EUROCASTLE INVESTMENTS LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE YEAR AND QUARTER ENDED 31 DECEMBER 2006

Eurocastle Investment Limited primarily owns and invests in German commercial real estate. The Company is Euro dominated and currently listed on Euronext Amsterdam under the symbol "ECT". Eurocastle's objective is to pay out stable and growing dividends and to deliver attractive risk-adjusted returns. Eurocastle is managed by an affiliate of Fortress Investment Group LLC (FIG LLC). For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com

Highlights

Fourth Quarter 2006

- Declared a second interim dividend of €0.14 per share for the fourth quarter 2006, in addition to a first interim dividend of €0.29 per share paid in December 2006.
- Total dividend per share for the fourth quarter 2006 amounts to €0.43. This compares to the third quarter 2006 dividend of €0.43 per share and fourth quarter 2005 dividend of €0.37 cents per share.
- Acquired a portfolio of six office properties in Germany for an all-in purchase price of €502 million.
- Acquired 24 retail units in Germany for an all in purchase price of €79 million, to complete the purchase of a €198 million 63 unit retail property portfolio.
- Entered into an agreement to acquire a €2.1 billion property portfolio comprising 56 German commercial real estate assets from an open-ended fund. The acquisition was completed at the end of February 2007.
- Signed 87 leases for approximately 22,000 square meters.
- Occupancy of the total real estate portfolio increased from 85% at the end of the third quarter to 87.5% at the end of December 2006.
- Raised net proceeds of €645 million of new equity capital to finance 2006 acquisitions.

Year Ended 2006

- Acquired €2.8 billion of German commercial real estate (including the €2 billion acquisition of the Dresdner portfolio at the beginning of 2006).
- Entered into agreements to acquire an additional €2.2 billion of German commercial real estate, all of which was completed by the end of February 2007.
- Total assets increased by 149% from €2.3 billion at the end of 2005 to €5.7 billion at year end 2006.
- Raised net proceeds of approximately €1.2 billion of new equity capital.
- Increased net asset value from €0.3 billion to €1.6 billion. This includes revaluation gains of approximately €78 million on the total investment property portfolio that are included in operating income for the year.
- Signed 186 new leases for approximately 45,600 square meters contributing to increased occupancy.
  - Deutsche Bank portfolio occupancy was over 81% at 2006 year end, an increase of approximately 7% from previous year end.
  - Dresdner Bank portfolio occupancy ended the year at nearly 84%, up 3% from acquisition.

Key Performance Indicators

Fourth Quarter 2006

- Net profit after tax of €9.68 million for the fourth quarter 2006, compared to €10.09 million for the fourth quarter 2005.
- Earnings per ordinary share of €0.19 or €0.18 per diluted share, for the fourth quarter 2006 compared to €0.42 per ordinary share or €0.40 per diluted share, for the fourth quarter 2005.
- Funds from operations ("FFO", see Key Financial Information) increased by 128% to €21.89 million for the fourth quarter 2006 from €9.59 million for the fourth quarter 2005.
- FFO of €0.43 per ordinary share, or €0.41 per diluted share for the fourth quarter 2006 compared to FFO of €0.40 per ordinary share, or €0.38 per diluted share for the fourth quarter 2005.
- FFO return on average invested capital* was 8.9% for the fourth quarter 2006.
- Increased equity book value per share by 21% from €20.40 at the end of the third quarter to €24.73 at 2006 year end.

* Invested capital represents capital and reserves less hedging reserves, fair value of interest rate swaps and net unrealised gains on available-for-sale securities, real estate fund units and investment properties (net of attributable deferred taxation).

Year ended 2006

- Net profit after tax of €143.8 million for the financial year 2006, increased by 262% from €39.7 million in 2005.
- Earnings per ordinary share of €3.20 or €3.08 per diluted share for 2006, compared to €1.85 per share or €1.79 per diluted share for 2005.
- Funds from operations ("FFO", see Key Financial Information) increased by 135% from €31.6 million in 2005 to €74.7 million in 2006.
- FFO of €1.66 per ordinary share, or €1.60 per diluted share, for 2006 compared to €1.48 per ordinary share, or €1.43 per diluted share, for 2005.
- FFO return on average invested capital* was 9.1% for 2006.
- More than doubled equity book value per share from €12.34 per share at year end 2005 to €24.73 per share at year end 2006.

Key Financial Information

FUNDS FROM OPERATIONS ("FFO") (Unaudited)

(in €'000, except per share data)	Year Ended 31 Dec 2006	Year Ended 31 Dec 2005	Three Months Ended 31 Dec 2006	Three Months Ended 31 Dec 2005
Reconciliation of FFO to net profit after taxation				
Net profit after taxation	143,819	39,658	9,683	10,091
(Inc)/dec in fair value of investment properties	(78,119)	(1,961)	11,457	(1,516)
Dec/(inc) in fair value of interest rate swaps	425	-	(1,295)	-
Dec/(inc) in fair value of real estate fund units	5,217	(8,098)	304	(976)
Deferred tax charge on investment properties	3,366	1,989	1,736	1,989
Funds from operations (FFO)	74,708	31,588	21,885	9,588
FFO per weighted average basic share	1.66	1.48	0.43	0.40
FFO per weighted average diluted share	1.60	1.43	0.41	0.38

FFO is an appropriate measure of the underlying operating performance of real estate companies because it provides investors with information regarding our 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 and mark-to-market fluctuations in real estate fund units. The Group considers gains and losses on resolution of 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.

Conference Call

Management will conduct a conference call today, 7 March 2007, to review the Company's financial results for the quarter and year ended 31 December 2006. The conference call is scheduled for 3:00 P.M. London time (10:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-800-665-0430 (from within the U.S.) or +1-913-312-1300 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle Year End 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 Wednesday, 14 March 2007, by dialing +1-888-203-1112 (from within the U.S.) or +1-719-457-0820 (from outside of the U.S.); please reference access code "4493908."

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE YEAR AND QUARTER ENDED 31 DECEMBER 2006

INCOME STATEMENT DATA (Unaudited)

(in €'000, except per share data)	Year Ended 31 Dec 2006	Year Ended 31 Dec 2005	Three Months Ended 31 Dec 2006	Three Months Ended 31 Dec 2005
Interest income	95,970	65,538	28,408	18,130
Rental income	152,454	28,128	49,234	9,065
Service charge income	31,903	6,545	14,550	2,797
Real estate fund unit interest income	18,636	8,406	4,077	4,799
Movements in fair value of investment properties	78,119	1,961	(11,457)	1,516
Movements in fair value of real estate fund units	(5,217)	8,098	(304)	976
Interest expense	(150,282)	(58,141)	(47,894)	(17,770)
Other operating expenses	(26,023)	(10,032)	(7,030)	(3,403)
Service charge expense	(41,237)	(8,599)	(16,796)	(3,747)
Operating profit before taxation	147,557	41,936	11,508	11,492
Operating profit after taxation	143,819	39,658	9,683	10,091
Earnings per weighted average basic share	3.20	1.85	0.19	0.42
Earnings per weighted average diluted share	3.08	1.79	0.18	0.40

BALANCE SHEET DATA

(in €'000, except per share data)	Unaudited As of 31 December 2006	As of 31 December 2005
Cash and cash equivalents	77,613	13,640
Restricted cash	45,086	-
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)	1,560,307	1,452,547
Real estate loans	428,370	92,649
Real estate fund units	148,077	189,591
Investment property	3,308,872	463,540
Total assets	5,662,380	2,273,980
Debt obligations	3,966,328	1,975,112
Shareholders' equity	1,570,719	298,866
Book value per ordinary share	24.73	12.34

	Year Ended 31 Dec 2006	Year Ended 31 Dec 2005	Three months Ended 31 Dec 2006	Three months Ended 31 Dec 2005
Weighted Average Ordinary Shares Outstanding				
Basic	44,956,083	21,392,936	50,722,373	24,209,670
Diluted	46,760,626	22,165,864	52,888,057	25,014,090
Ordinary Shares Outstanding	**63,519,083**	24,209,670	**63,519,083**	24,209,670

Fourth Quarter Dividend

Eurocastle aims to pay out substantially all of its funds from operations in the form of quarterly dividends to shareholders. In relation to the first two months of fourth quarter 2006, Eurocastle paid a first interim dividend of €0.29 per share on 15 December 2006 to holders of record on 27 November 2006. For the last month of the fourth quarter 2006 the Board of Directors has declared a second interim dividend of €0.14 per share. The second interim dividend for the fourth quarter is payable on 23 March 2007 to holders of record on 7 March 2007. For the three months of the fourth quarter 2006, total dividends per share amount to €0.43.

Portfolio Review

In 2006, Eurocastle grew its real estate investment portfolio by €2.8 billion from €0.7 billion to €3.5 billion, acquiring high quality office and retail property portfolios throughout Germany and transforming itself into a company that primarily owns German commercial real estate investment. The Company continues to see opportunities to acquire high quality office and retail property, particularly in the major metropolitan markets in Germany.

In December 2006, Eurocastle entered into an agreement to acquire a €2.1 billion property portfolio comprising 56 German commercial real estate assets from an open-ended fund. Following the acquisition of this portfolio at the end of February 2007, Eurocastle's German commercial real estate investment portfolio will total €5.4 billion and consist of 617 properties and approximately 2.5 million square meters of lettable space. The transaction will be accounted for in the year ending 31 December 2007.

The asset management team in Germany was highly productive in 2006, signing 186 new leases during the year for approximately 45,600 square meters. The new leases contributed to an increase in occupancy of the portfolio during the year from 81.3% to 87.5%. During the year Eurocastle successfully integrated the portfolio acquired from Dresdner Bank and occupancy has already increased from 80.7% at acquisition to over 83.6% as at 31 December 2006. The year end occupancy target for the Deutsche Bank portfolio of 80% was exceeded and by the end of 2006 stood at more than 81%.

As well as reporting property information by portfolio name, for the first time this quarter the Company is reporting property information by use and location. Beginning with the first quarter 2007 results, Eurocastle will report property information by geographical location and use, rather than by portfolio name. This is consistent with the way it manages its real estate portfolio. In addition, as Eurocastle disposes of non-core assets, reporting property information by portfolio name will become less meaningful.

Real Estate Investment Portfolio

As at 31 December 2006, Eurocastle owned an approximate €3.5 billion portfolio of real estate investments, comprising investment properties of €3.3 billion (including unrealised fair value gains of €78 million as at 31 December 2006) and real estate fund units of €148 million (including cumulative unrealised fair value gains of €2.9 million as at 31 December 2006).

Overview Real Estate Investment Portfolio*

In €'000, except for percentages	Unaudited As of 31 December 2006	As of 31 December 2005
Investment properties at fair value**	3,308,872	463,540
Real estate fund units	148,077	189,591
Total investment in real estate investments	**3,456,949**	653,131
Weighted average NOI*** yield on cost	**5.90%**	7.69%
Weighted average liability cost	**4.41%**	4.84%
Weighted average net spread	**1.49%**	2.85%

*Investment property portfolios defined on page 20
** The investment value above includes the €25.8 million (2005: €2.95million) relating to finance leases on head lease, for further details see note 15. This balance has not been included in the property valuations shown in the following table headed Investment Property – Valuation Data.
*** Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses.

The tables below show the split of real estate property investments by portfolio name, use, and geographical location as at 31 December 2006.

