

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**INTERIM REPORT TO SHAREHOLDERS**

Eurocastle Investment Limited ("Eurocastle" or the "Company") today announced its financial results for the six months ended 30 June 2012. Eurocastle and its consolidated subsidiaries (together with Eurocastle, the "Group") primarily own and manage German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam under the symbol "ECT". Eurocastle is managed by an affiliate of Fortress Investment Group LLC. For more information regarding Eurocastle and to be added to our e-mail distribution list, please visit [www.eurocastleinv.com](http://www.eurocastleinv.com).

**Review of Business**

During the six months ended 30 June 2012, the Group signed 108 commercial leases for approximately 60,000 square metres (sqm). Physical occupancy was at 81.0% compared to 84.6% at the end of 2011. The level of physical portfolio occupancy decreased by 3.6% following an expiry relating to the consolidation of a major tenant's back-office location in Frankfurt. In the first half of 2012, the Group sold 23 properties and 1 land parcel for total sales proceeds of €48.7 million versus a carrying value of €42.4 million with the gain reported in the decrease in fair value of investment properties.

Eurocastle has completed the sale of its remaining 25% interest in the Mars Fixed 1 portfolio and terminated asset management services in respect of this portfolio. As a result of this transaction, the Group has received a net benefit of €6.8 million.

The Group repurchased €76.8 million of its own CDO senior debt at an average price of 61% of nominal realising a net book gain of €30.4 million. In the first half of 2012, European credit markets experienced significant volatility, primarily related to the sovereign debt crisis. The first quarter was characterised by a sharp sell-off across credit markets, followed by a moderate recovery in the second quarter. There continues to be a significant imbalance with regard to trading activity between debt classes; secondary markets in senior debt remain active with strong investor demand, whilst there is extremely limited liquidity for more Junior classes of CMBS and commercial real estate loans.

The Group has concluded the restructuring of the Mars Floating facility which matures in December 2013. Modified terms include revising the amortisation profile in accordance with an agreed sales plan and the removal of all contingent guarantees previously provided by the Company. In addition, the Company will receive a cash distribution of €1.7 million to offset asset management costs incurred by the Group in respect of the portfolio for 2011 with further distributions to be released in order to cover costs for asset management and sales activity anticipated till maturity. The remaining excess cash flow after payment of interest and expenses will continue to be used to amortise the outstanding loan balance.

The Group has continued to generate cash at the holding company level that is available for corporate purposes. However, excess cashflow from Duncannon CRE CDO I PLC ("Duncannon"), Drive and the remaining Mars portfolios continues to be retained at the portfolio level and is not distributed to Eurocastle. The Group does however receive limited distributions to offset asset management costs incurred by the Group in respect of the Drive and Mars Floating portfolios.

Note that the comparative six months ended 30 June 2011 include the results of Mars Fixed, Eurocastle CDO II PLC and Eurocastle CDO III PLC which are no longer consolidated as part of the Group's results following the disposal of the controlling interest in these entities.

The table below shows the summarised performance and developments of the business:

	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>(Unaudited)</b>		
<u>Income Statement</u>		
Interest income	12,394	25,195
Rental income	71,180	100,447
Service charge income	14,703	20,738
Decrease in fair value of investment properties	(21,711)	(28,757)
Impairment losses	(17,025)	(41,038)
Interest expense	(47,960)	(80,866)
Service charge and property expenses	(30,349)	(41,153)
Other operating expenses	(19,033)	(18,409)
Net profit / (loss) before taxation	930	(70,950)
Net profit / (loss) after taxation	650	(72,113)
Funds from operations ("FFO")	29,883	(117,534)
Normalised FFO	2,352	13,040
	<b>30 June 2012 (Unaudited) €'000</b>	<b>31 December 2011 €'000</b>
<u>Balance Sheet</u>		
Total assets	2,771,560	2,870,807
Total liabilities	(2,405,221)	(2,507,866)
<b>Net Assets</b>	<b>366,339</b>	<b>362,941</b>
Weighted average number of ordinary share outstanding, (basic)	85,353,249	74,752,269
Dilutive effect of ordinary share options and convertible securities	442,001,744	403,895,187
<b>Weighted average number of ordinary shares outstanding (diluted)</b>	<b>527,354,993</b>	<b>478,647,456</b>
Ordinary share outstanding (number)	86,951,632	86,577,189
Fully diluted ordinary share outstanding (number)	617,342,309	573,317,648

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**BUSINESS AND FINANCIAL REVIEW**

	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<u>Key Performance Indicators</u>		
Profit / (loss) per weighted average basic share	0.01	(1.10)
Profit / (loss) per weighted average diluted share	-	(1.10)
FFO per weighted average basis share	0.35	(1.79)
FFO per weighted average diluted share	0.06	(0.26)
Normalised FFO per weighted average basic share	0.03	0.20
Normalised FFO per weighted average diluted share	-	0.03
Normalised FFO per fully diluted share	-	0.02
Net assets per fully diluted share <sup>(1)</sup>	0.59	0.46
Real estate net assets per fully diluted share <sup>(1)</sup>	0.45	0.61
Debt investment portfolio net assets / (liabilities) per fully diluted share <sup>(1)(2)</sup>	0.15	(0.15)
<u>Reconciliation of Funds from operations and Normalised Funds from operations</u>		
Net profit / (loss) after taxation	650	(72,113)
Decrease in fair values of investment properties	21,711	28,757
Realised gain / (loss) on sale of investment properties	7,653	(74,934)
Unrealised movements on currency swaps (net of translation gains on related assets)	(116)	142
Increase in fair value of interest rate swaps	(52)	(901)
Deferred tax charge on investment properties	37	1,515
<b>Funds from operations (FFO)</b>	<b>29,883</b>	<b>(117,534)</b>
Net realised (gains) / losses on investment property sales after sales costs and closure of swaps	(5,250)	79,096
(Gains) / losses on foreign currency contracts, translation and swaps	(38)	531
Impairment losses	17,025	41,038
Realised gain on sale of Loans and Receivables	(592)	-
Amortisation of costs of Mars Refinancing <sup>(3)</sup>	(2,537)	1,663
Interest rate swap adjustments	1,794	911
Loss on sale of shares in Bastion	-	711
Gain on repurchase of mezzanine debt	(797)	(2,753)
(Gain) / loss on investment in Mars Fixed	(6,755)	9,377
Gain on repurchase of debt financing	(30,381)	-
<b>Normalised funds from operations</b>	<b>2,352</b>	<b>13,040</b>

<sup>(1)</sup> NAV per fully diluted share has been rounded to the nearest two decimal points

<sup>(2)</sup> The debt investment securities portfolio is predominantly financed to maturity with long-term collateralised debt obligations ("CDOs") that are not callable as a result in value and are non-recourse to the Group. While the assets in the CDOs are consolidated in the financial statements for IFRS purposes, the Group's exposure to losses is limited to its initial investment in each CDO. The 30 June 2011 IFRS net asset value reflects approximately €111.9 million, or €0.21 per fully diluted share, of unrealised losses in assets within the Group's CDOs that were previously consolidated and exceeds its investment in the CDOs. Therefore, could not be realised in cash terms by the Group.

<sup>(3)</sup> Represents the economic (non-IFRS) impact of transferring 50% of the Group's equity in the Mars Floating Portfolio to the lender as part of the Mars Floating restructuring.

FFO as defined by Eurocastle, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties net of attributable deferred taxation, changes in the fair value of interest rate swaps that are taken to the income statement and unrealised movements on currency swaps (net of translation gains/losses of related assets). The Group considers the realisation of gains and losses on its investments to be a normal part of its recurring operations and therefore does not exclude such gains and losses when arriving at FFO. FFO does not represent cash generated from operating activities in accordance with IFRS and therefore should not be considered an alternative to cash flow as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs. Eurocastle's calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

Normalised FFO is a non-IFRS financial measure used to provide investors with additional information regarding the underlying performance of the Group and its ability to service debt and make capital expenditure. This measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements, and accounting adjustments related to the Mars refinancing.

