Group expects to meet the funding requirements, over the next year, through a combination of:

i) cash flows from operating activities
ii) selective sales of commercial properties
iii) negotiating extensions with existing lenders
iv) refinancing of existing financings with other banks
v) raising additional capital

Since July 2007, the Group has raised or extended financing totalling €1.9 billion.

The Directors believe that the Group will be successful in renegotiating and extending the financing arrangements before their respective maturities. However, they recognise that in the current market environment, there is some uncertainty over the willingness of our lending banks to extend existing financings or the inclination of banks to extend new financing. Therefore, the Group may be become a forced seller of assets, which could result in significantly lower net proceeds than could be achieved through an orderly transaction, and significantly less than the carrying value of those assets in the consolidated interim financial statements included herein.

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

Business Review

Commercial Property Portfolio

As at 30 September 2008, Eurocastle owned a €4.5 billion portfolio of commercial property investments. At quarter end, the investment property portfolio comprised 583 properties with approximately 2.1 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 84.5%, and a weighted average remaining lease term of 6.1 years. The Group derives 61% of its rental income from the five major German markets. At the end of the third quarter, the Group's investment property portfolio was valued at €4.5 billion, equivalent to an average NOI yield of 5.1%, compared to 5.0% at the end of June 2008, on a like for like basis, adjusted for assets sold.

We view our commercial property portfolio as having two categories of assets as shown in the table below. Approximately 521 or €2.6 billion, are long-term leased and retail assets with average terms of 7.5 years, approximately 93.1% occupancy and stable cash flows. These assets give us good, stable returns, with a modest amount of near-term growth. The other 62, or approximately €2.0 billion, is the active asset management component of the portfolio. The average lease term is 3.5 years and occupancy is approximately 71.4%. These are the value-add assets which require leasing or repositioning and are where the majority of our asset management activity is focused and will have the greatest potential upside. This part of the portfolio is valued at an NOI yield of 3.8%. We aim to continue to lease up these assets, improve occupancy and look to sell those which have limited further upside, are non-core asset classes, or are in peripheral markets.

Portfolio composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation €m	Average lease term	NOI yield on valuation %
Stable*	521	1,200,902	93.1%	166.9	156.2	2,575	7.5	6.1%
Value Add**	62	606,228	71.4%	92.7	75.6	1,968	3.5	3.8%
Grand Total	**583**	**1,807,130**	**84.5%**	**259.6**	**231.8**	**4,543**	**6.1**	**5.1%**

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

During the nine months ended 30 September 2008, the Group has signed 489 commercial leases for approximately 219,000 sqm, of which new leases accounted for approximately 83,000 sqm. Included is over 38,000 sqm of renewals of leases with a major bank which were due to expire at the end of 2008. The level of physical portfolio occupancy, on a like for like basis, remained stable at 84.5% as compared to the previous quarter. Since quarter end, approximately 9,600 sqm of new leases and 20,100 sqm of renewals have been completed, with a further 13,000 sqm of new leases and 56,000 sqm of renewals currently under negotiation.

As part of our ongoing sales programme, for the nine months ended 30 September 2008, the Group has completed the sale of 8 properties for total sales proceeds of €384.9 million, realising gains on book cost of €13.6 million, net of all transaction costs. Subsequent to quarter end, the Group has sold one further property for total sale proceeds of €5.2 million. In addition, the Group has entered into binding agreements to sell ten properties for estimated total proceeds of €24.2 million.

The following tables show the split of real estate property investments by use and geographical location as at 30 September 2008.

As at 30 September 2008, the Group had signed 49 new leases for approximately €3.6 million of rental income per annum on approximately 29,000 sqm of vacant space, which will become effective during the fourth quarter 2008 or later. These leases have not been included in the following tables.

Rental Data

By Use

Use	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Office	1,194,589	78.3%	143.5	55.3%	12.8
Retail	464,215	98.1%	58.2	22.4%	10.6
Bank Hall	108,942	97.4%	18.0	6.9%	14.2
Other	372,005	83.4%	39.9	15.4%	10.7
Total portfolio	**2,139,751**	**84.5%**	**259.6**	**100%**	**12.1**

By Location

Location	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Frankfurt	546,764	83.5%	86.3	33.3%	15.8
Munich	215,711	70.9%	26.9	10.3%	14.6
Hamburg	91,807	90.4%	12.5	4.8%	12.6
Berlin	102,085	80.7%	14.2	5.5%	14.4
Düsseldorf	107,912	93.7%	18.1	7.0%	15.0
Subtotal – top 5 markets	**1,064,279**	**82.3%**	**158.0**	**60.9%**	**15.0**
Remaining West	847,495	88.7%	84.5	32.5%	9.4
Remaining East	227,977	78.6%	17.1	6.6%	7.9
Total portfolio	**2,139,751**	**84.5%**	**259.6**	**100%**	**12.1**

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

Lease Expiry Data

By Use

Use	Average lease term	Passing rent*						
		2008**	2009	2010	2011	2012	2013-2017	2018+
	Years	€m	€m	€m	€m	€m	€m	€m
Office	4.8	1.2	12.5	12.6	35.1	16.9	54.6	10.8
Retail	7.8	0.3	1.6	1.8	3.5	4.3	25.8	20.9
Bank Hall	5.2	-	0.4	2.6	0.9	2.4	10.5	1.3
Other	8.4	0.3	5.6	2.2	5.3	4.1	10.3	11.8
Total portfolio	**6.1**	**1.8**	**20.1**	**19.2**	**44.8**	**27.7**	**101.2**	**44.8**

By Location

Location	Average lease term	Passing rent*						
		2008**	2009	2010	2011	2012	2013-2017	2018+
	Years	€m	€m	€m	€m	€m	€m	€m
Frankfurt	5.5	0.4	5.4	6.2	24.3	9.0	32.9	7.8
Munich	7.2	0.1	3.1	1.7	8.3	3.3	4.2	5.9
Hamburg	4.4	0.3	2.1	1.4	1.8	1.3	4.7	1.2
Berlin	4.6	0.5	1.4	1.0	2.1	1.2	7.1	1.0
Düsseldorf	8.4	0.1	1.1	0.6	1.9	4.5	0.9	9.1
Subtotal – top 5 markets	**6.0**	**1.4**	**13.1**	**10.9**	**38.4**	**19.3**	**49.8**	**25.0**
Remaining West	6.4	0.4	5.5	7.5	5.1	7.5	40.3	18.3
Remaining East	5.5	-	1.5	0.8	1.3	0.9	11.1	1.5
Total portfolio	**6.1**	**1.8**	**20.1**	**19.2**	**44.8**	**27.7**	**101.2**	**44.8**

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

** Remaining expiries in 2008.

Valuation Data

Markets	Number of properties	Occupancy	Lettable space	Property valuation	Property cost	% of Portfolio	Net operating income	NOI yield on cost	NOI yield on valuation
		%	(sqm)	€m*	€m**	€m	€m***	%	%
Top 5 markets									
Frankfurt	51	83.5%	546,764	1,639	1,728	36.2%	78.3	4.5%	4.8%
Munich	17	70.9%	215,711	591	650	13.6%	22.8	3.5%	3.9%
Hamburg	14	90.4%	91,807	223	247	5.2%	11.6	4.7%	5.2%
Berlin	11	80.7%	102,085	272	272	5.7%	12.8	4.7%	4.7%
Düsseldorf	7	93.7%	107,912	339	357	7.5%	17.3	4.9%	5.1%
Subtotal – top 5 markets	**100**	**82.3%**	**1,064,279**	**3,064**	**3,254**	**68.2%**	**142.8**	**4.4%**	**4.7%**
Remaining West	378	88.7%	847,495	1,255	1,294	27.2%	74.4	5.7%	5.9%
Remaining East	105	78.6%	227,977	224	219	4.6%	14.6	6.7%	6.6%
Total portfolio	**583**	**84.5%**	**2,139,751**	**4,543**	**4,767**	**100%**	**231.8**	**4.9%**	**5.1%**

