

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
INTERIM REPORT TO SHAREHOLDERS FOR THE
SIX MONTHS ENDED 30 JUNE 2014

Eurocastle Investment Limited ("Eurocastle" or the "Company") today announced its financial results for the six months ended 30 June 2014. Eurocastle and its consolidated investments (together with Eurocastle, the "Group") have invested primarily in Italian non-performing loans and real estate fund units, German commercial real estate and European real estate debt. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". For more information regarding Eurocastle, please visit www.eurocastleinv.com.

BUSINESS AND FINANCIAL REVIEW

Strategy

The Company continues to focus its investment strategy on Italy and is targeting a wide range of real estate related products, including, but not limited to, non-performing loans ("NPLs"), real estate fund units and real estate assets. The Company may also pursue other performing and non-performing loan and receivable deals in Italy, real estate related investments (including direct and real estate-related debt investments) in other European markets, including Germany and the United Kingdom. The Company will generally target assets that generate significant current cash flows and/or have the potential for meaningful capital appreciation. At the same time, the Group may further invest in its legacy business to preserve or harvest value from the underlying portfolio.

Dividends

The Company has declared and paid cash dividends for the first two quarters of 2014. Each quarter's dividend was for a total of €4.1 million which equated to a dividend of €0.125 per ordinary share.

New Investments

On 9 June 2014, the Group acquired 25% of the membership interest of Fortress Italian NPL Opportunities Series Fund LLC (the "Series 1 Fund") for a total consideration of €7.4 million. The Series 1 Fund acquired the non-performing loan portfolio from Banca Monte dei Paschi di Siena ("MPS") on 27 June 2014.

During the half-year, the Company received €4.2 million of cash from the investments in the performing and non-performing loan portfolios. The fair value of the Group's investment increased by €1.3 million in the half-year⁽¹⁾.

| (Unaudited) | Acquisition Date | Gross book value⁽¹⁾ €000 | Purchase price⁽¹⁾ €000 | No. of loans | Secured % |
|----------------------------------|-----------------------------|--|--|-------------------------|----------------------|
| Palazzo portfolio | May 2013 | 8,102.8 | 4,594.2 | 869 | 100.0% |
| Ieffe and BAM portfolios | May 2013 | 3,252,804.1 | 9,412.5 | 7,290 | 11.7% |
| BNL portfolio | July 2013 | 6,895.9 | 2,632.5 | 86 | 100.0% |
| MPS portfolio | June 2014 | 883,100.0 | 7,357.0 | 11,763 | 19.0% |
| Total Italian Investments | | 4,150,902.8 | 23,996.2 | 20,008 | 13.6% |

| (Unaudited) | Actual⁽¹⁾ | | | Underwriting⁽¹⁾ | |
|----------------------------------|--|--|--|--|--|
| | Estimated future cashflows €000 | Life to date cashflows⁽²⁾ €000 | Internal rate of return⁽³⁾ % | Life to date cashflows⁽²⁾ €000 | Internal rate of return⁽³⁾ % |
| Palazzo portfolio | 3,145.6 | 3,477.5 | 37.6% | 2,883.4 | 17.1% |
| Ieffe and BAM portfolios | 7,805.0 | 7,621.6 | 53.8% | 5,591.3 | 19.9% |
| BNL portfolio | 3,110.6 | 907.5 | 21.8% | 643.8 | 18.4% |
| MPS portfolio | 12,504.4 | - | 20.7% | - | 20.7% |
| Total Italian Investments | 26,565.6 | 12,006.6 | 37.8% | 9,118.5 | 19.4% |

⁽¹⁾ The amount is shown net of minority interests

⁽²⁾ Cash flows received from date of acquisition

⁽³⁾ Effective rate represents current estimated internal rate of return given cash flows received to date and projected cash flows based on the current projections and original underwriting assumptions.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
INTERIM REPORT TO SHAREHOLDERS FOR THE
SIX MONTHS ENDED 30 JUNE 2014

On 28 March 2014, the Group purchased 11,929 (representing 7.46%) of the units in UniCredito Immobiliare Uno – Closed-End Real Estate Investment Fund ("UIU") for €1.3 million. The acquisition cost per unit was €1,787.50 which was a 36.5% discount to NAV of the fund. In addition, the Group incurred €1.0 million of transaction costs. UIU is a close-ended real estate fund listed on the Italian Stock Exchange. It was incorporated in 2009 and has a maturity of 31 December 2017. The fund invests in a variety of real estate across Italy which includes residential, office and commercial properties. As at 30 June 2014, the share price was €1,822.00 per unit.

| Split of Property portfolio (Unaudited) | No. of assets | Market value of assets €000 | Market value as % of total portfolio |
|--|----------------------|--|---|
| Office | 2 | 236,800 | 48% |
| Residential and residential conversions | 3 | 148,423 | 30% |
| Commercial | 1 | 55,684 | 11% |
| Retail | 8 | 51,637 | 11% |
| Total portfolio | 14 | 492,544 | 100% |

Existing Business - European Real Estate Debt

In January 2014, the Group sold the remaining securities in the CDO IV portfolio for an average price of 96.4% of face value. After repaying the CDO IV facility in full, the Group realised €22.5 million of cash.

In February 2014, Eurocastle Funding Limited acquired €4.0 million of the Group's own senior liabilities at a price of 51% of nominal generating a book gain of €2.0 million.

The net asset value of the portfolio remained stable in the quarter at €24.0 million with €0.4 million of an impairment charge to the Group's loan and receivable positions, set off by accretion income in the other positions.

In the second quarter of 2014, the Duncannon portfolio received €12.0 million of amortisation proceeds. These proceeds (together with additional available cash) were used to repay €12.4 million of senior debt, with €247.0 million of debt outstanding at the end of June 2014.

Since June 2009, Duncannon has failed to meet certain cashflow triggers, where compliance is generally a function of the default rate and external credit ratings of the underlying investments. As a consequence, excess interest has been mandatorily diverted to amortise senior debt. In order to meet this threshold, the value (calculated by reference to various rating agency criteria) of the assets must exceed the amount of debt senior to Eurocastle's interest by at least 5%. As at 30 June 2014, the ratio was reported at 78.0% against the required covenant level of 105%, which equates to a shortfall of €67.9 million or 27.0%. The Company does not therefore expect to receive cash flows from this portfolio in the near term.

The net assets of the debt business as disclosed in note 26 is shown by portfolio in the table below:

| (Unaudited) | CDO IV (1) | Duncannon (2) | Balance Sheet (3) | Total European Debt Portfolio |
|--|-----------------------|--------------------------|------------------------------|--------------------------------------|
| | €000 | €000 | €000 | €000 |
| Total assets | 8,165 | 260,846 | 1,942 | 270,953 |
| Total liabilities | (7) | (246,896) | (104) | (247,007) |
| Net assets excluding non-controlling interest | 8,158 | 13,950 | 1,838 | 23,946 |

The summarised portfolio strats as at 30 June 2014 are as follows:

| (Unaudited) | CDO IV (1) | Duncannon (2) | Balance Sheet (3) | Total European Debt Portfolio |
|-------------------------------------|-----------------------|--------------------------|------------------------------|--------------------------------------|
| Weighted average Credit Rating | D | CCC | D | CCC |
| % Investment Grade | 0% | 16% | 0% | 14% |
| Number of securities ⁽⁴⁾ | 2 | 51 | 4 | 48 |
| Debt Maturity | - | Jun 2047 | - | - |

⁽¹⁾ CDO IV represents the net assets of CDO IV PLC

⁽²⁾ Duncannon represents the net assets of Duncannon CRE CDO I PLC

⁽³⁾ Balance Sheet represents the net assets of Eurocastle Funding Limited

⁽⁴⁾ The number of securities consolidates positions where multiple classes are held. The total column eliminates positions that are held in two or more portfolios.

Existing Business - German Commercial Real Estate

The Group has a number of non-recourse financing facilities which are due to reach maturity within the next 12 months at which time, the outstanding balance of the financings will become due and payable unless such financings can be extended. If proceeds from the sale of the assets which secure the relevant portfolio financing do not equal or exceed the amount outstanding under the relevant portfolio financing, the Group would be unable to repay the outstanding balance of the relevant portfolio financing when it becomes due and payable. The Group will engage in discussions with lenders in relation to the relevant portfolio financing, as they approach maturity, typically commencing such discussions three to six months prior to the relevant maturity date. Given the non-recourse nature of the financings, the Company is not obliged to utilise any additional capital to support any of the relevant portfolio financings.

In April 2014, the Senior loan of the Drive portfolio was refinanced by the lending syndicate of the Junior facility to a maturity date of 15 January 2016 with interim amortisation targets of €10.0 million in July 2014, €70.0 million in January 2015 and €35.0 million in July 2015. The Junior loan was also extended in parallel at in-place terms to the same final maturity date. Additional terms of the Senior Loan include an arrangement fee of 1.1% (equivalent to an amount of €1.6 million), interest at a rate of 3 month Euribor plus 3.1% and an additional undrawn facility of up to €20 million to fund capital expenditures. Excess cash flow will continue to be retained at the senior loan level until the loan is repaid in full.

Sale fees equivalent to 3.5% of gross sales proceeds will continue to be paid to the Group should it meet the repayment targets with €1.2 million released to the Company in April following the repayment of the existing Senior loan and a further €1.1 million in July. The outstanding balance reported as at 31 December 2013 of €42.3 million has since been repaid by a further €44.4 million, primarily from asset sales, resulting in a remaining balance of €97.9 million.

In April 2014, the Group agreed a short term extension of the Wave facility to end of August 2014 with an option to extend the loan a further 2 months should Eurocastle have agreed a sale of the remaining assets by the initial maturity date. As part of the terms of the extension, the loan has been repaid by €38.5 million in 2014, reducing the outstanding balance to €68.2million (equivalent to a loan to value of 60% on the remaining assets). Of the €38.5 million repaid, €29.0 million was generated from the sale of four assets. The remaining amount of €9.5 million was paid using available cash within the Group, of which €6.1m came from corporate cash and €3.4m from cash reserves held within the Wave portfolio.

The Group is in advanced negotiations for a sale of the Wave portfolio. In parallel with the sales process, the Group has also received favourable terms to refinance the portfolio on both a short and a long term basis.

In January 2014, the Group secured an amendment to the Mars Floating facility extending the December 2013 maturity for a further six months to 30 June 2014. The Company continues to benefit from running asset management and sales fees, receiving €0.5 million in the first six months of 2014. Since the year end, one asset has been sold and the loan has been repaid by a further €8.7 million reducing the outstanding balance to €18.0 million. The remaining assets are now under binding sales contracts for a total value of €70.3 million which will generate an additional €0.9m of sales fees to the Company. In order to facilitate the closure of the sales, the facility has been extended on a short-term basis to 31 August 2014. As with all of the Group's real estate financings, the debt is non-recourse to Eurocastle.

Following the maturity of the Zama portfolio facility, the loan of €39.9 million is currently subject to a short term standstill pending negotiations of a proposed 2 year extension.

Ahead of its October 2014 loan maturity, the Group is also currently in discussions with the lenders of the Tannenberg portfolio regarding a potential extension of the facility.

During the six months ended 30 June 2014 and excluding Mars Floating, the Group signed 49 commercial leases for approximately 18,785 square metres (sqm). Of the leases signed, 5,976 sqm relate to new leases. The renewal rate for the six months ending 30 June 2014 was 76.6%. Physical occupancy was at 76.6% compared to 78.2% at the end of 2013 on a like-for-like basis. In the first six months of 2014, the Group sold 15 properties for total sales proceeds of €87.4 million versus a carrying value of €86.0 million a loss after transaction costs (€3.9 million).

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

BUSINESS AND FINANCIAL REVIEW

As at 30 June 2014, the NAV of the German Real Estate business excluding the Mars Floating portfolio was €13.4 million. Valuation adjustments arising from binding sales contracts, together with capital expenditure, resulted in a fair value loss of €20.5 million. On 15 January 2014, the Bridge portfolio financing matured without any agreement on an extension or a refinancing. Following the execution of the Lender's security shares in the Company's subsidiaries holding the Bridge portfolio, these companies were transferred out of the Group. Consequently, the Group deconsolidated the Bridge portfolio with a reduction in NAV of €26.1 million.