## BUSINESS AND FINANCIAL REVIEW

**Property Valuation Data (by Portfolio)**

For 2012:

	Number of properties	Occupancy %	Lettable space (sqm)	Property valuation <sup>(1)</sup> €m	Passing Rent €m	Net operating income (NOI) <sup>(2)</sup> €m	NOI yield on valuation %
Drive	173	67.4%	299,851	784.2	42.6	32.5	4.1%
Bridge	6	97.1%	185,930	422.7	27.4	25.2	6.0%
Wave	61	82.5%	129,900	185.2	14.7	12.6	6.8%
Mars Floating <sup>(3)</sup>	13	58.6%	98,282	162.5	10.8	7.0	4.3%
Turret	63	97.5%	137,073	170.4	15.1	12.7	7.5%
Truss	41	98.3%	80,048	95.9	8.3	6.8	7.1%
Mars Fixed 2	3	83.5%	31,993	95.8	6.1	4.9	5.1%
Belfry	27	98.1%	51,931	60.7	5.2	4.6	7.5%
Tannenberg	27	95.5%	47,292	60.3	5.2	4.4	7.4%
Superstella	18	100.0%	38,355	55.8	4.4	3.9	7.0%
Zama	8	92.8%	28,220	44.1	3.6	3.3	7.4%
<b>Total portfolio</b>	<b>440</b>	<b>81.0%</b>	<b>1,128,875</b>	<b>2,137.6</b>	<b>143.4</b>	<b>117.9</b>	<b>5.5%</b>

For 2011 (on a like-for-like basis):

	Number of properties	Occupancy %	Lettable space (sqm)	Property valuation <sup>(1)</sup> €m	Passing Rent €m	Net operating income (NOI) <sup>(2)</sup> €m	NOI yield on valuation %
Drive	173	78.7%	350,010	792.9	52.4	44.4	5.6%
Bridge	6	96.2%	184,347	424.4	29.9	28.1	5.6%
Wave	61	81.9%	129,022	186.6	14.6	12.6	5.6%
Mars Floating <sup>(3)</sup>	13	58.8%	98,635	165.8	10.6	7.0	5.6%
Turret	63	97.6%	137,294	172.9	15.0	13.4	5.6%
Truss	41	98.6%	80,264	97.3	8.4	7.5	5.6%
Mars Fixed 2	3	86.2%	32,995	96.3	6.3	5.2	5.6%
Belfry	27	98.1%	51,931	61.1	5.2	4.6	5.6%
Tannenberg	27	95.6%	47,344	61.1	5.2	4.4	5.6%
Superstella	18	100.0%	38,355	56.3	4.4	4.1	5.6%
Zama	8	93.3%	28,355	44.5	3.5	3.2	5.6%
<b>Total portfolio</b>	<b>440</b>	<b>84.6%</b>	<b>1,178,552</b>	<b>2,159.1</b>	<b>155.5</b>	<b>134.4</b>	<b>6.2%</b>

<sup>(1)</sup> Property valuation excludes the leasehold gross-ups of €23.7 million (31 December 2011: €22.6 million)<sup>(2)</sup> Net operating income is after deducting €2.9 million (2011: €2.8 million) of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.<sup>(3)</sup> The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% investment**Dividends**

No dividends have been declared or paid during the six months ended 30 June 2012 (30 June 2011: €nil).

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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**Statement of Directors' Responsibility in Respect of the Financial Statements**

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

**Independent Auditors' Review**

These consolidated interim financial statements as at 30 June 2012 and for the six month period then ended have not been reviewed or audited by our auditors, Ernst & Young LLP.

*On behalf of the Board*



Simon J. Thornton  
*Director and Audit Committee Chairman*  
Date: 23 August 2012

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>Operating income</b>			
Interest income		12,394	25,195
Rental income		71,180	100,447
Service charge income		14,703	20,738
Gain on disposal of loans and receivables		592	-
Decrease in fair value of investment properties		(21,711)	(28,757)
Gain on repurchase of debt financing	12	30,381	-
Increase in fair value of interest rate swaps		52	901
Gains on foreign currency contracts, translation and swaps		154	-
Impairment losses	5	(17,025)	(41,038)
Loss on sale of shares in Bastion		-	(711)
Gain on repurchase of mezzanine financing	12	797	2,753
Gain / (loss) on investment in Mars Fixed 1 Portfolio	9	6,755	(9,377)
Income from associate	9	-	-
<b>Total operating income</b>		<b>98,272</b>	<b>70,151</b>
<b>Operating Expenses</b>			
Interest expense		47,960	80,866
Service charge expenses		14,153	20,738
Property operating expenses		16,196	20,415
Losses on foreign currency contracts, translation and swaps		-	673
Other operating expenses	4	19,033	18,409
<b>Total operating expenses</b>		<b>97,342</b>	<b>141,101</b>
<b>Net operating profit / (loss) before taxation</b>		<b>930</b>	<b>(70,950)</b>
Taxation expense / (credit) - current	3	243	(352)
Taxation charge - deferred	3	37	1,515
<b>Net profit / (loss) after taxation</b>		<b>650</b>	<b>(72,113)</b>
<b>Profit / (loss) per ordinary share</b>			
Basic	15	0.01	(1.10)
Diluted	15	-	(1.10)

See notes to the consolidated financial statements

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>Net profit / (loss) after taxation</b>		<b>650</b>	<b>(72,113)</b>
<b>Other comprehensive income</b>			
<b>Available for sale securities</b>			
Unrealised gain on asset backed securities, available-for-sale	7	11	9,415
Amortisation of unrealised gains/losses on available-for-sale securities reclassified to the income statement	8	2,070	18,715
Unrealised losses reclassified to the income statement on disposal of available-for-sale securities, reclassified as loans and receivables		600	-
Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	5,8	69	9,495
<b>Total available-for-sale securities</b>		<b>2,750</b>	<b>37,625</b>
<b>Cash flow hedges</b>			
Net unrealised gain on hedge instruments		1,042	4,028
Realised losses / (gains) on hedge instruments reclassified to the income statement	17	74	(47)
Transfer of Mars Fixed 1 hedging reserve to the income statement		-	(7,183)
Amortisation of novated swaps	17	(1,119)	(1,836)
<b>Total cash flow hedges</b>		<b>(3)</b>	<b>(5,038)</b>
<b>Other comprehensive income</b>		<b>2,747</b>	<b>32,587</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>3,397</b>	<b>(39,526)</b>

See notes to the consolidated financial statements

There are no tax effects relating to the components disclosed in comprehensive income.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

	Notes	30 June 2012 (Unaudited) €'000	31 December 2011 €'000
<b>Assets</b>			
Cash and cash equivalents	6	134,530	117,669
Investment properties held for sale	11	13,052	53,152
Other assets	10	22,773	22,875
Available-for-sale securities	7	47,044	45,543
Loans and receivables (includes cash to be invested)	8	399,481	448,647
Fixture and fittings		92	133
Derivative assets		15,435	20,170
Investment property	11	2,138,931	2,162,243
Investment in associate	9	-	-
Intangible assets		222	375
<b>Total assets</b>		<b>2,771,560</b>	<b>2,870,807</b>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Issued capital, no par value, unlimited number of shares authorised	16	1,434,482	1,434,370
Accumulated loss		(1,199,236)	(1,186,680)
Net unrealised loss on available-for-sale securities and loans and receivables	7,8	(36,035)	(38,785)
Hedging reserve	17	(8,115)	(8,112)
Perpetual subordinated convertible securities	18	157,917	144,822
Other reserves	16	17,320	17,320
<b>Total shareholders' equity</b>		<b>366,333</b>	<b>362,935</b>
Non-controlling interest		6	6
<b>Total equity</b>		<b>366,339</b>	<b>362,941</b>
<b>Liabilities</b>			
Trade and other payables	14	60,497	56,088
CDO bonds payable	12	352,884	431,700
Bank borrowings	13	1,946,670	1,974,226
Derivative liabilities		12,249	13,228
Finance lease payable	11	23,692	22,692
Current taxation payable		4,489	5,230
Deferred taxation liability		4,740	4,702
<b>Total liabilities</b>		<b>2,405,221</b>	<b>2,507,866</b>
<b>Total equity and liabilities</b>		<b>2,771,560</b>	<b>2,870,807</b>