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

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

*** Net operating income excludes the amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 3 for details.

Like for like* occupancy analysis

By Use

Use	30 September 2008			30 June 2008		
	Occupancy (sqm)	Occupancy %	Passing rent** €m	Occupancy (sqm)	Occupancy %	Passing rent** €m
Office	935,057	78.3%	143.5	937,137	78.5%	144.7
Retail	455,621	98.1%	58.2	454,226	97.8%	58.0
Bank Hall	106,083	97.4%	18.0	106,083	97.7%	18.1
Other	310,369	83.4%	39.9	311,616	83.6%	39.8
Total portfolio	**1,807,130**	**84.5%**	**259.6**	**1,809,062**	**84.5%**	**260.6**

By Location

Location	30 September 2008			30 June 2008		
	Occupancy (sqm)	Occupancy %	Passing rent** €m	Occupancy (sqm)	Occupancy %	Passing rent** €m
Frankfurt	456,520	83.5%	86.3	456,433	83.5%	86.1
Munich	152,853	70.9%	26.9	161,169	74.7%	28.5
Hamburg	83,020	90.4%	12.5	82,533	89.9%	12.4
Berlin	82,340	80.7%	14.2	83,785	82.1%	14.6
Düsseldorf	101,151	93.7%	18.1	100,809	93.4%	18.1
Subtotal – top 5 markets	**875,884**	**82.3%**	**158.0**	**884,729**	**83.1%**	**159.7**
Remaining West	752,133	88.7%	84.5	745,355	87.9&	83.8
Remaining East	179,113	78.6%	17.1	178,978	78.5%	17.1
Total portfolio	**1,807,130**	**84.5%**	**259.6**	**1,809,062**	**84.5%**	**260.6**

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

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

Top 5 Tenants

Tenant name	Business sector	Passing rent €'000	% of total portfolio	Square meters
Dresdner Bank	Banking	64,392	24.8%	390,886
Deutsche Bank	Banking	16,111	6.2%	127,059
Edeka	Retail	12,832	4.9%	121,990
Starman Hotels	Hotel	9,229	3.6%	40,988
Deutsche Bahn	Railway	7,795	3.0%	43,388
Total portfolio		**110,359**	**42.5%**	**724,311**

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	30 September 2008 (Unaudited)	31 December 2007
Carrying value of total debt investments (excluding restricted cash) (€'000)	**1,846,472**	2,052,913
Implied discount margin (above Euribor) at carrying value	**5.79%**	3.35%
Amortised cost of total debt investments (excluding restricted cash) (€'000)	**1,753,435**	2,182,133
Weighted average asset margin (above Euribor)	**1.77%**	1.79%
Weighted average liability spread	**0.59%**	0.57%
Weighted average net spread	**1.18%**	1.22%
Weighted average credit rating	**BBB-**	BBB-
Percentage investment grade of debt investment portfolio	**62%**	65%
Number of securities and loans	**189**	201

Eurocastle's €1.8 billion investment portfolio (excluding restricted cash) consists primarily of commercial real estate backed and residential real estate backed debt. The following describes the investment portfolio as at 30 September 2008:

Asset/liability structure for debt investment portfolio

30 September 2008 (Unaudited)	Assets			Cash in hand	Liabilities				
Funding structure	Nominal €'000	Average life	Average rating	Nominal €'000	Drawn amount €'000	Facility amount €'000	Average life €'000	Legal maturity	M-T-M provisions
Eurocastle CDO II PLC	361,566	3.7	BBB	22,717	345,872	345,872	6.8	Dec 2060	No
Eurocastle CDO III PLC	693,124	4.1	BBB	45,067	704,250	704,250	6.8	Dec 2060	No
Eurocastle CDO IV PLC	129,626	3.5	A	-	96,552	96,552	1.2	Dec 2009	No
Duncannon CRE CDO I PLC	716,505	4.0	BB-	46,054	697,417	697,417	6.1	Jun 2047	No
Eurocastle Funding Limited (unlevered)	8,329	3.1	CCC	-	-	-	-	-	-
Eurocastle Funding Limited (financed)	121,411	3.4	BB+	-	100,748	100,748	1.0	Sep 2009	No
Total	**2,030,561**	**3.9**	**BBB-**	**113,838**	**1,944,839**	**1,944,839**	**6.0**	-	-

Debt Investment Portfolio Composition (30 September 2008)
(Unaudited)

Asset class	Nominal €'000	Total debt portfolio %
Commercial real estate backed	1,629,072	80.3%
Residential real estate backed	323,541	15.9%
Other	77,948	3.8%
	2,030,561	**100%**

Commercial Real Estate Backed Debt

At 30 September 2008, the Group owned €1.63 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 quarter ended 30 September 2008, the Group made no purchases, no sales and had paydowns of €27.1 million. The Group's €865.2 million CMBS portfolio continues to perform in line with expectations, with only 0.33% underlying delinquent loans and payment defaulted and a further 2.06% of loans in breach of their covenants. In addition, the Group has no delinquencies in its Mezzanine Loans, B-Notes and Real Estate Loans. We expect that over the remainder of this year there will be an increase in the rate of delinquencies and defaults in commercial mortgage loans underlying our commercial real estate backed debt. The Group had 2 CMBS securities upgraded totalling €21.5 million, and 1 CMBS downgrade totalling €21.1 million.

Asset class	Nominal €'000	Total debt book %	Average rating*	Average credit spread* Bps	Average LTV %
CMBS	865,159	42.6%	BBB+	1,039	63.4%
Commercial real estate loans	544,983	26.8%	B	741	79.7%
NPL securitisation	46,174	2.3%	A+	684	14.0%
SME CLO	97,050	4.8%	BB+	1,173	N/A
Whole business securitisation	75,706	3.7%	BBB	1,018	56.0%
	1,629,072	**80.2%**	**BBB-**	**936**	

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

Rating distribution / country exposure	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	CCC €'000	Total €'000	% of total debt portfolio
UK	12,180	33,641	75,415	256,357	66,145	159,288	38,302	**641,328**	**31.6%**
Germany	19,106	19,724	8,690	135,230	35,427	172,467	-	**390,644**	**19.2%**
Italy	13,009	6,000	27,165	57,461	28,957	47,600	-	**180,192**	**8.9%**
France	-	-	2,222	12,271	-	69,604	-	**84,097**	**4.1%**
Netherlands	-	-	-	19,744	18,051	-	-	**37,795**	**1.9%**
Switzerland	-	-	-	-	17,843	24,502	-	**42,345**	**2.1%**
Spain	-	-	12,200	5,198	9,200	-	-	**26,598**	**1.3%**
Pan-European	24,883	48,803	45,601	99,794	6,992	-	-	**226,073**	**11.1%**
Total	**69,178**	**108,168**	**171,293**	**586,055**	**182,615**	**473,461**	**38,302**	**1,629,072**	**80.2%**
% of total debt portfolio	**3.4%**	**5.3%**	**8.4%**	**28.9%**	**9.0%**	**23.3%**	**1.9%**	**80.2%**	

Residential Real Estate Debt

At 30 September 2008, the Group owned €323.5 million face amount of residential mortgage backed securities ("RMBS"). During the quarter, the Group made no purchases or sales and had paydowns of €8.1 million. The current average rating of the RMBS portfolio was unchanged at BBB. The Group had 3 securities totalling €12.2 million securities upgraded and 1 downgrade totalling €6.4 million.

The composition of the residential mortgage backed securities portfolio as at 30 September 2008 is shown below:

RMBS type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%		Bps
Prime	146,832	7.2%	BBB-	1,068
Mixed	69,241	3.4%	BBB-	1,454
Non conforming	107,468	5.3%	BBB	1,340
Total	**323,541**	**15.9%**	**BBB**	**1,241**

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

Rating distribution / country exposure	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	
United Kingdom	32,766	146,891	27,495	**207,152**	**10.2%**
Italy	-	30,750	-	**30,750**	**1.5%**
Netherlands	6,375	8,500	15,000	**29,875**	**1.5%**
Germany	-	5,000	6,200	**11,200**	**0.6%**
Spain	-	10,443	2,200	**12,643**	**0.6%**
Ireland	-	23,121	2,800	**25,921**	**1.3%**
Belgium	-	5,000	-	**5,000**	**0.2%**
Greece	-	1,000	-	**1,000**	**0.0%**
Total	**39,141**	**230,705**	**53,695**	**323,541**	**15.9%**
% of total debt portfolio	**1.9%**	**11.4%**	**2.6%**	**15.9%**	

UK Non-Conforming RMBS

Within the larger residential mortgage backed securities portfolio the current average rating of the €95.4 million UK non-conforming loan backed securities sub-portfolio is BBB. The performance of these assets has been in-line with the Group's expectations notwithstanding some increases in foreclosures and loss severities and declines in prepayment rates since June 2008. It is a well seasoned portfolio (backed by residential mortgages with a weighted average seasoning of 3.27 years). The benefits of the seasoning effect are threefold; firstly, there is a strong payment history from the underlying borrowers, secondly the deals have benefited from strong UK house price growth, and thirdly the portfolio has avoided some of the weaker underwriting and structuring practices prevalent in the 2006/2007 vintage. The following table illustrates the exposure by vintage of mortgage loan origination in the UK non-conforming loan backed securities sub-portfolio as of 30 September 2008.