Property Valuation Data (by Portfolio)

For 2014:

| | Number of properties | Occupancy % | Lettable space (sqm) | Property valuation ⁽¹⁾ €m | Passing Rent €m | Net operating income (NOI) ⁽²⁾ €m | NOI yield on valuation % |
|---------------------------------------|----------------------|--------------|----------------------|--------------------------------------|-----------------|--|--------------------------|
| Drive | 131 | 51.6% | 282,614 | 444.1 | 23.6 | 16.1 | 3.6% |
| Turret | 63 | 95.4% | 141,608 | 165.7 | 14.3 | 11.8 | 7.1% |
| Wave | 44 | 75.6% | 108,041 | 114.0 | 9.0 | 6.2 | 5.4% |
| Truss | 41 | 95.3% | 81,367 | 90.7 | 7.9 | 6.3 | 6.9% |
| Mars Fixed 2 | 2 | 89.8% | 32,172 | 89.9 | 5.7 | 4.1 | 4.5% |
| Belfry | 27 | 85.7% | 52,900 | 56.5 | 4.6 | 3.7 | 6.5% |
| Tannenberg | 27 | 89.7% | 49,574 | 58.4 | 4.9 | 4.0 | 6.9% |
| Superstella | 18 | 100.0% | 38,641 | 55.1 | 4.4 | 3.9 | 7.0% |
| Zama | 8 | 94.8% | 30,396 | 43.6 | 3.8 | 3.5 | 8.0% |
| Total portfolio excluding Mars | 361 | 76.6% | 817,313 | 1,118.0 | 78.2 | 59.6 | 5.3% |
| Mars Floating ⁽³⁾ | 6 | 59.8% | 103,747 | 70.3 | 6.9 | 4.6 | 6.5% |
| Total portfolio | 367 | 74.7% | 921,060 | 1,188.3 | 85.1 | 64.2 | 5.4% |

For 2013 (on a like-for-like basis):

| | Number of properties | Occupancy % | Lettable space (sqm) | Property valuation ⁽¹⁾ €m | Passing Rent €m | Net operating income (NOI) ⁽²⁾ €m | NOI yield on valuation % |
|---------------------------------------|----------------------|--------------|----------------------|--------------------------------------|-----------------|--|--------------------------|
| Drive | 131 | 55.4% | 282,610 | 452.5 | 24.5 | 16.2 | 3.6% |
| Turret | 63 | 96.2% | 141,608 | 170.0 | 14.6 | 12.9 | 7.6% |
| Wave | 44 | 76.4% | 108,079 | 113.7 | 9.1 | 7.1 | 6.2% |
| Truss | 41 | 92.9% | 81,437 | 92.7 | 7.8 | 6.8 | 7.4% |
| Mars Fixed 2 | 2 | 92.1% | 32,163 | 89.3 | 5.9 | 4.7 | 5.2% |
| Belfry | 27 | 86.7% | 52,900 | 57.3 | 4.6 | 3.9 | 6.7% |
| Tannenberg | 27 | 90.7% | 49,574 | 58.5 | 5.0 | 4.2 | 7.2% |
| Superstella | 18 | 100.0% | 38,641 | 55.2 | 4.4 | 4.0 | 7.3% |
| Zama | 8 | 95.2% | 30,396 | 44.6 | 3.7 | 3.3 | 7.4% |
| Total portfolio excluding Mars | 361 | 78.2% | 817,408 | 1,133.8 | 79.6 | 63.1 | 5.6% |
| Mars Floating ⁽³⁾ | 6 | 55.6% | 103,738 | 83.7 | 6.5 | 3.3 | 4.0% |
| Total portfolio | 367 | 75.6% | 921,146 | 1,217.5 | 86.1 | 66.4 | 5.5% |

⁽¹⁾ Property valuation excludes the leasehold gross-ups of €25.2 million (31 December 2013: €23.1 million).

⁽²⁾ Net operating income is after deducting €2.6 million (31 December 2013: €1.1 million on a like-for-like basis) 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.

⁽³⁾ The total portfolio includes 100% of the Mars Floating Portfolio, in which the Group has a 50% investment. The portfolio has a negative net asset value and has been separated as the financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

BUSINESS AND FINANCIAL REVIEW

Lease Expiry Data (by Portfolio) for 2014:

| | Average lease term (years) | Passing rent ⁽¹⁾ | | | | | | |
|---------------------------------------|----------------------------|-----------------------------|------------|-------------|-------------|------------|-----------------|----------------------------|
| | | 2014 €m | 2015 €m | 2016 €m | 2017 €m | 2018 €m | 2018-2023 €m | 2024+ ⁽²⁾ €m |
| Drive | 3.2 | 0.2 | 1.0 | 3.9 | 12.6 | 0.4 | 4.5 | 1.0 |
| Turret | 6.1 | 0.1 | 1.9 | 2.8 | 1.1 | 1.7 | 2.4 | 4.3 |
| Wave | 5.5 | 0.1 | 0.8 | 0.4 | 0.3 | 0.4 | 5.5 | 1.4 |
| Truss | 4.2 | 0.1 | 1.3 | 1.8 | 1.0 | 0.7 | 2.0 | 0.9 |
| Mars Fixed 2 | 3.1 | 0.5 | 1.3 | 0.6 | 1.4 | 0.8 | 0.9 | 0.3 |
| Belfry | 3.6 | 0.0 | 0.7 | 0.8 | 0.8 | 0.8 | 1.5 | 0.0 |
| Tannenberg | 4.8 | 0.2 | 0.6 | 0.6 | 1.0 | 0.0 | 1.9 | 0.6 |
| Superstella | 7.3 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 4.2 | 0.0 |
| Zama | 2.8 | 0.0 | 0.2 | 0.3 | 2.7 | 0.0 | 0.3 | 0.2 |
| Total portfolio excluding Mars | | | | | | | | |
| Floating | 4.6 | 1.2 | 7.9 | 11.3 | 20.8 | 4.8 | 23.3 | 8.8 |
| Mars Floating ⁽³⁾ | 3.6 | 0.5 | 0.5 | 1.6 | 0.8 | 0.5 | 2.3 | 0.7 |
| Total portfolio | 4.5 | 1.7 | 8.4 | 12.9 | 21.6 | 5.4 | 25.5 | 9.5 |

Lease Expiry Data (by Portfolio) for 2013 (on a like-for-like basis):

| | Average lease term (years) | Passing rent ⁽¹⁾ | | | | | | |
|---------------------------------------|----------------------------|-----------------------------|-------------|-------------|-------------|------------|-----------------|----------------------------|
| | | 2014 €m | 2015 €m | 2016 €m | 2017 €m | 2018 €m | 2018-2023 €m | 2024+ ⁽²⁾ €m |
| Drive | 3.5 | 1.5 | 1.3 | 3.6 | 12.5 | 0.4 | 4.4 | 0.9 |
| Turret | 6.2 | 0.8 | 2.1 | 2.7 | 0.9 | 1.7 | 2.3 | 4.2 |
| Wave | 4.7 | 0.6 | 2.5 | 0.5 | 0.2 | 0.4 | 3.2 | 1.6 |
| Truss | 4.2 | 0.6 | 1.5 | 1.8 | 0.9 | 0.7 | 1.6 | 0.7 |
| Mars Fixed 2 | 2.9 | 1.0 | 1.3 | 0.5 | 1.5 | 0.8 | 0.7 | 0.1 |
| Belfry | 3.9 | 0.3 | 0.6 | 0.7 | 0.7 | 0.8 | 1.4 | 0.0 |
| Tannenberg | 5.0 | 0.3 | 0.7 | 0.6 | 0.9 | 0.2 | 1.7 | 0.6 |
| Superstella | 7.8 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 4.2 | 0.0 |
| Zama | 3.1 | 0.1 | 0.4 | 0.2 | 2.7 | 0.0 | 0.3 | 0.2 |
| Total portfolio excluding Mars | | | | | | | | |
| Floating | 4.5 | 5.1 | 10.3 | 10.8 | 20.3 | 4.9 | 19.8 | 8.4 |
| Mars Floating ⁽³⁾ | 3.7 | 0.8 | 0.9 | 1.1 | 0.7 | 0.5 | 1.9 | 0.5 |
| Total portfolio | 4.5 | 5.9 | 11.2 | 11.9 | 21.1 | 5.4 | 21.7 | 8.8 |

⁽¹⁾ Passing rent is defined as the contractual annual gross rental at the period end, excluding the net effects of straight lining lease incentives.

⁽²⁾ Includes open-ended leases of €1.8 million for the total portfolio (€1.6 million for 2013 on a like-for-like basis).

⁽³⁾ The total portfolio includes 100% of the Mars Floating Portfolio, in which the Group has a 50% investment. The portfolio has a negative net asset value and has been separated as the financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

Top 5 Tenants for 2014 (excluding Mars Floating):

| Tenant name | Business sector | Passing rent €m | % of total portfolio ⁽¹⁾ | Occupied square meters |
|------------------------|-----------------|--------------------|-------------------------------------|------------------------|
| Commerzbank AG | Banking | 19.3 | 24.8% | 100,071 |
| EDEKA | Retail | 10.3 | 13.2% | 98,625 |
| Deutsche Bank AG | Banking | 6.5 | 8.3% | 51,296 |
| REWE | Retail | 4.1 | 5.3% | 36,168 |
| Netto Markendiscount | Retail | 4.1 | 5.2% | 33,801 |
| Total portfolio | | 44.3 | 56.7% | 319,960 |

Top 5 Tenants for 2013 (on a like-for-like basis and excluding Mars Floating):

| Tenant name | Business sector | Passing rent €m | % of total portfolio ⁽¹⁾ | Occupied square meters |
|------------------------|-----------------|--------------------|-------------------------------------|------------------------|
| Commerzbank AG | Banking | 20.2 | 25.3% | 109,719 |
| EDEKA | Retail | 10.3 | 12.9% | 98,499 |
| Deutsche Bank AG | Banking | 6.5 | 8.2% | 51,296 |
| REWE | Retail | 4.7 | 5.8% | 40,568 |
| Netto Markendiscount | Retail | 4.1 | 5.1% | 33,765 |
| Total portfolio | | 45.6 | 57.3% | 333,846 |

⁽¹⁾ Calculated as a percentage of passing rent

BUSINESS AND FINANCIAL REVIEW

Business Segments

The table below shows the summarised financial performance of the Group's business segments (excluding Mars Floating) for the six months ended 30 June 2014. The segmental analysis disclosed in note 26 is prepared according to IFRS and includes the reconciliation of the total to the Group results.

| (Unaudited) | European Real Estate Debt ⁽¹⁾ €000 | German Real Estate ⁽¹⁾ €000 | Italian Investments ⁽¹⁾ €000 | Corporate ⁽¹⁾ €000 | Total Eurocastle €000 |
|--|--|---|--|--|--------------------------------------|
| Revenue | 4,140 | 49,549 | (5) | 31 | 53,715 |
| Impairment losses | (10,653) | - | - | - | (10,653) |
| Fair value movements | - | (20,471) | 1,961 | - | (18,510) |
| Interest expense | (2,442) | (20,959) | 45 | - | (23,356) |
| Other operating expense | 1,622 | (51,173) | (1,059) | (5,315) | (55,925) |
| Net operating (loss) / profit before taxation | (7,333) | (43,054) | 942 | (5,284) | (54,729) |
| Taxation expense | (1) | (1,109) | (12) | - | (1,122) |
| Net operating (loss) / profit after taxation and before minority interest | (7,334) | (44,163) | 930 | (5,284) | (55,851) |
| Minority interest in Italian Investments | - | - | (245) | - | (245) |
| Net (loss) / profit after taxation and minority interest | (7,334) | (44,163) | 685 | (5,284) | (56,096) |
| Decrease in fair values of investment properties | - | 19,677 | - | - | 19,677 |
| FFO adjustment to Italian Investments | - | - | 1,651 | - | 1,651 |
| Unrealised fair market gains on Italian Investments | - | - | (1,304) | - | (1,304) |
| Deferred tax charge on investment properties | - | (1,292) | - | - | (1,292) |
| Funds from operations (FFO) | (7,334) | (25,778) | 1,032 | (5,284) | (37,364) |
| Net realised losses on investment property sales after sales costs and | - | 4,347 | - | - | 4,347 |
| Gains on foreign currency contracts, translation and swaps | (906) | - | - | 298 | (608) |
| Impairment losses | 10,653 | - | - | - | 10,653 |
| Gain on purchase of Mezzanine debt | (1,963) | - | - | - | (1,963) |
| Loss on sale of debt securities | 407 | - | - | - | 407 |
| Loss on deconsolidation of Bridge Portfolio | - | 26,077 | - | - | 26,077 |
| Normalisation of RE Fund Unit returns | - | - | 477 | - | 477 |
| Transaction costs on acquisition of UIU | - | - | 1,012 | - | 1,012 |
| Normalised funds from operations | 857 | 4,646 | 2,521 | (4,986) | 3,038 |
| Net (loss) / gain per ordinary share € | (0.22) | (1.35) | 0.03 | (0.16) | (1.71) |
| Net (loss) /gain per weighted average ordinary share € | (0.22) | (1.35) | 0.03 | (0.16) | (1.71) |
| FFO per weighted average ordinary share € | (0.22) | (0.79) | 0.03 | (0.16) | (1.15) |
| Normalised FFO per weighted diluted ordinary share € | 0.03 | 0.14 | 0.08 | (0.15) | 0.09 |

⁽¹⁾ Unallocated revenue and other operating expense has been allocated between the segments based on each segment's share of net asset value.