See notes to the consolidated financial statements

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>Cash flows from operating activities</b>			
Operating profit / (loss) before taxation		930	(70,950)
Adjustments for:			
Interest income		(9,279)	(20,119)
Interest expense		43,764	78,237
Unrealised (gain) / loss on foreign exchange contracts		(154)	673
Amortisation of discount on securities		(3,206)	(5,076)
Amortisation of borrowing costs		1,246	2,629
Amortisation of tenant incentives / leasing commissions		2,267	5,977
Realised gain on disposal of loans and receivables		(592)	-
Realised gain on repurchase of debt financing	12	(30,381)	-
Realised gain on repurchase of mezzanine financing	12	(797)	(2,753)
Impairment losses	5	17,025	41,038
(Gain) / loss on investment in Mars Fixed 1 Portfolio	9	(6,755)	9,377
Taxation paid		(983)	(1,444)
Amortisation of intangibles		153	327
Depreciation of fixtures and fittings		41	41
Decrease in fair value of investment properties	11	21,711	28,757
Increase / (decrease) in fair value of interest rate swaps		1,741	(901)
(Increase) / decrease in other assets		(453)	1,879
Interest received		11,253	20,790
Interest paid		(45,202)	(88,376)
Increase in trade and other payables		9	8,537
Loss on sale of shares in Bastion		-	711
Shares issued to Directors	16	1	-
<b>Net cash flows from operating activities</b>		<b>2,339</b>	<b>9,354</b>
<b>Cash flows from investing activities</b>			
Capital expenditure / tenant incentives	11	(8,544)	(6,568)
Proceeds from sale of investment properties	11	48,707	126,075
Proceeds from sale / prepayment of available-for-sale securities		145	1,310
Purchase of loans and receivables		-	(94,268)
Sale / prepayment of loans and receivables		43,249	81,543
Purchase of intangible assets		-	(19)
Cash impact of disposal of investment in Associate	9	6,755	-
<b>Net cash flows from investing activities</b>		<b>90,312</b>	<b>108,073</b>
<b>Cash flows from financing activities</b>			
Repurchase of mezzanine financing		(8)	(248)
Payments for the repurchase of bonds issued		(46,640)	-
Repayments of bonds issued		(1,376)	(9,015)
Repayments of bank borrowings		(28,239)	(106,824)
<b>Net cashflows from financing activities</b>		<b>(76,263)</b>	<b>(116,087)</b>
<b>Net increase in cash and cash equivalents</b>		<b>16,388</b>	<b>1,340</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>117,669</b>	<b>113,990</b>
<b>Restricted CDO Cash, beginning of year</b>		<b>473</b>	<b>10,509</b>
<b>Total cash and cash equivalents, beginning of year</b>		<b>118,142</b>	<b>124,499</b>
<b>Cash and cash equivalents, end of year</b>	6	<b>134,530</b>	<b>121,223</b>
<b>Restricted CDO cash, end of year</b>	8	<b>-</b>	<b>4,616</b>
<b>Total cash and cash equivalents, beginning of year</b>		<b>134,530</b>	<b>125,839</b>

See notes to the consolidated financial statements



## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Attributable to equity holder of the Group								
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Perpetual subordinated convertible securities €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non- controlling interest €'000	Total equity €'000
<b>At 1 January 2011</b>	<b>65,739,646</b>	<b>1,428,119</b>	<b>17,320</b>	<b>126,219</b>	<b>(143,373)</b>	<b>607</b>	<b>(1,143,354)</b>	<b>6</b>	<b>285,544</b>
Loss for the six months	-	-	-	-	-	-	(72,113)	-	(72,113)
Other comprehensive income/(loss)	-	-	-	-	37,625	(5,038)	-	-	32,587
<b>Total comprehensive income/(loss)</b>	-	-	-	-	37,625	(5,038)	(72,113)	-	(39,526)
Capitalised interest on Convertible Securities issued (note 18)	-	-	-	11,479	-	-	(11,479)	-	-
<b>At 30 June 2011</b>	<b>65,739,646</b>	<b>1,428,119</b>	<b>17,320</b>	<b>137,698</b>	<b>(105,748)</b>	<b>(4,431)</b>	<b>(1,226,946)</b>	<b>6</b>	<b>246,018</b>
Profit for the six months	-	-	-	-	-	-	53,640	-	53,640
Other comprehensive income/(loss)	-	-	-	-	66,963	(3,681)	-	-	63,282
<b>Total comprehensive income/(loss)</b>	-	-	-	-	(38,785)	(8,112)	(1,173,306)	6	362,940
Share issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 18)	20,833,543	6,250	-	(6,250)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (note 18)	-	-	-	13,374	-	-	(13,374)	-	-
<b>At 31 December 2011</b>	<b>86,577,189</b>	<b>1,434,370</b>	<b>17,320</b>	<b>144,822</b>	<b>(38,785)</b>	<b>(8,112)</b>	<b>(1,186,680)</b>	<b>6</b>	<b>362,941</b>
Profit for the six months	-	-	-	-	-	-	650	-	650
Other comprehensive income/(loss)	-	-	-	-	2,750	(3)	-	-	2,747
<b>Total comprehensive income/(loss)</b>	-	-	-	-	2,750	(3)	650	-	3,397
Share issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 18)	370,443	111	-	(111)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (note 18)	-	-	-	13,206	-	-	(13,206)	-	-
<b>At 30 June 2012</b>	<b>86,951,632</b>	<b>1,434,482</b>	<b>17,320</b>	<b>157,917</b>	<b>(36,035)</b>	<b>(8,115)</b>	<b>(1,199,236)</b>	<b>6</b>	<b>366,339</b>

## 1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange). On 3 November 2009, the Group ceased to maintain a secondary listing on the Frankfurt Stock Exchange. The activities of the Group include the investing in, financing and managing of European real estate assets and European real estate related debt.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 (Interim Financial Statements). The consolidated financial statements are presented in Euros, the functional currency of the parent company, because the Group conducts its business predominantly in Euros. The consolidated financial statements represent a condensed set of financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 December 2011, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issue by the International Accounting Standards Board ("IASB").

The accounting policies applied are consistent with those adopted and disclosed in the Group's financial statements for the year ended 31 December 2011, with the exception of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board, which were applicable from 1 January 2012. These have not had a material impact on the accounting policies, methods of computation or presentation applied by the Group.

### Basis of Consolidation

The consolidated interim financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the six month period ended 30 June 2011. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 30 June 2012, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

## 3. TAXATION EXPENSE

The taxation expense for the six months ended 30 June 2012 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, Eurocastle Funding Limited, CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC, 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 deferred tax charge for the six months ended 30 June 2012 was €0.1 million, compared to €1.5 million for the six months ended 30 June 2011.

**4. OTHER OPERATING EXPENSES**

	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>(Unaudited)</b>		
Professional fees	521	328
Sale related costs	2,403	2,641
Management fees (note 21)	10,828	10,862
Depreciation	41	41
Amortisation of intangible assets	153	327
Other <sup>(1)</sup>	5,087	4,210
<b>Total other operating expenses</b>	<b>19,033</b>	<b>18,409</b>

<sup>(1)</sup> Included within other operating expenses for the six months ended 30 June 2012 are reimbursement of property related and asset management services of €2.8 million (30 June 2010: €2.7 million) to FIG LLC (see note 21).

**5. IMPAIRMENT LOSSES**

	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
<b>(Unaudited)</b>		
Impairment losses on loans and receivables	7,501	29,702
Impairment losses on real estate related loans	9,455	1,841
Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale	69	9,495
<b>Total impairment losses</b>	<b>17,025</b>	<b>41,038</b>

During the six months ended 30 June 2012, the Group has recognised impairment losses on 4 securities or loans for €17.0 million in the debt portfolio, compared to 35 securities or loans for €41.0 million for the six months ended 30 June 2011.

The carrying value of the impaired securities or loans as at 30 June 2012 after the impairment losses was €51.8 million (31 December 2011: €58.2 million).

**6. CASH AND CASH EQUIVALENTS**

	<b>As at 30 June 2012 (Unaudited) €'000</b>	<b>As at 31 December 2011 €'000</b>
Corporate cash	36,095	28,860
Cash within the real estate operating companies	94,621	80,694
Cash within the CDO vehicles	3,814	8,115
<b>Total cash and cash equivalents</b>	<b>134,530</b>	<b>117,669</b>

Cash within the real estate operating companies is held to cover interest obligations, operating expenses and other working capital.