Year of mortgage origination*	Nominal	Total debt book	Average rating**	Average credit spread**
	€'000	%	%	Bps
2004	21,713	1.1%	BBB	1,006
2005	61,475	3.0%	BBB	1,273
2006	12,230	0.6%	BBB-	1,459
Total	**95,418**	**4.7%**	**BBB**	**1,236**

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

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

Other Debt

At 30 September 2008, the Group owned €77.9 million face amount of other structured finance debt (commercial & consumer loans). During the quarter, the Group made no purchases or sales and had paydowns of €1.8 million. During the quarter, there was one security totalling €3.5 million upgraded and there were no downgrades.

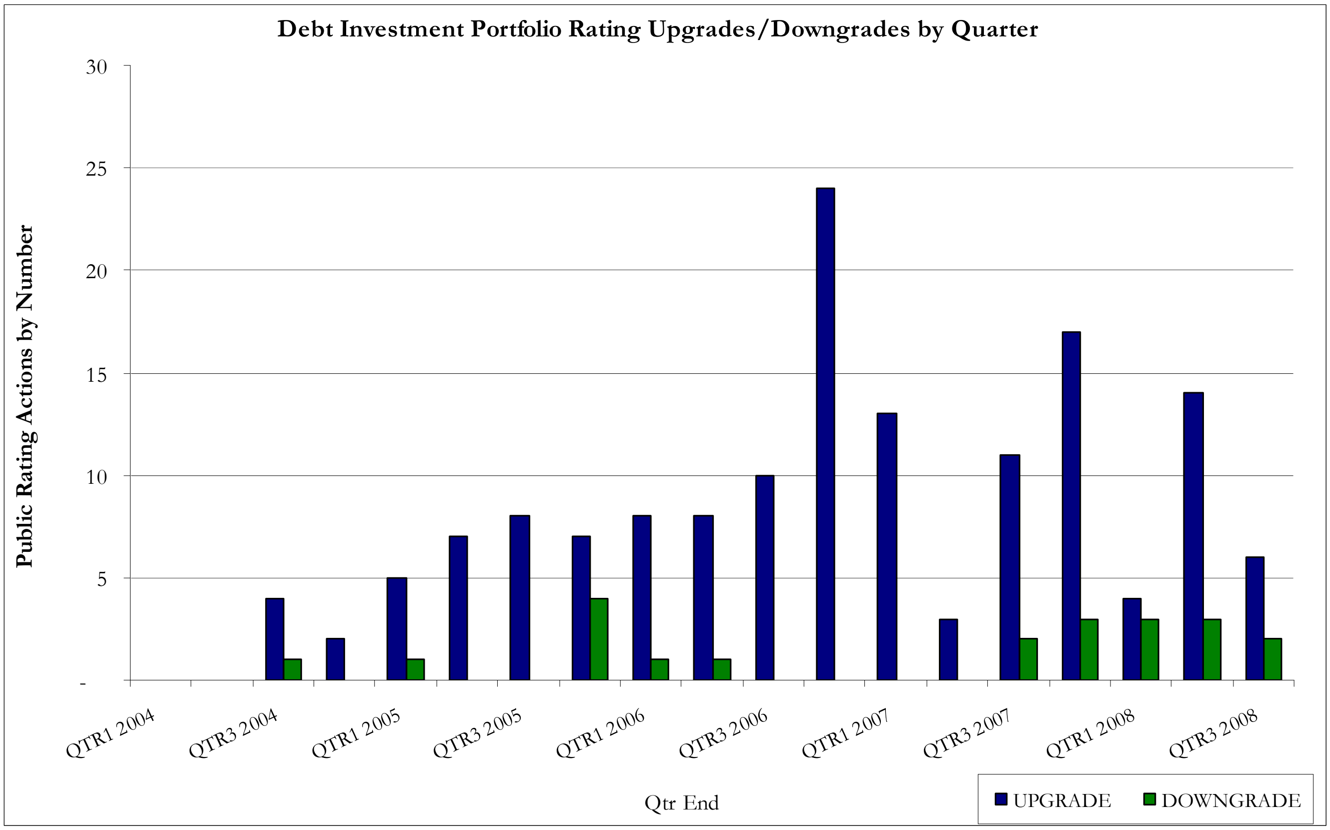
Debt Type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%	%	Bps
Commercial leases & loans	31,298	1.5%	BBB+	895
Consumer leases & loans	46,650	2.3%	BBB+	1,056
Total	**77,948**	**3.8%**	BBB+	992

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

Rating distribution / country exposure	AAA	AA	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	
Italy	7,848	4,500	19,400	11,000	7,700	**50,448**	**2.5%**
Germany	-	-	-	4,750	-	**4,750**	**0.2%**
Sweden	-	-	-	3,500	-	**3,500**	**0.2%**
United Kingdom	-	-	-	10,000	-	**10,000**	**0.5%**
Portugal	-	-	-	2,250	7,000	**9,250**	**0.5%**
Total	**7,848**	**4,500**	**19,400**	**31,500**	**14,700**	**77,948**	**3.9%**
% of total debt portfolio	**0.4%**	**0.2%**	**1.0%**	**1.6%**	**0.7%**	**3.9%**	

Credit Quality

The credit quality of the debt investment portfolio has remained stable over the quarter. Positive credit migration has outweighed negative movements in every quarter since the inception of the portfolio. The current lifetime rating upgrades versus downgrades ratio is 151:21 and was 6:2 for this quarter. While over time the weighted average credit rating of the debt investment portfolio has declined slightly, primarily as a consequence of the strategic repositioning by the Group away from bond investments and towards loan investments, the rating profile of the asset backed securities portfolio has remained stable. The graph below shows ratings action experienced in the portfolio on a quarterly basis.



Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Vacant space
Unrented lettable space.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 Sept 2008 (Unaudited) €'000	Nine months ended 30 Sept 2007 (Unaudited) €'000	Quarter ended 30 Sept 2008 (Unaudited) €'000	Quarter ended 30 Sept 2007 (Unaudited) €'000
Operating income					
Interest income		117,725	105,122	41,252	38,627
Rental income		214,770	225,563	65,348	76,686
Service charge income		45,004	41,275	14,224	15,433
Real estate fund unit interest income		-	16,244	-	8,732
(Loss) / gain on disposal of asset backed securities, available for sale		(269)	190	-	-
(Decrease) / increase in fair value of investment properties	4,8	(250,822)	255,134	(86,541)	(25,243)
Increase in fair value of real estate fund units		-	16,751	-	12,140
(Decrease) / increase in fair value of interest rate swaps		(5,350)	15,397	(4,134)	2,724
Impairment losses	6,7	(3,438)	-	(3,438)	-
Total operating income		**117,620**	**675,676**	**26,711**	**129,099**
Operating expenses					
Interest expense		210,531	205,179	68,276	76,011
Losses / (gains) on foreign currency contracts, translation and swaps		941	1,071	618	359
Service charge expenses		45,004	41,275	14,224	15,433
Property operating expenses		20,396	17,452	8,271	5,721
Other operating expenses	3	37,476	40,117	13,643	10,457
Total operating expenses		**314,348**	**305,094**	**105,032**	**107,981**
Operating (loss) / profit before taxation		**(196,728)**	**370,582**	**(78,321)**	**21,118**
Taxation charge - current	4	1,034	2,448	325	(397)
Taxation (credit) / charge - deferred	4	(7,499)	28,155	(4,089)	(27,915)
Net (loss) / profit after taxation		**(190,263)**	**339,979**	**(74,557)**	**49,430**
(Losses) / earnings per ordinary share					
Basic		(2.98)	5.33	(1.17)	0.77
Diluted		(2.98)	5.17	(1.17)	0.76
Weighted average ordinary shares outstanding					
Basic	11	63,858,262	63,743,369	63,721,026	63,823,403
Diluted	11	63,858,262	65,806,299	63,721,026	65,352,474