FFO as defined represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties net of attributable deferred taxation, fair value changes of the Italian investments, changes in the fair value of interest rate swaps that are taken to the income statement, unrealised movements on currency swaps (net of translation gains/losses of related assets) and accounting losses on investments made with non-recourse financing to the extent they exceed the net amount invested. 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.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

BUSINESS AND FINANCIAL REVIEW

The table below shows the summarised financial position of the Group's business segments for the six months ended 30 June 2014. The segmental analysis disclosed in note 26 is prepared according to IFRS and includes the reconciliation of the total to the Group results.

| (Unaudited) | European Real Estate Debt €000 | German Real Estate (2) €000 | Italian Investments (1) €000 | Corporate (1) €000 | Total Eurocastle €000 |
|--|---|--|---|-----------------------------------|--------------------------------------|
| Investments | 257,615 | 1,137,545 | 39,061 | - | 1,434,221 |
| Other assets (including cash) | 13,338 | 50,192 | 5,211 | 124,680 | 193,421 |
| Total assets | 270,953 | 1,187,737 | 44,272 | 124,680 | 1,627,642 |
| Interest-bearing debt financing | (246,420) | (975,446) | - | - | (1,221,866) |
| Other liabilities | (587) | (86,149) | (3,949) | (8,747) | (99,432) |
| Total liabilities | (247,007) | (1,061,595) | (3,949) | (8,747) | (1,321,298) |
| Segment net assets | 23,946 | 126,142 | 40,323 | 115,933 | 306,344 |
| Tax liability | - | (12,726) | (2) | - | (12,728) |
| Adjusted net assets | 23,946 | 113,416 | 40,321 | 115,933 | 293,616 |
| Minority interest | (2) | (4) | 2,142 | - | 2,136 |
| Add back net liabilities of Mars Floating Portfolio (2) | - | (44,907) | - | - | (44,907) |
| Net Assets | 23,944 | 68,505 | 42,463 | 115,933 | 250,845 |
| Adjusted net asset value per ordinary share € | 0.73 | 3.48 | 1.24 | 3.55 | 9.00 |
| Net asset value per ordinary share € | 0.73 | 2.10 | 1.30 | 3.55 | 7.69 |
| Adjusted asset value per diluted weighted average ordinary share € | 0.73 | 3.48 | 1.24 | 3.55 | 9.00 |
| Net asset value per diluted weighted average ordinary share € | 0.73 | 2.10 | 1.30 | 3.55 | 7.69 |

(1) Unallocated assets and liabilities have been allocated to Italian Investments as it represents the net cash available for future investments in this segment.

(2) The negative net asset value of Mars Floating has been adjusted as this financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

Forward-Looking Statements

This release contains statements that constitute forward-looking statements. Such forward-looking statements may relate to, among other things, future commitments to sell real estate and achievement of disposal targets, availability of investment and divestment opportunities, timing or certainty of completion of acquisitions and disposals, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may", "will", "should", "potential", "intend", "expect", "endeavour", "seek", "anticipate", "estimate", "overestimate", "underestimate", "believe", "could", "project", "predict", "project", "continue", "plan", "forecast" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. The Group's ability to predict results or the actual effect of future plans or strategies is limited. Although the Group believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, its actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause the Group's actual results in future periods to differ materially from forecasted results or stated expectations including the risks regarding Eurocastle's ability to declare dividends, amortise the Group's debts, renegotiate the Group's credit facilities, make new investments, or achieve its targets regarding asset disposals or asset performance.

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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 2014 and for the six month period then ended have not been reviewed or audited by our auditors, BDO LLP.

On behalf of the Board



Simon J. Thornton
Director and Audit Committee Chairman
Date: 13 August 2014

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

| (Unaudited) | Notes | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|--|--------------|---|---|
| Operating income | | | |
| Interest income | | 4,137 | 7,538 |
| Rental income | | 45,001 | 70,223 |
| Service charge income | | 8,818 | 13,505 |
| Loss on disposal of loans and receivables | 7 | (407) | - |
| Decrease in fair value of investment properties | | (34,452) | (32,754) |
| Gains on foreign currency contracts, translation and swaps | | 608 | 9 |
| Impairment losses | 5 | (10,653) | (16,815) |
| Fair value movements on Italian debt portfolio | 9 | 1,280 | 1,063 |
| Fair value movements in real estate fund units | 10 | 412 | - |
| Income from Joint Venture | 11 | 302 | - |
| Loss from Associate | 12 | (33) | - |
| Gain on purchase of mezzanine financing | 16 | 1,963 | - |
| Loss on deconsolidation of the Bridge Portfolio | 13 | (26,077) | - |
| Total operating (loss) / income | | (9,101) | 42,769 |
| Operating Expenses | | | |
| Interest expense | | 24,580 | 38,089 |
| Service charge expenses | | 8,422 | 13,016 |
| Property operating expenses | | 13,639 | 18,420 |
| Loss on foreign currency contracts, translation and swaps | | - | 4 |
| Other operating expenses | 4 | 13,128 | 22,877 |
| Total operating expenses | | 59,769 | 92,406 |
| Net operating loss before taxation | | (68,870) | (49,637) |
| Taxation expense / (credit) - current | 3 | 2,445 | (259) |
| Taxation (credit) / charge - deferred | 3 | (1,292) | 2,929 |
| Net loss after taxation | | (70,023) | (52,307) |
| Attributable to: | | | |
| Ordinary equity holders of the Company | | (70,268) | (52,512) |
| Non-controlling interest | | 245 | 205 |
| Net loss after taxation | | (70,023) | (52,307) |
| Loss per ordinary share | | | |
| Weighted average - basic and dilutive | 19 | (2.15) | (2.59) |

See notes to the interim consolidated financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| (Unaudited) | Notes | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|--|-------|---|---|
| Net loss after taxation | | (70,023) | (52,307) |
| Items that may or will be reclassified to profit and loss | | | |
| Amortisation of unrealised gains/losses on available-for-sale securities reclassified to the income statement | 8 | 3,898 | 4,078 |
| Adjustment to amortisation of unrealised losses reflecting changes in expected cash flows | 8 | - | (753) |
| Realised losses on hedge instruments reclassified to the income statement | 21 | - | (270) |
| Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables | 8 | (3,134) | (1,353) |
| Amortisation of novated swaps | 21 | (395) | 446 |
| Total items that may or will be reclassified to profit and loss | | 369 | 2,148 |
| Items that will not be reclassified to profit and loss | | | |
| Unrealised gain on asset backed securities, available-for-sale | 7 | 589 | 5,840 |
| Net unrealised gain on hedge instruments | | 2,039 | 3,295 |
| Total items that will not be reclassified to profit and loss | | 2,628 | 9,135 |
| Other comprehensive income | | 2,997 | 11,283 |
| Total comprehensive loss for the period | | (67,026) | (41,024) |

See notes to the interim consolidated financial statements

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | | 30 June 2014 (Unaudited) €000 | 31 December 2013 €000 |
|--|-----|-------------------------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | 6 | 172,531 | 193,192 |
| Investment properties held for sale | 15 | 148,265 | 94,402 |
| Other assets | 14 | 18,161 | 32,896 |
| Available-for-sale securities | 7 | 347 | 26,879 |
| Loans and receivables | 8 | 257,268 | 316,650 |
| Fair value investments | 9 | 9,884 | 12,315 |
| Real estate fund units | 10 | 21,735 | - |
| Fixture and fittings | | - | 4 |
| Derivative assets | | 9,142 | 10,584 |
| Investment property | 15 | 1,060,162 | 1,628,104 |
| Investment in Joint Venture | 11 | 2,248 | 2,173 |
| Investment in Associate | 12 | 7,324 | - |
| Intangible assets | | 28 | 42 |
| Total assets | | 1,707,095 | 2,317,241 |
| Equity and Liabilities | | | |
| Capital and reserves | | | |
| Issued capital, no par value, unlimited number of shares authorised | 20 | 1,714,625 | 1,714,425 |
| Accumulated loss | | (1,477,955) | (1,399,529) |
| Net unrealised loss on available-for-sale securities and loans and receivables | 7,8 | (10,623) | (11,976) |
| Hedging reserve | 21 | 774 | (870) |
| Other reserves | 20 | 21,888 | 22,088 |
| Total shareholders' equity | | 248,709 | 324,138 |
| Non-controlling interest | | 2,136 | 2,842 |
| Total equity | | 250,845 | 326,980 |
| Liabilities | | | |
| Trade and other payables | 18 | 72,610 | 83,347 |
| Current taxation payable | | 12,807 | 9,678 |
| CDO bonds payable | 16 | 246,420 | 299,912 |
| Bank borrowings | 17 | 1,093,413 | 1,561,858 |
| Derivative liabilities | | - | 5,297 |
| Finance lease payable | 15 | 25,185 | 23,062 |
| Deferred taxation liability | | 5,815 | 7,107 |
| Total liabilities | | 1,456,250 | 1,990,261 |
| Total equity and liabilities | | 1,707,095 | 2,317,241 |

See notes to the interim consolidated financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| (Unaudited) | Notes | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|--|-------|---|---|
| Cash flows from operating activities | | | |
| Operating loss before taxation | | (68,870) | (49,637) |
| Adjustments for: | | | |
| Interest income | | (5,807) | (6,506) |
| Interest expense | | 22,092 | 35,446 |
| Unrealised loss on foreign exchange contracts | | (608) | (9) |
| Amortisation of discount on securities | | (1,464) | (2,385) |
| Amortisation of borrowing costs | | 2,488 | 2,643 |
| Amortisation of tenant incentives / leasing commissions | | 873 | 2,216 |
| Realised gain on disposal of available for sale investments | | 399 | - |
| Realised gain on repurchase of mezzanine financing | 16 | (1,963) | - |
| Impairment losses | 5 | 10,653 | 16,815 |
| Taxation paid | | 844 | 22 |
| Amortisation of intangibles | | 22 | 42 |
| Depreciation of fixtures and fittings | | 5 | 35 |
| Decrease in fair value of investment properties | 15 | 34,452 | 32,754 |
| Increase in fair value investments | 9 | (1,280) | (1,063) |
| Increase in interest rate swaps | | - | 4 |
| Income from Joint Venture | 11 | (302) | - |
| Loss from Associate | 12 | 33 | - |
| Fair value gain on real estate fund units | 10 | (412) | - |
| Loss on deconsolidation of Bridge portfolio | 13 | 26,077 | - |
| Cash generated from operations | | 17,232 | 30,377 |
| Interest received | | 3,507 | 7,233 |
| Interest paid | | (20,516) | (30,274) |
| Decrease in other assets | | 9,201 | 190 |
| (Decrease) / increase in trade and other payables | | (2,117) | 10,584 |
| Net cash flows from operating activities | | 7,307 | 18,110 |
| Cash flows from investing activities | | | |
| Capital expenditure / tenant incentives | 15 | (5,241) | (13,231) |
| Proceeds from sale of investment properties | 15 | 87,364 | 204,841 |
| Purchase of intangible assets | | (8) | - |
| Proceeds from prepayment of available-for-sale securities | | 4,607 | 1,271 |
| Proceeds from sale available-for-sale securities | | 22,201 | - |
| Purchase of loans and receivables | | 52,935 | (28,608) |
| Sale / prepayment of loans and receivables | | - | 6,198 |
| Net cash impact of deconsolidation of Bridge portfolio | 13 | (3,757) | - |
| Cash collections from Italian Investments | 9 | 4,193 | - |
| Cash received from Joint Venture | 11 | 227 | - |
| Net cash impact of acquisition of fair value investments | 12 | (7,357) | (11,110) |
| Purchase of real estate fund units | 10 | (21,323) | - |
| Net cash flows from investing activities | | 133,841 | 159,361 |
| Cash flows from financing activities | | | |
| Dividends paid | 24 | (8,158) | - |
| Issue of share capital net of consolidation and issuance costs | | - | 103,905 |
| Repurchase of mezzanine financing | 16 | (2,043) | - |
| Repayments of bonds issued | | (50,910) | (803) |
| Cash distributed to minority interests | | (951) | - |
| Repayments of bank borrowings | | (99,747) | (131,475) |
| Net cashflows from financing activities | | (161,809) | (28,373) |
| Net increase in cash and cash equivalents | | (20,661) | 149,098 |
| Cash and cash equivalents, beginning of period | | 193,192 | 141,344 |
| Restricted CDO Cash, beginning of period | | - | 20,896 |
| Total cash and cash equivalents, beginning of period | | 193,192 | 162,240 |
| Cash and cash equivalents, end of period | 6 | 172,531 | 311,258 |
| Restricted CDO cash, end of period | 8 | - | 80 |
| Total cash and cash equivalents, end of period | | 172,531 | 311,338 |