The cash within the CDO vehicles is restricted to repaying CDO interest as it falls due or for use for reinvestment within the CDO.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 30 June 2012 (unaudited):

	Current face amount €'000	Amortised cost base €'000	Impairment loss €'000	Gross unrealised		Carrying value €'000	Weighted average			Maturity (years)
				Gains €'000	Losses €'000		Average Rating <sup>(1)</sup>	Coupon	Margin	
<b>Portfolio IV</b>										
CMBS	60,477	60,079	-	-	(18,544)	41,535	BB+	1.10%	0.69%	3.35
Other ABS	1,241	1,241	-	-	(534)	707	BBB-	2.27%	2.05%	13.54
	61,718	61,320	-	-	(19,078)	42,242	BB+	3.36%	2.74%	3.55
<b>Other securities</b>										
CMBS	6,930	260	-	87	-	347	D	3.39%	2.70%	3.86
Other ABS	32,664	3,743	-	712	-	4,455	C	1.73%	2.32%	0.47
	39,594	4,003	-	799	-	4,802	C	5.12%	5.02%	1.06
<b>Total portfolio</b>	<b>101,312</b>	<b>65,323</b>	<b>-</b>	<b>799</b>	<b>(19,078)</b>	<b>47,044</b>	<b>B-</b>	<b>4.05%</b>	<b>3.63%</b>	<b>2.58</b>

The following is a summary of the Group's available-for-sale securities at 31 December 2011:

	Current face amount €'000	Amortised cost base €'000	Impairment loss €'000	Gross unrealised		Carrying value €'000	Weighted average			Maturity (years)
				Gains €'000	Losses €'000		Average Rating <sup>(1)</sup>	Coupon	Margin	
<b>Portfolio IV</b>										
CMBS	59,506	59,039	-	-	(19,400)	39,639	BB+	1.97%	0.69%	3.83
Other ABS	1,199	1,199	-	-	(518)	681	BBB-	3.23%	2.05%	14.02
	60,705	60,238	-	-	(19,918)	40,320	BB+	1.99%	0.71%	4.03
<b>Other securities</b>										
CMBS	6,930	225	-	468	-	693	D	-	2.70%	4.34
Other ABS	31,696	3,370	-	1,160	-	4,530	C	2.55%	2.38%	0.50
	38,626	3,595	-	1,628	-	5,223	C	2.09%	2.40%	1.19
<b>Total portfolio</b>	<b>99,331</b>	<b>63,833</b>	<b>-</b>	<b>1,628</b>	<b>(19,918)</b>	<b>45,543</b>	<b>B</b>	<b>2.03%</b>	<b>1.37%</b>	<b>2.93</b>

<sup>(1)</sup> Average ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody's Investor Services, Standard & Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

## 8. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 30 June 2012 (unaudited):

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Average rating <sup>(1)</sup>	Weighted Average		Maturity (years)
						Coupon <sup>(2)</sup>	Margin	
<b>Portfolio IV</b>								
Real estate related loans	13,232	13,236	(662)	12,574	CC	2.95%	2.46%	2.73
	13,232	13,236	(662)	12,574	CC	2.95%	2.46%	2.73
<b>Portfolio V</b>								
CMBS	277,235	228,935	(30,780)	198,155	B+	1.57%	3.58%	3.59
Other ABS	43,288	37,945	(5,074)	32,871	BB	1.93%	0.64%	7.17
Real estate related loans	241,843	242,438	(88,286)	154,152	CCC	2.41%	2.62%	2.11
	562,366	509,318	(124,140)	385,178	B-	1.96%	2.94%	3.23
<b>Other securities</b>								
Real estate related loans	22,915	7,927	(6,198)	1,729	CCC-	1.99%	2.95%	2.94
	22,915	7,927	(6,198)	1,729	CCC-	1.99%	2.95%	2.94
<b>Total portfolio</b>	<b>598,513</b>	<b>530,481</b>	<b>(131,000)</b>	<b>399,481</b>	<b>B</b>	<b>1.98%</b>	<b>2.93%</b>	<b>3.20</b>

Restricted cash - cash to be invested

**Total loans and receivables (including cash to be invested)**

-  
399,481

The following is a summary of the Group's loans and receivables as at 31 December 2011:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Average rating <sup>(1)</sup>	Weighted Average		Maturity (years)
						Coupon <sup>(2)</sup>	Margin	
<b>Portfolio IV</b>								
Real estate related loans	12,782	12,774	(640)	12,134	CC	3.88%	2.47%	3.20
	12,782	12,774	(640)	12,134	CC	3.88%	2.47%	3.20
<b>Portfolio V</b>								
CMBS	300,082	246,637	(23,552)	223,085	BB-	2.08%	3.83%	3.97
Other ABS	47,976	42,879	(4,903)	37,976	BB-	2.38%	0.08%	9.38
Real estate related loans	251,696	252,152	(77,567)	174,585	CCC+	2.89%	3.01%	2.26
	599,754	541,668	(106,022)	435,646	B	2.44%	3.12%	3.69
<b>Other securities</b>								
Real estate related loans	22,284	6,384	(5,990)	394	CCC-	0.95%	2.97%	2.74
	22,284	6,384	(5,990)	394	CCC-	0.95%	2.97%	2.74
<b>Total portfolio</b>	<b>634,820</b>	<b>560,826</b>	<b>(112,652)</b>	<b>448,174</b>	<b>B</b>	<b>2.42%</b>	<b>3.11%</b>	<b>3.64</b>

Restricted cash - cash to be invested

**Total loans and receivables (including cash to be invested)**

473  
448,647

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

(2) Weighted average coupon rates exclude any coupon for assets that are impaired by greater than 25%, for which the Group does not accrue coupon interest income. The Group recognises any coupon interest received on impaired assets on a cash-received basis.

The securities with Portfolio V are encumbered by CDO securitisations (note 12).

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available-for-sale securities within CDO V to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 it had the intention and the ability to hold for maturity or the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date which amounted to €1.1 billion. The disclosures below detail the impact of the reclassifications to the Group.

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

	<b>1 July 2008 Carrying Value €'000</b>	<b>30 June 2012 Carrying Value (unaudited) €'000</b>	<b>31 December 2011 Carrying Value €'000</b>	<b>30 June 2012 Fair Value (unaudited) €'000</b>	<b>31 December 2011 Fair Value €'000</b>
Available-for-sale securities, reclassified to loans and receivables	1,077,560	197,254	219,571	126,198	126,602

As of the reclassification date, the effective interest rate on the reclassified available-for-sale securities was approximately 12%, with expected recoverable cash flows of €1.3 billion. The effective interest rate was determined on an asset-by-asset basis.

If the reclassification had not been made, Eurocastle's income statement for six months ended 30 June 2012 would have included €0.2 million on the reclassified available-for-sale securities of impairment losses, compared with impairment reversals of €0.4 million after the reclassification. For the six months ended 30 June 2012, shareholders' equity (net losses not recognised in the income statement) would have included €3.3 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 December 2011.

After reclassification, the reclassified financial assets contributed the following amounts to income for the six months ended 30 June 2012:

<b>(Unaudited)</b>	<b>Six months ended 30 June 2012 €'000</b>	<b>Six months ended 30 June 2011 €'000</b>
Net interest income	3,911	15,113
Impairment losses on securities classified as loans and receivables	(7,271)	(39,197)
<b>(Losses) / income on available-for-sale securities reclassified to loans and receivables</b>	<b>(3,360)</b>	<b>(24,084)</b>

As of the reclassification dates, unrealised fair value losses recorded directly in shareholders' equity amounted to €283.3 million. This amount will be released from shareholders' equity to the income statement on an effective interest rate basis.

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity relating to the impaired asset is released to the income statement at the impairment date. For the six months ended 30 June 2012, €0.1 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (six months ended 30 June 2011: €9.5 million). Additionally, €2.1 million (six months ended 30 June 2011: €18.7 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables.

At 30 June 2012, the net unrealised loss on loans and receivables was €17.8 million (31 December 2011: €20.5 million).