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	30 September 2008 (Unaudited) €'000	31 December 2007 €'000
Assets			
Cash and cash equivalents	5	155,310	146,707
Investment property held for sale	8	17,590	-
Other assets		76,722	81,988
Available for sale securities	6	140,406	1,488,837
Loans and receivables (includes cash to be invested)	7	1,721,065	570,916
Fixtures and fittings		298	754
Derivative assets		52,984	44,839
Investment property	8	4,530,403	5,171,086
Intangible assets		2,443	3,068
Total assets		**6,697,221**	**7,508,195**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	17	1,426,617	1,446,172
Accumulated (loss) / profit		(119,519)	109,082
Net unrealised (loss) on available for sale securities		(287,144)	(129,221)
Hedging reserve	12	31,610	30,335
Other reserves		17,320	17,320
Total shareholders' equity		**1,068,884**	**1,473,688**
Minority interest		**6**	**6**
Total equity		**1,068,890**	**1,473,694**
Liabilities			
Trade and other payables		97,145	121,846
CDO bonds payable	9	1,734,168	1,742,746
Bank borrowings	10	3,752,360	4,116,312
Derivative liabilities		270	-
Finance lease payable	8	23,999	26,709
Current taxation payable	4	3,030	2,030
Deferred taxation liability	4	17,359	24,858
Total liabilities		**5,628,331**	**6,034,501**
Total equity and liabilities		**6,697,221**	**7,508,195**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended 30 September 2008 (Unaudited) €'000	Nine months ended 30 September 2007 (Unaudited) €'000
Cash flows from operating activities		
Operating (loss) / profit before taxation	(196,728)	370,582
Adjustments for:		
Interest income	(117,725)	(105,122)
Interest expense	210,531	205,179
Unrealised loss on foreign currency contracts	941	1,071
Amortisation of (discounts) on securities	(1,319)	(818)
Amortisation of borrowing costs	6,579	6,111
Amortisation of tenant incentives and leasing commissions	2,814	820
Realised loss / (gain) on disposal of available for sale securities	269	(190)
Impairment losses	3,438	-
Shares granted to directors	20	(72)
Taxation paid	(34)	-
Amortisation of intangibles	564	432
Depreciation	50	-
(Increase) in fair value of real estate fund units	-	(16,751)
Decrease / (increase) in fair value of investment properties	250,822	(255,134)
Decrease / (increase) in fair value of interest rate swap	5,350	(15,397)
Decrease / (increase) in other assets	18,227	(16,655)
Interest received	118,181	98,079
Interest paid	(207,460)	(152,017)
(Decrease) / increase in trade and other payables	(27,876)	55,045
Net cash flows from operating activities	**66,644**	**175,163**
Cash flows from investing activities		
Purchase of investment property/capital expenditure	(24,867)	(2,294,838)
Proceeds on sale of investment property	384,922	319,057
Proceeds on sale/prepayment of available for sales securities	204,121	335,699
Purchase of available for sale securities	(232,974)	(540,136)
Sale of securities pledged under repurchase agreements	-	47,507
Purchase of real estate related loans	-	(256,626)
Sale/prepayment of real estate related loans	13,375	133,758
Return of capital of real estate fund units	-	764
Purchase of intangible assets	-	(1,488)
Net cash flows from investing activities	**344,577**	**(2,256,303)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	-	6,008
Costs related to issuance of ordinary shares	-	(359)
Repurchase of ordinary shares	(19,200)	-
Proceeds from issuance of bonds	17,311	897,939
Costs related to issuance of bonds	-	(8,561)
Repayments under repurchase agreements	-	(46,421)
Repayments of bonds issued	(1,249)	(351,000)
(Decrease) / increase of bank borrowings	(361,142)	1,734,423
Dividends paid to shareholders	(38,338)	(75,935)
Net cash flows from financing activities	**(402,618)**	**2,156,094**
Net increase in cash and cash equivalents	**8,603**	**74,954**
Cash and cash equivalents, beginning of period	**146,707**	**122,699**
Cash and cash equivalents, end of period	**155,310**	**197,653**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated profit €'000	Minority interest €'000	Total equity €'000
At 1 January 2007	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**
Net unrealised loss on available for sale securities	-	-	-	(70,897)	-	-	-	(70,897)
Share options exercised during the period	302,977	5,864	-	-	-	-	-	5,864
Shares issued to Directors	3,000	72	-	-	-	-	-	72
Additional costs related to Dec 06 share issue	-	(359)	-	-	-	-	-	(359)
Net unrealised gain on hedge instruments	-	-	-	-	17,195	-	-	17,195
Amortisation of novated swap	-	-	-	-	(2,612)	-	-	(2,612)
Net gains not recognised in the income statement	-	-	-	(70,897)	14,583	-	-	(56,314)
Net profit for the nine months	-	-	-	-	-	339,979	-	339,979
Total income and expense for the nine months	-	-	-	(70,897)	14,583	339,979	-	283,665
Dividends paid	-	-	-	-	-	(75,935)	-	(75,935)
At 30 September 2007 (Unaudited)	**63,825,060**	**1,445,094**	**17,320**	**(69,015)**	**38,125**	**352,502**	**6**	**1,784,032**
Net unrealised loss on available for sale securities	-	-	-	(60,443)	-	-	-	(60,443)
Share options exercised during the period	101,574	1,052	-	-	-	-	-	1,052
Shares issued to Directors	1,000	26	-	-	-	-	-	26
Realised gains reclassified to the income statement*	-	-	-	237	-	-	-	237
Net unrealised loss on hedge instruments	-	-	-	-	(12,143)	-	-	(12,143)
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	4,850	-	-	4,850
Amortisation of novated swap	-	-	-	-	(497)	-	-	(497)
Net losses not recognised in the income statement	-	-	-	(60,206)	(7,790)	-	-	(67,996)
Net loss for the three months	-	-	-	-	-	(205,064)	-	(205,064)
Total income and expense for the three months	-	-	-	(60,206)	(7,790)	(205,064)	-	(273,060)
Dividends paid	-	-	-	-	-	(38,356)	-	(38,356)
At 31 December 2007	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**

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

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging Reserves €'000**	**Accumulated Profit / (Loss) €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2008	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**
Repurchase of ordinary shares	(3,199,988)	(19,200)	-	-	-	-	-	**(19,200)**
Costs related to repurchase of ordinary shares (Note 17)	-	(375)	-	-	-	-	-	**(375)**
Shares issued to Directors	4,000	20	-	-	-	-	-	**20**
Net unrealised loss on available for sale securities	-	-	-	(176,528)	-	-	-	**(176,528)**
Realised gains reclassified to the income statement*	-	-	-	(26)	-	-	-	**(26)**
Amortisation of unrealised losses on available for sale securities as a result of reclassification to loans and receivables (Note 7)	-	-	-	18,631	-	-	-	**18,631**
Net unrealised loss on hedge instruments	-	-	-	-	728	-	-	**728**
Swaps novated during the period	-	-	-	-	3,229	-	-	**3,229**
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	(387)	-	-	**(387)**
Amortisation of novated swaps	-	-	-	-	(2,295)	-	-	**(2,295)**
Net losses not recognised in the income statement	-	-	-	(157,923)	1,275	-	-	**(156,648)**
Net loss for the nine months	-	-	-	-	-	(190,263)	-	**(190,263)**
Total income and expense for the nine months	-	-	-	(157,923)	1,275	(190,263)	-	**(346,911)**
Dividends paid	-	-	-	-	-	(38,338)	-	**(38,338)**
At 30 September 2008 (Unaudited)	**60,731,646**	**1,426,617**	**17,320**	**(287,144)**	**31,610**	**(119,519)**	**6**	**1,068,890**

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

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. BACKGROUND

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 (Interim financial statements). The interim financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2007 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the parent company, because the Group conducts its business predominantly in euros.