At the year end the investment property portfolio comprised 561 properties with approximately 1.6 million square meters of lettable space. The portfolio had total occupancy of 87.5% and stable cash flows with weighted average remaining lease term of 7.1 years.

INVESTMENT PROPERTY – RENTAL DATA

By Portfolio

Portfolio	Lettable (sqm)	Occupancy %	Passing Rent * €'million Annual	%	€ per sqm/month
Drive	841,682	83.6%	112.0	57%	13.25
Bridge	192,498	94.4%	30.1	15%	13.82
Wave	294,486	81.3%	26.4	13%	9.20
Turret	139,999	99.7%	14.9	7%	8.90
Truss	81,165	99.6%	8.4	4%	8.65
Belfry	55,784	99.8%	5.5	3%	8.20
Bastion	25,928	100.0%	2.7	1%	8.70
Total Portfolio	**1,631,542**	**87.5%**	**200.0**	**100%**	**11.68**

By Use

Use	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	%	€ per sqm/month
Office	901,990	83.5%	113.3	57%	12.54
Retail	327,313	97.7%	39.6	20%	10.31
Bank Hall	145,741	95.1%	26.2	13%	15.76
Other	256,498	84.2%	20.9	10%	8.08
Total Portfolio	**1,631,542**	**87.5%**	**200.0**	**100%**	**11.68**

By Location

Location	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	%	€ per sqm/month
Frankfurt	330,154	92.2%	63.1	32%	17.28
Berlin	74,931	86.4%	12.2	6%	15.75
Hamburg	55,536	97.3%	10.4	5%	16.11
Düsseldorf	49,390	91.8%	9.0	5%	16.62
München	42,239	98.5%	8.0	4%	16.09
Subtotal – Top 5 Markets	**552,250**	**92.4%**	**102.7**	**52%**	**16.81**
Remaining West	770,805	89.0%	75.4	38%	9.13
Remaining East	308,487	74.9%	21.9	10%	7.92
Total Portfolio	**1,631,542**	**87.5%**	**200.0**	**100%**	**11.68**

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

INVESTMENT PROPERTY – LEASE EXPIRY DATA

By Use

Use	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2-3	Yr 4-6	Yr 7 – 10	Yr 10+
Office	7.0	3.1	14.8	40.6	16.0	38.9
Retail	7.7	1.2	4.8	6.7	16.1	10.8
Bank Hall	6.6	-	3.4	9.8	8.7	4.3
Other	6.6	2.3	3.3	5.7	3.6	6.0
Total Portfolio	**7.1**	**6.6**	**26.3**	**62.8**	**44.4**	**60.0**

By Location

Location	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2-3	Yr 4-6	Yr 7 – 10	Yr 10+
Frankfurt	7.4	1.1	4.0	25.5	3.1	29.5
Berlin	4.9	0.9	3.3	3.2	4.5	0.3
Hamburg	9.1	0.4	3.0	0.8	0.2	6.0
Düsseldorf	11.4	0.6	0.2	1.3	0.2	6.8
München	7.2	0.1	0.1	5.0	0.6	2.2
Subtotal – Top 5 Markets	**7.6**	**3.1**	**10.6**	**35.8**	**8.6**	**44.8**
Remaining West	6.8	2.1	9.1	22.3	28.3	13.4
Remaining East	5.4	1.4	6.6	4.7	7.5	1.8
Total Portfolio	**7.1**	**6.6**	**26.3**	**62.8**	**44.4**	**60.0**

INVESTMENT PROPERTY – VALUATION DATA

Markets	Properties	Lettable Space (sqm)	Property Valuation (€m)*	Property Cost (€m)	% of Portfolio	Gross Rental Income (€m)	Net Operating Income (€m)	Net Operating Income yield on cost(%)
<u>Top 5 Markets</u>								
Frankfurt	39	330,154	1,107	1,079	34%	63.9	58.1	5.4%
Berlin	9	74,931	218	214	7%	12.4	11.3	5.3%
Hamburg	11	55,536	211	200	6%	11.1	9.8	4.9%
Düsseldorf	4	49,390	188	174	5%	9.2	8.3	4.8%
München	8	42,239	165	159	5%	8.2	7.2	4.6%
Subtotal – Top 5 Markets	**71**	**552,250**	**1,889**	**1,826**	**57%**	**104.8**	**94.7**	**5.2%**
Remaining West	370	770,805	1,106	1,098	34%	75.7	67.1	6.1%
Remaining East	120	308,487	288	279	9%	21.9	19.4	7.0%
Total Portfolio	**561**	**1,631,542**	**3,283**	**3,203**	**100%**	**202.4**	**181.2**	**5.7%**

*The above valuation does not include €25.8 million relating to head leases, for further details see note 1

Acquisitions

In 2006, Eurocastle added approximately €3 billion of commercial real estate in Germany to its portfolio, and entered into an agreement to acquire a further €2.2 billion which had been completed by the end of February 2007. The 2006 additions include the acquisition of a €2 billion German property portfolio from Dresdner Bank via the acquisition of Dresdner Grund-Fonds in February 2006. The Company also added to its retail portfolios and acquired 91 properties for an aggregate all-in purchase price of €266 million with an average lease term of 8.4 years and average occupancy of 99.8%. The properties are leased primarily to national German retailers, comprising mainly of grocery, discounter or supermarket formats and had an initial NOI yield of 6.8%. In the fourth quarter of 2006, Eurocastle acquired a portfolio of six office properties for an all-in purchase price of approximately €502 million from DB Real Estate Investment GmbH. The properties are located in Berlin, Frankfurt, Dusseldorf, Wiesbaden, Eschborn and Sulzbach. The purchase price reflects an initial NOI yield of approximately 5.6%. The properties have an average age of less than ten years and approximately 192,500 square meters. The portfolio has stable cash flows with an average lease term of seven years and over 80% of annual revenue contributed by major corporate tenants. The main tenants are include Deutsche Bahn, Arcor AG & Co. KG, CSC Ploenkzke AG, Clariant GmbH and Daimler Chrysler AG. The acquisition fits Eurocastle's focus on high quality commercial office property let to creditworthy tenants with an opportunity for significant value creation through active management. In the short period of time since acquisition, occupancy has increased from 93% to over 94%.

On 14 December 2006, Eurocastle signed a definitive agreement with DB Real Estate to acquire 56 properties from the open-ended fund DB Grundbesitz Invest, comprising substantially all of its German commercial real estate assets, for an all-in purchase price of approximately €2.1 billion. The properties, totaling approximately 840,000 square meters of lettable space, consist primarily of high quality class A office space and approximately 88% of rent is derived from assets located in or around the five major German markets of Frankfurt, Munich, Berlin, Hamburg and Düsseldorf. Over 83% of the portfolio, referred to as Mars, is currently occupied, with an average remaining lease term of approximately 5 years. The initial annual passing rent amounts to €119.6 million and includes a rental guarantee of €19.9 million per annum on approximately 91,000 square meters of currently vacant space. The rental guarantee will be paid until the space is let, subject to a maximum total payment of €40 million (including service charge income) or three years. The occupancy and lease expiry information in the tables below reflect the benefit of the guarantee. The initial NOI yield on the portfolio is approximately 5.3%. The transaction had closed at the end of February 2007, and will be accounted for in the year ending 31 December 2007.

The information set out below shows the key property and segmental information relating to the Mars portfolio.

INVESTMENT PROPERTY – MARS RENTAL DATA

By Use

Use	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	Passing Rent %	Passing Rent € per sqm/month
Office	548,611	85.9%	78.2	65%	13.83
Retail	82,488	78.4%	13.8	12%	17.78
Other	208,539	81.0%	27.6	23%	13.60
Total Portfolio	**839,638**	**83.9%**	**119.6**	**100%**	**14.14**

By Location

Location	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	Passing Rent %	Passing Rent € per sqm/month
Frankfurt	257,291	91.4%	45.8	38%	16.22
München	188,249	82.8%	29.2	24%	15.62
Hamburg	75,349	93.3%	11.9	10%	14.09
Düsseldorf	60,012	97.3%	9.1	8%	13.07
Berlin	96,736	56.4%	9.0	8%	13.75
Subtotal – Top 5 Markets	**677,637**	**84.7%**	**105.0**	**88%**	**15.24**
Remaining West	156,332	82.9%	14.5	12%	9.30
Remaining East	5,669	16.1%	0.1	0%	7.74
Total Portfolio	**839,638**	**83.9%**	**119.6**	**100%**	**14.14**

INVESTMENT PROPERTY – MARS LEASE EXPIRY DATA

By Use

Use	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2-3	Yr 4-6	Yr 7 – 10	Yr 10+
Office	**2.7**	**13.6**	**41.0**	**19.7**	**3.1**	**0.9**
Retail	**3.5**	**3.6**	**2.8**	**5.7**	**1.4**	**0.3**
Other	**11.4**	**3.7**	**5.4**	**4.0**	**0.8**	**13.6**
Total Portfolio	**4.8**	**20.9**	**49.2**	**29.4**	**5.3**	**14.8**

By Location

Location	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2-3	Yr 4-6	Yr 7 – 10	Yr 10+
Frankfurt	4.2	6.6	23.2	8.2	2.1	5.6
München	6.8	5.4	10.4	6.5	1.6	5.3
Hamburg	2.9	2.7	6.3	1.9	0.5	0.5
Düsseldorf	7.5	0.7	0.8	5.5	0.2	1.9
Berlin	3.1	2.7	3.2	2.0	0.4	0.7
Subtotal – Top 5 Markets	**5.0**	**18.1**	**43.9**	**24.1**	**4.8**	**14.0**
Remaining West	3.4	2.6	5.3	5.3	0.5	0.8
Remaining East	0.2	0.2	-	-	-	-
Total Portfolio	**4.8**	**20.9**	**49.2**	**29.4**	**5.3**	**14.8**

INVESTMENT PROPERTY – MARS ACQUISITION DATA

Markets	Properties	Lettable Space (sqm)	Property Cost (€m)	% of Portfolio	Gross Rental Income (€m)	Net Operating Income (€m)	Net Operating Income yield on cost (%)
Top 5 Markets							
Frankfurt	17	257,291	781	36%	45.8	43.5	5.6%
München	10	188,249	527	25%	29.2	27.8	5.3%
Hamburg	5	75,349	205	10%	11.9	11.3	5.5%
Düsseldorf	4	60,012	180	8%	9.0	8.5	4.7%
Berlin	4	96,736	194	9%	9.2	8.6	4.4%
Subtotal – Top 5 Markets	**40**	**677,637**	**1,887**	**88%**	**105.1**	**99.7**	**5.3%**
Remaining West	15	156,332	252	12%	14.5	13.7	5.5%
Remaining East	1	5,669	2	0%	0.1	0.1	4.2%
Total Portfolio	**56**	**839,638**	**2,141**	**100%**	**119.7**	**113.5**	**5.3%**

Set out below are tables showing the impact of Mars on the portfolio as at 31 December 2006.

The total pro forma portfolio has lettable space of approximately 2.5 million square meters, occupancy of 86.3% (slightly lower than the year end occupancy of 87.5%) and an NOI yield of 5.5%. The pro forma average lease term is 6.2 years, approximately one year shorter than the year end portfolio. Concentration in the top five markets is 65%, compared to 52% at the year end. The increased concentration in the top five markets is consistent with Eurocastle's focus on high quality class A office space in those markets and, together with the shorter lease terms, means that Eurocastle is well positioned to benefit from the expected improvements in the related rental markets.