**9. INVESTMENT IN ASSOCIATE**

On 4 April 2012, the Group sold its remaining 25% interest in the Mars Fixed 1 portfolio. The profit on disposal is calculated as follows:

	<b>As at 30 June 2012 (unaudited) €'000</b>
Non-current assets	972,080
Current assets	11,775
Non-current liabilities	(962,095)
Current liabilities	(50,705)
<b>Net Liabilities</b>	<b>(28,945)</b>
Share of Associate's net liabilities (carried at €nil cost)	-
Cash proceeds received on sale of investment (net of transaction costs)	6,755
<b>Gain on disposal of Associate</b>	<b>6,755</b>

The net cash inflow from the disposal of the investment in Mars Fixed is €6.8 million made up of the net proceeds received.

The Associate reported an unaudited loss of €6.2 million for the period ending 4 April 2012 of which the Group recognised €nil as the investment was carried at €nil value.

The Associate's summary information for the comparative period is shown below:

	<b>As at 31 December 2011 €'000</b>
Non-current assets	972,080
Current assets	13,444
Non-current liabilities	(243,996)
Current liabilities	(1,352,211)
<b>Net Liabilities</b>	<b>(610,683)</b>
<b>Share of Associate's net liabilities</b>	<b>-</b>
	<b>Six months ended 30 June 2011 (unaudited) €'000</b>
Loss for the period	11,117
<b>Share of Associate's loss for the period</b>	<b>-</b>

The Group does not recognise a share in the losses of the Associate as the investment is held at €nil value.

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**10. OTHER ASSETS**

	<b>As at 30 June 2012 (unaudited) €'000</b>	<b>As at 31 December 2011 €'000</b>
Tenant incentives and leasing commission	9,328	9,056
Service charge receivable	3,999	5,397
Interest receivable	2,748	3,575
Rent receivable	2,470	1,239
Prepaid expenses	1,733	1,006
Other accounts receivable	2,495	2,602
<b>Total other assets</b>	<b>22,773</b>	<b>22,875</b>

**11. INVESTMENT PROPERTY**

	<b>As at 30 June 2012 (unaudited) €'000</b>	<b>As at 31 December 2011 €'000</b>
Tenant incentives and leasing commission (included in other assets - note 10)	9,328	9,056
Investment property held for sale	13,052	53,152
Investment property	2,138,931	2,162,243
<b>Closing balance</b>	<b>2,161,311</b>	<b>2,224,451</b>

As at 30 June 2012, the investment property held for sale is financed by approximately €10.2 million of bank borrowings (31 December 2011: approximately €41.6 million).

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions classified in other assets) as at 30 June 2012:

<b>(Unaudited)</b>	<b>Freehold land and buildings €'000</b>	<b>Leasehold property €'000</b>	<b>Total €'000</b>
Opening balance at 1 January 2012	2,144,403	80,048	2,224,451
Capital expenditure	8,622	-	8,622
Tenant incentives and leasing commissions	(2,264)	(3)	(2,267)
Free rent	(78)	-	(78)
Disposals	(48,707)	-	(48,707)
Increase in minimum payments under head lease	-	1,001	1,001
Decrease in fair value	(20,755)	(956)	(21,711)
<b>Total</b>	<b>2,081,221</b>	<b>80,090</b>	<b>2,161,311</b>

**As at 31 December 2011:**

	<b>Freehold land and buildings €'000</b>	<b>Leasehold property €'000</b>	<b>Total €'000</b>
Opening balance at 1 January 2011	3,321,712	79,203	3,400,915
Capital expenditure	10,991	-	10,991
Tenant incentives and leasing commissions	(10,936)	-	(10,936)
Free rent	990	-	990
Disposals	(139,960)	(2,563)	(142,523)
Transfer of investment in Mars Fixed 1	(985,066)	-	(985,066)
Increase in minimum payments under head lease	-	9,479	9,479
Decrease in fair value	(53,328)	(6,071)	(59,399)
<b>Total</b>	<b>2,144,403</b>	<b>80,048</b>	<b>2,224,451</b>

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of investment being valued. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only rely on historical transactional comparables. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, reletability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

Investment properties held for sale are stated at fair value, and are those properties that have been notarised for sale as at 30 June 2012. The gain or loss on the sale of investment property is reported in the fair value movements in the income statement.



EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	As at 30 June 2012 (unaudited) €'000	As at 31 December 2011 €'000
Investment property at market value	2,137,619	2,201,759
Minimum payments under head leases separately included in liabilities on the balance sheet	23,692	22,692
<b>Balance sheet carrying value of investment property</b>	<b>2,161,311</b>	<b>2,224,451</b>

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

<b>30 June 2012 (Unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Average</b>
Passing rent per sqm per month (€)	11.0	8.9	10.4
Market rent per sqm per month (€)	12.6	8.6	11.4
Average net initial yield	5.2%	7.1%	5.6%
Vacancy rate	24.2%	3.1%	18.7%

<b>31 December 2011</b>	<b>Office</b>	<b>Retail</b>	<b>Average</b>
Passing rent per sqm per month (€)	11.8	9.0	11.0
Market rent per sqm per month (€)	11.8	8.5	10.8
Average net initial yield	5.8%	7.1%	6.0%
Vacancy rate	20.4%	2.1%	15.7%

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. Lease arrangements over the land on which the 24 investment properties are built have unexpired terms ranging from 5 years to 88 years. Most are at a fixed rental, but some contain an obligation to pay a contingent rental calculated by reference to a retail price index. The amount recognised as an expense in the six months ended 30 June 2012 in respect of contingent rental is €0.5 million (six months ended 30 June 2011: €0.6 million).

**Sensitivity analysis**

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

<b>30 June 2012 (€'million and unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Market value	1,695	443	2,138
Increase in yield of 25 bps	1,627	430	2,057
<b>Value sensitivity</b>	<b>(68)</b>	<b>(13)</b>	<b>(81)</b>

  

<b>31 December 2011 (€'million)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Market value	1,753	449	2,202
Increase in yield of 25 bps	1,688	436	2,124
<b>Value sensitivity</b>	<b>(65)</b>	<b>(13)</b>	<b>(78)</b>

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Additional information**

The table below provides additional information for various portfolios within the Group at 30 June 2012 (unaudited):

<b>Portfolio</b>	<b>Property valuation <sup>(1)</sup> €'000</b>	<b>Term financing (face amount) €'000</b>	<b>Other assets/ (liabilities) <sup>(2)</sup> €'000</b>	<b>Net operating income <sup>(3)</sup> €'000</b>	<b>NOI yield on valuation %</b>	<b>Occupancy %</b>	<b>Capitalised expenditure <sup>(4)</sup> €'000</b>
Drive	784,176	697,970	30,848	32,481	4.1%	67.4%	3,707
Bridge	422,720	370,835	496	25,192	6.0%	97.1%	1,289
Wave	185,158	165,307	(17,971)	12,569	6.8%	82.5%	341
Mars Floating <sup>(5)</sup>	162,480	159,430	5,111	7,026	4.3%	58.6%	1,125
Turret	170,415	146,802	879	12,711	7.5%	97.5%	190
Truss	95,880	84,962	(344)	6,786	7.1%	98.3%	36
Mars Fixed 2	95,830	77,458	2,349	4,921	5.1%	83.5%	368
Belfry	60,720	54,430	(691)	4,560	7.5%	98.1%	185
Tannenberg	60,270	53,529	(177)	4,435	7.4%	95.5%	83
Rapid	55,830	52,315	162	3,920	7.0%	100.0%	10
Zama	44,140	39,708	552	3,283	7.4%	92.8%	12
<b>Total</b>	<b>2,137,619</b>	<b>1,902,746</b>	<b>21,215</b>	<b>117,885</b>	<b>5.5%</b>	<b>81.0%</b>	<b>7,346</b>

The table below provides additional information for various portfolios within the Group at 31 December 2011:

