

Current Asset Review

Period ended 31 December 2008

OPERATING LEASE ASSETS



BABCOCK & BROWN AIR LIMITED (B&B Air)

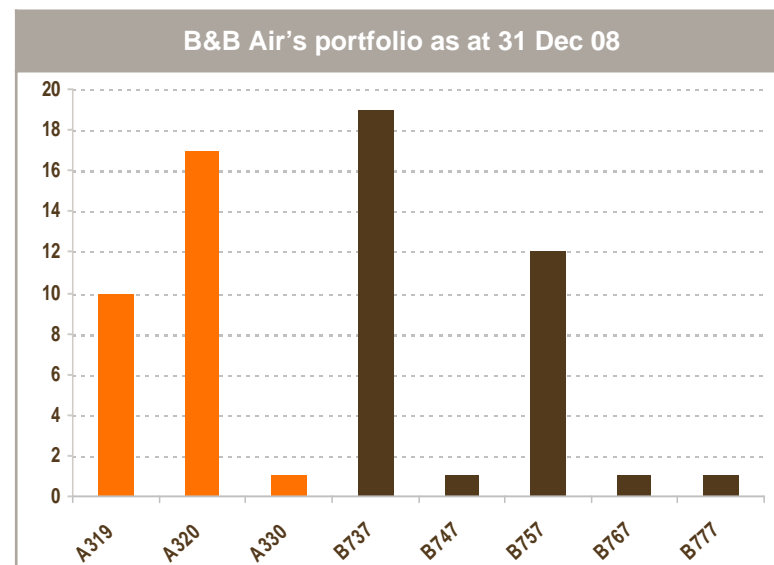
- Global lessor with fleet of 62 modern, fuel-efficient commercial aircraft on lease globally, with geographic diversity with approximately 35 lessees worldwide as at 31 Dec 08
- Average age of the fleet approx 6.4 years with 5.4 years weighted average lease term as at 31 Dec 08
- BBGI owns 1,051,010 shares in B&B Air received upon monetisation of its investments in JET-i Group
- 4Q08 dividend of US\$0.20 per share declared on 22 January 09
- While industry faces challenges of global economy slowdown, the recent fall in the fuel price provides relief on cost pressures of lessees. Global demand for modern, fuel-efficient aircraft subdued in short-term, with recovery longer term depending on state of global economy

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	US\$ 7.1 m
Quarter ended 31 Dec 08	
Impairment:	- US\$ 2.7 m

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Analyst coverage for B&B Air:

Analyst	Rating	Target Price	As Of
JPMorgan	Neutral	US\$9.50	28 Oct 08
Citigroup	Buy	US\$7.90	3 Nov 08
Credit Suisse	Outperform	US\$10.00	24 Nov 08
Jefferies and Company	Buy	US\$12.00	13 Nov 08
III Research	Buy	US\$16.93	30 Sep 08
Merrill Lynch	Buy	US\$9.00	12 Nov 08



Opportunities for B&B Air to grow portfolio with excess of US\$500m financing facility available as at 31 Dec 08

Since its IPO in Sept 07, B&B Air further acquired 17 commercial aircraft, increasing its fleet to 63 aircraft. One A320 aircraft sold in Oct 08, resulting in 62 aircraft at 31 December 2008

BABCOCK & BROWN AIRCRAFT LESSOR NO.2

- BBGI owns 2 Boeing 757-200 aircraft leased to Thomsonfly Limited which is wholly owned by TUI Travel plc listed on FTSE
- Long term lease until end April 2013
- Fixed lease rentals and fixed debt costs
- Current asset prices have softened over recent months as a result of a number of earlier vintage 757-200's being put up for release and deterioration in general market conditions

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	US\$ 27.6 m ²
Quarter ended 31 Dec 08	
Impairment:	Nil
Aircraft lease details	
Purchase Price of Aircraft	US\$ 14.7 m each ³
Aircraft Type	Boeing 757-200
Manufacture Date	1993
Lease maturity Date	30 April 2013
Lease rate	US\$ 160,000 per month per aircraft