INVESTMENT PROPERTY – PROFORMA PORTFOLIO RENTAL DATA

By Use

Use	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	Passing Rent %	Passing Rent € per sqm/month
Office	1,450,601	84.4%	191.5	60%	13.04
Retail	409,801	93.8%	53.3	17%	11.56
Bank Hall	145,741	95.1%	26.2	8%	15.76
Other	465,037	82.8%	48.5	15%	10.50
Total Portfolio	**2,471,180**	**86.3%**	**319.5**	**100%**	**12.49**

By Location

Location	Lettable (sqm)	Occupancy %	Passing Rent €'million Annual	Passing Rent %	Passing Rent € per sqm/month
Frankfurt	587,445	91.8%	108.9	34%	16.82
München	230,488	85.7%	37.3	12%	15.72
Hamburg	130,884	95.0%	22.3	7%	14.96
Düsseldorf	109,402	94.8%	18.2	6%	14.62
Berlin	171,667	69.5%	21.2	7%	14.84
Subtotal – Top 5 Markets	**1,229,886**	**88.2%**	**207.9**	**66%**	**15.98**
Remaining West	927,137	88.0%	89.6	28%	9.15
Remaining East	314,157	73.8%	22.0	6%	7.92
Total Portfolio	**2,471,180**	**86.3%**	**319.5**	**100%**	**12.49**

INVESTMENT PROPERTY – PROFORMA PORTFOLIO LEASE EXPIRY DATA

By Use

Use	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2-3	Yr 4-6	Yr 7 – 10	Yr 10+
Office	5.3	16.7	55.7	60.2	19.1	39.8
Retail	6.6	4.8	7.6	12.4	17.5	11.1
Bank Hall	6.6	-	3.4	9.8	8.7	4.3
Other	9.3	6.0	8.7	9.8	4.4	19.6
Total Portfolio	**6.2**	**27.5**	**75.4**	**92.2**	**49.7**	**74.8**

By Location

Location	Average Lease Term	Passing Rent on Expiring Leases Yr 1	Yr 2	Yr 3-6	Yr 7 – 10	Yr 10+
Frankfurt	6.1	7.7	27.2	33.7	5.2	35.0
München	6.9	5.5	10.5	11.5	2.2	7.5
Hamburg	5.8	3.1	9.2	2.7	0.7	6.6
Düsseldorf	9.4	1.3	1.0	6.7	0.4	8.7
Berlin	4.1	3.6	6.5	5.2	4.9	1.0
Subtotal – Top 5 Markets	**6.3**	**21.2**	**54.4**	**59.8**	**13.4**	**58.8**
Remaining West	6.2	4.7	14.4	27.7	28.7	14.2
Remaining East	5.4	1.6	6.6	4.7	7.6	1.8
Total Portfolio	**6.2**	**27.5**	**75.4**	**92.2**	**49.7**	**74.8**

INVESTMENT PROPERTY - PROFORMA PORTFOLIO DATA

Markets	Properties	Lettable Space (sqm)	Property Cost (€m)	% of Portfolio	Gross Rental Income (€m)	Net Operating Income (€m)	Net Operating Income yield on cost (%)
Top 5 Markets							
Frankfurt	56	587,445	1,860	35%	109.7	101.6	5.5%
München	18	230,488	685	13%	37.5	35.1	5.1%
Hamburg	16	130,884	405	8%	23.0	21.1	5.2%
Düsseldorf	8	109,402	354	7%	18.4	16.9	4.8%
Berlin	13	171,667	408	8%	21.3	19.8	4.9%
Subtotal – Top 5 Markets	**111**	**1,229,886**	**3,712**	**71%**	**209.9**	**194.5**	**5.2%**
Remaining West	385	927,137	1,349	25%	22	19.5	1.4%
Remaining East	121	314,157	281	4%	90.3	80.8	28.8%
Total Portfolio	**617**	**2,471,180**	**5,342**	**100%**	**322.2**	**294.8**	**5.5%**

Real Estate Fund Units

As of 31 December 2006, Eurocastle had a total interest of €148 million (including cumulative unrealised fair value gains of €2.9 million since acquisition) in a real estate investment fund that owns a portfolio of approximately 400 Italian properties. The properties are let to Italian government agencies. The original term of the lease agreement is 9 years (approximately 7 years remaining), with an extension option for a further 9 years. The properties are 100% occupied.

Debt Investment Portfolio

Overview of Real Estate and Other ABS Securities and Real Estate Loans

	Unaudited As of 31 December 2006	Unaudited As of 31 December 2005
Total debt investments (excluding restricted cash) (€'000)	**1,967,969**	1,537,945
Weighted average asset margin (above Euribor)	**1.88%***	1.88%*
Weighted average liability spread	**0.56%***	0.53%*
Weighted average net spread	**1.32%***	1.35%*
Weighted average credit rating	**BBB-**	BBB+
Percentage investment grade of debt investment portfolio	**66%**	87%
Number of securities and loans	**158**	127

* Includes assets and liabilities referenced under total return swaps

Portfolio

As of 31 December 2006, Eurocastle's total debt investment portfolio totaled approximately €2.0 billion and included €741 million of CMBS, €796 million of other asset backed securities (including €356 million of RMBS) and €431 million of real estate loans. The debt investment portfolio is well diversified with 158 securities and loans and an average life of approximately 4.52 years; approximately 94% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 49% in the UK, 13% in Italy, 20% in Germany, 5% Pan European and 5% in France. The average credit quality of the debt investment portfolio is BBB- and approximately 66% of the investments are rated investment grade. The portfolio's weighted average credit spread was approximately 1.88% as of 31 December 2006.

Eurocastle's debt investment portfolio has continued to perform well. As of 31 December 2006, none of the Company's securities or loans had defaulted, and there have been no principal losses to date. Within Eurocastle's debt investment portfolio, the company continues to seek investments that will generate superior risk-adjusted returns with a long-term objective of capital preservation and earnings stability in varying interest rate and credit cycles.

Acquisitions

In the year ended 31 December 2006, Eurocastle purchased approximately €852 million of real estate related securities and loans. The securities and loans purchased have an average credit rating of BB and a net credit spread of 2.10%.

After allowing for sales of securities and principal redemptions, the net increase in face amount of real estate related securities and real estate related loans during year ended was €433.9 million, increasing the net face amount of real estate related securities and real estate related loans to €2 billion at 31 December 2006 with an average credit rating of BBB-.

Financing

Debt Financing

In December 2004, the Group financed the Deutsche Bank portfolio ("Wave") with a €246.5 million facility of which €242.8 million had been drawn down at 31 December 2006. The loan is for 8.4 years at the date of signature and, after allowing for an interest rate swap on €210 million, has an effective interest cost of 4.72%.

The Dresdner Bank portfolio ("Drive") is financed with a 7 year (at signing) €1,525 million facility consisting of a senior and junior loan of €841 million and €684 million respectively. €50 million of the junior loan bears interest at Euribor to match a liquidity reserve maintained by Dresdner Grund-Fonds, whereas the remaining portion bears a fixed rate. The senior loan has a weighted average funding cost of 3.83% and the junior loan has a weighted average funding cost of 4.64%, giving an overall funding cost of 4.20%.

The retail property portfolio comprises four separate portfolios ("Bastion", "Belfry", "Truss" and "Turret") for financing purposes. All of the portfolios have been financed with ten year (at signing) non recourse fixed interest term loans. The loans drawn at 31 December 2006 and the related weighted average funding costs are as follows:

Belfry - €56.2 million at 4.81% per annum
Bastion - €26.5 million at 4.42% per annum
Truss - €85.3 million at 4.86% per annum
Turret - €147.6 million at 4.94% per annum

The Group financed the portfolio of 6 office properties ("Bridge") acquired for an all-in purchase price of €502 million in the fourth quarter of 2006 with a 7 year (at signing) €372 million term loan at a fixed funding cost of 4.74%.

In addition, the Group entered into an arrangement to finance a €2,140 million committed acquisition of 56 properties from DB Grundbesitz Invest ("Mars") with a term loan of €1,029 million at a fixed funding cost of 4.72% on the core portfolio and a floating loan of €550 million at a funding cost of Euribor 3M + 0.77% on the non-core portfolio. The weighted average funding cost of the total debt of €1,579 million is 4.68%. The transaction will be accounted for in the year ending 31 December 2007.

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

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 Eurocastle will be unable to exploit opportunities to acquire high quality office and retail property in Germany or reach agreement or suitable final terms with respect to any portion of the real estate acquisition opportunities currently under commitment..

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Year Ended 31 December 2006 €'000	Year Ended 31 December 2005 €'000	Unaudited Three Months Ended 31 December 2006 €'000	Three Months Ended 31 December 2005 €'000
Operating income					
Interest income	3	95,970	65,538	28,408	18,130
Rental income	4	152,454	28,128	49,234	9,065
Service charge income	5	31,903	6,545	14,550	2,797
Real estate fund unit interest income		18,636	8,406	4,077	4,799
Realised gain on disposal of available-for-sale securities		314	2,472	25	239
Realised gain on disposal of real estate fund units		2,163	731	-	-
Increase/(decrease) in fair value of investment properties	15	78,119	1,961	(11,457)	1,516
(Decrease)/increase in fair value of real estate fund unit	14	(5,217)	8,098	(304)	976
(Decrease) increase in fair value of interest rate swaps		(425)	-	1,295	-
(Decrease)/increase in fair value of total return swap		(150)	477	(2)	49
Total operating income		373,767	122,356	85,826	37,571
Operating Expenses					
Interest expense	6	150,282	58,141	47,894	17,770
Losses/(gains) on foreign currency contracts/currency translation		1,211	1,712	527	239
Service charge expenses	5	41,237	8,599	16,796	3,747
Property operating expenses	4	7,457	1,936	2,071	920
Other operating expenses	7	26,023	10,032	7,030	3,403
Total operating expenses		226,210	80,420	74,318	26,079
Operating Profit before Taxation		**147,557**	**41,936**	**11,508**	**11,492**
Taxation expense	8	3,738	2,278	1,825	1,401
Net Profit after Taxation		**143,819**	**39,658**	**9,683**	**10,091**
Earnings Per Ordinary Share					
Basic		3.20	1.85	0.19	0.42
Diluted		3.08	1.79	0.18	0.40
Weighted Average Ordinary Shares Outstanding					
Basic	21	44,956,083	21,392,936	50,722,373	24,209,670
Diluted	21	46,760,626	22,165,864	52,888,057	25,014,090

See notes to the consolidated financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 31 December 2006 €'000	31 December 2005 €'000
Assets			
Cash and cash equivalents		77,613	13,640
Restricted cash	9	45,086	-
Other assets	12	69,537	50,001
Asset backed securities, available-for-sale (includes cash to be invested)	10	1,481,661	1,342,638
Asset backed securities, pledged under repurchase agreements	10	78,646	109,909
Real estate related loans	11	428,370	92,649
Real estate fund units	14	148,077	189,591
Derivative assets	13	22,690	11,470
Investment property	15	3,308,872	463,540
Intangible assets	16	1,828	542
Total assets		**5,662,380**	**2,273,980**
Equity and Liabilities			
Capital and Reserves			
Issued capital, no par value, unlimited number of shares authorised, 63,519,083 shares i ssued and outstanding at 31 December 2006	22	1,440,537	286,801
Accumulated profit		88,458	18,442
Net unrealised gain on available-for-sale securities	10	1,882	4,703
Hedging reserve	23	23,542	(12,100)
Other reserves	22	16,300	1,020
Minority interest		6	2
Total equity		**1,570,725**	**298,868**
Liabilities			
Trade and other payables	20	93,299	41,396
CDO bonds payable	17	1,210,275	977,485
Bank borrowings	18	2,680,563	835,162
Repurchase agreements	19	75,490	103,542
Derivative liabilities		212	12,297
Finance lease payable	15	25,800	2,952
Current taxation payable	8	539	167
Deferred taxation payable	8	5,477	2,111
Total liabilities		**4,091,655**	1,975,112
Total equity and liabilities		**5,662,380**	**2,273,980**