See notes to the interim consolidated financial statements

Please note that dividends paid has been reclassified to financing activities. It has previously been reported in operating activities.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| (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 |
| At 1 January 2013 | 127,425,780 | 1,446,624 | 17,320 | 160,514 | (30,548) | (5,507) | (1,296,297) | 6 | 292,112 |
| Loss for the six months | - | - | - | - | - | - | (52,512) | 205 | (52,307) |
| Other comprehensive income | - | - | - | - | 7,812 | 3,471 | - | - | 11,283 |
| Total comprehensive income / (loss) | - | - | - | - | 7,812 | 3,471 | (52,512) | 205 | (41,024) |
| Capitalised interest on Convertible Securities issued (note 20) | - | - | - | 8,208 | - | - | (8,208) | - | - |
| Conversion of Convertible Securities to Ordinary Shares | 3,398,474,717 | 168,722 | - | (168,722) | - | - | - | - | - |
| Share consolidation of ordinary shares (note 20) | (3,508,270,995) | - | - | - | - | - | - | - | - |
| Costs in relation of consolidation of ordinary shares | - | (249) | - | - | - | - | - | - | (249) |
| Issue of ordinary shares (note 20) | 15,000,000 | 108,750 | - | - | - | - | - | - | 108,750 |
| Costs in relation of issue of ordinary shares | - | (4,655) | - | - | - | - | - | - | (4,655) |
| Costs in relation to issue of options following share issue | - | (4,968) | 4,968 | - | - | - | - | - | - |
| Acquisition of Italian Investments net of distributions | - | - | - | - | - | - | - | 3,047 | 3,047 |
| At 30 June 2013 | 32,629,502 | 1,714,224 | 22,288 | - | (22,736) | (2,036) | (1,357,017) | 3,258 | 357,981 |
| Loss for the six months | - | - | - | - | - | - | (34,354) | 778 | (33,576) |
| Other comprehensive income | - | - | - | - | 10,760 | 1,166 | - | - | 11,926 |
| Total comprehensive (loss) / income | - | - | - | - | 10,760 | 1,166 | (34,354) | 778 | (21,650) |
| Share issued to Directors | 3,000 | 1 | - | - | - | - | - | - | 1 |
| Release of option reserve for lapsed options | - | 200 | (200) | - | - | - | - | - | - |
| Cash distributed to minority interest | - | - | - | - | - | - | - | (1,194) | (1,194) |
| Dividend declared (note 24) | - | - | - | - | - | - | (8,158) | - | (8,158) |
| At 31 December 2013 | 32,632,502 | 1,714,425 | 22,088 | - | (11,976) | (870) | (1,399,529) | 2,842 | 326,980 |
| Loss for the six months | - | - | - | - | - | - | (70,268) | 245 | (70,023) |
| Other comprehensive income | - | - | - | - | 1,353 | 1,644 | - | - | 2,997 |
| Total comprehensive income/(loss) | - | - | - | - | 1,353 | 1,644 | (70,268) | 245 | (67,026) |
| Share issued to Directors | 3,000 | - | - | - | - | - | - | - | - |
| Dividends declared (note 24) | - | - | - | - | - | - | (8,158) | - | (8,158) |
| Cash distributed to minority interest | - | - | - | - | - | - | - | (951) | (951) |
| Release of option reserve for lapsed options | - | 200 | (200) | - | - | - | - | - | - |
| At 30 June 2014 | 32,635,502 | 1,714,625 | 21,888 | - | (10,623) | 774 | (1,477,955) | 2,136 | 250,845 |

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 Italian real-estate investments (including NPLs), 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 note 25. 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 Reporting*. 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 interim 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 2013, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issue by the International Accounting Standards Board ("IASB").

The interim consolidated financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2013 and for the year then ended, except that the Group has adopted the following accounting policy for real estate fund units, deconsolidation of subsidiaries and investment in Associates:

Real Estate Fund Units

Real estate fund units are recorded at fair value in the consolidated balance sheet, with any change in fair value recognised in the consolidated income statement. Dividends received are recorded in the consolidated income statement. Redemptions on the units are recognised against the carrying value of the investment.

Deconsolidation of Subsidiaries

The Group deconsolidates its investment in a subsidiary when it loses control of the subsidiary. The assets and liabilities of the subsidiary are derecognised from the consolidated balance sheet and a loss associated with the loss of control attributable to the former controlling interest is recognised in consolidated income statement.

Investment in Associates

Associates are those entities in which the Group has significant influence and not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in Associates are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investments from the date that significant influence commences.

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the six months period ended 30 June 2014. 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 2014, the Group consisted of a number of subsidiaries in Germany, Italy, Ireland, Luxembourg and the United States of America.

As a result of the Group's investment in the performing and non-performing loan portfolios in Italy (refer note 9), it has acquired subsidiaries in Italy, Luxembourg and the United States of America. The Group holds 80.66% of the member's interest in NPL Top Tier Holding LLC ("Ieffe and Palazzo") and 100% of the outstanding notes in FML S.á r.l. ("BAM"). The investments in the underlying loan portfolios are held through Law 130 securitisation notes.

The Group's investment in the BNL portfolio of non-performing loans is through a joint investment entity in Italy called Quintino Securitisation S.á r.l. The financial and operating decisions of this entity require joint agreement and hence is subject to joint control. The results, assets and liabilities of the joint investment entity are incorporated in these financial statements using the proportionate consolidation method. Refer to note 11.

The Group's investment in the MPS portfolio of non-performing loans is through an associate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC and is accounted for using the equity method. Refer to note 12.

Eurocastle Funding Limited PLC ("EFL"), Eurocastle CDO IV PLC ("CDO IV"), Duncannon CRE CDO 1 PLC ("Duncannon") and FECO SUB SPV PLC ("Feco") are all limited companies incorporated in Ireland. The ordinary share capital of these vehicles is held by outside parties and the Group has no voting rights. The Group consolidates EFL, CDO IV, Duncannon and FECO as it retains control over these entities and retains the residual risks of ownership of these entities.

Following the Mars Floating financing restructuring in May 2009, the Group recognised an external liability of 50% of the adjusted amortised cost of the Mars Floating and Mars Fixed 1 portfolio company Loan Notes and Shareholder's loans invested by Eurocastle Investment Limited (EIL), while EIL's transfer of its interest in the loan notes and shareholder's loans on behalf of its Mars subsidiaries is considered to be a cost of refinancing the Mars facility and is hence capitalised and amortised over the life of the new loan facility.

As a result of the Group's transfer in May 2011 of a further 50% of its remaining interest in the shareholder's loans and equity to the Mars Fixed 1 junior lender in respect of the Mars Fixed 1 portfolio refinancing, the Group has deconsolidated its investment in the Mars Fixed 1 portfolio, and values its remaining 25% investment in the loan notes and shareholder loans using the equity method as described under IAS 28 - Investments in Associates. Under the equity method, the investment is carried in the balance sheet at cost plus post-transfer changes in the Group's share of net assets of the associate, less distributions received and less any impairment in value of the individual investments.

Financial statements of the Mars Fixed 1 portfolio are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those used by the Group. Adjustments are also made to the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its associates.

3. TAXATION EXPENSE

The taxation expense for the six months ended 30 June 2014 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 1 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. There are currently no tax expenses in Italy.

The deferred tax credit for the six months ended 30 June 2014 was €1.3 million, compared to a charge of €2.9 million for the six months ended 30 June 2013.

4. OTHER OPERATING EXPENSES

| | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|--|---|---|
| (Unaudited) | | |
| Professional fees | 751 | 596 |
| Transaction costs on acquisition of real estate fund units | 1,012 | - |
| Sale related costs | 3,860 | 9,688 |
| Management fees (note 25) | 3,004 | 6,673 |
| Net Manager recharge | 1,429 | 2,554 |
| Amortisation of financing costs | 2,198 | 2,643 |
| Depreciation | 5 | 35 |
| Amortisation of intangible assets | 22 | 43 |
| General and administrative expenses | 847 | 645 |
| Total other operating expenses | 13,128 | 22,877 |

5. IMPAIRMENT LOSSES

| | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|---|---|---|
| (Unaudited) | | |
| Impairment losses on loans and receivables | 675 | 5,853 |
| Impairment losses on real estate related loans | 6,844 | 10,962 |
| Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale | 3,134 | - |
| Total impairment losses | 10,653 | 16,815 |

During the six months ended 30 June 2014, the Group has recognised impairment losses on 8 securities compared to 13 securities or loans for €16.8 million for six months ended 30 June 2013. As at 30 June 2014, 26 securities have recognised impairment losses (31 December 2013: 29 securities).

The carrying value of the impaired securities or loans as at 30 June 2014 after the impairment losses was €84.2 million (31 December 2013: €109.6 million).

6. CASH AND CASH EQUIVALENTS

| | 30 June 2014 (Unaudited) €000 | 31 December 2013 €000 |
|---|-------------------------------------|-----------------------------|
| Corporate cash | 124,460 | 139,086 |
| Cash within Italian Investments | 5,195 | 6,745 |
| Cash within the real estate operating companies | 39,293 | 43,255 |
| Cash within the CDO vehicles | 3,583 | 4,106 |
| Total cash and cash equivalents | 172,531 | 193,192 |

Cash within the real estate operating companies is held to cover interest obligations, operating expenses and other working capital. It also includes any proceeds from the disposal of investment property that has not been distributed or used to amortise bank borrowings.

The cash within the CDO vehicles is restricted to repaying CDO interest as it falls due or for repayment of debt within the CDO. The reinvestment period for Duncannon ended on 20 June 2013 and, as a consequence, principal cash flows received on its assets are now diverted to repay senior debt.

Cash within Italian Investments is held to cover distributions, operating expenses and other working capital. It includes €0.3 million which is to be distributed to the minority interests (31 December 2013: €2.5 million).

7. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 30 June 2014 (unaudited):

| | Current face amount €000 | Amortised cost base €000 | Gross unrealised losses €000 | Carrying value €000 | Weighted average | | | |
|-------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------|----------------------------------|--------------|--------------|------------------------|
| | | | | | Average rating ⁽¹⁾ | Coupon | Margin | Maturity (in years) |
| Other securities | | | | | | | | |
| CMBS | 6,930 | 1,042 | (695) | 347 | D | 3.04% | 2.70% | - |
| Total portfolio | 6,930 | 1,042 | (695) | 347 | D | 3.04% | 2.70% | - |

During the half-year, Portfolio IV sold its portfolio of asset backed securities available for sale for a total consideration of €22.2 million realising a loss of €0.4 million.

The following is a summary of the Group's available-for-sale securities at 31 December 2013:

| | Current face amount €000 | Amortised cost base €000 | Gross unrealised losses €000 | Carrying value €000 | Weighted average | | | |
|-------------------------|-----------------------------------|-----------------------------------|---------------------------------------|---------------------------|----------------------------------|--------------|--------------|------------------------|
| | | | | | Average rating ⁽¹⁾ | Coupon | Margin | Maturity (in years) |
| Portfolio IV | | | | | | | | |
| CMBS | 26,385 | 26,286 | (676) | 25,609 | BBB | 0.96% | 0.53% | 2.18 |
| Other ABS | 1,205 | 1,205 | (74) | 1,131 | BBB- | 2.25% | 2.05% | 14.01 |
| | 27,590 | 27,491 | (750) | 26,740 | BBB | 1.01% | 0.59% | 2.43 |
| Other securities | | | | | | | | |
| CMBS | 6,930 | 673 | (534) | 139 | D | 2.92% | 2.70% | - |
| | 6,930 | 673 | (534) | 139 | D | 2.92% | 2.70% | - |
| Total portfolio | 34,520 | 28,164 | (1,284) | 26,879 | BB+ | 1.40% | 1.02% | 1.94 |

⁽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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 30 June 2014 (unaudited):

| | Current face amount €000 | Amortised cost basis €000 | Impairment losses €000 | Carrying value €000 | Weighted Average | | | Maturity (in years) |
|---------------------------|-----------------------------------|------------------------------------|------------------------------|---------------------------|----------------------------------|-----------------------|--------------|------------------------|
| | | | | | Average rating ⁽¹⁾ | Coupon ⁽²⁾ | Margin | |
| Portfolio IV | | | | | | | | |
| Real estate related loans | 11,892 | 11,895 | (3,780) | 8,115 | D | 0.64% | 2.30% | 1.91 |
| | 11,892 | 11,895 | (3,780) | 8,115 | D | 0.64% | 2.30% | 1.91 |
| Portfolio V | | | | | | | | |
| CMBS | 196,499 | 169,705 | (33,825) | 135,880 | B- | 1.06% | 1.89% | 3.25 |
| Other ABS | 45,035 | 41,540 | - | 41,540 | BB | 2.72% | 1.85% | 6.02 |
| Real estate related loans | 167,327 | 167,230 | (96,864) | 70,366 | D | 0.54% | 2.69% | 1.42 |
| | 408,861 | 378,475 | (130,689) | 247,786 | CCC | 1.03% | 2.21% | 2.81 |
| Other securities | | | | | | | | |
| Real estate related loans | 17,914 | 4,023 | (2,656) | 1,367 | D | 1.27% | 2.47% | 1.42 |
| | 17,914 | 4,023 | (2,656) | 1,367 | D | 1.27% | 2.47% | 1.42 |
| Total portfolio | 438,667 | 394,393 | (137,125) | 257,268 | CCC | 1.03% | 2.23% | 2.77 |