<b>Portfolio</b>	<b>Property valuation <sup>(1)</sup> €'000</b>	<b>Term financing (face amount) €'000</b>	<b>Other assets/ (liabilities) <sup>(2)</sup> €'000</b>	<b>Net operating income <sup>(3)</sup> €'000</b>	<b>NOI yield on valuation %</b>	<b>Occupancy %</b>	<b>Capitalised expenditure <sup>(4)</sup> €'000</b>
Drive	816,402	716,083	33,520	45,022	5.5%	77.6%	3,646
Bridge	424,360	372,090	886	28,134	6.6%	96.2%	1,201
Wave	205,754	172,081	(19,314)	13,967	6.8%	83.1%	940
Mars Floating <sup>(5)</sup>	165,800	159,844	5,036	6,959	4.2%	58.7%	1,799
Turret	172,865	147,556	1,734	13,418	7.8%	97.6%	302
Truss	97,290	85,280	703	7,457	7.7%	98.6%	189
Mars Fixed 2	96,340	78,384	3,251	5,176	5.4%	86.1%	342
Belfry	61,100	54,770	(389)	4,617	7.6%	98.1%	214
Tannenberg	61,130	52,960	765	4,429	7.2%	95.6%	51
Rapid	56,259	54,500	1,296	4,055	7.2%	100.0%	10
Zama	44,459	39,896	390	3,206	7.2%	93.3%	79
<b>Total</b>	<b>2,201,759</b>	<b>1,933,444</b>	<b>27,878</b>	<b>136,440</b>	<b>6.2%</b>	<b>84.3%</b>	<b>8,773</b>

<sup>(1)</sup> Property valuation excludes the leasehold gross-ups of €23.7 million (2011: €22.6 million)

<sup>(2)</sup> Other assets / liabilities do not include unallocated assets and liabilities per note 22 - segmental reporting

<sup>(3)</sup> Net operating income is after deducting €2.9 million of free rent (2011: €2.8 million). It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

<sup>(4)</sup> Capitalised expenditure represents actual expenditure for the year.

<sup>(5)</sup> The total portfolio includes 100% of the Mars Floating Portfolio, in which the Group has a 50% investment

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**12. CDO BONDS PAYABLE**

As at 30 June 2012 (unaudited):

	Class	Rating <sup>(1)</sup>	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years)
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	B/BB/B/ CC/C/C/ C/C/C/ C/C	355,202	352,884	1.62%	0.97%	3.1
<b>Total</b>			<b>355,202</b>	<b>352,884</b>	<b>1.62%</b>	<b>0.97%</b>	<b>3.1</b>

During the six months ended 30 June 2012, the Group repurchased €77.0 million of current face of the Duncannon bonds payable and recognised a net gain of €30.4 million. The Group did not repurchase any of the Duncannon bonds payable during the six months ended 30 June 2011.

In May 2012, Eurocastle Funding Limited purchased €0.8 million of Duncannon Class E notes at a price of 1% resulting in a gain to the Group of €0.8 million.

As at 31 December 2011:

	Class	Rating <sup>(1)</sup>	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years)
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	B/BB/B/ CC/C/C/ C/C/C/ C/C	434,033	431,700	2.39%	0.97%	3.9
<b>Total</b>			<b>434,033</b>	<b>431,700</b>	<b>2.39%</b>	<b>0.97%</b>	<b>3.9</b>

<sup>(1)</sup> CDO Bonds payable are rated at the lower of S&P and Fitch

**13 BANK BORROWINGS**

The bank borrowings comprise:

		As at 30 June 2012 (unaudited) €'000	As at 31 December 2011 €'000
Term financing	(note 13.1)	1,943,893	1,968,912
Loans and notes relating to the Mars Portfolios	(note 13.2)	2,777	5,314
<b>Total</b>		<b>1,946,670</b>	<b>1,974,226</b>

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13.1 Term Financing

Portfolios	Month raised	Current face amount €'000		Carrying amount €'000		Hedged weighted average funding cost (unaudited)	Weighted average funding cash coupon (unaudited)	Maturity
		As at 30 June 2012 (unaudited)	As at 31 December 2011	As at 30 June 2012 (unaudited)	As at 31 December 2011			
<b>Debt Investments</b>								
CDO IV	Jul 2005	41,147	44,131	41,147	44,131	1.29%	1.27%	Dec 2014
<b>Investment Property</b>								
Drive	Feb 2006	698,683	716,083	697,970	714,745	4.20%	4.09%	Jan 2013
Bridge	Oct 2006	372,090	372,090	370,835	370,437	4.74%	4.67%	Jan 2014
Wave	Apr 2007	165,778	172,081	165,307	171,428	4.94%	4.78%	Apr 2014
Mars Floating <sup>(1)</sup>	Jan 2007	159,703	159,844	159,430	159,765	2.70%	2.66%	Dec 2013
Turret <sup>(2)</sup>	May 2006	147,556	147,556	146,802	146,713	4.93%	4.85%	May 2016
Truss <sup>(2)</sup>	Dec 2005	85,280	85,280	84,962	84,920	4.93%	4.85%	Feb 2016
Mars Fixed 2	Jun 2008	78,303	78,384	77,458	77,114	5.18%	5.09%	Jun 2013
Belfry <sup>(2)</sup>	Aug 2005	54,770	54,770	54,430	54,383	4.85%	4.66%	Oct 2015
Rapid <sup>(2)</sup>	Aug 2007	54,500	54,500	53,529	53,440	4.96%	4.91%	Nov 2017
Tannenberg <sup>(2)</sup>	May 2007	52,960	52,960	52,315	52,176	4.87%	4.66%	Oct 2014
Zama	Feb 2007	39,896	39,896	39,708	39,660	4.99%	4.86%	May 2014
<b>Total investment property</b>		<b>1,909,520</b>	<b>1,933,444</b>	<b>1,902,746</b>	<b>1,924,781</b>	<b>4.45%</b>	<b>4.35%</b>	
<b>Total term financing</b>		<b>1,950,667</b>	<b>1,977,575</b>	<b>1,943,893</b>	<b>1,968,912</b>	<b>5.74%</b>	<b>5.62%</b>	
Adjustment for costs of Mars refinancing <sup>(3)</sup>				-	-			
<b>Net total term financing</b>				<b>1,943,893</b>	<b>1,968,912</b>			

<sup>(1)</sup> As per note 19, these loans have been reclassified as payable within one year in the current and prior year.

<sup>(2)</sup> These portfolios make up the Retail portfolios

<sup>(3)</sup> Eurocastle transferred 50% of its interest in the Mars Fixed 1 and Floating portfolios to the lender and this is considered to be a cost of refinancing and is amortised over the life of the new loan facility (see note 13.2). The amortisation charge for the six months ended 30 June 2012 was €nil (30 June 2011: €1.7 million).

The cash amount of interest paid is calculated by multiplying the weighted average funding cash coupon by the current face amount on an Actual/360 basis.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13.2 Loans and notes relating to Mars Portfolio

	As at 30 June 2012 (unaudited) €'000	As at 31 December 2011 €'000
<b>Within Mars Floating Portfolio</b>		
Loan notes and Shareholder Loans	275,320	265,444
Less: Remeasurement adjustment to amortised cost	(269,766)	(254,816)
Adjusted amortised cost	5,554	10,628
<b>Transfer of 50% of the adjusted amortised cost to the lender</b>	<b>2,777</b>	<b>5,314</b>

In consideration of the extension of the Mars Floating facility, the Group agreed to transfer to the Mars Floating lender half of its equity investment in the combined Mars portfolios. This transfer was legally affected on 27 May 2009 and comprised the transfer of Loan Notes and Shareholder's Loans relating to the lender's financing of the portfolios. The terms and conditions of the loan notes and shareholder loans provide that the holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying investment properties. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments.

14. TRADE AND OTHER PAYABLES

	As at 30 June 2012 (unaudited) €'000	As at 31 December 2011 €'000
Security deposit	5,952	4,968
Interest payable	16,135	15,780
Due to Manager (note 21)	4,430	3,690
Accrued expenses and other payables	33,980	31,650
<b>Total trade and other payables</b>	<b>60,497</b>	<b>56,088</b>

Accrued expenses and other payables include provisions relating to capital expenses of €17.7 million (31 December 2010: €18.0 million).

15. LOSS PER SHARE

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

Diluted earnings per share is calculated by dividing net loss available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the year. The share options and convertible securities were not dilutive for the six months ended 30 June 2011 as the Group was in a loss position. Therefore, the basic earnings per share and dilutive earnings per share are the same for this period.