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

Basis of Consolidation

The consolidated interim financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the nine and three months ended 30 September 2008. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 30 September 2008, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

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

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

Basis of accounting

The interim financial statements are prepared on a going concern basis for the reasons given below:

The Group has a total of €462 million of financing arrangements maturing within the next twelve months, as set out in the table below:

	Amount €'000	Maturity €'000
Corporate Loan	125,000*	31 March 2009
Mars Floating Facility – Amortisation	36,044	31 December 2008
Mars Floating Facility – Final Repayment	200,000	20 June 2009
Other Bank Financing	100,748	30 September 2009
Total	**461,792**	

Corporate Loan*

On 31 October 2008, a repayment of €50 million was made on the corporate loan. The remaining €125 million is due on 31 March 2009. It should be noted that the corporate loan contains a cross default provision whereby a loan default within the Eurocastle Group will automatically result in a default of the corporate loan.

Mars Floating Facility

The Mars floating facility is due to be repaid down to €200 million by 31 December 2008, with the balance due on 30 June 2009.

The Mars floating facility is non-recourse to the Eurocastle Group and as of May 2008, is no longer cross collateralised with the real estate assets that are financed under the Mars fixed facility, nor cross defaults to the Mars fixed facility. The facility is financing a portfolio of 22 commercial properties, valued at €402 million at 30 September 2008.

Other Bank Financing

The other bank financing was raised to finance the sub-participation in a real estate loan and to finance the acquisition of certain CMBS assets. The financing has limited recourse to the Group of €30 million and has security over the financed assets. The carrying value of these assets at 30 September 2008 was €121 million.

Short Term Liquidity Sources

The Directors expect to meet the funding requirements, over the next year, through a combination of:

- i) cash flows from operating activities
- ii) selective sales of commercial properties
- iii) negotiating extensions with existing lenders
- iv) refinancing of existing financings with other banks
- v) raising additional capital

Since July 2007, the Group has raised or extended financing totalling €1.9 billion.

The Directors believe that the Group will be successful in renegotiating and extending the financing arrangements before their respective maturities. However, they recognise that in the current market environment, there is some uncertainty over the willingness of our lending banks to extend existing financings or the inclination of banks to extend new financing. Therefore, the Group may be become a forced seller of assets, which could result in significantly lower net proceeds than could be achieved through an orderly transaction, and significantly less than the carrying value of those assets in the consolidated interim financial statements included herein.

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

Conclusion

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

Based on the actions taken and contemplated, the Directors have concluded that the presentation of the Group's interim financial statements on a going concern basis is appropriate.

3. OTHER OPERATING EXPENSES

	Nine months ended 30 September 2008 (Unaudited) €'000	Nine months ended 30 September 2007 (Unaudited) €'000	Quarter ended 30 September 2008 (Unaudited) €'000	Quarter ended 30 September 2007 (Unaudited) €'000
Professional fees	2,776	2,754	1,174	1,144
Sale related costs	10,601	3,506	4,503	127
Management fees (Note 15)	16,448	16,389	5,509	5,527
Incentive fees	-	9,450	-	994
Depreciation	50	-	(23)	-
Amortisation of intangible assets	564	432	170	164
Other*	7,037	7,586	2,310	2,501
	37,476	**40,117**	**13,643**	**10,457**

* Included within other operating expenses for the nine and three months ended 30 September 2008 are reimbursements of property related asset management services of €5.8 million and €1.8 million, respectively, (30 September 2007: €5.1 million and €1.7 million) to FIG LLC (See Note 15).

4. TAXATION EXPENSE

	Nine months ended 30 September 2008 (Unaudited) €'000	Nine months ended 30 September 2007 (Unaudited) €'000	Quarter ended 30 September 2008 (Unaudited) €'000	Quarter ended 30 September 2007 (Unaudited) €'000
Current tax				
Germany	1,034	2,616	325	(38)
Luxembourg	-	(168)	-	(359)
Total current tax	**1,034**	**2,448**	**325**	**(397)**
Deferred tax				
Germany	(7,499)	28,155	(4,089)	(27,915)
Total deferred tax	**(7,499)**	**28,155**	**(4,089)**	**(27,915)**
Total tax (benefit) / expense	**(6,465)**	**30,603**	**(3,764)**	**(28,312)**

Analysis of deferred tax:

	Nine months ended 30 September 2008 (Unaudited) €'000	Nine months ended 30 September 2007 (Unaudited) €'000	Quarter ended 30 September 2008 (Unaudited) €'000	Quarter ended 30 September 2007 (Unaudited) €'000
Tax losses carried forward	163	(3,449)	(391)	(1,743)
Temporary differences				
Loan expense	(335)	328	(48)	820
Tenant improvements and leasing commissions	183	535	(7)	374
Accelerated capital allowance	2,754	(640)	808	(3,580)
Revaluation of investment properties*	(9,709)	32,801	(3,784)	482
Acquisition expense	-	(244)	-	(272)
Capital expenditure	197	903	(357)	252
Other	(752)	112	(310)	20
Change in tax rate	-	(2,191)	-	(24,268)
Deferred tax (benefit)/expense	**(7,499)**	**28,155**	**(4,089)**	**(27,915)**

* 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	Nine months ended 30 September 2008 (decrease) in fair value (Unaudited)) €'000	Nine months ended 30 September 2008 deferred tax (Unaudited) €'000	Nine months ended 30 September 2007 increase in fair value (Unaudited) €'000	Nine months ended 30 September 2007 deferred tax (Unaudited) €'000
Mars*	(92,760)	(2,549)	925	12,748
Drive	(104,833)	-	131,000	-
Wave	(10,810)	(1,713)	63,685	10,195
Zama	(1,900)	-	(82)	-
Bridge	(17,896)	(2,682)	41,226	6,834
Retail	(22,623)	(2,765)	18,380	3,024
	(250,822)	**(9,709)**	**255,134**	**32,801**

* The Mars portfolio consists of 37 entities, each holding investment properties. Deferred tax represents the tax on the valuation gains at the individual entity level.

Portfolio	Quarter ended 30 September 2008 (decrease) in fair value (Unaudited)) €'000	Quarter ended 30 September 2008 deferred tax (Unaudited) €'000	Quarter ended 30 September 2007 (decrease) / increase in fair value (Unaudited) €'000	Quarter ended 30 September 2007 deferred tax (Unaudited) €'000
Mars*	(20,780)	(516)	(18,475)	(581)
Drive	(47,201)	-	835	-
Wave	(4,975)	(1,520)	117	1,510
Zama	(670)	-	(515)	(69)
Bridge	(6,695)	(1,019)	(4,770)	(107)
Retail	(6,220)	(729)	(2,435)	(271)
	(86,541)	**(3,784)**	**(25,243)**	**482**

* The Mars portfolio consists of 37 entities, each holding investment properties. Deferred tax represents the tax on the valuation gains at the individual entity level.

Movement in taxation liability:

	As at 30 September 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Opening tax payable	26,888	6,016
Tax paid	(34)	-
Tax (benefit) / expense for the period	(6,465)	20,872
Closing taxation payable	**20,389**	**26,888**
Split between:		
Current tax	3,030	2,030
Deferred tax	17,359	24,858
Closing taxation payable	**20,389**	**26,888**

5 CASH AND CASH EQUIVALENTS

The cash and cash equivalents are split as follow

	30 September 2008 (Unaudited) €'000	31 December 2007 (Unaudited) €'000
Corporate cash	71,915	6,577
Cash within the real estate operating companies	71,641	126,531
Cash within the CDO vehicles	11,754	13,599
	155,310	**146,707**

6. AVAILABLE FOR SALE SECURITIES

The following is a summary of the Group's available for sale securities within the debt investment portfolio at 30 September 2008 (Unaudited):

				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)
Portfolio IV										
CMBS	76,898	75,902	-	-	(10,516)	65,386	AA-	5.41%	0.64%	3.95
Other ABS	22,991	22,990	-	-	(1,303)	21,687	AA+	5.71%	0.68%	1.93
	99,889	98,892	-	-	(11,819)	87,073	AA	5.48%	0.65%	3.48
Other securities										
CMBS	47,901	47,316	-	-	(8,983)	38,333	A+	5.93%	1.22%	4.34
	47,901	47,316	-	-	(8,983)	38,333	A+	5.93%	1.22%	4.34
Total portfolio	**147,790**	**146,208**	**-**	**-**	**(20,802)**	**125,406**	**AA-**	**5.63%**	**0.84%**	**3.76**

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

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

The following is a summary of the Group's available for sale securities held within the Drive Liquidity Fund at 30 September 2008 (Unaudited):

				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)
Portfolio II										
CMBS	3,000	3,006	-	-	(261)	2,745	AAA	5.18%	0.22%	2.97
Other ABS	10,297	10,304	-	-	(691)	9,613	AAA	5.09%	0.20%	7.59
Bank notes	6,000	5,996	(2,318)	-	(1,036)	2,642	BB	2.68%	0.13%	5.17
Total portfolio	**19,297**	**19,306**	**(2,318)**	**-**	**(1,988)**	**15,000**	**AA-**	**4.35%**	**0.18%**	**6.12**

Total available for sale securities	**140,406**

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

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

Restricted cash – cash to be invested	**6,840**
Total securities (including cash to be invested)	**1,488,837**

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

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

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 9).

7. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 30 September 2008 (Unaudited).

	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	213,657	173,281	-	173,281	BBB+	6.06%	1.23%	4.23
Other ABS	131,497	102,509	-	102,509	BBB	6.17%	1.20%	2.88
	345,154	275,790	-	275,790	BBB	6.10%	1.22%	3.73
Portfolio III								
CMBS	252,630	204,506	(1,121)	203,385	BBB+	6.10%	1.26%	5.57
Other ABS	430,813	340,826	-	340,826	BBB	6.39%	1.65%	3.31
	683,443	545,332	(1,121)	544,211	BBB	6.28%	1.51%	4.16
Portfolio V								
CMBS	274,075	220,091	-	220,091	BBB	6.31%	1.45%	4.52
Other ABS	35,117	23,949	-	23,949	BBB	6.04%	0.98%	4.71
	309,192	244,040	-	244,040	BBB	6.28%	1.39%	4.53
Total	1,337,789	1,065,162	(1,121)	1,064,041	BBB	6.23%	1.41%	4.13
Real estate related loans	544,982	543,186	-	543,186	B	7.72%	2.92%	3.54
Total portfolio	**1,882,771**	**1,608,348**	**(1,121)**	**1,607,227**	**BB+**	**6.66%**	**1.84%**	**3.96**
Restricted cash – cash to be invested				**113,838**				
Total loans and receivables (including cash to be invested)				**1,721,065**				

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

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 9).

As at 31 December 2007:

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

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

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

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

	01 July 08 Carrying value €'000	30 September 2008 Carrying value €'000	30 September 2008 Fair value €'000
Available for sale securities, reclassified to loans and receivables	1,077,560	1,064,041	926,642

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

If the reclassification had not been made, the Group's income statement for the third quarter 2008 would have included €0.7 million on the reclassified available for sale securities of impairment losses, compared with €1.1 million after the reclassification. For the third quarter 2008 shareholders' equity (net losses not recognised in the income statement) would have included €118 million of changes in unrealised fair value losses in respect of reclassified available for sale which were not impaired between 1st July 2008 and 30th September 2008.

After reclassification, the reclassified financial assets contributed the following amounts to income for the third quarter 2008:

	Three months ended 30 September 2008 (€000)
Net interest income	21,954
Impairment losses on securities classified as loans and receivables	(1,121)
Income on available for sale securities reclassified to loans and receivables	**20,833**

8. INVESTMENT PROPERTY

Total investment property consists of:

	As at 30 September 2008 (Unaudited) €'000	**As at 31 December 2007 €'000**
Tenant incentives and leasing commission (included in other assets)	18,727	12,035
Investment property held for sale	17,590	-
Investment property	4,530,403	5,171,086
Closing balance	**4,566,720**	**5,183,121**

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions classified in other assets) as at 30 September 2008:

	Freehold land and buildings €'000	**Leasehold property €'000**	**Total (Unaudited) €'000**
Opening balance	5,025,494	157,627	5,183,121
Additions/capital expenditure	21,460	593	22,053
Disposals	(391,064)	-	(391,064)
Decrease in minimum payments under head lease	-	(2,710)	(2,710)
Decrease in fair value	(239,910)	(4,770)	(244,680)
Total	**4,415,980**	**150,740**	**4,566,720**

As at 31 December 2007:

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

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

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

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

	As at 30 September 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Investment property at market value	4,542,721	5,156,412
Minimum payments under head leases separately included in trade and other payables on the balance sheet	23,999	26,709
Balance sheet carrying value of investment property	**4,566,720**	**5,183,121**

Additional Information

The table below provides additional information for various portfolios within the group at 30 September 2008:

Portfolio	Property valuation* €'000	Term financing €'000	Term financing to property valuation %
Mars – fixed 1	1,269,890	1,010,233	79.6%
Mars – fixed 2	119,750	74,812	62.4%
Mars – floating	401,960	235,978	58.7%
Drive	1,372,164	1,028,180	74.9%
Bridge	508,010	367,947	72.4%
Wave	284,037	208,330	73.3%
Zama	50,910	39,425	77.4%
Retail	536,000	416,113	77.6%
Total	**4,542,721**	**3,381,018**	**74.4%**

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

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

Portfolio	Property valuation* €'000	Term financing €'000	Term financing to property valuation %
Mars – fixed	1,329,260	1,008,975	75.9%
Mars – floating	606,530	402,653	66.4%
Drive	1,792,575	1,306,946	72.9%
Bridge	524,270	367,381	70.1%
Wave	292,677	208,130	71.1%
Zama	52,600	39,347	74.8%
Retail	558,500	415,389	74.4%
Total	**5,156,412**	**3,748,821**	**72.7%**

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

9. CDO BONDS PAYABLE

As at 30 September 2008 (Unaudited):

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A, B and C notes	AAA/AA/A	345,872	343,805	5.48%	0.46%	6.8
CDO III	A, B, C and D notes	AAA/AA/A/B BB	704,250	699,842	5.47%	0.48%	6.8
Duncannon CRE CDO 1 Plc	A, B, C, D, E and X notes	AAA/AA/A/BB B+/BBB/BBB- /BB+/BB/BB-	697,417	690,521	5.68%	0.68%	6.1
Total			**1,747,539**	**1,734,168**	**5.56%**	**0.56%**	**6.5**

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

As at 31 December 2007:

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

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

10. BANK BORROWINGS

The bank borrowings comprise:

		As at 30 September 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Term finance	(Note 10.1)	3,477,425	3,914,003
Corporate loan	(Note 10.2)	174,187	143,049
Other bank financing – under 1 year	(Note 10.3)	100,748	59,260
Total		**3,752,360**	**4,116,312**

10.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**As at 30 Sept 2008 (Unaudited)**	**As at 31 December 2007**	**As at 30 Sept 2008 (Unaudited)**	**As at 31 December 2007**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	96,552	165,230	96,407	165,182	5.62%	Dec 2009
Investment property							
Mars – fixed 1	Jan 2007	1,029,465	1,029,465	1,010,233	1,008,975	4.71%	Jul 2014
Mars – fixed 2	Jun 2008	79,000	-	74,812	-	5.33%	Jun 2013
Mars – floating	Jan 2007	236,044	402,910	235,978	402,653	5.02%	Jun 2009
Drive	Feb 2006	1,035,078	1,317,066	1,028,180	1,306,946	4.27%	Jan 2013
Bridge	Oct 2006	372,090	372,090	367,947	367,381	4.74%	Jan 2014
Wave	Apr 2007	210,000	210,000	208,330	208,130	4.94%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,425	39,347	4.97%	May 2014
Turret*	May 2006	147,556	147,556	146,162	146,041	4.93%	May 2016
Truss*	Dec 2005	85,280	85,280	84,666	84,610	4.93%	Feb 2016
Belfry*	Aug 2005	56,240	56,240	55,574	55,512	4.85%	Oct 2015
Rapid*	Aug 2007	54,500	54,500	52,866	52,735	4.96%	Nov 2017
Tannenberg*	May 2007	52,960	52,960	51,232	51,051	4.92%	Oct 2014
Bastion*	Sep 2005	26,500	26,500	25,613	25,440	4.44%	Sep 2012
		3,424,609	**3,794,463**	**3,381,018**	**3,748,821**	**4.66%**	
Total		**3,521,161**	**3,959,693**	**3,477,425**	**3,914,003**		

* These portfolios make up the retail property portfolio.