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

² Includes debt of US\$17.6m

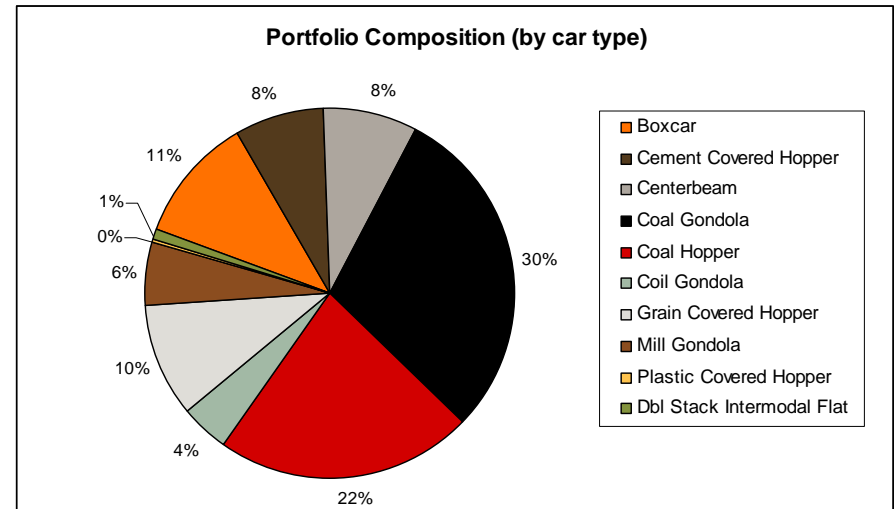
³ Excludes acquisition costs

BABCOCK & BROWN RAIL NORTH AMERICA (BBRNA)

- BBGI has a 41.5% equity interest in BBRNA which owns a fleet of over 13,000 railcars for lease in North America with over 60 lessees
- Economic slow-down in US economy putting increased pressure on re-leasing activity/rates as well as debt covenants, hence an impairment charge has been taken based on an independent third party valuation
- Dec 08 refinancing requirement resolved however a swap collateralisation payment of US\$17.6m is due in Sep 09
- Portfolio currently 96% leased however 25% of rail cars are expected to come off lease through 2009
- Average age of railcars is approximately 6 years, i.e. relatively young fleet
- Nov 08 desktop valuations confirmed that the valuation of the combined BBRNA portfolio declined by 3.6% against the Nov 07 valuations

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	US\$ 15.4 m
Quarter ended 31 Dec 08	
Impairment:	- US\$ 27.7 m

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

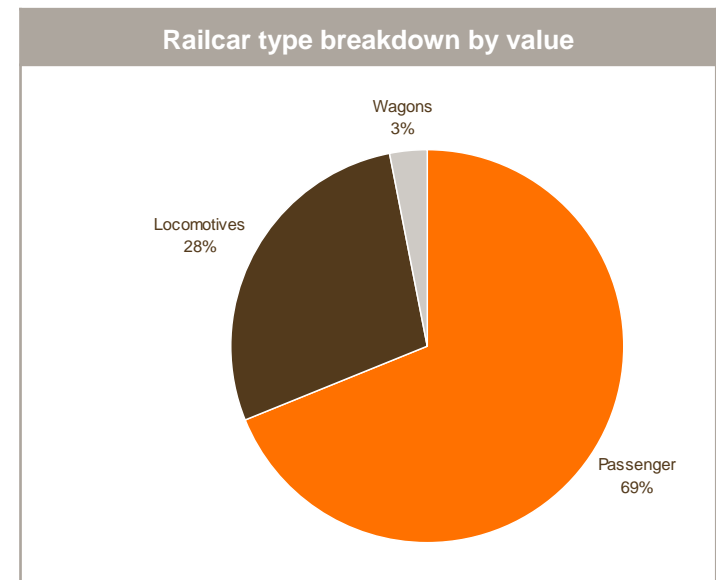


BABCOCK & BROWN RAIL INVESTMENTS (BBRIL)

- BBGI has a 35% equity interest in Babcock & Brown Rail Investments Pty Ltd (“BBRIL”)
- BBRIL owns CBRail Group, an operating lessor with portfolio of 3 passenger train fleets, over 30 locomotives and 100 freight wagons in mainland Europe
- Fleet operated by both public and private sectors in countries such as Germany, Belgium, Holland and Denmark
- 100% of lease rental is contracted for FY09. No payment default from lessees to date
- Limited sign of downturn affecting CBRail’s portfolio to date
- Demand for new freight cars in some sectors starting to weaken as general economic conditions worsen
- Impairment charge required due to equity accounting resulting from fair valuing the interest rate swaps in the CBRail portfolio

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	0
Quarter ended 31 Dec 08	
Impairment:	€5.1 m