Restricted cash - cash to be invested

Total loans and receivables (including cash to be invested) 257,268

The following is a summary of the Group's loans and receivables as at 31 December 2013:

| | Current face amount €000 | Amortised cost basis €000 | Impairment losses €000 | Carrying value €000 | Weighted Average | | | Maturity (in years) |
|---------------------------|-----------------------------------|------------------------------------|------------------------------|---------------------------|----------------------------------|-----------------------|--------------|------------------------|
| | | | | | Average rating ⁽¹⁾ | Coupon ⁽²⁾ | Margin | |
| Portfolio IV | | | | | | | | |
| Real estate related loans | 11,425 | 11,428 | (3,801) | 7,627 | D | 0.63% | 2.30% | 3.01 |
| | 11,425 | 11,428 | (3,801) | 7,627 | D | 0.63% | 2.30% | 3.01 |
| Portfolio V | | | | | | | | |
| CMBS | 225,457 | 193,684 | (35,691) | 157,993 | B- | 1.10% | 0.88% | 3.40 |
| Other ABS | 44,171 | 40,744 | - | 40,744 | BB | 2.52% | 1.84% | 6.49 |
| Real estate related loans | 204,105 | 204,020 | (94,568) | 109,452 | C | 0.70% | 2.72% | 1.63 |
| | 473,733 | 438,448 | (130,259) | 308,189 | CCC | 1.06% | 1.76% | 2.93 |
| Other securities | | | | | | | | |
| Real estate related loans | 17,486 | 3,311 | (2,477) | 834 | D | 1.24% | 2.47% | 0.84 |
| | 17,486 | 3,311 | (2,477) | 834 | D | 1.24% | 2.47% | 0.84 |
| Total portfolio | 502,644 | 453,187 | (136,537) | 316,650 | CCC | 1.06% | 1.80% | 2.86 |

Restricted cash - cash to be invested

Total loans and receivables (including cash to be invested) 316,650

(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, 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 within Portfolio V are encumbered by a CDO securitisation (note 16).

The movement in the impairment losses is shown below:

| | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|---|---|---|
| (Unaudited) | | |
| Balance as at 1 January | (136,537) | (114,775) |
| Reversals due to paydowns and sales in the period | (11,241) | 34,434 |
| Losses for the period | 12,542 | (20,457) |
| Reversals for the period | (1,889) | 3,757 |
| Balance as at 30 June | (137,125) | (97,041) |

NOTES TO THE INTERIM 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:

| | 1 July 2008 Carrying Value €000 | 30 June 2014 Carrying Value (unaudited) €000 | 31 December 2013 Carrying Value €000 | 30 June 2014 Fair Value (unaudited) €000 | 31 December 2013 Fair Value €000 |
|--|--|--|---|--|---|
| Available-for-sale securities, reclassified to loans and receivables | 1,077,560 | 101,241 | 115,328 | 82,214 | 78,966 |

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 2014 would have included €5.3 million on the reclassified available-for-sale securities of impairment reversals, compared with impairment losses of €5.0 million after the reclassification. For the six months ended 30 June 2014, shareholders' equity (net losses not recognised in the income statement) would have included €2.8 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 30 June 2014.

After reclassification, the reclassified financial assets contributed the following amounts to income for the six months ended 30 June 2014 and 30 June 2013 respectively:

| (Unaudited) | Six months ended 30 June 2014 €000 | Six months ended 30 June 2013 €000 |
|---|---|---|
| Net interest income | 2,253 | 1,069 |
| Impairment losses on securities classified as loans and receivables | (10,653) | (10,962) |
| Losses available-for-sale securities reclassified to loans and receivables | (8,400) | (9,893) |

As of the reclassification dates, unrealised fair value losses recorded directly in shareholders' equity amounted to €83.3 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 2014, €3.1 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 2013: €nil). Additionally, €3.9 million (six months ended 30 June 2013: €2.6 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. This amortisation has not been adjusted to reflect changes in the expected cash flows (30 June 2013: €0.8 million).

At 30 June 2014, the net unrealised loss on loans and receivables was €9 million (31 December 2013: €10.7 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. FAIR VALUE INVESTMENTS

| (Unaudited) | Gross book value ⁽¹⁾ €000 | Cost ⁽¹⁾ €000 | Fair value €000 | No. of borrowers | Weighted average life ⁽¹⁾ (years) | Effective rate ⁽²⁾ % |
|-----------------------------------|---|-----------------------------|-----------------------|------------------------|---|---------------------------------------|
| Non-performing loans | | | | | | |
| Ieffe | 3,279,865 | 3,945 | 1,598 | 5,476 | 1.46 | 111.7% |
| Ieffe Due | 88,033 | 1,825 | 921 | 297 | 1.83 | 24.6% |
| Ieffe Tre | 649,438 | 5,648 | 3,858 | 1,498 | 2.21 | 24.6% |
| BAM | 12,422 | 203 | 179 | 19 | 2.85 | 10.8% |
| Total non-performing loans | 4,029,757 | 11,621 | 6,556 | 7,290 | 1.88 | 53.8% |
| Performing loans | | | | | | |
| Palazzo | 10,046 | 5,696 | 3,328 | 869 | 1.29 | 37.6% |
| Total performing loans | 10,046 | 5,696 | 3,328 | 869 | 1.29 | 37.6% |
| Total portfolio | 4,039,802 | 17,317 | 9,884 | 8,159 | 1.70 | 48.5% |

⁽¹⁾ At the acquisition date

⁽²⁾ Effective rate represents current estimated internal rate of return given cash flows received to date and projected cash flows based on the original underwriting assumptions.

The movement in the fair value investments is as follows:

| (Unaudited) | 2014 | | | | |
|--|--------------|----------------------|----------------------------|------------|--------------------|
| | Group | Minority Interest | Total Ieffe and Palazzo | BAM | Total Portfolio |
| Balance as at 1 January 2014 | 9,799 | 2,350 | 12,149 | 166 | 12,315 |
| Cash received within portfolios for distribution | (2,994) | (717) | (3,711) | - | (3,711) |
| Increase in fair value | 1,022 | 244 | 1,266 | 14 | 1,280 |
| Balance as at 30 June 2014 | 7,827 | 1,877 | 9,704 | 180 | 9,884 |

The total of cash distributions received from the fair value investments is €4.2 million (30 June 2014: €nil).

The non-performing loan portfolios are partly secured by residential and commercial properties, judicial mortgages and personal guarantees in Italy. The performing loan portfolio is secured by residential and commercial properties in Italy.

All the portfolios are serviced by Italfondiaro S.p.A. a related party to the Manager (refer note 25).

The minority interest in the fair value of the portfolios is €2.1 million (31 December 2013: €2.8 million).

10. REAL ESTATE FUND UNITS

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("UIU") for a total consideration of €21.3 million. The holding represents 7.46% of the total units issued by UIU with the purchase settled in cash. The units are listed on the Italian Stock Exchange. UIU has a maturity of 31 December 2017. The Group incurred transaction costs of €1.0 million in connection with the acquisition which was recorded through profit and loss.

The fair value of the investment is determined by the share price of UIU at the reporting date. As at 30 June 2014, the share price was €1,822.00.

The movement in the real estate fund units is as follows:

| (Unaudited) | 2014 €000 |
|------------------------------|---------------|
| Balance as at 1 January | - |
| Acquisition | 21,323 |
| Increase in fair value | 412 |
| Balance as at 30 June | 21,735 |

11. INVESTMENT IN JOINT VENTURE

The Group's share of the joint venture's profits are as follows:

| (Unaudited) | Six months ended 30 June 2014 €000 |
|--|---|
| Fair value movements on Italian debt portfolio | 302 |
| Profit before tax | 302 |
| Taxation | - |
| Profit after tax | 302 |

The Group's share of the joint venture's assets and liabilities are as follows:

| (Unaudited) | Six months ended 30 June 2014 |
|--------------------------|--|
| Fair value investments | 2,248 |
| Cash | - |
| Total Assets | 2,248 |
| Total Liabilities | - |

The amounts above represent the Group's 50% share of the entire assets, liabilities and net income of the joint venture. These are based on the accounts made up to 30 June 2014.

12. INVESTMENT IN ASSOCIATE

On 9 June 2014, the Group acquired 25% of the membership interest of Fortress Italian NPL Opportunities Series Fund LLC (the "Series 1 Fund") for a total consideration of €7.4 million. The Series 1 Fund acquired the Banca Monte dei Paschi di Siena non-performing loan portfolio on 27 June 2014.

The net assets of the Associate at acquisition were:

| (Unaudited) | At acquisition €000 |
|------------------------------------|--------------------------------|
| Non-current assets | 29,300 |
| Current assets | 130 |
| Net Assets | 29,430 |
| Group's share of net assets | 7,357 |

The following table summarises the financial information of the Associate:

| (Unaudited) | 30 June 2014 €000 |
|------------------------------------|------------------------------|
| Non-current assets | 29,300 |
| Current assets | 130 |
| Current liabilities | (133) |
| Net Assets | 29,297 |
| Group's share of net assets | 7,324 |

| (Unaudited) | Six months ended 30 June 2014 |
|--|--|
| Operating loss for the period ⁽¹⁾ | (133) |
| Group's share of operating loss | (33) |

⁽¹⁾ The operating loss for the period relates to set-up costs for the Fund that are not capitalised as part of the investment.

13. DECONSOLIDATION OF SUBSIDIARY

On 15 January 2014, the Bridge Portfolio financing matured without any agreement on an extension or a refinancing. Following the execution of the Lender's security shares in the Company's subsidiaries holding the Bridge portfolio, these companies were transferred out of the Group. Consequently, the Group deconsolidated the Bridge portfolio.

Prior to deconsolidation, the Group received €2.6 million of surplus cash that was consequently suspended within the portfolio pending agreement around an extension which was not ultimately reached.

The impact of the deconsolidation is as follows:

| (Unaudited) | Six months ended 30 June 2014 |
|------------------------------------|--|
| Cash and cash equivalents | 3,757 |
| Other assets | 4,645 |
| Investment property | 399,540 |
| Total Assets | 407,942 |
| Trade and other payables | (10,413) |
| Current taxation payable | (161) |
| Bank borrowings | (371,291) |
| Total Liabilities | (381,865) |
| Net loss on deconsolidation | 26,077 |

14. OTHER ASSETS

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|--|--|--|
| Tenant incentives and leasing commission | 5,050 | 5,598 |
| Service charge receivable | 2,660 | 3,766 |
| Investment Property disposal proceeds receivable | 2,586 | 15,284 |
| Interest receivable | 507 | 848 |
| Rent receivable | 1,337 | 1,654 |
| Prepaid expenses | 874 | 517 |
| Other accounts receivable | 5,147 | 5,229 |
| Total other assets | 18,161 | 32,896 |

Service charge and rent receivables are net of a provision for doubtful debts of €3.7 million (31 December 2013: €4.6 million). All other assets are expected to mature in less than one year.