See notes to the consolidated financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Year Ended 31 December 2006 €'000	Year Ended 31 December 2005 €'000
Cash Flows From Operating Activities		
Operating profit before taxation	147,557	41,936
Adjustments for:		
Unrealised loss/(gain) on foreign currency contracts	1,211	(548)
Accretion of premiums/(discounts) on securities	434	(4,026)
Amortisation of borrowing costs	3,458	1,214
Realised gain on disposal of real estate fund units	(2,163)	-
Realised (gain) on disposal of available-for sale-securities	(887)	(2,540)
Realised gain on disposal of investment properties	-	(731)
Shares granted to Directors	172	108
Amortisation of intangibles	144	9
Revaluation loss/(gain) of real estate fund units	5,217	(8,098)
Revaluation (gain) on investment properties	(78,119)	(1,961)
Revaluation loss/(gain) of total return swap	150	(477)
Revaluation loss of interest rate swap	425	-
(Increase)/decrease in restricted cash	(45,086)	2,812
(Increase) in other assets	(9,744)	(51,861)
Increase in trade and other payables	50,795	31,461
Net cash flows from operating activities	**73,564**	7,298
Cash Flows From Investing Activities		
Purchase of investment property	(2,744,365)	(143,524)
Proceeds from disposal of investment properties	-	1,190
Minority interest movement	4	-
Acquisition of real estate fund units	-	(181,493)
Disposal of available-for-sales securities	245,049	-
Purchase of available- for-sale securities	(389,829)	(540,934)
Disposal of securities pledged under repurchase agreements	65,398	104,013
Purchase of securities pledged under repurchase agreements	(34,135)	-
Increase in real estate related loans	(427,635)	(70,711)
Repayment of real estate related loans	91,914	-
Proceeds from disposal of real estate fund units	38,460	-
Purchase of intangible assets	(1,430)	(551)
Net cash flows used in investing activities	**(3,156,569)**	(832,010)
Cash Flows From Financing Activities		
Proceeds of issuance of ordinary shares	1,195,401	99,015
Costs related to issuance of ordinary shares	(26,557)	(4,011)
Proceeds from issuance of bonds	235,458	635,362
Costs related to issuance of bonds	(1,970)	(6,556)
Borrowings under repurchase agreements	33,215	(94,042)
Repayments under repurchasing agreements	(61,267)	-
Increase of bank borrowings	1,846,501	225,901
Dividends paid to shareholders	(73,803)	(27,610)
Net cash flows from financing activities	**3,146,978**	828,059
Net Increase in Cash and Cash Equivalents	**63,973**	3,347
Cash and Cash Equivalents, Beginning of Period	**13,640**	10,293
Cash and Cash Equivalents, End of Period	**77,613**	**13,640**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity holders of the Company						Minority interest	
	Ordinary Shares (Adjusted for Share Consolidation)	Share Capital	Other Reserves	Net Unrealised Gains/ (Losses)	Hedging Reserves	Accumulated Profit /(Loss)		Total Equity
	Number	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2005	**18,463,670**	**192,309**	**400**	**6,604**	**713**	**6,394**	**2**	**206,422**
Net unrealised gain on available-for-sale securities	-	-	-	211	-	-	-	211
Issuance of shares – June 2005	5,740,000	99,015	-	-	-	-	-	99,015
Costs related to issue of shares – June 2005	-	(4,011)	-	-	-	-	-	(4,011)
Issuance of ordinary shares to Directors	6,000	108	-	-	-	-	-	108
Realised gains reclassified to the income statement	-	-	-	2	-	-	-	2
Realised losses reclassified to the income statement	-	-	-	(2,114)	-	-	-	(2,114)
Net unrealised loss on hedge instruments	-	-	-	-	(12,813)	-	-	(12,813)
Costs related to issue of options on follow on share issue	-	(620)	620	-	-	-	-	-
Net gains/(losses) not recognised in the income statement	-	-	1,020	4,703	(12,100)	-	2	(6,375)
Net profit for the year						39,658		39,658
Total income and expense for the year			620	(1,901)	(12,813)	39,658		25,564
Dividends paid						(27,610)	- -	(27,610)
At 31 December 2005	24,209,670	286,801	1,020	4,703	(12,100)	18,442	2	298,868

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity holders of the Company						Minority interest	
	Ordinary Shares (Adjusted for Share Consolidation) Number	**Share Capital €'000**	**Other Reserves €'000**	**Net Unrealised Gains/ (Losses) €'000**	**Hedging Reserves €'000**	**Accumulated Profit (Loss) €'000**	**€'000**	**Total Equity €'000**
At 1 January 2006	**24,209,670**	**286,801**	**1,020**	**4,703**	**(12,100)**	**18,442**	**2**	**298,868**
Net unrealised loss on available-for-sale securities	-	-	-	(2,850)	-	-	-	(2,850)
Issuance of shares	39,232,267	1,194,690	-	-	-	-	-	1,194,690
Costs related to issue of shares	-	(26,557)	-	-	-	-	-	(26,557)
Share options exercised – June 2006	71,146	711	-	-	-	-	-	711
Ordinary shares issued to Directors	6,000	172	-	-	-	-	-	172
Realised losses reclassified to the income statement	-	-	-	29	-	-	-	29
Net unrealised gain on hedge instruments	-	-	-	-	35,051	-	-	35,051
Amortisation of novated swaps	-	-	-	-	591	-	-	591
Cost related to issue of options on follow on share issue	-	(15,280)	15,280	-	-	-	-	-
Movement in minority interest							4	4
Net Gains Not Recognised in the Income Statement	-	-	16,300	1,882	23,542	-	6	41,730
Net profit for the year						143,819	-	143,819
Total income and expense for the year	-	-	15,280	(2,821)	35,642	143,819	-	191,920
Dividends paid						(73,803)	-	(73,803)
At 31 December 2006 (Unaudited)	**63,519,083**	**1,440,537**	**16,300**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**

1. BACKGROUND

Eurocastle Investment Limited (the “Company”) 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). The activities of the Company include the investing in, financing and managing of European real estate assets and European real estate related debt.

The Company is externally managed by its manager, FIG LLC (the “Manager”). The Company has entered into a management agreement (the “Management Agreement”) under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company’s Board of Directors. The Company has no direct employees. 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 Company has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2005 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the Group, because the Group conducts its business predominantly in euros.

Basis of Preparation

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, investment property, financial assets and liabilities held for trading, and available-for-sale assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised or historical cost.

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

Where such judgements are made they are indicated within the accounting policies below.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2006. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 31 December 2006, 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 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 Company 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.

Eurocastle owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg, Germany and Ireland, as disclosed in Note 29, which are consolidated into these financial statements.
Eurocastle’s investment in real estate fund units are held by Finial Sàrl (“FIP”), a Luxembourg limited company, which is 100% owned by Luxgate Sàrl. Eurocastle owns 100% of Luxgate Sàrl.

Financial Instruments

Classification

Financial assets and liabilities measured at fair value through the profit and loss account are principally those instruments that the Group holds for the purpose of short-term profit taking. These include total return swaps, real estate fund units, interest rate swaps and forward foreign exchange contracts that are not designated as effective hedging instruments.

Available-for-sale assets and restricted short term investments are financial assets that are not classified as instruments held at fair value through the profit & loss account, loans and advances, or held to maturity. Available-for-sale instruments include real estate loans and other asset backed securities.

Recognition

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

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

Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or liability not measured at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

Derecognition of financial assets and liabilities

Financial Assets

A financial asset is derecognised when:

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

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

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

Financial liabilities

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

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

Impairment

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

In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Subsequent increases in the fair values of both debt instruments classified as available-for-sale and financial assets measured at amortised cost, which can be objectively related to an event occurring after previous impairment losses have been recognised in the income statement, are recorded in the income statement. Such reversals are then taken through the income statement only to the extent previous impairment losses have been taken through the income statement.

Hedge accounting

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value.

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

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

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

Repurchase Agreements

Securities and real estate loans subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liabilities have been classified as repurchase agreements.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, as well as cash held by the trustees of CDO I, II and III securitisations as a reserve for future trustee expenses. In addition, restricted cash comprises cash held as part of the minimum liquidity requirement for the Dresdner Grund-Fonds. As such, these funds are not available for use by the Group.

Investment Properties

Investment properties comprise land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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

Tenant improvements and leasing commissions incurred at the commencement of the lease are capitalised, and amortised on a straight-line basis over the life of the lease.

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

Finance Leases

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

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

Real Estate Fund Units

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

Intangible Assets

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

Interest-Bearing Loans and Borrowings

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

Minority Interests

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

Revenue Recognition

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

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

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

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

Service Charges

The Company acts as a principal bearing the risk of over/under charging of service costs to its tenants. The service income earned from the tenants and the service costs incurred are shown separately in the income statement.

Service Income

Service income represents service costs recoverable from tenants and is recognised on a straight line basis over the lease agreement.

Service Costs

Service costs represent service contracts entered into for the operation of the property, and are expensed on an accrual basis.

Property Expenses

Property expenses are expenses that are incurred on the property portfolio that are not able to be recovered from tenants. Property expenses are recognised on an accruals basis in the Income Statement.

Income Tax

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

The Group's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the year ended 31 December 2006 relates to these subsidiaries.

The Group's subsidiaries Bastion, Belfry, Truss, Bridge and Turret are also subject to German income tax on rental income net of interest and other expense deductions. A small taxable income has been generated, within these entities, which has generated a small tax accrual, which includes deferred tax, for the year ended 31 December 2006.

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

Certain Luxembourg subsidiaries are subject to Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolio.

Deferred Taxation

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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

Foreign Currency Translation

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

Segmental Reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of others business segments.

A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Share-Based Payments

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

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

International Financial Reporting Standards to be adopted in 2007 and later

IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures and IFRS 7 Financial Instruments: Disclosures

Upon adoption of IAS 1 Amendments and IFRS 7, the Group will have to disclose additional information about its policies and processes for managing capital, as well as financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

3. INTEREST INCOME

Interest income for the three months and year ended 31 December 2006 of €28.41 million and €95.97 million respectively (31 December 2005: €18.13 million and €65.54 million) is primarily interest income earned on the asset backed securities, available-for-sale and asset backed securities pledged under repurchase agreements.

4. RENTAL INCOME

Rental income for the three months and year ended 31 December 2006 of €49.23 million and €152.45 million respectively (31 December 2005: €9.07million and €28.13 million) represents rental income earned on investment properties.

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income during the year for the three months and year ended 31 December 2006 was €2.07 million and €7.46 million (2005: €920,000 and €1.94 million).

5. SERVICE CHARGE INCOME AND EXPENSE

Service charge income for the three months and year ended 31 December 2006 of €14.55 million and €31.90 million respectively (31 December 2005: €2.80 million and €6.55million) represents the service costs recoverable from tenants.