Debt Investments

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

In January 2008, the CDO IV term financing was extended out to 1 December 2009 under a €127 million facility.

As at 30 September 2008, there was €96.6 million drawn on the facility (31 December 2007: €165.2 million).

Investment Properties

In order to finance the investment property portfolios, the Group entered into non-recourse loan facilities as described in the table on page 34. These facilities are secured in the customary manner for German real estate lending granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly.

On 14 May 2008, the short term financing on the Mars portfolio of €330 million (the outstanding balance at the time of signing) was signed for a 20 June 2009 maturity, amortising down to €250million on 30 June 2008 and €200 million by 31 December 2008.

On 25 June 2008, the Group successfully refinanced three of the properties within the Mars floating portfolio, with a German bank, for an amount of €79.0 million. The new facility is non-recourse to Eurocastle, has an effective interest rate of 5.33% and matures in June 2013.

10.2 Corporate Loan (formerly Revolving Credit Facility)

In October 2007, the Group extended, for twelve months, a revolving €300 million credit facility with a syndicate of commercial investment banks as a means of securing access to working capital. The facility is secured by receivables flowing from the Group, with security assignments of the Group's rights under its management agreement with FIG LLC. The facility contains a number of financial covenants including leverage ratios relating to both the debt investment portfolio and the real estate portfolio, and interest cover ratios. The interest rate on drawn amounts was Euribor + 2.0% p.a., while on undrawn amounts it was 0.4% p.a.

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. In accordance with the terms of the facility, the loan was paid down to €125 million on 31 October 2008.

As at 30 September 2008 the amount drawn on this facility was €175.0 million (31 December 2007: €144.2 million).

10.3 Other Bank Financing

In August 2006, in order to finance the sub-participation in a real estate loan secured on properties leased to a leading German retailer, the Group entered into an €80 million, 364 day credit facility with an investment bank, which was subsequently extended to expire in August 2008. Interest rates on the drawn amounts are 1.50% above Euribor. In January 2008 this facility was extended to expire in September 2009 with recourse limited to €30 million from the Group. There was no change in the interest rates. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €58.8 million at 30 September 2008 (31 December 2007: €59.3 million).

In January 2008 the facility was also increased by an additional €82.8 million in order to finance a €96.8 million acquisition of 4 classes from a recently issued CMBS transaction. The security facility is also backed by a security assignment over the financed assets and was drawn in an amount of €41.9 million at 30 September 2008 at a weighted average interest rate of 0.8051% above Euribor.

11. EARNINGS PER SHARE

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

	As at 30 September 2008 (Unaudited)	As at 31 December 2007
Weighted average number of ordinary shares, outstanding, basic	63,858,262	63,787,016
Dilutive effect of ordinary share options	-	1,782,543
Weighted average number of ordinary shares outstanding, diluted	**63,858,262**	**65,569,559**

12. 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 available for sale assets in Feco Sub SPV Plc.

At 30 September 2008, cumulative unrealised gains on hedge instruments were €31.6 million (31 December 2007: €30.3 million). The unrealised gains comprise the value of the novated swaps of €25.8 million (31 December 2007: €25.1 million) and the fair value of the interest rate swaps of €5.8 million (31 December 2007: €5.2 million).

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

13. 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 provide returns for Shareholders and benefits to other Stakeholders, as well as maintain an optimal structure to reduce the overall cost of capital.

The Group recognises the effect on Shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage.

In order to maintain an adequate capital structure, the Group maintains a prudent dividend policy and regularly reviews this policy and also considers other strategies such as asset sales to reduce debt and return capital to Shareholders.

The Group maintains its capital position on the basis of the leverage ratio. This ratio is calculated as net borrowing compared to total capital. At 30 September 2008, the total capital under management was €1.44 billion (31 December 2007: €1.46 billion).

At 30 September 2008, the Group's leverage ratio was 79.2% (31 December 2007 80.2%).

Market Risk

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

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

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

At 30 September 2008, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €6.7 million (31 December 2007: €71.2 million).

Interest Rate Risk

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

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

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

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 30 September 2008, 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 2007: €0.7 million per annum).

Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets. Increasing interest rates would decrease the value of the fixed rate assets because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market. At 30 September 2008, the Group did not hold any fixed rate assets. Therefore, a 100 basis point change in interest rates would not impact the net book value (31 December 2007: €0.3 million).

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposures relate to its sterling and Swiss franc 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. The Group has mitigated this impact through a combination of (i) sterling denominated financing and (ii) rolling forward foreign exchange contracts to hedge its net non-euro equity investment.

In connection with the Group's purchase of its available for sale real estate and other asset backed securities and real estate loans, the foreign currency risk is covered through forward foreign currency exchange contracts and foreign currency swaps.

Given the mitigating factors described above, a fluctuation in the foreign currency exchange rates would not have a significant impact on the Group's operating profit.

Credit Risk

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

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

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

The Group's securities portfolio is diversified by asset type, industry, location and issuer. This diversification minimises the risk of capital loss. At 30 September 2008 , the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BBB- (31 December 2007: BBB-).

The maximum credit risk exposure as at 30 September 2008 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €1.9 billion (31 December 2007: €2.3 billion).

The Group's available for sale securities and loans and receivables portfolio was split between countries within Europe as follows:

	30 September 2008 (Unaudited)			31 December 2007		
	Number of securities/ loans	Face value €'000	Location split	Number of securities/ loans	Face value €'000	Location split
United Kingdom	88	858,479	42.3%	89	972,570	44.4%
Italy	17	261,390	12.9%	19	278,904	12.7%
Germany	32	406,595	20.0%	33	433,550	19.8%
Pan-European	9	226,073	11.1%	13	204,589	9.3%
France	10	84,097	4.1%	11	103,287	4.7%
Other	33	193,929	9.6%	36	199,933	9.1%
	189	**2,030,563**	**100%**	**201**	**2,192,833**	**100%**

The above table does not include the available for sale securities held within the Drive liquidity fund, which contains 7 securities split between Germany (€3.0 million) and Other (€16.3 million).

The Group's hedging and trading transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. As a result, it is not anticipated that any of these counterparties will fail to meet their obligations.

Liquidity Risk

The Group's ability to execute its business strategy, particularly the growth of its investment portfolio, depends to a significant degree on the Group's ability to obtain additional capital.

The Group's primary source of funds for liquidity consists of net cash provided by operating activities, borrowings under loans and credit facilities and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash in hand and cash flow provided by operations will satisfy its liquidity needs with respect to its operational activities over the next twelve months. The Group expects to meet its short term financing repayment obligations through a combination of options discussed in Note 2. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through additional borrowings and the liquidation, refinancing or repayment of its assets at maturity.

A significant portion of the Group's investments are financed with collateralised debt obligations, known as CDOs. If spreads for CDO liabilities widen or if demand for such liabilities ceases to exist, then the ability to execute future CDO financings will be restricted. Proceeds from the sale of real estate loans and other asset backed securities that serve as collateral for the Group's CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are therefore not available to fund current cash needs.

The Group's debt investments are generally financed long-term, with 87.2% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored; therefore, these investments are expected to generate a generally stable current return, subject to interest rate fluctuations.

The Group's investment property portfolio is generally financed with long-term, fixed rate, non-recourse financing with the exception of assets within the Mars-floating portfolio which, as at 30 September 2008, were financed with a short-term floating facility of €236 million amortising down to €200 million by 31 December 2008 and maturing in June 2009. The Group's ability to meet this liquidity requirement is discussed in Note 2.