15. INVESTMENT PROPERTY

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|---|-------------------------------------|--------------------------------------|
| Tenant incentives and leasing commission (included in other assets - note 14) | 5,050 | 5,598 |
| Investment property held for sale | 148,265 | 94,402 |
| Investment property | 1,060,162 | 1,628,104 |
| Closing balance | 1,213,477 | 1,728,104 |

As at 30 June 2014, the investment property held for sale is financed by approximately €128.3 million of bank borrowings (31 December 2013: approximately €86.6 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 2014:

| (Unaudited) | Freehold land and buildings €000 | Leasehold property €000 | Total €000 |
|---|---|-------------------------------|------------------|
| Opening balance at 1 January 2014 | 1,653,775 | 74,329 | 1,728,104 |
| Capital expenditure | 4,627 | - | 4,627 |
| Tenant incentives and leasing commissions | (873) | - | (873) |
| Free rent | 614 | - | 614 |
| Disposals | (87,364) | - | (87,364) |
| Deconsolidation of the Bridge Portfolio | (399,303) | - | (399,303) |
| Decrease in minimum payments under head lease | - | 2,124 | 2,124 |
| Decrease in fair value | (34,242) | (210) | (34,452) |
| Balance as at 30 June 2014 | 1,137,234 | 76,243 | 1,213,477 |

As at 31 December 2013:

| | Freehold land and buildings €000 | Leasehold property €000 | Total €000 |
|---|---|-------------------------------|------------------|
| Opening balance at 1 January 2013 | 1,953,804 | 76,943 | 2,030,747 |
| Capital expenditure | 16,498 | - | 16,498 |
| Tenant incentives and leasing commissions | (3,567) | (8) | (3,575) |
| Free rent | 26 | - | 26 |
| Disposals | (270,679) | - | (270,679) |
| Increase in minimum payments under head lease | - | (154) | (154) |
| Decrease in fair value | (42,307) | (2,452) | (44,759) |
| Balance as at 31 December 2013 | 1,653,775 | 74,329 | 1,728,104 |

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 2014. 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 INTERIM 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:

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2012 €000 |
|--|--|--|
| Investment property at market value | 1,188,292 | 1,705,042 |
| Minimum payments under head leases separately included in liabilities on the balance sheet | 25,185 | 23,062 |
| Balance sheet carrying value of investment property | 1,213,477 | 1,728,104 |

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

| 30 June 2014 (Unaudited) | Office | Retail | Average |
|------------------------------------|---------------|---------------|----------------|
| Passing rent per sqm per month (€) | 11.06 | 8.76 | 9.95 |
| Market rent per sqm per month (€) | 13.08 | 10.68 | 11.92 |
| Average net initial yield | 5.2% | 6.1% | 2.8% |
| Vacancy rate | 36.5% | 6.3% | 24.6% |

| 31 December 2013 | Office | Retail | Average |
|------------------------------------|---------------|---------------|----------------|
| Passing rent per sqm per month (€) | 10.61 | 8.13 | 9.69 |
| Market rent per sqm per month (€) | 13.12 | 8.51 | 11.4 |
| Average net initial yield | 5.6% | 6.8% | 2.9% |
| Vacancy rate | 27.3% | 3.8% | 20.1% |

Sensitivity analysis

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

| 30 June 2014 (€million and unaudited) | Office | Retail | Total |
|--|---------------|---------------|--------------|
| Market value | 762 | 427 | 1,188 |
| Increase in yield of 25 bps | 624 | 414 | 1,038 |
| Value sensitivity | (138) | (13) | (150) |

| 31 December 2013 (€million) | Office | Retail | Average |
|------------------------------------|---------------|---------------|----------------|
| Market value | 1,271 | 434 | 1,705 |
| Increase in yield of 25 bps | 1,107 | 407 | 1,514 |
| Value sensitivity | (164) | (27) | (191) |

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 22 investment properties are built have unexpired terms ranging from 8 years to 86 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 2014 in respect of contingent rental is €2.6 million (six months ended 30 June 2013: €0.5 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Additional information

The table below provides additional information for various portfolios within the Group at 30 June 2014 (unaudited):

| Portfolio | Property valuation ⁽¹⁾ €000 | Term financing (face amount) €000 | Other (liabilities) / assets ⁽²⁾ €000 | Net operating income ⁽³⁾ €000 | NOI yield on valuation % | Occupancy % | Capitalised expenditure / (accrual releases) ⁽⁴⁾ €000 |
|--|---|--------------------------------------|---|---|-----------------------------|----------------|---|
| Drive | 444,085 | 406,374 | (10,357) | 16,051 | 3.6% | 51.6% | 2,603 |
| Turret | 165,675 | 147,556 | 417 | 11,822 | 7.1% | 95.4% | 132 |
| Wave | 114,002 | 68,230 | (19,851) | 6,165 | 5.4% | 75.6% | 1,210 |
| Truss | 90,730 | 84,005 | 66 | 6,255 | 6.9% | 95.3% | 367 |
| Mars Fixed 2 | 89,850 | 71,603 | 1,630 | 4,058 | 4.5% | 89.8% | 2,027 |
| Belfry | 56,520 | 53,818 | 1,600 | 3,657 | 6.5% | 85.7% | (88) |
| Superstella | 55,140 | 54,500 | 837 | 3,858 | 7.0% | 100.0% | (2) |
| Tannenberg | 58,440 | 52,960 | (220) | 4,019 | 6.9% | 89.7% | 41 |
| Zama | 43,550 | 39,896 | 360 | 3,466 | 8.0% | 94.8% | 351 |
| Total portfolio excluding Mars Floating | 1,117,992 | 978,942 | (25,518) | 59,353 | 5.3% | 76.6% | 6,641 |
| Mars Floating ⁽⁵⁾ | 70,300 | 117,967 | 2,761 | 4,589 | 6.5% | 59.8% | 2,025 |
| Total portfolio | 1,188,292 | 1,096,909 | (22,757) | 63,942 | 5.4% | 74.7% | 8,666 |

The table below provides additional information for various portfolios within the Group at 31 December 2013:

| Portfolio | Property valuation ⁽¹⁾ €000 | Term financing (face amount) €000 | Other (liabilities) / assets ⁽²⁾ €000 | Net operating income ⁽³⁾ €000 | NOI yield on valuation % | Occupancy % | Capitalised expenditure / (accrual releases) ⁽⁴⁾ €000 |
|---|---|--------------------------------------|---|---|-----------------------------|----------------|---|
| Drive | 497,209 | 450,732 | (18,680) | 18,925 | 3.8% | 57.9% | 10,112 |
| Turret | 170,005 | 147,556 | (2,467) | 12,879 | 7.6% | 96.2% | 432 |
| Wave | 145,597 | 131,494 | (14,010) | 9,031 | 6.2% | 78.4% | 905 |
| Truss | 92,700 | 84,430 | (1,946) | 6,825 | 7.4% | 92.9% | 51 |
| Mars Fixed 2 | 89,290 | 71,603 | 1,997 | 4,685 | 5.2% | 92.1% | 1,844 |
| Belfry | 57,320 | 54,092 | 1,016 | 3,868 | 6.7% | 86.7% | 199 |
| Superstella | 55,140 | 52,960 | 240 | 4,027 | 7.3% | 100.0% | (2) |
| Tannenberg | 58,520 | 54,500 | (3,260) | 4,205 | 7.2% | 90.7% | 18 |
| Zama | 44,590 | 39,896 | 272 | 3,303 | 7.4% | 95.2% | 13 |
| Total portfolio excluding Bridge and Mars Floating | 1,210,371 | 1,087,263 | (36,838) | 67,748 | 5.6% | 78.7% | 13,572 |
| Bridge | 399,539 | 372,090 | 1,957 | 25,578 | 6.4% | 98.4% | 1,024 |
| Mars Floating ⁽⁵⁾ | 95,132 | 126,704 | 1,349 | 4,324 | 4.5% | 59.7% | 1,902 |
| Total portfolio | 1,705,042 | 1,586,057 | (33,532) | 97,650 | 5.7% | 79.9% | 16,498 |

⁽¹⁾ Property valuation excludes the leasehold gross-ups of €25.2 million (2013: €23.1 million)

⁽²⁾ Other assets / liabilities do not include other assets and liabilities of interim holding companies and dormant portfolios

⁽³⁾ Net operating income is after deducting €1.2 million of free rent (2013: €2.2 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.

⁽⁴⁾ Capitalised expenditure represents actual expenditure for the six months ended 30 June 2014 (€1.3 million) annualised for the full year.

⁽⁵⁾ The total portfolio includes 100% of the Mars Floating Portfolio, in which the Group has a 50% investment. The portfolio has a negative net asset value and has been separated as the financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

16. CDO BONDS PAYABLE

As at 30 June 2014 (unaudited):

| | Class | Rating ⁽¹⁾ | Current face amount €000 | Carrying amount €000 | Weighted average cost of financing % | Weighted average margin % | Weighted average maturity ⁽²⁾ (in years) |
|--------------|---------------------------------|-------------------------|-----------------------------|-------------------------|---|------------------------------|--|
| | A, B, C1, C2, D1, D2, D3, | B/CC/ C/C/ C/C/C/ | | | | | |
| Duncannon | E1, E2 | C/C | 246,975 | 246,420 | 1.78% | 1.40% | 3.7 |
| Total | | | 246,975 | 246,420 | 1.78% | 1.40% | 3.7 |

In the half year, Eurocastle Funding Limited purchased €4.0 million of Duncannon Class C notes at a price of 49% resulting in a gain to the Group of €2.0 million. The Group did not purchase any Duncannon notes in the six months ended 30 June 2013.

As at 31 December 2013:

| | Class | Rating ⁽¹⁾ | Current face amount €000 | Carrying amount €000 | Weighted average cost of financing % | Weighted average margin % | Weighted average maturity ⁽²⁾ (in years) |
|--------------|---------------------------------|-------------------------|-----------------------------|-------------------------|---|------------------------------|--|
| | A, B, C1, C2, D1, D2, D3, | B/CC/ C/C/ C/C/C/ | | | | | |
| Duncannon | E1, E2 | C/C | 300,757 | 299,912 | 1.39% | 0.92% | 3.7 |
| Total | | | 300,757 | 299,912 | 1.39% | 0.92% | 3.7 |

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

⁽²⁾ The legal maturity of the portfolio is 20 June 2047

17. BANK BORROWINGS

The bank borrowings comprise:

| | | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|---|-------------|-------------------------------------|--------------------------------------|
| Term financing | (note 17.1) | 1,093,413 | 1,561,858 |
| Loans and notes relating to the Mars Portfolios | (note 17.2) | - | - |
| Total | | 1,093,413 | 1,561,858 |

17.1 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 |
|--|--------------|--------------------------|------------------------|--------------------------|------------------------|--|--|----------|
| | | 30 June 2014 (Unaudited) | As at 31 December 2013 | 30 June 2014 (Unaudited) | As at 31 December 2013 | | | |
| Debt Investments | | | | | | | | |
| CDO IV | Jul 2005 | - | 4,260 | - | 4,260 | - | - | Dec 2014 |
| Investment Property | | | | | | | | |
| Drive - Senior ⁽¹⁾ | Feb 2006 | 97,907 | 142,265 | 97,392 | 141,980 | 4.27% | 3.43% | Jan 2016 |
| Drive - Junior ⁽¹⁾ | Feb 2006 | 308,467 | 308,467 | 307,225 | 307,540 | 3.37% | 3.35% | Jan 2016 |
| Wave ⁽¹⁾ | Apr 2007 | 68,230 | 106,759 | 68,169 | 106,715 | 4.45% | 3.80% | Oct 2014 |
| Turret ⁽²⁾ | May 2006 | 147,556 | 147,556 | 147,169 | 147,076 | 4.93% | 4.85% | May 2016 |
| Truss ⁽²⁾ | Dec 2005 | 84,005 | 84,430 | 83,859 | 84,241 | 4.93% | 4.85% | Feb 2016 |
| Mars Fixed 2 | Jun 2008 | 71,603 | 71,603 | 71,295 | 70,993 | 3.53% | 2.81% | Dec 2014 |
| Belfry ⁽²⁾ | Aug 2005 | 53,818 | 54,092 | 53,679 | 53,901 | 4.87% | 4.66% | Oct 2015 |
| Superstella ⁽²⁾ | Aug 2007 | 54,500 | 54,500 | 53,888 | 53,798 | 4.96% | 4.91% | Nov 2017 |
| Tannenbergl ^{(1) (2)} | May 2007 | 52,960 | 52,960 | 52,874 | 52,736 | 4.87% | 4.66% | Oct 2014 |
| Zama ⁽¹⁾ | Feb 2007 | 39,896 | 39,896 | 39,896 | 39,856 | 4.99% | 4.86% | Sep 2014 |
| Total investment property excluding Bridge and Mars | | | | | | | | |
| Floating | | 978,942 | 1,062,528 | 975,446 | 1,058,836 | 4.23% | 4.00% | |
| Bridge ⁽³⁾ | Oct 2006 | - | 372,090 | - | 372,058 | - | - | Jan 2014 |
| Mars Floating ⁽¹⁾ | Jan 2007 | 117,967 | 126,704 | 117,967 | 126,704 | 2.05% | 2.05% | Aug 2014 |
| Total investment property | | 1,096,909 | 1,561,322 | 1,093,413 | 1,557,598 | 4.00% | 3.79% | |
| Total term financing | | 1,096,909 | 1,565,582 | 1,093,413 | 1,561,858 | 4.00% | 3.79% | |
| Adjustment for costs of Mars refinancing ⁽⁴⁾ | | | | | | | | |
| Net total term financing | | | | 1,093,413 | 1,561,858 | | | |

⁽¹⁾ The current status of the maturity is described below.

⁽²⁾ These portfolios make up the Retail portfolios.

⁽³⁾ The Group deconsolidated the Bridge portfolio in January 2014. Refer note 13.

⁽⁴⁾ 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 17.2). The amortisation charge for the six months ended 30 June 2014 was €nil (six months ended 30 June 2013: €nil).

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.

The Group has sold the remaining securities in the CDO IV portfolio for an average price of 96.4% of face value and repaid the CDO IV facility in full.