Service charge expense for the three months and year ended 31 December 2006 of €16.80 million and €41.24 million respectively (31 December 2005: €3.75 million and €8.60 million) represents the costs relating to the service contracts entered into for the operation of the properties.

6. INTEREST EXPENSE

Interest expense for the three months and year ended 31 December 2006 of €47.89 million and €150.28 million respectively (31 December 2005: €17.77 million and €58.14 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements.

7. OTHER OPERATING EXPENSES

	Year ended 31 December 2006 (Unaudited) €'000	Year ended 31 December 2005 €'000	Three Months to 31 December 2006 (Unaudited) €'000	Three Months to 31 December 2005 €'000
Professional fees	5,764	1,959	1,420	810
Management fees	12,191	3,626	3,725	1,089
Incentive fees	2,717	3,834	482	1,371
Amortisation of intangible assets	144	9	52	9
Other*	5,207	604	1,351	124
	26,023	10,032	**7,030**	3,403

* Included within other operating expenses for the year are reimbursement property related asset management services of €3.9 million (2005: €54,000) to FIG LLC.

8. TAXATION EXPENSE

	Year Ended 31 December 2006 (Unaudited) €'000	Year Ended 31 December 2005 €'000	Three Months to 31 December 2006 (Unaudited) €'000	Three Months to 31 December 2005 €'000
Current tax				
Germany	9	40	-	(313)
Luxembourg	363	127	89	127
Total current tax	**372**	167	**89**	(186)
Deferred tax				
Germany	3,366	2,111	1,736	1,587
Total deferred tax	**3,366**	2,111	**1,736**	1,587
Total tax expense	**3,738**	**2,278**	**1,825**	**1,401**

Reconciliation of the total tax expense

The tax expense in the Income Statement for the year is higher than the standard rate of corporation tax in Guernsey of 0%. The difference is reconciled below:

	Year Ended 31 December 2006 (Unaudited) €'000	Year Ended 31 December 2005 €'000	Three Months Ended 30 December 2006 (Unaudited) €'000	Three Months Ended 31 December 2005 €'000
Net profit before taxation	147,557	41,936	11,508	11,492
Profit on ordinary activities based on Guernsey tax of 0 % (2005: 0%)	-	-	-	
Overseas taxation	3,738	2,278	1,825	1,401
Total tax expense reported in the Income Statement	**3,738**	**2,278**	**1,825**	**1,401**

Analysis of deferred tax

	Year Ended 31 December 2006 (Unaudited) €'000	Year Ended 31 December 2005 €'000	Three Months Ended 31 December 2006 (Unaudited) €'000	Three Months Ended 31 December 2005 €'000
Tax losses carried forward	(713)	(1,567)	878	(1,568)
Short term timing differences				
Loan expense	472	956	375	591
Tenant improvements and leasing commissions	208	-	208	-
Other	(15)	-	(15)	-
Long term timing differences				
Accelerated capital allowance	3,516	1,426	1,382	1,426
Revaluation of investment properties	(167)	883	(1,060)	883
Acquisition expense	65	341	97	211
Other	-	72	(129)	44
Deferred tax expense	**3,366**	**2,111**	**1,736**	**1,587**

Movement in taxation payable

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Opening tax payable	2,278	-
Tax paid	-	-
Tax expense for the period	3,738	2,278
Closing taxation payable	**6,016**	2,278
Split between:		
Current tax	539	167
Deferred tax	5,477	2,111
Closing taxation payable	**6,016**	**2,278**

The taxation expense for the year ended 31 December 2006 relates to the Group's Luxembourg and German subsidiary companies as described in Note 2. The German tax charge is based on German tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The Luxembourg tax charge is based on Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolios.

9. RESTRICTED CASH

There is a minimum liquidity requirement of 5% of the value of Dresdner Grund-Fonds (DGF), the subsidiary through which the Drive portfolio is held, in accordance with German Investment Companies Act requirements. At 31 December 2006, the liquidity requirement was held as a short term deposit. Subsequent to 31 December 2006, the liquidity requirement of 5% has been invested in high grade debt securities of short duration.

Restricted cash	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Restricted cash – DGF Liquidity requirement	45,086	-

10. AVAILABLE-FOR-SALE SECURITIES

The following is a summary of the Group's available-for-sale securities at 31 December 2006.

	Current Face Amount	Amortised Cost Basis	Gross Unrealised Gains	Gross Unrealised Losses	Carrying Value	Weighted Average S&P Rating*	Weighted Average Coupon	Weighted Average Margin	Weighted Average Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	140,407	140,391	687	(71)	141,007	BBB	5.19%	1.58%	3.83
Other ABS	259,885	260,404	1,329	(356)	261,377	BBB	5.46%	1.82%	4.25
	400,292	400,795	2,016	(427)	402,384	BBB	5.37%	1.74%	4.10
Portfolio II									
CMBS	222,651	222,738	364	(252)	222,850	BBB	4.98%	1.39%	5.34
Other ABS	199,197	199,581	316	(376)	199,521	BBB	4.98%	1.29%	4.32
	421,848	422,319	680	(628)	422,371	BBB	4.98%	1.34%	4.86
Portfolio III									
CMBS	244,209	244,307	564	(303)	244,568	BBB	5.58%	1.96%	5.25
Other ABS	227,747	227,883	549	(186)	228,246	BBB	5.09%	1.39%	3.86
	471,956	472,190	1,113	(489)	472,814	BBB	5.34%	1.69%	4.58
Portfolio IV									
CMBS	99,477	99,223	334	(57)	99,500	BBB	4.88%	1.63%	3.45
Other ABS	64,583	64,564	35	(715)	63,884	BBB	5.15%	1.70%	5.25
	164,060	163,787	369	(772)	163,384	BBB	4.99%	1.66%	4.16
Total Portfolio	**1,458,156**	**1,459,091**	**4,178**	**(2,316)**	**1,460,953**	**BBB**	**5.20%**	**1.60%**	**4.48**
Other Securities									
CMBS	34,126	34,126	20	-	34,146	AA+	4.02%	0.37%	8.03
Other ABS	44,500	44,500	-	-	44,500	AAA	4.74%	0.90%	0.73
	78,626	**78,626**	**20**	**-**	**78,646**	**AAA**	**4.42%**	**0.67%**	**3.90**
	1,536,782	**1,537,717**	**4,198**	**(2,316)**	**1,539,599**	**BBB**	**5.16%**	**1.55%**	**4.45**
Restricted Cash – Cash to be Invested					**20,708**				
Total Asset Backed Securities (Including Cash to be Invested)					**1,560,307**				

* Ratings are based on the minimum public or private rating obtained from Fitch, Moody's or S&P ratings agencies
CMBS – Commercial Mortgage Backed Securities
Other ABS – Other Asset Backed Securities

The securities within Portfolio I, II and III are encumbered by CDO securitisations (Note 17).

The following is a summary of the Group's available-for-sale securities at 31 December 2005

	Current Face Amount	Amortised Cost Basis	Gross Unrealised Gains	Gross Unrealised Losses	Carrying Value	Weighted Average S&P Rating	Weighted Average Coupon	Weighted Average Margin	Weighted Average Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	152,096	151,956	1,592	(43)	153,505	BBB	4.13%	1.86%	3.16
Other ABS	248,300	248,813	2,258	(159)	250,912	BBB+	4.28%	1.95%	3.74
	400,396	400,769	3,850	(202)	404,417	BBB	4.23%	1.91%	3.52
Portfolio II									
CMBS	130,013	129,898	434	(527)	129,805	BBB	3.89%	1.67%	5.02
Other ABS	143,945	144,266	588	(350)	144,504	BBB	3.82%	1.40%	4.84
	273,958	274,164	1,022	(877)	274,309	BBB	3.85%	1.53%	4.93
Portfolio III									
CMBS	169,452	169,646	1,016	(254)	170,408	BBB-	4.26%	1.94%	4.81
Other ABS	211,768	212,038	628	(810)	211,856	BBB	3.87%	1.61%	3.56
	381,220	381,684	1,644	(1,064)	382,264	BBB	4.04%	1.75%	4.11
Portfolio IV									
CMBS	207,063	206,254	308	(139)	206,423	BBB+	4.00%	1.81%	5.30
Other ABS	67,952	68,025	137	(188)	67,974	A-	4.06%	1.82%	4.70
	275,015	274,279	445	(327)	274,397	BBB+	4.01%	1.81%	5.15
Total Portfolio	**1,330,589**	**1,330,896**	**6,961**	**(2,470)**	**1,335,387**	**BBB**	**4.05%**	**1.77%**	**4.32**
Other Securities									
CMBS	65,617	65,543	73	(207)	65,409	AA-	2.89%	0.58%	0.72
Other ABS	44,500	44,154	346	-	44,500	AAA	3.54%	0.90%	1.76
	110,117	**109,697**	**419**	**(207)**	**109,909**	**AA**	**3.15%**	**0.71%**	**1.14**
	1,440,706	**1,440,593**	**7,380**	**(2,677)**	**1,445,296**	**BBB+**	**3.98%**	**1.69%**	**4.07**
Restricted Cash – Cash to be Invested					**7,251**				
Total Asset Backed Securities (Including Cash to be Invested)					**1,452,547**				

Asset backed securities, available-for-sale at fair value of €78.65 million (31 December: €109.91 million) have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005, these securities have been reclassified as pledged securities as follows:

	30 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Asset backed securities, available-for-sale (includes cash to be invested)	1,481,661	1,342,638
Asset backed securities pledged under repurchase agreements	78,646	109,909
Total Asset Backed Securities	1,560,307	1,452,547

Cumulative net unrealised gains on available-for-sale securities and hedge instruments recognised in the statement of changes in equity were as follows:

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Unrealised gains on available-for-sale securities	4,198	7,380
Unrealised losses on available-for-sale securities	(2,316)	(2,677)
	1,882	4,703

11. REAL ESTATE RELATED LOANS

The following is a summary of the Group's real estate loans at 31 December 2006 (unaudited).

	Current Face Amount	Amortised Cost Basis	Gross Unrealised Gains	Gross Unrealised Losses	Carrying Value	Weighted Average S&P Rating	Weighted Average Coupon	Weighted Average Margin	Weighted Average Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Real estate loans	430,988	428,370	-	-	428,370	B+*	6.38%	2.88%	4.78

*57% of the Real Estate loan portfolio has ratings based on the minimum public or private ratings obtained from Fitch Moody's or Standard and Poors (S&P) ratings. 43% of the Real Estate loans have been assigned an internal credit rating in anticipation of a formal rating, which is currently being sought from S&P and Fitch and Moody's.

As at 31 December 2005:

	Current Face Amount	Amortised Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon	Margin	Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Real estate loans	93,120	92,649	-	-	92,649	BB**	5.49%	3.48%	3.88

** Included in real estate loans are loans with a total current face amount of €47.0 million and with an average rating of BB from S&P.
51% of the Real Estate loan portfolios have ratings based on the minimum public or private ratings obtained from Fitch Moody's or Standard and Poors (S&P) ratings. 49% of the Real Estate loans had been assigned an internal credit rating in anticipation of a formal rating.