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal



LOAN PORTFOLIO & SECURITISATION ASSETS



ANCORA – PEPPER SECURITISATION NO.2

- BBGI has an investment in 2 classes of notes in Pepper Residential Securities No.5 Securitisation issued on 30 May 2006, secured against a portfolio of registered first mortgages over Australian residential property
- Cumulative losses in line with expectations and have all been absorbed by excess spread. However there are heightened downside risks in the Australian economy which could lead to an increase in future losses
- While property prices in Australia have softened over the last three quarters there is still expected to be embedded house price appreciation in the portfolio given the average seasoning of the portfolio and diversification of mortgages across different states and between city and suburban areas
- The portfolio weighted average interest margin has increased over the quarter which, all else being equal, will lead to an increase in excess spread
- Build up of funds of approximately A\$3.2m in reserve accounts providing support to the capital structure. The senior NIM continues to amortise while the non rated note is a bullet on the expected call date

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	A\$ 7.2 m
Quarter ended 31 Dec 08	
Impairment:	Nil
Portfolio as at 31 Dec 08	
No. of Obligors	612
Average Loan Size	A\$ 231,435
Weighted Average LVR	69.76%
Weighted Average Seasoning	33.78 months

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Capital structure as at 15 Jan 09 ¹	
Note Rating	Outstanding Amount (A\$ m)
AAA (Snr)	85.4
AAA (Mezz)	16.8
AAA (Jnr)	10.6
A+	11.2
BBB	10.7
Non rated note	5.0
Senior NIM note	2.0
Junior NIM note	Balance of excess spread

¹ 15 day lag between collateral receipts and payments to capital structure

ANCORA – PEPPER SECURITISATION NO.3

- BBGI has an investment in 2 classes of notes in Pepper Residential Securities No.6 Securitisation issued on 27 March 2007, secured against a portfolio of registered first mortgages over Australian residential property
- Cumulative losses below expectations and have all been absorbed by excess spread. However there are heightened downside risks in the Australian economy which could lead to an increase in future losses
- While property prices in Australia have softened over the last three quarters there is still expected to be embedded house price appreciation in the portfolio given the average seasoning of the portfolio and diversification of mortgages across different states and between city and suburban areas
- The portfolio weighted average interest margin has increased over the quarter which, all else being equal, will lead to an increase in excess spread
- Build up of funds of approximately A\$3.1m in reserve accounts providing support to the capital structure. The senior NIM continues to amortise while the non rated note is a bullet on the expected call date

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	A\$ 12.1 m
Quarter ended 31 Dec 08	
Impairment:	Nil
Portfolio as at 31 Dec 08	
No. of Obligors	1,283
Average Loan Size	A\$262,146
Weighted Average LVR	69.73%
Weighted Average Seasoning	26.95 months

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Capital structure as at 15 Jan 09 ¹	
Note Rating	Outstanding Amount (A\$ m)
AAA (Snr)	217.9
AAA (Mezz)	43.6
AAA (Jnr)	25.7
A+	19.5
BBB	18.9
Non rated note	8.1
Senior NIM note	2.8
Junior NIM note	Balance of excess spread

¹ 15 day lag between collateral receipts and payments to capital structure

ANCORA – SEIZA WAREHOUSE NOTE INVESTMENT

- BBGI has an investment in 3 classes of notes issued by Seiza 2006–1 Trust, secured against a portfolio of registered first mortgages over Australian residential and commercial property
- Cumulative losses above expectations but to date have been absorbed by excess spread. However there are heightened downside risks in the Australian economy which could lead to an increase in future losses
- The portfolio weighted average interest margin has increased over the quarter which, all else being equal, will lead to an increase in excess spread
- The Senior NIM is currently amortising while the Class F and Class G Notes will not begin to amortise until the more senior notes are repaid

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	A\$ 41.7 m
Quarter ended 31 Dec 08	
Impairment:	Nil
Portfolio as at 31 Dec 08	
No. of Obligors	1,587
Average Loan Size	A\$ 473,271
Weighted Average LVR	82.34%
Weighted Average Seasoning	16.81 months

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Capital structure as at 7 Jan 09 ¹	
Note Rating	Outstanding Amount (A\$ m)
AAA (Class A notes)	556.2
AA (Class B notes)	38.3
A (Class C notes)	60.0
BBB (Class D notes)	33.4
BB (Class E notes)	15.8
B (Class F notes)	10.8
N/R (Class G notes)	26.0
Senior NIM notes	10.1
Junior NIM	8.6