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

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

	As at 30 June 2012 (unaudited) €'000	As at 31 December 2011 €'000
Weighted average number of ordinary shares, outstanding and basic	85,353,249	74,752,269
Potential dilutive effect of ordinary share options and convertible securities	442,001,744	403,895,187

**16. SHARE CAPITAL AND RESERVES****Share Capital**

As at 30 June 2012, there were 86,951,632 shares (31 December 2011: 86,577,189) issued and outstanding.

A portion of the convertible security holders presented their convertible securities and capitalised interest for conversion. Eurocastle duly converted these securities and issued shares as follows:

<b>Date</b>	<b>Value of convertible securities (unaudited) €'000</b>	<b>No. of ordinary shares issued (unaudited)</b>
1 June 2012	111	370,443
<b>Total</b>	<b>111</b>	<b>370,443</b>

On 13 June 2012, 4,000 shares were issued to the Directors of the Group per their in-place compensation arrangements at nil consideration. These shares are valued at fair value.

Under the Group'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 at the grant date of unexercised share options, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006. The terms of which are set out in note 30 of the Notes to the Consolidated Financial Statements in the 2011 Annual Report.

**17. HEDGE ACCOUNTING**

The Group's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is applied to cash flow and fair value hedges of interest rate risk exposures. Interest rate swaps under which the Group pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowings. Interest rate swaps where the Group pays a fixed rate and receives a floating rate have been used to hedge the fair value of the loans and receivable assets in Feco.

At 30 June 2012, cumulative unrealised gains on hedge instruments were €8.2 million (31 December 2011: €8.1 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €3.4 million (31 December 2011: €4.5 million) and the fair value loss of the interest rate swaps of €11.6 million (31 December 2011: €12.6 million).

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

**18. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES**

	<b>As at 30 June 2012 (unaudited) €'000</b>	<b>As at 31 December 2011 €'000</b>
Convertible securities issued	99,750	99,750
Accrued interest	65,279	52,107
Capitalised issue costs	(1,200)	(1,200)
Convertible securities converted into ordinary shares	(5,912)	(5,835)
<b>Total</b>	<b>157,917</b>	<b>144,822</b>

There were no material changes to the terms of the perpetual subordinated convertible securities from those stated in note 26 of the Notes to the Consolidated Financial Statements in the 2011 Annual Report.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 19. FINANCIAL INSTRUMENTS

The Group's debt investments are generally financed long-term, with 87.4% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored.

The Group's investment property portfolio is generally financed with long-term, fixed rate, non-recourse financing with the exception of some non-core assets within the Mars Floating portfolio which, as at 31 December 2011, were financed with a floating rate facility of €159.8 million of which €9.8 million was due and outstanding at the end of 2011. In the first half of 2012, this facility was restructured. All contingent guarantees previously provided by the Company have been removed and the scheduled amortisation payments were revised in accordance with an agreed sales plan. The first payment to reduce the outstanding balance to €120.0 million is due December 2012 and the remaining balance due at the end of 2013. In addition, €105.0 million is now at a fixed rate of 2.75% with the remaining balance at a floating rate of 3 month Euribor plus a margin of 1.75% which is capped should Euribor rise above 2.50%.

The Drive Junior facility continues to breach certain financial covenants. These breaches have been and continue to be temporarily waived under rolling standstill agreements with lenders. The Group receives asset management fees in respect of the Drive portfolio on the same rolling and contingent basis. The Group is in an active dialogue with the Senior and Junior lenders with a view to restructuring and extending the loan beyond the current maturity date of January 2013.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 30 June 2012 (unaudited) and 31 December 2011:

## As at 30 June 2012 (unaudited)

Type	Total outstanding at 30 June 2012 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
<b>Assets</b>				
Cash and cash equivalents	134,530	134,530	-	-
Interest receivable <sup>(1)</sup>	2,748	13,356	26,707	1,817
Asset backed securities, available-for-sale	47,044	1	35,321	11,722
Loans and receivables (includes cash to be invested)	399,481	38,774	264,434	96,273
Derivative assets <sup>(2)</sup>	15,417	-	11,915	3,502
<b>Total assets</b>	<b>599,220</b>	<b>186,661</b>	<b>338,377</b>	<b>113,314</b>
<b>Liabilities</b>				
Interest payable <sup>(1)</sup>	16,135	91,286	76,994	1,352
Derivative liabilities <sup>(2)</sup>	12,114	5,974	6,140	-
CDO bonds payable	352,884	-	-	352,884
Bank borrowings <sup>(3)</sup>	1,946,670	775,428	1,117,713	53,529
Finance leases payable <sup>(4)</sup>	23,692	1,058	3,914	18,720
<b>Total liabilities</b>	<b>2,351,495</b>	<b>873,746</b>	<b>1,204,761</b>	<b>426,485</b>

<sup>(1)</sup> Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.

<sup>(2)</sup> Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.

<sup>(3)</sup> As at 30 June 2012, the Group was in default for Drive Junior loan.

<sup>(4)</sup> Finance leases payable represent all lease payments due over the lives of the leases.

Gross settled derivatives	Total outstanding at 30 June 2012 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(106,480)	-	(89,181)	(17,299)
Contractual amounts receivable	121,897	-	101,096	20,801
<b>Total undiscounted gross settled derivatives outflow</b>	<b>15,417</b>	<b>-</b>	<b>11,915</b>	<b>3,502</b>

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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**Maturities and mandatory amortisation**

Portfolio (€m)	2012	2013	2014	2015	2016	2017	Total
<b>Non recourse</b>							
Drive <sup>(1)</sup>	-	689.2	-	-	-	-	689.2
Bridge	-	-	372.1	-	-	-	372.1
Wave	-	-	153.5	-	-	-	153.5
Mars Floating	39.8	120.0	-	-	-	-	159.8
Turret	-	-	-	-	147.6	-	147.6
Truss	-	0.9	0.9	0.9	82.7	-	85.4
Mars Fixed 2	-	78.3	-	-	-	-	78.3
Belfry	-	0.5	0.5	53.7	-	-	54.7
Tannenberg	-	-	53.0	-	-	-	53.0
Superstella	-	-	-	-	-	54.5	54.5
Zama	-	-	39.9	-	-	-	39.9
<b>Real estate portfolio</b>	<b>39.8</b>	<b>888.9</b>	<b>619.9</b>	<b>54.6</b>	<b>230.3</b>	<b>54.5</b>	<b>1,888.0</b>
CDO IV	-	-	41.1	-	-	-	41.1
<b>Debt Total</b>	<b>-</b>	<b>-</b>	<b>41.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41.1</b>
<b>Grand total</b>	<b>39.8</b>	<b>888.9</b>	<b>661.0</b>	<b>54.6</b>	<b>230.3</b>	<b>54.5</b>	<b>1,929.1</b>

<sup>(1)</sup> The Drive Junior loans continue to breach certain loan covenants as described in note 19. The table above assumes contractual amortisation. The legal maturity of this loan is January 2013.

**As at 31 December 2011**

Type	Total outstanding at 31 December 2011			
	€'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
<b>Assets</b>				
Cash and cash equivalents	117,669	117,669	-	-
Interest receivable <sup>(1)</sup>	3,575	16,553	42,159	350
Asset backed securities, available-for-sale	45,543	150	32,690	12,703
Loans and receivables (includes cash to be invested)	448,647	230,685	204,877	13,085
Derivative assets <sup>(2)</sup>	20,170	1,771	10,175	8,224
<b>Total assets</b>	<b>635,604</b>	<b>366,828</b>	<b>289,901</b>	<b>34,362</b>
<b>Liabilities</b>				
Interest payable <sup>(1)</sup>	15,780	98,363	129,742	8,224
Derivative liabilities <sup>(2)</sup>	13,228	6,520	6,708	-
CDO bonds payable	431,700	-	-	431,700
Bank borrowings <sup>(3)</sup>	1,974,226	874,511	1,046,276	53,439
Finance leases payable <sup>(4)</sup>	22,692	1,044	4,287	48,090
<b>Total liabilities</b>	<b>2,457,626</b>	<b>980,438</b>	<b>1,187,013</b>	<b>541,453</b>

<sup>(1)</sup> Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.

<sup>(2)</sup> Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.

<sup>(3)</sup> As at 31 December 2011, the Group was in default for the Mars Floating, and Drive Junior loan. Therefore, the loans were reclassified as payable within one year.