On 9 May 2008, the Group's revolving credit facility was converted into a term loan facility of €175 million and extended to mature on 31 March 2009. This facility was paid down to €125 million on 31 October 2008 and matures on 31 March 2009. The Group's ability to meet this liquidity requirement is discussed in Note 2.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 30 September 2008 and 31 December 2007:

30 September 2008 (Unaudited)

Type	Total outstanding at 30 September 2008 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	155,310	155,310	-	-
Asset backed securities, available for sale	140,406	13,882	99,086	27,438
Real estate related loans (includes cash to be invested)	1,721,065	230,564	1,144,141	346,360
Derivative assets*	52,984	10,718	41,098	16,128
Total assets	**2,069,765**	**410,474**	**1,284,325**	**389,926**
Liabilities				
Interest payable**	40,079	271,728	944,399	242,673
Derivative liabilities	270	270	-	-
CDO bonds payable	1,734,168	-	-	1,747,539
Bank loans	3,752,360	511,792	1,237,130	2,047,987
Finance leases payable***	23,999	1,555	6,492	98,169
Total liabilities	**5,550,876**	**785,345**	**2,188,021**	**4,136,368**

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

31 December 2007

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

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

14. DIVIDENDS PAID & DECLARED

	Nine months ended 30 September 2008 (Unaudited) €'000	Nine months ended 30 September 2007 (Unaudited) €'000
Paid during the nine months :	38,338	75,935
Equity dividends on ordinary shares		
Fourth quarter dividend for 2007: €0.30 (2006: €0.14)	19,178	8,929
First quarter dividend for 2008: €0.00 (2007: €0.45)	-	28,711
Second quarter dividend for 2008: €0.30 (2007: €0.60)	19,160	38,295
	38,338	**75,935**
Third quarter dividend for 2008: €0.00 (2007: €0.60)	-	38,357

15. RELATED PARTY TRANSACTIONS

At 30 September 2008, management fees, incentive fees and expense reimbursements of approximately €6.2 million (31 December 2007: €27.0 million) were due to the Manager. For the nine and three months ended 30 September 2008 management fees of €16.4 million and €5.5 million, respectively, (30 September 2007: €16.4 million and €5.5 million), no incentive fees (30 September 2007: €9.5 million and €1.0 million), and expense reimbursements of €5.8 million and €1.8 million respectively, (30 September 2007: €5.1 million and €1.7 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.

16. SEGMENTAL REPORTING

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

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

Nine months ended 30 September 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	113,488	-	263,070	941	**377,499**
Other operating loss	(1,390)	-	(258,489)	-	**(259,879)**
Interest expense	(87,404)	-	(123,127)	-	**(210,531)**
Other operating expenses	(2,435)	-	(81,840)	(19,542)	**(103,817)**
Segment result	**22,259**	**-**	**(200,386)**	**(18,601)**	**(196,728)**
Taxation benefit	-	-	6,465	-	**6,465**
Net profit / (loss)	**22,259**	**-**	**(193,921)**	**(18,601)**	**(190,263)**
Decrease in fair values	196	-	256,172	-	**256,368**
Realised gains on sale	-	-	11,206	-	**11,206**
Deferred tax	-	-	(7,499)	-	**(7,499)**
Funds from operations	**22,455**	**-**	**65,958**	**(18,601)**	**69,812**

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

Nine months ended 30 September 2007 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	100,980	16,254	270,706	264	**388,204**
Other operating income	190	16,751	270,531	-	**287,472**
Interest expense	(76,086)	(4,133)	(124,960)	-	**(205,179)**
Other operating expenses	(2,023)	(65)	(63,676)	(34,151)	**(99,915)**
Segment result	**23,061**	**28,807**	**352,601**	**(33,887)**	**370,582**
Taxation expense	-	-	(30,603)	-	**(30,603)**
Net profit / (loss)	**23,061**	**28,807**	**321,998**	**(33,887)**	**339,979**
Increase in fair values	-	(16,751)	(270,531)	-	**(287,282)**
Realised gains on sale	-	-	37,312	-	**37,312**
Deferred tax	-	-	28,155	-	**28,155**
Funds from operations	**23,061**	**12,056**	**116,934**	**(33,887)**	**118,164**

Three months ended 30 September 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	39,218	-	81,000	606	**120,824**
Other operating loss	(1,121)	-	(92,992)	-	**(94,113)**
Interest expense	(29,654)	-	(38,622)	-	**(68,276)**
Other operating expenses	(1,242)	-	(28,838)	(6,676)	**(36,756)**
Segment result	**7,201**	**-**	**(79,452)**	**(6,070)**	**(78,321)**
Taxation benefit	-	-	3,764	-	**3,764**
Net profit / (loss)	**7,201**	**-**	**(75,688)**	**(6,070)**	**(74,557)**
Decrease in fair values	426	-	90,675	-	**91,101**
Realised gains on sale	-	-	2,246	-	**2,246**
Deferred tax	-	-	(4,089)	-	**(4,089)**
Funds from operations	**7,627**	**-**	**13,144**	**(6,070)**	**14,701**

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

Three months ended 30 September 2007 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	36,338	8,735	94,334	71	**139,478**
Other operating income / (loss)	-	12,140	(22,519)	-	**(10,379)**
Interest expense	(28,130)	(1,404)	(46,477)	-	**(76,011)**
Other operating expenses	(698)	(49)	(23,473)	(7,750)	**(31,970)**
Segment result	**7,510**	**19,422**	**1,865**	**(7,679)**	**21,118**
Taxation benefit	-	-	28,312	-	**28,312**
Net profit / (loss)	**7,510**	**19,422**	**30,177**	**(7,679)**	**49,430**
(Increase) / decrease in fair values	-	(12,140)	22,519	-	**10,379**
Realised gains on sale	-	-	1,157	-	**1,157**
Deferred tax	-	-	(27,915)	-	**(27,915)**
Funds from operations	**7,510**	**7,282**	**25,938**	**(7,679)**	**33,051**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

As at 30 September 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,937,178	-	4,691,474	68,569	**6,697,221**
Total liabilities	(1,969,106)	-	(3,631,917)	(6,919)	**(5,607,942)**
Segment net assets	**(31,928)**	**-**	**1,059,557**	**61,650**	**1,089,279**
Tax liability	-	-	(20,389)	-	**(20,389)**
Minority interest	(2)	-	(4)	-	**(6)**
Net assets	**(31,930)**	**-**	**1,039,164**	**61,650**	**1,068,884**

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

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

17. SHARE REPURCHASE

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

At 30 September 2008, there were 60,731,646 ordinary shares outstanding.

18. SUBSEQUENT EVENTS

On 13 November 2008, an investment property within the Drive portfolio was sold for net proceeds of €5.1 million

The Group has entered into binding agreements to sell nine further investment properties, within the Drive, Mars and Wave portfolios, expected to be completed in fourth quarter of 2008 and first quarter of 2009, with estimated total proceeds of €22.5 million.

19. COMMITMENTS

As at 30 September 2008, the Group had no commitments that were not disclosed in these financial statements.

20. FUNDS FROM OPERATIONS ("FFO")

(in €'000, except per share data)	Nine months ended 30 Sept 2008 (Unaudited)	Nine months ended 30 Sept 2007 (Unaudited)	Quarter ended 30 Sept 2008 (Unaudited)	Quarter ended 30 Sept 2007 (Unaudited)
Reconciliation of FFO to net profit after taxation				
Net (loss) / profit after taxation	(190,263)	339,979	(74,557)	49,430
Decrease / (increase) in fair value of investment properties	250,822	(255,134)	86,541	25,243
Decrease / (increase) in fair value of interest rate swaps	5,350	(15,397)	4,134	(2,724)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)*	196	-	426	-
(Increase) /decrease in fair value of real estate fund units	-	(16,751)	-	(12,140)
Realised gain on sale of investment properties	11,206	37,312	2,246	1,157
Deferred tax (benefit) / charge on investment properties	(7,499)	28,155	(4,089)	(27,915)
Funds from operations (FFO)	**69,812**	**118,164**	**14,701**	**33,051**
FFO per weighted average basic share	1.09	1.85	0.23	0.52
FFO per weighted average diluted share	1.09	1.80	0.23	0.51

* During the nine and three months ended 30 September 2008, the group recognised fair value gains on currency swaps that it had entered into to hedge certain debt investments denominated in Pounds Sterling and Swiss Francs. In the table above the fair value gains of the currency swaps have been netted against the translation losses on the related assets, and the resulting unrealised net loss of €0.2 million has been excluded from FFO

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