12. OTHER ASSETS

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Unsettled security transactions	-	26,178
Interest receivable	16,872	18,963
Rent receivable	5,551	4,222
Prepaid expenses	736	254
Service charge receivable	2,632	384
Deposit fee*	14,360	-
Fund income receivable	7,900	-
Other accounts receivable	21,486	-
	69,537	50,001

* Deposit fee relates to acquisition of Mars

13. DERRIVATIVE ASSETS

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Derivative Assets	22,690	11,470
	22,690	**11,470**

13.1 Derivative assets

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

13.2. Total Return swaps

Included in the Derivative Assets are two total return swaps, the fair value of which as at 31 December 2006 is €288,313 (31 December 2005 - €144,000) and the collateral deposit posted is €4.75 million (31 December 2005 - €10.6 million). These total return swaps have been recorded as Derivative Assets and are treated as trading assets that are not designated as an Effective Hedging Instrument for accounting purposes and any gain or loss arising from the change in fair value of the assets is recognized through profit and loss.

Total Return Swap 1

In November 2006, the Eurocastle entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 2.50%) and any positive changes in value from a referenced term loan with an initial notional amount of €10.70 million, and pays interest (at EURIBOR + 0.80%) on the notional amount plus any negative change in value amounts from such loan. Under the contract, the parent is required to post an initial collateral deposit equivalent to 14% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 2

In December 2005, a subsidiary entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 4.00%) and any positive change in value from a referenced term loan with an initial notional amount of €25.85 million, and pays interest (at EURIBOR + 0.40%) on the notional amount plus any negative change in value amounts from such loan. In May 2006, the subsidiary increased its holding in the existing total return swap by €6.6 million. Under the contract, the parent is required to post an initial collateral deposit equivalent to 10% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 3

In August 2005, a subsidiary entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at an average of Sterling LIBOR + 5.50%) and any positive change in value from a referenced term loan with an initial notional amount of £15 million, and pays interest (at Sterling Overnight Interbank Average - "SONIA") on the notional amount plus any negative change in value amounts from such loan. Under the contract, the subsidiary is required to post an initial collateral deposit equivalent to 36.7% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan. In August 2006, the subsidiary sold 100% of its interest in this total return swap.

14. REAL ESTATE FUND UNITS

Between July and October 2005, the Group purchased an interest in 1,500 Class A real estate fund units backed by a portfolio of 394 properties in Italy. The original term of the Lease Agreement is 9 years, automatically renewable for a further 9 years, unless terminated by the Agenzia del Demanio (a public entity established by the Italian Ministry of Finance), with 12 months prior notice. The properties have a total occupancy of 100%. On 12 September 2006, 300 real estate fund units were sold.

	31 December 2006 € '000 (Unaudited)	**31 December 2005 €'000**
At 1 January	189,591	-
Purchase of real estate fund units	-	181,493
Additional acquisition costs	2	-
Sale of 300 Units	(36,299)	-
(Decrease) / increase in fair value	(5,217)	8,098
At 31 December 2006	**148,077**	189,591

15. INVESTMENT PROPERTY

The table below shows the items aggregated under investment property in the consolidated balance sheet:

	Freehold Land & Buildings	**Leasehold Property**	**31 December 2006 Total (Unaudited) €'000**	**31 December 2005 Total**
	€'000	**€'000**		**€'000**
Opening balance	448,060	15,480	463,540	318,514
Additions	2,635,109	109,256	2,744,365	140,572
Disposals	-	-	-	(459)
Increase in minimum payments under head lease	22,848	-	22,848	2,952
Increase in fair value	76,113	2,006	78,119	1,961
Total	**3,182,130**	**126,742**	**3,308,872**	463,540

The value of investment properties incorporates 31 properties which are held by the Company under finance or operating leases. An associated liability is recognised at an amount equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

Lease arrangements over the land on which the 31 investment properties are built have unexpired terms ranging from 9 years to 86 years.

A reconciliation of investment property valuations to the balance sheet carrying value of property is shown below:

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Investment property at market value as determined by external valuers	3,283,072	460,588
Add minimum payments under head leases separately included in trade and other payables on the balance sheet.	25,800	2,952
Balance sheet carrying value of investment property	**3,308,872**	463,540

Schedule of Minimum Lease Payments under Finance Leases

	Total Value 31 December 2006 €'000 (Unaudited)	Present Value 31 December 2006 €'000 (Unaudited)	Total Value 31 December 2005 €'000	Present Value 31 December 2005 €'000
Under 1 year	1,375	1,281	239	227
From 2 to 5 years	5,736	4,650	1,013	778
More than 5 years	99,423	19,869	27,710	1,947
Total	**106,534**	**25,800**	28,962	2,952

Additional Information

The tables below provide additional information for various portfolios within the group.

Portfolio	Passing Rent* €'000	Net Operating Income** €'000	Gross Rental Income €'000	Lettable Area Sq Metre	Vacancy %	Property Valuation €'000	Property Cost €'000	NOI Yield (Cost) %
Drive	111,965	101,032	114,395	841,682	16.4%	2,069,744	1,972,206	5.1%
Wave	26,435	23,159	26,435	294,486	18.7%	332,186	320,181	7.2%
Bridge	30,129	28,799	30,129	192,498	5.6%	496,120	501,886	5.7%
Retail	31,482	28,197	31,482	302,876	0.3%	410,822	408,769	6.9%
Total	**200,011**	**181,187**	**202,441**	**1,631,542**	**12.5%**	**3,308,872**	**3,203,042**	**5.7%**

Portfolio	Rent on Expiring Leases Yr 0-1 €'000	Rent on Expiring Leases Yr 2-3 €'000	Rent on Expiring Leases Yr 4-6 €'000	Rent on Expiring Leases Yr 7-10 €'000	Rent on Expiring Leases Yr 10+ €'000	Average Lease Length Years	Number of Properties
Drive	4,053	15,094	39,602	18,009	35,207	7.0	301
Wave	1,073	5,916	7,182	11,315	948	5.4	109
Bridge	1,251	4,286	10,975	1,162	12,456	6.7	6
Retail	164	951	4,995	13,921	11,451	9.0	145
Total	**6,541**	**26,247**	**62,754**	**44,407**	**60,062**	**7.1**	**561**

* Passing rent is defined as the annual gross rental income at the period end, excluding the net effects of straightlining for lease incentives.
** Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses.

16. INTANGIBLE ASSETS

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Cost		
Balance at 1 January	551	551
Additions	1,430	-
Balance at 31 December	1,981	551
Amortisation		
Balance at 1 January	(9)	-
Charge for the year	(144)	(9)
Balance at 31 December	(153)	(9)
Carrying amount		
At 1 January	**542**	551
At 31 December	**1,828**	542

The capital expenditure above represents intangible software, of which €1.18m of additions is work in progress as at 31 December 2006.

17. BONDS PAYABLE

CDO Bonds

As at 31 December 2006 (unaudited)

	Class	Rating	Current Face Amount €'000	Carrying Amount €'000	Weighted Average Cost of Financing	Weighted Average Margin	Weighted Average Maturity (in years)
CDO I	A and B Notes	AAA/AA	351,000	348,676	4.29%	0.59%	5.4
CDO II	A, B and C Notes	AAA/AA/A	406,278	402,879	4.33%	0.47%	8.5
CDO III	A, B and C Notes	AAA/AA/A	462,500	458,720	4.17%	0.47%	8.5
Total			**1,219,778**	**1,210,275**	**4.26%**	**0.51%**	**7.5**

As at 31 December 2005

	Class	Rating	Current Face Amount €'000	Carrying Amount €'000	Weighted Average Cost of Financing	Weighted Average Margin	Weighted Average Maturity (in years)
CDO I	A and B Notes	AAA/AA	351,000	348,271	3.08%	0.60%	6.3
CDO II	A, B and C Notes	AAA/AA/A	265,362	262,783	3.02%	0.53%	9.5
CDO III	A, B and C Notes	AAA/AA/A	370,000	366,431	2.97%	0.49%	9.5
Total			**986,362**	**977,485**	**3.02%**	**0.54%**	**8.4**

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

18. BANK BORROWINGS

The bank borrowings comprises of:

		31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Term finance	(Note 18.1)	2,534,024	782,031
Revolving credit facility	(Note 18.2)	-	18,578
Other bank financing – under 1 year	(Note 18.3)	79,488	34,553
Other bank financing – over 1 year	(Note 18.3)	67,051	-
		2,680,563	**835,162**

18.1 Term Financing

		Current Face Amount €'000		Carrying Amount €'000			
Real Estate Debt	**Month Raised**	**31 December 2006 (Unaudited)**	**31 December 2005**	**31 December 2006 (Unaudited)**	**31 December 2005**	**Hedged Weighted Average Funding Cost**	**Maturity**
CDO IV	Jul-2005	-	308,321	-	307,917	0.00%	
Investment Property							
Wave Portfolio	Dec-2004	242,803	245,900	240,397	242,762	4.72%	Apr 2013
Belfry Portfolio	Aug-2005	56,240	56,240	55,433	55,363	4.81%	Oct 2015
Bastion Portfolio	Sep-2005	26,500	26,500	25,211	26,202	4.42%	Sep 2012
Truss Portfolio	Dec-2005	85,280	30,163	84,537	29,607	4.86%	Feb 2016
Turret Portfolio	May-2006	147,556	-	146,763	-	4.94%(1)	May 2016
Drive Portfolio	Feb-2006	1,525,000	-	1,511,443	-	4.20%	Jan 2013
Bridge Portfolio	Oct 2006	372,090	-	373,856	-	4.74% (2)	Jan 2014
Real Estate Fund Units							
FIP Units	Jul-2005	97,500	121,875	96,384	120,180	5.53%	Jul 2018
Total		**2,552,969**	**788,999**	**2,534,024**	**782,031**		

(1) This is the fixed rate of the loan that is effective as from 7 February 2007 until maturity. The effective interest rate that applied during the year was 4.79%.

(2) This is the fixed rate of the loan that is effective as from 15 January 2007 until maturity. The effective interest rate that applied during the year was 4.36%.

Real Estate Debt

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank. This facility was previously used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements, and is currently being used to build and finance a portfolio of asset backed securities and real estate related loans. 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.

As at 31 December 2006 there were no utilisations on the warehousing facility (2005: €308.3 million).

Investment Properties

In order to finance the Investment Property portfolios, the Group entered into non-recourse loan facilities as described in the table above. 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.

In December 2004, the Group financed the Wave Portfolio with a €246.5 million facility of which €242.8 million had been drawn down at 31 December 2006. The facility is for 8.4 years from the date of signature and, after allowing for an interest rate swap on €210 million, the average funding cost was 4.72%.

The Truss Portfolio is financed with a 10 year (at signing) non-recourse €85.3 million term loan which bears a fixed interest rate of 4.85%.

The Drive Portfolio is financed with a 7 year (at signing) €1,525 million facility consisting of a senior and junior loan of €840 million and €685 million respectively. €50 million of the junior loan bears interest at 1.13% to match a liquidity reserve maintained by Dresdner Grund-Fonds whereas the remaining portion bears a fixed rate. The senior loan has a weighted average funding cost of 3.83% and the junior loan has a weighted average funding cost of 4.64%.

The Bridge Portfolio is financed with a 7 year (at signing) €372 million term loan at an effective interest cost of 4.79%.

The Belfry Portfolio is financed with a 10 year (at signing) non recourse €56.2 million term loan at an effective interest rate cost of 4.81%.

The Bastion Portfolio is financed with a 10 year (at signing) non-recourse €26.5 million term loan at an effective interest rate cost of 4.42%.

