

**European Equity Tranche Income Ltd**

Investment Update

07:00 24 Jan 2008

**European Equity Tranche Income Limited (“EETI” or the “Company”)****Investment Update**

In its investment update in May 2007 EETI reported that retrospective changes in the law in Italy had significantly reduced the prepayment penalties for mortgages. At that time, a charge of EUR 2.7 million was taken to the aggregate book value of the Company’s Italian investments. While the impact of the change on the future level of prepayments was uncertain, in the last quarter prepayments increased significantly and as a consequence EETI received no cash flow from its Italian investments. If prepayment rates continue at the levels experienced in the last quarter, it is estimated that EETI would receive no cash flow from these investments for a period of approximately 3 years. On just two quarter’s data it is very difficult to assess how much this retrospective change in legislation is going to impact consumer behaviour in Italy. It is clear that prepayment rates are likely to increase more than had been originally anticipated, but it is not at all certain whether this last quarter is a temporary spike or part of a long term trend.

For the purpose of estimating the financial effect on the Company, if the prepayment rates stay at these current high levels, the Company’s Investment Manager estimates that the change will result in a reduction in the region of EUR 15 million to the aggregate book value of these investments. In addition, the Company’s earnings would be reduced by approximately EUR 0.5 million per quarter. The impact of the reduction in cash flow is not expected to prevent the Company from covering its costs and paying dividends. EETI expects to announce its quarterly dividend for the 3 months ended 31 December 2007 and its net asset value as at that date in the week commencing 28 January 2008.

The Company has also reviewed the remainder of its portfolio and other than the Italian investments referred to above, all are within model expectations. Accordingly, EETI can see no reason, in the light of prepayments or default trends, to make any changes to the book value of its other investments.

It is clearly regrettable that such ill-thought out legislation should have been passed in the Italian parliament. However, there is very little the Company can do about this and even if it were to pursue legal steps, the likelihood is it would take many years to settle.

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**END OF ANNOUNCEMENT**