<sup>(4)</sup> Finance leases payable represent all lease payments due over the lives of the leases.



**Gross settled derivatives**

	<b>Total outstanding at 31 December 2011 €'000</b>	<b>Within 1 year €'000</b>	<b>1 to 5 years €'000</b>	<b>Over 5 years €'000</b>
Contractual amounts payable	(134,453)	(7,196)	(95,812)	(31,445)
Contractual amounts receivable	154,623	8965	105,986	39,672
<b>Total undiscounted gross settled derivatives inflow</b>	<b>20,170</b>	<b>1,769</b>	<b>10,174</b>	<b>8,227</b>

**20. DIVIDENDS PAID AND DECLARED**

No dividends were declared or paid during the six months period ended 30 June 2012 (2011: €nil).

**21. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS**

At 30 June 2012, management fees, incentive fees and expense reimbursements of approximately €4.4 million (31 December 2011: €3.7 million) were due to the Manager. For the six months ended 30 June 2012 management fees of €10.8 million (30 June 2011: €10.9 million), no incentive fees (30 June 2011: € nil), and expense reimbursements of €2.8 million (30 June 2011: €2.7 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.2 million payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

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

**22. SEGMENTAL REPORTING**

The Group operates in one geographical segment, being Europe. The Group is organised into two business units and conducts business through two primary segments: debt investments, relating to the Irish entities that it consolidates under SIC 12, and its German investment properties. The debt investments consist of investments in European real estate related debt, and the investment properties segment includes investing in, financing and management of high-quality German commercial properties.

The debt investment segment derives its income primarily from interest on the available-for-sale securities and loans and receivables.

The investment properties segment derives its income primarily from rental income and service charge income.

Segment assets for the debt investment segment include available-for-sale securities and loans and receivables. Segment assets for the investment properties segment represent investment properties (including investment properties available-for-sale).

Segment liabilities for the debt investment segment include CDO bonds payable and bank borrowings. Bank borrowings are also included as segment liabilities within the investment properties segment.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

	Debt Investment €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
<b>Six months ended 30 June 2012 (unaudited)</b>				
Revenue <sup>(1)</sup>	12,413	85,790	74	98,277
Impairment losses	(17,025)	-	-	(17,025)
Other operating income / (loss)	31,924	(14,904)	-	17,020
<b>Total operating income</b>	<b>27,312</b>	<b>70,886</b>	<b>74</b>	<b>98,272</b>
Interest expense	(5,140)	(42,820)	-	(47,960)
Other operating income / (expense)	(737)	(39,054)	(9,591)	(49,382)
<b>Total operating expenses</b>	<b>(5,877)</b>	<b>(81,874)</b>	<b>(9,591)</b>	<b>(97,342)</b>
<b>Net operating gain / (loss)</b>	<b>21,435</b>	<b>(10,988)</b>	<b>(9,517)</b>	<b>930</b>
Taxation expense	-	(280)	-	(280)
<b>Net gain / (loss)</b>	<b>21,435</b>	<b>(11,268)</b>	<b>(9,517)</b>	<b>650</b>
(Increase) / decrease in fair values	(168)	21,711	-	21,543
Realised gains on sale	-	7,653	-	7,653
Deferred tax	-	37	-	37
<b>Funds from operations</b>	<b>21,267</b>	<b>18,133</b>	<b>(9,517)</b>	<b>29,883</b>

<sup>(1)</sup> Included within revenue income is interest income of €12.4 million within the debt investment segment and €nil million within the investment properties

	Debt Investment €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
<b>Six months ended 30 June 2011 (unaudited)</b>				
Revenue <sup>(1)</sup>	25,154	121,139	87	146,380
Impairment losses	(41,038)	-	-	(41,038)
Other operating income / (loss)	2,753	(37,944)	-	(35,191)
<b>Total operating (loss) / income</b>	<b>(13,131)</b>	<b>83,195</b>	<b>87</b>	<b>70,151</b>
Interest expense	(13,669)	(67,197)	-	(80,866)
Other operating income	(1,206)	(46,691)	(12,338)	(60,235)
<b>Total operating expenses</b>	<b>(14,875)</b>	<b>(113,888)</b>	<b>(12,338)</b>	<b>(141,101)</b>
<b>Net operating loss</b>	<b>(28,006)</b>	<b>(30,693)</b>	<b>(12,251)</b>	<b>(70,950)</b>
Taxation expense	-	(1,163)	-	(1,163)
<b>Net loss</b>	<b>(28,006)</b>	<b>(31,856)</b>	<b>(12,251)</b>	<b>(72,113)</b>
Decrease in fair values	142	27,856	-	27,998
Realised gains on sale	-	(74,934)	-	(74,934)
Deferred tax	-	1,515	-	1,515
<b>Funds from operations</b>	<b>(27,864)</b>	<b>(77,419)</b>	<b>(12,251)</b>	<b>(117,534)</b>

<sup>(1)</sup> Included within revenue income is interest income of €25.2 million within the debt investment segment and €0.3 million within the investment properties

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Segmental Balance Sheet:**

	<b>Debt Investment €'000</b>	<b>Investment Properties €'000</b>	<b>Unallocated €'000</b>	<b>Total Eurocastle €'000</b>
<b>As at 30 June 2012 (unaudited)</b>				
Total assets	487,737	2,283,301	517	2,771,555
Total liabilities	(395,556)	(1,992,658)	(7,773)	(2,395,987)
<b>Segment net assets / (liabilities)</b>	<b>92,181</b>	<b>290,643</b>	<b>(7,256)</b>	<b>375,568</b>
Tax liability	-	(9,229)	-	(9,229)
Non-controlling interest	(2)	(4)	-	(6)
<b>Net assets / (liabilities)</b>	<b>92,179</b>	<b>281,410</b>	<b>(7,256)</b>	<b>366,333</b>

	<b>Debt Investment €'000</b>	<b>Investment Properties €'000</b>	<b>Unallocated €'000</b>	<b>Total Eurocastle €'000</b>
<b>As at 31 December 2011</b>				
Total assets	545,040	2,324,479	1,288	2,870,807
Total liabilities	(478,949)	(2,014,973)	(4,012)	(2,497,934)
<b>Segment net assets / (liabilities)</b>	<b>66,091</b>	<b>309,506</b>	<b>(2,724)</b>	<b>372,873</b>
Tax liability	-	(9,932)	-	(9,932)
Non-controlling interest	(2)	(4)	-	(6)
<b>Net assets / (liabilities)</b>	<b>66,089</b>	<b>299,570</b>	<b>(2,724)</b>	<b>362,935</b>

**Segmental Cashflows:**

	<b>Debt Investment €'000</b>	<b>Investment Properties €'000</b>	<b>Unallocated €'000</b>	<b>Total Eurocastle €'000</b>
<b>Six months ended 30 June 2012 (unaudited)</b>				
Cashflows from operating activities	6,559	5,741	(9,961)	2,339
Cashflows from investing activities	43,394	46,918	-	90,312
Cashflows from financing activities	(48,024)	(28,239)	-	(76,263)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,929</b>	<b>24,420</b>	<b>(9,961)</b>	<b>16,388</b>

	<b>Debt Investment €'000</b>	<b>Investment Properties €'000</b>	<b>Unallocated €'000</b>	<b>Total Eurocastle €'000</b>
<b>Six months ended 30 June 2011 (unaudited)</b>				
Cashflows from operating activities	7,405	3,785	(1,836)	9,354
Cashflows from investing activities	(11,415)	119,488	-	108,073
Cashflows from financing activities	(9,263)	(106,824)	-	(116,087)
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(13,273)</b>	<b>16,449</b>	<b>(1,836)</b>	<b>1,340</b>

**23. SUBSEQUENT EVENTS**

Since the half year-end, the Group has entered into binding agreements to sell a further 5 properties for estimated total proceeds of €17.6 million. Once completed and after repayment of asset level financings, these sales are expected to generate up to €0.3 million of cash.

Subsequent to 30 June 2012, €3.7 million of Eurocastle's convertible securities were presented for conversion into shares. These securities were converted into 12,180,650 ordinary shares after taking into account the impact of deferred interest.

**24. COMMITMENTS**

As at 30 June 2012, the Group has no material commitments that were not disclosed in these financial statements (31 December 2011: none).