The Turret Portfolio is financed with a 10 year (at signing) non-recourse €150 million term loan which bears interest at Euribor + 0.9% up to February 7, 2007 and thereafter, has an effective interest cost of 4.94%.

Real Estate Fund Units

On 22 July 2005, the Group entered into a non-recourse 13 year loan facility to finance its acquisition of 1,450 Class A Units in Fondo Immobili Pubblici. The facility is secured over, inter alia, the 1,450 Class A Units, an assignment of receivables under the units, a pledge over bank accounts and over shares in the Borrower. The interest rate on the loan is Euribor + 1.95%, payable semi-annually. On 21 October 2005, the Group acquired a further 50 Class A Units through the same facility. On 20 September 2006, the Group sold 300 Class A Units (20% of the total holdings), resulting in a pro-rated repayment of the finance facility.

18.2 Revolving Credit Facility

In December 2004, the Group entered into a revolving €35 million bank credit facility as a means of securing access to temporary working capital. The facility is secured by receivables flowing from CDO I, CDO II, CDO III and EFL, as well as from the Group's Luxembourg subsidiaries representing income from the investment properties and real estate fund units, and with security assignments of the Group's rights under its management agreement with FIG LLC. The facility contains a number of financial covenants including a maximum leverage ratio and a minimum interest cover ratio. The interest rate on drawn amounts is Euribor + 1.5% p.a., while on undrawn amounts it is 0.4% p.a. The facility was increased to €50 million on 26 May 2005. On 15 May 2006, the facility was further increased to €150 million. In October 2006 the facility was increased to €300 million until maturity in October 2007.

As at 31 December 2006 there were no utilisations on the credit facility (31 December 2005: €18.6 million).

18.3 Other Bank Financing

In May 2005, in order to finance the participation in a loan made in connection with a prime commercial property in Paris, the Group entered into a full recourse €10 million one year loan facility. The facility was backed by a security assignment over the financed asset. It also contained an obligation to ensure that loan to value remains below 75%.The loan bore a rate of Euribor + 1.85%. In May 2006, this loan facility matured and the financing was transferred to the revolving credit facility with Deutsche Bank as described below.

In August 2005, in order to finance the participation in a loan that had previously been made on certain properties leased to a leading financial institution in the United Kingdom, the Group entered into a full recourse €24.5 million one year loan facility. The participation had been transferred to the Lender as security for the facility. It also contained an obligation to ensure that loan to value remained below 75% and bore a rate of Libor + 1.00%. On maturity of this facility, the financing was transferred to the revolving credit facility with Deutsche Bank as described below.

In May 2006 in order to finance the participation in certain B note loans, the Group entered into a 3 year revolving credit facility with Deutsche Bank. The facility contains a number of financial covenants. Its mark to market exposure is determined by the Investment manger, based on market quotations. Interest rates on drawn amounts depend upon the loan to value and collateral quality of the underlying lender with draw downs currently bearing rates between 0.75% to 1.75% above Libor and Euribor. The security facility is backed by a security assignment over the financed asset. As at 31 December 2006, this facility was fully drawn in an amount of €67.1 million.

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 Lehman Brothers. The facility contains a number of financial covenants including a requirement to deliver cash collateral to the lender equal to the excess of any mark to market decline over €200,000. Interest rates on the drawn amounts are 1.50% above Euribor. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €79.5 million at 31 December 2006.

19. REPURCHASE AGREEMENTS

The Company's consolidated subsidiary EFL has entered into master repurchase agreements with certain major investment banks to finance the purchase of available-for-sale securities. The obligations under those agreements are guaranteed by the Company. The terms of the repurchase agreements provide for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) which reset or roll monthly or quarterly, with the corresponding security coupon payment dates, plus an applicable spread.

As at 31 December 2006, the Group's carrying amount and weighted average financing cost of these repurchase agreements was approximately €75.49 million (31 December 2005: €103.54 million) and 3.84% (31 December 2005: 2.61%) respectively.

20. TRADE AND OTHER PAYABLES

	31 December 2006 €'000 (Unaudited)	31 December 2005 €'000
Security deposit	5,421	5,221
Unsettled security purchases	-	17,604
Interest payable	22,869	6,953
Due to manager (note 28)	7,508	4,555
Accrued expenses & other payables	57,501	7,063
	93,299	41,396

21. EARNINGS PER SHARE

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

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

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

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

	Year Ended 31 December 2006 (Unaudited)	Year Ended 31 December 2005	Three months Ended 31 December 2006 (Unaudited)	Three months Ended 31 December 2005
Weighted average number of ordinary shares, outstanding, basic	44,956,083	21,392,936	50,722,373	24,209,670
Dilutive effect of ordinary share options	1,804,543	772,928	2,165,684	804,420
Weighted average number of ordinary shares outstanding, diluted	**46,760,626**	**22,165,864**	**52,888,057**	**25,014,090**

22. SHARE CAPITAL AND RESERVES

As at the 31 December 2005 there were 24,209,670 shares issued and outstanding.

On 27 January 2006, the Company made a further public offering and issued 11,667,000 ordinary shares at a price of €30 each. On 1 February 2006, the over-allotment option relating to the January offering was exercised resulting in 1,156,000 ordinary shares being issued at €30 each.

On 15 February 2006, immediately prior to completion of the Dresdner Portfolio acquisition, 8,571,429 shares with aggregate nominal value of €8,571,429 were issued to certain funds managed by Fortress Investment Group LLC (the "Fortress Funds") at €17.50 each raising gross proceeds of €150 million. The principal terms of the Fortress Funds investment were agreed on 22 December 2005 and were, in relevant part, as follows:

- The Fortress Funds would invest up to €300 million by subscribing for Shares at €17.50 per share (representing an approximate 2.75% discount to the weighted average share price for the Company's shares over the 10 day period up to 21 December 2005), provided that the Company could reduce the amount of such subscription down to €150 million were it able to raise funds prior to completion of the Dresdner acquisition; as the Company was successful in raising additional capital prior to completion of the Dresdner portfolio acquisition in the offering described above, the Fortress Funds' subscription was reduced to €150 million.

The total number of shares issued in January and February 2006 was 21,394,429 ordinary shares, with net proceeds of €523.5 million being raised for the Company.

On 1 June 2006, 6,000 shares were issued to Independent Directors in accordance with the terms of their service contracts. The market value of the shares at the date of issue of €0.2 million was expensed in the income statement in accordance with IFRS 2 "Share Based Payments".

On 8 June 2006, 71,146 options with a strike price of €10 each were exercised.

On 1 December 2006 the Company made a further public offering of 17,837,838 shares at €37 each raising gross proceeds of €660 million (net €645 million).

As at 31 December 2006, there were 63,519,083 shares issued and outstanding.

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

Other Reserves

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

23. HEDGING 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 borrowing. Interest rate swaps which 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.

For the year ended 31 December 2006 unrealised gains on hedge instruments relating to cash flow hedges were €23.54 million (2005: losses of €12.1 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 has been recognised in the income statement.

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

CASH FLOW HEDGES

31 December 2006 (Unaudited)	Wave €000	Bastion * €000	Drive ** €000	FIP €000	Truss *** €000	Turret €000	Huk €'000	Mars €000	Unallocated Hedge **** €'000
Nominal amount	210,000			97,500		58,108	39,586	1,000,000	83,324
Pay rate	3.47%			3.45%		3.96%	4.12%	3.87%	4.13%
Receive rate	3 Month Euribor			6 Month Euribor		3 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.3			11.0		9.4	6.9	7.4	7.1
Fair value of swaps assets	6,411			2,812		489	(212)	10,816	(479)

31 December 2005	Wave €000	Bastion €000	Drive €000	FIP €000
Nominal amount	210,000	26,500	1,300,000	121,875
Pay rate	3.47%	3.05%	3.37%	3.34%
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor	6 Month Euribor
Remaining life	7.3	6.5	7.1	11.8
Fair value of swaps (liabilities)/assets	(3,831)	197	(7,214)	(1,252)

* As at 8 June 2006 the Interest Rate Swap agreement relating to the Bastion portfolio was novated to ABN Amro Bank N.V. in conjunction with the loan agreement. The positive fair value of €1.1 million as at the date of novating the swaps has been recorded within the hedging reserve and will be recycled through the Income Statement.

** As at 31 March 2006 the Interest Rate Swap agreement relating to the Drive portfolio was novated to Deutsche Bank AG in conjunction with the loan agreement. The positive fair value of €6.4 million as at the date of novating the swap has been recorded within the hedging reserve. A corresponding amount has been included in the carrying value of the Drive loan within term financing (refer to Note 18.1). This fair value is being recycled through the income statement over the life of the loan. The carrying value of the novated amount is €5.6 million.

*** From the period of 3 April 2006 to 23 June 2006 the Interest Rate Swap agreement relating to the Truss portfolio was novated to Morgan Stanley Bank International Limited in conjunction with the loan agreement. The positive fair value of €0.3 million as at the date of novating the swap has been recorded within the hedging reserve and will be recycled through the Income Statement.

****The unallocated hedge represents interest rate swaps undertaken to hedge the interest rate risk on forecasted transactions. The fair value of €0.5 million on the revaluation of the €83.3 million Interest Rate Swap has been recorded within the hedging reserve.

FAIR VALUE HEDGES

31 December 2006 (Unaudited)	Feco EURO B Notes €000	Feco CHF B Notes CHF000	Feco* CHF B Notes €000	Feco GBP Notes £000	Feco** GBP Notes €000
Nominal amount	11,974	3,725	2,315	36,694	54,459
Pay rate	2.87%	2.00%		4.61%	
Receive rate	3 Months Euribor	3 Months CHF Libor		3 Months Libor	
Remaining life	3.6	3.8		4.4	
Fair value of swap assets	455	78	48	1,049	1,557

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

There were no fair value hedges in year ended 31 December 2005.

24. FINANCIAL INSTRUMENTS

Risk Management

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

Market Risk

The Group’s exposure to market risk is comprised mainly of movements in the value of its debt securities, property investments and real estate fund units.

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, sterling and Swiss 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.

Under the terms of the securities contract the Group was exposed to market risk on the underlying securities as, should the intended securitisation of such assets not be consummated, the Group would be required to either purchase the securities or pay the loss realised on the disposal up to the amount of any deposits made by the Group under the contract, less any interest earned on the deposits.

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

Credit Risk

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

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

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

The Group's securities portfolio is diversified by asset type, industry, location and issuer. This diversification minimises the risk of capital loss. At 31 December 2006, 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.

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

	31 December 2006 (Unaudited)			31 December 2005		
	Number of Securities/ Loans	**Face Value €'000**	**Location Split**	**Number of Securities/ Loans**	**Face Value €'000**	**Location Split**
United Kingdom	72	962,894	48.9%	60	764,958	49.9%
Italy	14	250,846	12.7%	14	247,947	16.2%
Germany	31	396,076	20.1%	18	183,470	12.0%
Pan European	7	99,391	5.1%	10	141,622	9.2%
France	11	94,839	4.8%	9	79,525	5.2%
Other	23	163,724	8.4%	16	116,304	7.5%
	158	**1,967,770**	**100%**	**127**	**1,533,826**	**100%**

The Group's hedging 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.

The Group's German real estate portfolio holds the following type of real estate: office, retail, banking halls and other. As at 31 December 2006 the group derived its rental income from the following sources: Dresdner Bank, 43.7%, Deutsche Bank 8.8%, Deutsche Bahn AG 3.5%, Edeka 3.3%, Arcor AG 3.3% and Other 37.4%. As at 31 December 2005 the group derived its rental income from the following sources: Deutsche bank 49.3%, Edeka 8.8%, REWE 5.5% PLUS 3.0% Peek and Cloppenburg 2.1% and Other 31.3%.