¹ 7 day lag between collateral receipts and payments to capital structure

ANCORA – SEIZA AUGUSTUS SERIES 2007-1 TRUST

- BBGI has an investment in 2 classes of notes issued by Seiza Augustus Series 2007-1 Trust
- BBGI's investment is secured against a portfolio of first mortgages over Australian residential and commercial property
- Cumulative losses higher than expected but are all expected to be absorbed by excess spread
- Increased losses expected to continue over the medium term placing increasing pressure on excess spread. Increase in the portfolio weighted average margin over the quarter will partially offset expected increased losses
- Class N balance written to a nil balance due to increased losses and cash trapping within the trust likely to stop any future cashflow to the Class N note
- Class G Note will not begin to amortise until the more senior notes are fully repaid

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	A\$ 10.4 m
Quarter ended 31 Dec 08	
Impairment:	Nil
Portfolio as at 31 Dec 08	
No. of Obligors	361
Average Loan Size	A\$ 561,546
Weighted Average LVR	76.14%
Weighted Average Seasoning	26.61 months

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Capital structure as at 31 Dec 08	
Note Rating	Outstanding Amount (A\$ m)
AAA (Class A notes)	122.6
AA (Class B notes)	20.2
A (Class C notes)	21.9
BBB (Class D notes)	19.0
BB (Class E notes)	8.1
B (Class F notes)	4.1
N/R (Class G notes)	10.3
Senior NIM (Class M notes)	4.7
Junior NIM (Class N notes)	4.1

ANCORA – PROVIDENT CASHFLOW LIMITED

- Revolving purchase facility to PCL – 18 months with annual review periods at discretion of Ancora, secured against inventory
- BBGI's investment is secured against:
 - ✓ loan receivables
 - ✓ A\$5m first loss insurance policy provided by Coface
 - ✓ underlying customer receivables
 - ✓ a 10% cash deposit, i.e. reserving feature, and
 - ✓ a fixed and floating charge over the assets of PCL and certain director indemnities
- Facility performing in line with expectations to date however there are significant downside risks in the Australian economy which could lead to an increase in arrears and insurance claims

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	A\$ 6.2 m
Quarter ended 31 Dec 08	
Impairment	Nil
Portfolio as at 31 Dec 08	
No. of Obligors	24
Average Loan Size	A\$ 521,739
Average Term of Loans	97 days

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

AVOCA VI CLO INVESTMENT

- BBGI has an investment in Class M notes secured against European senior secured and second lien loans which were issued by Avoca VI CLO plc on 16 November 2006 and managed by Avoca Capital Holdings (“Avoca”)
- To date cashflow received has been in line with expectations and there have been no defaults experienced in the portfolio
- Portfolio management strategy is focussed on minimising credit risk and building par through the re-investment of principal and a portion of the excess interest
- Defaults in European leveraged loans are expected to increase in 2009 as a result of a deteriorating macro economic outlook for key European economies
- There is a risk that coupons to the Class M Notes may be suspended in the short to mid term due to ratings downgrades in the underlying portfolio hence an impairment charge has been taken

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	€0.5 m
Quarter ended 31 Dec 08	
Impairment:	-€3.5 m
Portfolio as at 31 Dec 08	
Portfolio Par Value	€503.6 m
No. of Obligors	70
Loan Type	Majority senior secured (82%)

¹ The carrying value is determined in accordance with the requirements of IFRS and may not be reflective of the current realisable value in the event of immediate disposal

Capital structure as at 31 Dec 08	
Note Rating	Outstanding Amount (€ m)
AAA (Snr) (Class A notes)	301.5
AAA (Sub) (Class A notes)	64.0
AA (Class B notes)	19.4
A (Class C notes)	31.5
BBB (Class D notes)	20.0
BB (Class E notes)	23.9
B (Class F notes)	10.0
N/R (Class M notes)	37.8

AVOCA VII CLO INVESTMENT

- BBGI has an investment in Class F and G notes secured against European senior secured, second lien and mezzanine loans which were issued by Avoca VII CLO plc and managed by Avoca
- To date cashflow received and defaults experienced in the portfolio (two to date) have been in line with expectations
- Portfolio management strategy is focussed on minimising credit risk and building par through the re-investment of principal and a portion of the excess interest
- Defaults in European leveraged loans are expected to increase in 2009 as a result of a deteriorating macro economic outlook for key European economies
- There is a risk that coupons to the Class G Notes may be suspended in the short to mid term due to ratings downgrades in the underlying portfolio hence an impairment charge has been taken

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	€ 8.2 m
Quarter ended 31 Dec 08	
Impairment:	-€ 6.7 m
Portfolio as at 31 Dec 08	
Portfolio Par Value	€ 702.2 m
No. of Obligors	74
Loan Type	Majority senior secured (79%)