In January 2014, the Group secured an amendment to the Mars Floating facility extending the December 2013 maturity for a further six months to 30 June 2014. The Company continues to benefit from running asset management and sales fees, receiving €0.5 million in the first six months of 2014. Since the year end, one asset has been sold and the loan has been repaid by a further €8.7 million reducing the outstanding balance to €118.0 million. The remaining assets are now under binding sales contracts for a total value of €70.3 million which will generate an additional €0.9m of sales fees to the Company. In order to facilitate the closure of the sales, the facility has been extended on a short-term basis to 31 August 2014. As with all of the Group's real estate financings, the debt is non-recourse to Eurocastle.

In April 2014, the Senior loan of the Drive portfolio was refinanced by the lending syndicate of the Junior facility to a maturity date of 15 January 2016 with interim amortisation targets of €10.0 million in July 2014, €70.0 million in January 2015 and €5.0 million in July 2015. The Junior loan was also extended in parallel to in-place terms to the same final maturity date. Additional terms of the Senior Loan include an arrangement fee of 1.1% (equivalent to an amount of €1.6 million), interest at a rate of 3 month Euribor plus 3.1% and an additional undrawn facility of up to €20 million to fund capital expenditures. Excess cash flow will continue to be retained at the senior loan level until the loan is repaid in full.

Sale fees equivalent to 3.5% of gross sales proceeds will continue to be paid to the Group should it meet the repayment targets with €1.2 million released to the Company in April following the repayment of the existing Senior loan and a further €1.1 million in July. The outstanding balance reported as at 31 December 2013 of €42.3 million has since been repaid by a further €44.4 million, primarily from asset sales, resulting in a remaining balance of €7.9 million.

In April 2014, the Group agreed a short term extension of the Wave facility to end of August 2014 with an option to extend the loan a further 2 months should Eurocastle have agreed a sale of the remaining assets by the initial maturity date. As part of the terms of the extension, the loan has been repaid by €38.5 million in 2014, reducing the outstanding balance to €68.2million (equivalent to a loan to value of 60% on the remaining assets). Of the €38.5 million repaid, €29.0 million was generated from the sale of four assets. The remaining amount of €9.5 million was paid using available cash within the Group, of which €6.1m came from corporate cash and €3.4m from cash reserves held within the Wave portfolio.

The Group is in advanced negotiations for a sale of the Wave portfolio. In parallel with the sales process, the Group has also received favourable terms to refinance the portfolio on both a short and a long term basis.

Following the maturity of the Zama portfolio facility, the loan of €39.9 million is currently subject to a short term standstill pending negotiations of a proposed 2 year extension.

Ahead of its October 2014 loan maturity, the Group is also currently in discussions with the lenders of the Tannenbergl portfolio regarding a potential extension of the facility.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

17.2 Loans and notes relating to Mars Portfolio

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|---|-------------------------------------|--------------------------------------|
| <u>Within Mars Floating Portfolio</u> | | |
| Loan notes and Shareholder Loans | 325,937 | 312,516 |
| Less: Remeasurement adjustment to amortised cost | (370,282) | (342,280) |
| Adjusted amortised cost | (44,345) | (29,764) |
| Transfer of 50% of the adjusted amortised cost to the lender | - | - |

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.

18. TRADE AND OTHER PAYABLES

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|---------------------------------------|-------------------------------------|--------------------------------------|
| Security deposit | 3,506 | 3,978 |
| Interest payable | 25,726 | 24,791 |
| Due to Manager (note 25) | 1,946 | 2,139 |
| Capex accruals | 2,682 | 4,676 |
| Accrued expenses and other payables | 38,750 | 47,763 |
| Total trade and other payables | 72,610 | 83,347 |

All trade and other payables are expected to mature in less than one year.

19. 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.

The Group's potential ordinary shares during the year were the share options issued under its share option plan (refer to note 20). 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 other than those described in note 20 which would have a dilutive effect as at 30 June 2014. The exercise of the share options would have a dilutive effect based on the average share price during which the share options were in issue.

| | 30 June 2014 (Unaudited) | As at 31 December 2013 |
|---|-----------------------------|------------------------------|
| Weighted average number of shares | 32,631,836 | 26,506,716 |
| Dilutive effect of ordinary share options | 9,754 | 74,895 |
| Weighted average number of shares - dilutive | 32,641,590 | 26,581,611 |

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

As at 30 June 2014, there were 32,635,502 shares (31 December 2013: 32,632,502) issued and outstanding. On 20 June 2014, the Company issued 3,000 shares to the Directors per their in-place compensation arrangements for €nil consideration.

Under the Company's Articles of Incorporation, the Directors have the authority to effect 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 June 2004, June 2005, January 2006, December 2006 and May 2013. The terms of the options are set out in note 30 of the Notes to the Consolidated Financial Statements in the 2013 Annual Report. Movement in the number of share options and the related average exercise prices are as follows:

| Date of grant | Options remaining at 1 January | | | Options remaining at 30 June 2014 | Fair value at grant date €000 | Exercise price ⁽¹⁾ € | Date of expiration |
|---------------|--------------------------------|-----------|----------------|-----------------------------------|----------------------------------|------------------------------------|--------------------|
| | 2014 | Exercised | Lapsed | | | | |
| 23 Jun 2004 | 3,003 | - | (3,003) | - | - | 2,400.00 | 23 Jun 2014 |
| 24 Jun 2005 | 2,521 | - | - | 2,521 | 620 | 3,450.00 | 24 Jun 2015 |
| 27 Jan 2006 | 3,956 | - | - | 3,956 | 4,800 | 3,600.00 | 27 Jan 2016 |
| 27 Jan 2006 | 6,101 | - | - | 6,101 | 2,100 | 6,000.00 | 27 Jan 2016 |
| 1 Dec 2006 | 8,829 | - | - | 8,829 | 9,400 | 7,400.00 | 1 Dec 2016 |
| 30 May 2013 | 1,500,000 | - | - | 1,500,000 | 4,968 | 7.25 | 30 May 2023 |
| Total | 1,524,410 | - | (3,003) | 1,521,407 | 21,888 | | |

⁽¹⁾ The exercise price of the historic options has been restated following the share consolidation in the ratio 200:1.

21. 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. This facility was settled in 2013.

At 30 June 2014, cumulative unrealised gains on hedge instruments were €0.7 million (31 December 2013: losses of €0.8 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €0.7 million (31 December 2013: €1.6 million) and the fair value loss of the interest rate swaps of €nil (31 December 2013: €6.3 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.

22. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

| | 30 June 2014 (Unaudited) €000 | As at 31 December 2013 €000 |
|---|-------------------------------------|--------------------------------------|
| Convertible securities issued | - | 99,750 |
| Accrued interest | - | 83,441 |
| Capitalised issue costs | - | (1,200) |
| Convertible securities converted into ordinary shares | - | (181,991) |
| Total | - | - |

Please refer to the 2013 Annual Report information regarding the change in terms of the convertible securities.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

23. FINANCIAL INSTRUMENTS

The Group's debt investments are generally financed long-term, with 96% 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 was generally financed at acquisition with long-term, fixed rate, non-recourse financing.

The status of the refinancing is disclosed in note 17.1

As at 30 June 2014 (Unaudited)

| Type | Total outstanding at 30 June 2014 €000 | Within 1 year €000 | 1 to 5 years €000 | Over 5 years €000 |
|--|---|-----------------------------------|----------------------------------|----------------------------------|
| Assets | | | | |
| Cash and cash equivalents | 172,531 | 172,531 | - | - |
| Interest receivable ⁽¹⁾ | 507 | 4,730 | 9,836 | 1,255 |
| Asset backed securities, available-for-sale | 347 | 347 | - | - |
| Loans and receivables (includes cash to be invested) | 257,268 | 18,271 | 188,808 | 50,189 |
| Fair value investments | 9,884 | 3,433 | 6,451 | - |
| Real estate fund units | 21,735 | - | 21,735 | - |
| Derivative assets ⁽²⁾ | 9,144 | 1 | 4,797 | 4,346 |
| Total assets | 471,416 | 199,313 | 231,627 | 55,790 |
| Liabilities | | | | |
| Interest payable ⁽¹⁾ | 25,726 | 48,262 | 25,527 | - |
| Derivative liabilities ⁽²⁾ | 1,000 | 1,000 | - | - |
| CDO bonds payable | 246,420 | - | - | 246,420 |
| Bank borrowings | 1,093,413 | 350,201 | 743,212 | - |
| Finance leases payable ⁽³⁾ | 25,185 | 1,044 | 4,022 | 20,119 |
| Total liabilities | 1,391,744 | 400,507 | 772,761 | 266,539 |

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

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

⁽³⁾ Finance leases payable represent all lease payments due over the lives of the leases.

| Gross settled derivatives | Total outstanding at 30 June 2014 €000 | Within 1 year €000 | 1 to 5 years €000 | Over 5 years €000 |
|---|---|-----------------------------------|----------------------------------|----------------------------------|
| Contractual amounts payable | (46,137) | (29) | (23,211) | (22,897) |
| Contractual amounts receivable | 55,281 | 30 | 28,008 | 27,243 |
| Total undiscounted gross settled derivatives outflow | 9,144 | 1 | 4,797 | 4,346 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Maturities and mandatory amortisation

| Portfolio (€m) | 2014 | 2015 | 2016 | 2017 | Total |
|---|--------------|-------------|--------------|-------------|----------------|
| Non recourse | | | | | |
| Drive - Senior ⁽¹⁾ | - | - | 97.9 | - | 97.9 |
| Drive - Junior ⁽¹⁾ | - | - | 308.5 | - | 308.5 |
| Turret | - | - | 147.6 | - | 147.6 |
| Wave | 68.2 | - | - | - | 68.2 |
| Truss | 0.4 | 0.9 | 82.7 | - | 84.0 |
| Mars Fixed 2 | 71.6 | - | - | - | 71.6 |
| Belfry | 0.3 | 53.5 | - | - | 53.8 |
| Superstella | - | - | - | 54.5 | 54.5 |
| Tannenberg | 53.0 | - | - | - | 53.0 |
| Zama | 39.9 | - | - | - | 39.9 |
| Real estate portfolio excluding Mars | | | | | |
| Floating | 233.4 | 54.4 | 636.7 | 54.5 | 978.9 |
| Mars Floating | 118.0 | - | - | - | 118.0 |
| Total | 351.4 | 54.4 | 636.7 | 54.5 | 1,096.9 |

⁽¹⁾ The Drive portfolio has been shown with the new maturity date following the refinancing agreed in April.

As at 31 December 2013

| Type | Total outstanding at 31 | | | |
|--|-------------------------|-----------------------|----------------------|----------------------|
| | December 2013 €000 | Within 1 year €000 | 1 to 5 years €000 | Over 5 years €000 |
| Assets | | | | |
| Cash and cash equivalents | 193,192 | 193,192 | - | - |
| Interest receivable ⁽¹⁾ | 848 | 5,588 | 11,822 | 1,901 |
| Asset backed securities, available-for-sale | 26,879 | 4,734 | 21,015 | 1,130 |
| Loans and receivables (includes cash to be invested) | 316,650 | 71,584 | 185,988 | 59,078 |
| Fair value investments | 12,315 | 3,841 | 8,468 | 6 |
| Derivative assets ⁽²⁾ | 10,584 | 23 | 5,369 | 5,192 |
| Total assets | 560,468 | 278,962 | 232,662 | 67,307 |
| Liabilities | | | | |
| Interest payable ⁽¹⁾ | 24,791 | 54,503 | 23,701 | - |
| Derivative liabilities ⁽²⁾ | 5,297 | 5,297 | - | - |
| CDO bonds payable | 299,912 | - | - | 299,912 |
| Bank borrowings | 1,561,858 | 1,223,904 | 337,954 | - |
| Finance leases payable ⁽³⁾ | 23,062 | 1,030 | 3,897 | 18,135 |
| Total liabilities | 1,914,920 | 1,284,734 | 365,552 | 318,047 |

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

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

⁽³⁾ Finance leases payable represent all lease payments due over the lives of the leases.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Gross settled derivatives

| | Total outstanding at 31 | | | |
|--|-------------------------------|------------------|-----------------|-----------------|
| | December 2013 | Within 1 year | 1 to 5 years | Over 5 years |
| | €000 | €000 | €000 | €000 |
| Contractual amounts payable | (57,387) | (12,830) | (22,376) | (22,181) |
| Contractual amounts receivable | 64,713 | 9,594 | 27,744 | 27,375 |
| Total undiscounted gross settled derivatives inflow | 7,326 | (3,236) | 5,368 | 5,194 |

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reported in the financial statements excluding trade and other receivables and payables, and current liabilities whose carrying value is equal to fair value due to the short period before settlement.