The Group's Italian real estate assets comprise an investment in a real estate investment fund that owns a portfolio of 394 properties in Italy that are let to Italian government agencies.

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 consist of net cash provided by operating activities, borrowings under loans 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 on hand and cash flow provided by operations will satisfy its liquidity needs with respect to its current investment portfolio over the next twelve months. 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 and other asset backed securities which 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 real estate securities are financed long-term 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 operating real estate is also financed long-term and primarily leased to credit tenants with long-term leases and is therefore also expected to generate generally stable current cash flows.

As described in Note 18, the Group has access to temporary working capital through a revolving €300 million credit facility.

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 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.

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

The interest rate profile of the Group at 31 December 2006 and 31 December 2005 was as follows:

31 December 2006 (Unaudited)			Within 1 year		1 to 5 years		Over 5 years	
Type	Total Per Consolidated Balance Sheet €'000	Non-Interest Bearing Assets €'000	Fixed %	Variable %	Fixed %	Variable %	Fixed %	Variable %
Assets								
Cash and cash equivalents	77,613	-	-	77,613	-	-	-	-
Restricted cash	45,086	-	-	45,086	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,481,661	-	22,892	103,727	18,942	808,867	-	527,233
Asset backed securities, pledged under repurchase agreements	78,646	-	-	44,500	-	-	-	34,146
Real estate related loans	428,370	-	-	-	53,851	208,182	12,887	153,450
Real estate fund units	148,077	-	148,077	-	-	-	-	-
Investment property	3,308,872	3,308,872	-	-	-	-	-	-
Intangible assets	1,828	1,828	-		-	-		-
Other assets	69,537	37,961	422	31,154	-	-	-	-
Derivative assets	22,690	-	-	-	-	-	22,690	-
Total Assets	**5,662,380**	**3,348,661**	**171,391**	**302,080**	**72,793**	**1,017,049**	**35,577**	**714,829**
Liabilities								
CDO bonds payable	1,210,275	-	-	-	-	-	12,244	1,198,031
Bank loans	2,680,563	-	-	79,488	-	67,051	2,451,221	82,803
Repurchase agreements	75,490	-	-	75,490	-	-	-	
Taxation payable	6,016	6,016	-		-	-	-	
Trade and other payables	93,299	70,406	-	22,869	-	-	24	
Derivative liabilities*	212	-	-	-		-	212	
Finance lease payable	25,800	-	1,281	-	4,650	-	19,869	
Total liabilities	**4,091,655**	**76,422**	**1,281**	**177,847**	**4,650**	**67,051**	**2,483,570**	**1,280,834**

* Net interest rate swap payable related to the cash flow hedges as described in Note 23

31 December 2005			Within 1 year		1 to 5 years		Over 5 years	
Type	Total Per Consolidated Balance Sheet €'000	Non-Interest Bearing Assets €'000	Fixed %	Variable %	Fixed %	Variable %	Fixed %	Variable %
Assets								
Cash and cash equivalents	13,640	-	-	13,640	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,342,638	-	8,203	99,452	39,985	716,625	-	478,373
Asset backed securities, pledged under repurchase agreements	109,909	-	-	59,593	-	44,500	-	5,816
Real estate related loans	92,649	-	-	13,478	-	79,171	-	-
Real estate fund units	189,591	-	189,591	-	-	-	-	-
Investment property	463,540	463,540	-	-	-	-	-	-
Intangible assets	542	542	-	-	-	-	-	-
Other assets	50,001	31,586	568	17,650	-	-	197	-
Derivative assets *	11,470	-	-	11,470	-	-	-	-
Total Assets	**2,273,980**	**495,668**	**198,362**	**215,283**	**39,985**	**840,296**	**197**	**484,189**
Liabilities								
CDO bonds payable	977,485	-	-	-	-	-	-	977,485
Bank loans	835,162	-	-	53,131	-	307,917	441,352	32,762
Repurchase agreements	103,542	-	-	103,542	-	-	-	
Taxation payable	2,278	2,278	-	-	-	-	-	-
Trade and other payables	41,396	34,443	-	6,953	-	-	-	-
Derivative liabilities*	12,297	-	-	-	-	-	12,297	-
Finance lease payable	2,952	-	227	-	778	-	1,947	-
Total liabilities	**1,975,112**	**36,721**	**227**	**163,626**	**778**	**307,917**	**455,596**	**1,010,247**

[*] Net interest rate swap payable related to the cash flow hedges as described in Note 23

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 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 contacts to hedge its net sterling 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.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements.

	31 December 2006 €'000 (Unaudited) Carrying Value	31 December 2005 €'000 Carrying Value	31 December 2006 €'000 (Unaudited) Fair Value	31 December 2005 €'000 Fair Value
Financial Assets				
Cash and cash equivalents	77,613	13,640	77,613	13,640
Restricted cash	45,086	-	45,086	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,481,661	1,342,638	1,481,661	1,342,638
Asset backed securities, pledged under repurchase agreements	78,646	109,909	78,646	109,909
Real estate related loans	428,370	92,649	428,370	92,649
Real estate fund units	148,077	189,591	148,077	189,591
Investment property	3,308,872	463,540	3,308,872	463,540
Derivative assets	22,690	11,470	22,690	11,470
Financial Liabilities				
CDO bonds payable	1,210,275	977,485	1,210,275	977,485
Bank loans	2,680,563	835,162	2,674,931	836,393
Repurchase agreements	75,490	103,542	75,490	103,542
Derivative liabilities	212	12,297	212	12,297
Finance lease payable	25,800	2,952	25,800	2,952

25. SHARE OPTION PLAN

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

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

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

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

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

On 8 June 2006, 71,146 share options were exercised at a strike price of €10 per share.

26. 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:

For Year Ended 31 December 2006 (Unaudited)	**Debt Investment €'000**	**Real Estate Fund Units €'000**	**Investment Properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Operating income [1]	93,176	15,607	265,172	(188)	373,767
Interest expense	(63,398)	(6,466)	(77,740)	(2,678)	(150,282)
Other operating expenses	(2,105)	(90)	(52,499)	(21,234)	(75,928)
Taxation expense	-	(64)	(3,674)	-	(3,738)
Net profit	27,673	8,987	131,259	(24,100)	143,819

[1] Operating income includes fair value gains / (losses) for Real Estate Fund Units of (€5.2 million) and Investment Properties of €78.1million

For Year Ended 31 December 2005	**Debt Investment €'000**	**Real Estate Fund Units €'000**	**Investment Properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Operating income [1]	68,486	16,504	37,366	-	122,356
Interest expense	(42,158)	(2,876)	(12,274)	(833)	(58,141)
Other operating expenses	(1,956)	-	(10,850)	(9,473)	(22,279)
Taxation expense	-	(32)	(2,246)	-	(2,278)
Net profit	24,372	13,596	11,996	(10,306)	39,658

As at 31 December 2006 (Unaudited)	Debt Investment €'000	Real Estate Fund Units €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	2,011,490	158,784	3,461,857	30,249	5,662,380
Total liabilities	(1,436,424)	(98,091)	(2,546,648)	(10,492)	(4,091,655)
Minority interest	(2)	(4)	-	-	(6)
Net assets	575,064	60,689	915,209	19,757	1,570,719

As at 31 December 2005	Debt Investment €'000	Real Estate Fund Units €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,602,455	189,591	480,754	1,180	2,273,980
Total liabilities	(1,470,524)	(128,619)	(361,401)	(14,568)	(1,975,112)
Minority interest	-	-	-	(2)	(2)
Net assets	131,931	60,972	119,353	(13,390)	298,866

The unallocated portion consists primarily of general and administrative expenses, and management fees pursuant to the Management Agreement.

27. DIVIDENDS PAID & DECLARED

	31 December 2006 €000 (Unaudited)	31 December 2005 €000
Paid during the year ended 31 December :	**73,803**	27,610
Equity dividends on ordinary shares:		
Fourth quarter dividend for 2005: €0.37 (2004: €0.33)	8,958	6,093
First quarter dividend for 2006: €0.30 (2005: €0.33)	13,682	6,095
Second quarter dividend for 2006: €0.40 (2005: €0.35)	18,272	6,464
Third quarter dividend for 2006: €0.43 (2005: €0.37)	19,643	8,958
First interim dividend for fourth quarter of 2006: €0.29 (2005: €Nil)	13,248	-
	73,803	27,610
Fourth quarter dividend declared on 7 March 2006: €0.14 (2005: €0.37)	8,893	8,958

28. MANAGEMENT AGREEMENT & RELATED PARTY TRANSACTIONS

The Company entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Company by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. Pursuant to the Management Agreement, the Manager, under the supervision of the Company's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, the Company will pay the Manager an annual fee (payable monthly in arrears) of 1.5% of the gross equity of the Company, as described in the Management Agreement.

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

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

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

At 31 December 2006 management fees, incentive fees and expense reimbursements of approximately €7.5 million, note 20, (31 December 2005: €4.5 million) were due to the Manager. For the year ended 31 December 2006 management fees of €12.1 million (31 December 2005: €3.6 million), incentive fees of €2.7 million (31 December 2005: €3.8 million), reimbursement fees of €3.9 million, note 7, (31 December 2005: €54,000) were charged to the income statement.

Keith Dorrian and Paolo Bassi each currently receive €30,000 per annum payable semi-annually in equal instalments. On 22 August 2006, Randal Nardone, Udo Scheffel and Simon Thornton were appointed to the Eurocastle Board of Directors. Udo Scheffel and Simon Thornton will receive remuneration of €30,000 per annum. Wesley R. Edens and Randal Nardone do not receive any remuneration from the Company.

As stated in Note 22, the Company issued 5,000 shares to Paolo Bassi and 1,000 to Keith Dorrian in their capacity as Directors of the Company. The shares issued to the Directors were non-cash shares, and were issued with nil proceeds.

29. INVESTMENT IN SUBSIDIARIES

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

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

Luxemburg:

Luxgate s.a.r.l.
Drive s.ar.l.
Eurobarbican s.a.r.l.
Bastion Participation s.a.r.l
Belfry Participation s.a.r.l
Truss Participation s.a.r.l
Finial s.a.r.l
Turret Participation s.a.r.l
Undercroft s.a.r.l
Marathon s.a.r.l (formerly Turret LP s.a.r.l)
Mars Holdco 1 s.a.r.l

Germany:

Dresdner Grund-Fonds
Shortwave Acquisition GmbH
Longwave Acquisition GmbH
Bastion GmbH & Co.KG
Belfry GmbH & Co.KG
Truss GmbH & Co.KG
Turret GmbH & Co.KG
Bridge GmbH & Co.KG

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

30. SUBSEQUENT EVENTS

Fourth Quarter 2006 Dividend

On 7 March, the Directors declared a fourth quarter 2006 dividend of €0.14 per share to all holders of shares, the record date is 7 March 2007.

31. COMMITMENTS

As at 31 December 2006, amounts contracted for but not provided in the financial statements for the acquisition of Investment property amounted to:

- Entered into an agreement to acquire a further €2,148 million, representing 56 commercial properties within the Mars portfolio.

- Entered into an agreement to acquire a further €53 million, representing 8 commercial properties within the HUK portfolio.