¹ The carrying value is determined in accordance with the requirements of IFRS and may not be reflective of the current realisable value in the event of immediate disposal

Capital structure as at 31 Dec 08	
Note Rating	Outstanding Amount (€ m)
AAA (Snr) (Class A notes)	284.0
AAA (Sub) (Class A notes)	62.5
AAA (Sub) (Class A notes)	145.0
AA (Class B notes)	48.5
A (Class C notes)	46.5
BBB (Class D notes)	31.5
BB (Class E notes)	31.0
B (Class F notes)	14.0
N/R (Class G notes)	48.0

MORTGAGES PLC SECURITISATION INVESTMENT

- BBGI owns 50% of each of the Series MERCS and Series Residuals (“notes”) issued by Newgate Funding 2006-3 plc, a securitisation entity of Mortgages plc
- BBGI’s notes are secured against a portfolio of registered first mortgages over UK residential property
- Cumulative losses higher than expected and are forecast to continue due to deteriorating UK economic fundamentals and sharply declining house prices
- No further cash flow is expected to be received under the Series Residual Note and minimal cash flow is expected under the Series MERCS Note, hence a further impairment charge for the quarter has been taken
- Increasing arrears rates and continually elevated spread between 3m LIBOR and the bank base rate putting pressure on available excess spread

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	£ 0.1 m
Quarter ended 31 Dec 08	
Impairment:	-£ 1.8 m
Portfolio as at 31 Dec 08	
No. of Obligors	4,287
Average Loan Size	£106,127
Weighted Average LVR	80.33%
Weighted Average Seasoning	27.29 months

¹ The carrying value is determined in accordance with the requirements of IFRS and may not be reflective of the current realisable value in the event of immediate disposal

Capital structure as at 31 Dec 08	
Note Rating	Outstanding Amount (£m)
AAA (Class A & M notes)	369.2
AA (Class B notes)	39.5
A (Class C notes)	24.7
BBB (Class D notes)	15.6
BBB (Class T notes)	4.1
BB (Class E notes)	5.9
BB (Class Q notes)	6.5
N/R Series MERCS	All prepayment penalties
N/R Series Residuals	All excess spread after repayment to T & Q Notes

ALTERNATIVE ASSETS



PARAMOUNT MEZZANINE LOAN

- BBGI has invested in a secured subordinated loan to fund the development of an ultra-luxury condominium development in Miami, Florida
- Loan matures Dec 09 with a developer option to extend the term of the loan (as well as the other senior loans) by six months
- Increasing pressure on Miami condominium prices due to supply significantly exceeding demand and the availability of mortgage finance in this sector of the market having reduced over recent months. This is likely to result in a significant number of cancellations of pre-sales and the need to substantially reduce prices to sell the units, hence an impairment charge has been taken
- No further sales are expected until the project completion (mid 09)

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	US\$ 2.1 m
Quarter ended 31 Dec 08	
Impairment:	- US\$ 15.8 m

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

Sources of project funding	
Senior debt	US\$216 m
Senior Mezzanine Loan	US\$2 m
Babcock & Brown / BBGI Loan ¹	US\$30 m
Equity	US\$34 m

¹ BBGI loan is on a pari passu basis with Babcock & Brown

Originally Expected Proceeds	
Current Pre Sales	US\$238 m
Remaining value to be achieved before loan (principal & interest) repayment to BBGI	US\$57 m
Expected total value at original list prices	US\$398 m

MUSIC COPYRIGHT ASSETS

KEY INFORMATION	
As at 31 Dec 08	
Carrying Value ¹	US\$ 48.6 m (includes asset debt of US\$ 28.9 m)
Quarter ended 31 Dec 08	
Impairment:	Nil

¹ The carrying value is determined in accordance with the requirements of IFRS and is not reflective of the current realisable value in the event of immediate disposal

- BBGI has an investment in a portfolio of music copyright assets with over 1,800 musical compositions, which entitles it to revenue from the use and performance of the songs regardless of which recordings or versions are used or the artists who perform them
- Music copyright royalties are collected by a well established global network of collection societies
- Current decline in mechanical sales (i.e. CD sales) affecting music industry hardest felt in new releases/current songs which BBGI does not target
- Portfolio benefits from increases in performance income (from proliferation of media channels and outlets) and increase in synchronisation revenue (i.e. royalties or fees for use of musical composition in combination with image such as in films, television programmes, advertising and computer games)
- Debt amortisation commencing in September 2009 will have a significant impact on cash economic income from the music copyright assets