| | Unaudited as at 30 June 2014 Carrying Value €000 | As at 31 December 2013 Carrying Value €000 | Unaudited as at 30 June 2014 Fair Value €000 | As at 31 December 2013 Fair Value €000 |
|---|--|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 172,531 | 193,192 | 172,531 | 193,192 |
| Asset back securities, available-for-sale | 347 | 26,879 | 347 | 26,879 |
| Loans and receivables (including cash to be invested) | 257,268 | 316,650 | 140,961 | 192,919 |
| Fair value investments | 9,884 | 12,315 | 9,884 | 12,315 |
| Real estate fund units | 21,735 | - | 21,735 | - |
| Derivative assets | 9,142 | 10,584 | 9,142 | 10,584 |
| Financial liabilities | | | | |
| CDO bonds payable | 246,420 | 299,912 | 121,937 | 165,276 |
| Bank borrowings | 1,093,413 | 1,561,858 | 1,121,217 | 1,634,341 |
| Finance lease payable | 25,185 | 23,062 | 25,185 | 23,062 |
| Derivative liabilities | - | 5,297 | - | 5,297 |

24. DIVIDENDS PAID AND DECLARED

The following dividends were declared and paid for the six months ended 30 June 2014 (30 June 2013: €nil):

| Declaration date | Ex-dividend date | Record date | Payment date | Dividend per share | Amount €000 |
|------------------|------------------|--------------|---------------|-----------------------|----------------|
| 1 April 2014 | 7 April 2014 | 9 April 2014 | 30 April 2014 | €0.125 | 4,079 |
| 20 June 2014 | 30 June 2014 | 2 July 2014 | 31 July 2014 | €0.125 | 4,079 |
| Total | | | | | 8,158 |

25. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

With effect from 28 February 2013, an amendment agreement between the Group and Manager was entered into in relation to the original agreement. The agreed amendments took effect on 12 April 2013 to (i) reduce the amount payable by Eurocastle to the Manager as annual management fee by resetting the capital base upon which such fee is calculated from an amount equal to aggregate equity proceeds raised to €300 million plus an amount equal to the proceeds of any future issue of equity share capital; and (ii) similarly reset the capital base upon which the Manager's entitlement to incentive compensation is calculated; in both cases, in respect of the period commencing 1 April 2013.

To provide an incentive for the Manager to enhance the value of the Group's ordinary shares, 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 8% per annum multiplied by (B) the weighted average number of ordinary shares outstanding during such period.

At 30 June 2014, management fees, incentive fees and expense reimbursements of approximately €1.9 million (31 December 2013: €2.1 million) were due to the Manager. For the six months ended 30 June 2014 management fees of €3.0 million (30 June 2013: €6.7 million), no incentive fees (30 June 2013: €nil), and expense reimbursements of €3.3 million (30 June 2013: €3.7 million).

Total annual remuneration for Eurocastle directors is €0.1 million payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondario S.p.A. ("Italfondario") which is majority owned by Fortress Investment Group LLC funds and affiliates. The terms of the agreements have been approved by the Independent Directors. Italfondario will provide portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the six months ending 30 June 2014 was €0.7 million (six months ending 30 June 2013: €nil). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 30 June 2014.

The Group's joint investment in the BNL portfolio is with a credit fund managed by the Manager. The purchase price and operating expenses were shared evenly between the two parties; as are all current and expected returns.

The Group purchased an interest in the UIU real-estate fund (refer note 10). The fund is managed by Torre SGR S.p.A. which is an affiliate of the Manager.

The Group's investment in the MPS portfolio (refer note 12) was through a shared interest in a fund which is managed by an affiliate of the Manager.

26. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group is organised into three business units and conducts business through three primary segments: debt investments (relating to the Irish entities that it consolidates under IAS 27), German investment properties and Italian investments. The debt investments consist of investments in European real estate related debt. The investment properties segment includes investing in, financing and management of high-quality German commercial properties. The Italian Investments are made up of non-performing and performing loan portfolios.

The debt investment segment derives its income primarily from interest and accretion 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.

The Italian investments segment derives its income from loan collection, fair value movements in real estate funds.

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 assets for the Italian investments represent the loan portfolios.

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

| Six months ended 30 June 2014 (unaudited) | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Mars Floating and Minorities €000 | Total Eurocastle €000 |
|--|--|--|--------------------------------|---------------------|---|--|-----------------------------|
| Revenue ⁽¹⁾ | 4,140 | 49,549 | (5) | 31 | 53,715 | 4,241 | 57,956 |
| Impairment losses | (10,653) | - | - | - | (10,653) | - | (10,653) |
| Other operating income / (loss) | 2,463 | (46,551) | 1,961 | (298) | (42,425) | (13,980) | (56,405) |
| Total operating (loss) / income | (4,050) | 2,998 | 1,956 | (267) | 637 | (9,739) | (9,102) |
| Interest expense | (2,442) | (20,959) | 45 | - | (23,356) | (1,223) | (24,579) |
| Other expense | (841) | (25,093) | (1,059) | (5,017) | (32,010) | (3,179) | (35,189) |
| Total operating expenses | (3,283) | (46,052) | (1,014) | (5,017) | (55,366) | (4,402) | (59,768) |
| Net operating (loss) / profit | (7,333) | (43,054) | 942 | (5,284) | (54,729) | (14,141) | (68,870) |
| Taxation expense | (1) | (1,109) | (12) | - | (1,122) | (31) | (1,153) |
| Net (loss) / profit after taxation | (7,334) | (44,163) | 930 | (5,284) | (55,851) | (14,172) | (70,023) |
| Minority interest | - | - | - | - | - | (245) | (245) |
| Net (loss) / profit after minority interest | (7,334) | (44,163) | 930 | (5,284) | (55,851) | (14,417) | (70,268) |
| Movement in fair values | - | 20,347 | 347 | - | 20,694 | 13,980 | 34,674 |
| Realised gains on sale | - | (671) | - | - | (671) | - | (671) |
| Deferred tax | - | (1,292) | - | - | (1,292) | - | (1,292) |
| Funds from operations | (7,334) | (25,779) | 1,277 | (5,284) | (37,120) | (437) | (37,557) |

⁽¹⁾ Included within revenue income is interest income of €4.3 million within the debt investment segment and €0.1 million within the investment properties segment.

| Six months ended 30 June 2013 (unaudited) | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Bridge, Mars Floating and Minorities €000 | Total Eurocastle €000 |
|--|--|--|--------------------------------|---------------------|---|--|-----------------------------|
| Revenue ⁽¹⁾ | 7,741 | 61,624 | - | 33 | 69,398 | 21,868 | 91,266 |
| Impairment losses | (16,815) | - | - | - | (16,815) | - | (16,815) |
| Other operating (loss) / income | (110) | (26,111) | 1,063 | 397 | (24,761) | (16,214) | (40,975) |
| Total operating (loss) / income | (9,184) | 35,513 | 1,063 | 430 | 27,822 | 5,654 | 33,476 |
| Interest expense | (2,674) | (25,011) | - | - | (27,685) | (10,404) | (38,089) |
| Other expense | (1,215) | (26,603) | (19) | (9,798) | (37,635) | (7,389) | (45,024) |
| Total operating expenses | (3,889) | (51,614) | (19) | (9,798) | (65,320) | (17,793) | (83,113) |
| Net operating (loss) / profit | (13,073) | (16,101) | 1,044 | (9,368) | (37,498) | (12,139) | (49,637) |
| Taxation expense | - | (2,820) | (5) | (73) | (2,898) | 228 | (2,670) |
| Net (loss) / profit after taxation | (13,073) | (18,921) | 1,039 | (9,441) | (40,396) | (11,911) | (52,307) |
| Minority interest | - | - | - | - | - | (205) | (205) |
| Net (loss) / profit after minority interest | (13,073) | (18,921) | 1,039 | (9,441) | (40,396) | (12,116) | (52,512) |
| Movement in fair values | 3 | 16,996 | (614) | - | 16,385 | 15,758 | 32,143 |
| Realised gains on sale | - | (2,106) | - | - | (2,106) | (100) | (2,206) |
| Deferred tax | - | 2,929 | - | - | 2,929 | - | 2,929 |
| Funds from operations | (13,070) | (1,102) | 425 | (9,441) | (23,188) | 3,542 | (19,646) |

⁽¹⁾ Included within revenue income is interest income of €7.5 million within the debt investment segment and €0.1 million within the investment properties segment.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Segmental Balance Sheet:

| | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Mars Floating and Minorities €000 | Total Eurocastle €000 |
|---|--|--|--------------------------------|---------------------|---|--|-----------------------------|
| As at 30 June 2014 (unaudited) | | | | | | | |
| Total assets | 270,953 | 1,187,737 | 44,272 | 124,680 | 1,627,642 | 77,318 | 1,704,960 |
| Total liabilities | (247,007) | (1,061,595) | (3,949) | (8,747) | (1,321,298) | (122,146) | (1,443,444) |
| Segment net assets / (liabilities) | 23,946 | 126,142 | 40,323 | 115,933 | 306,344 | (44,828) | 261,516 |
| Tax liability | - | (12,726) | (2) | - | (12,728) | (79) | (12,807) |
| Non-controlling interest | (2) | (4) | - | - | (6) | 2,142 | 2,136 |
| Net assets / (liabilities) | 23,944 | 113,412 | 40,321 | 115,933 | 293,610 | (42,765) | 250,845 |

| | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Bridge, Mars Floating and Minorities €000 | Total Eurocastle €000 |
|---|--|--|--------------------------------|---------------------|---|---|-----------------------------|
| As at 31 December 2013 | | | | | | | |
| Total assets | 359,171 | 1,289,629 | 17,984 | 140,313 | 1,807,097 | 506,844 | 2,313,941 |
| Total liabilities | (307,925) | (1,147,334) | (3,882) | (10,163) | (1,469,304) | (510,821) | (1,980,125) |
| Segment net assets / (liabilities) | 51,246 | 142,295 | 14,102 | 130,150 | 337,793 | (3,977) | 333,816 |
| Tax liability | (1) | (9,434) | - | - | (9,435) | (243) | (9,678) |
| Non-controlling interest | (2) | (4) | - | - | (6) | 2,848 | 2,842 |
| Net assets / (liabilities) | 51,243 | 132,857 | 14,102 | 130,150 | 328,352 | (1,372) | 326,980 |

Segmental Cashflows:

| | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Mars Floating and Minorities €000 | Total Eurocastle €000 |
|---|--|--|--------------------------------|---------------------|---|--|-----------------------------|
| Six months ended 30 June 2014 (unaudited) | | | | | | | |
| Cashflows from operating activities | (1,851) | 16,717 | (1,019) | (5,284) | 8,563 | (1,256) | 7,307 |
| Cashflows from investing activities | 79,743 | 47,508 | (2,937) | (8) | 124,306 | 9,535 | 133,841 |
| Cashflows from financing activities | (52,953) | (91,697) | (951) | (8,158) | (153,759) | (8,050) | (161,809) |
| Net increase / (decrease) in cash and cash equivalents | 24,939 | (27,472) | (4,907) | (13,450) | (20,890) | 229 | (20,661) |

| | European Real Estate Debt €000 | German Commercial Real Estate €000 | Italian Investments €000 | Unallocated €000 | Total Adjusted Eurocastle €000 | Bridge, Mars Floating and Minorities €000 | Total Eurocastle €000 |
|---|--|--|--------------------------------|---------------------|---|---|-----------------------------|
| Six months ended 30 June 2013 (unaudited) | | | | | | | |
| Cashflows from operating activities | 2,271 | 42,174 | (1,606) | (9,653) | 33,186 | (15,076) | 18,110 |
| Cashflows from investing activities | (21,139) | 175,123 | (11,110) | - | 142,874 | 16,487 | 159,361 |
| Cashflows from financing activities | (803) | (87,764) | 103,905 | - | 15,338 | (43,711) | (28,373) |
| Net (decrease) / increase in cash and cash equivalents | (19,671) | 129,533 | 91,189 | (9,653) | 191,398 | (42,300) | 149,098 |

27. SUBSEQUENT EVENTS

Following the end of the second quarter, the Group has completed approximately 1,100 sqm of new leases and 2,100 sqm of renewals. A further 6,500 sqm of new leases and 15,500 sqm of renewals are currently under negotiation. Excluding the Mars FL portfolio, the Group has approximately 4,100 sqm of new leases and 14,200 sqm of renewals under negotiation. Of the 14,200 sqm of renewals under negotiations, approximately 3,400 sqm are early renewals in the retail portfolios.

Following the end of the second quarter, the Group partnered with a local developer and an affiliate of the Manager to source, acquire and redevelop real estate assets in Rome. On 24 July 2014, the Group initially invested €12.6 million of an anticipated €15.4 million in two redevelopment assets.

On 31 July 2014, the Group invested €0.3 million to acquire an interest in a fund managed by an affiliate of the Manager in an additional pool of non-performing loans in Italy with a gross book value of €15.3 million.

28. COMMITMENTS

As at 30 June 2014, the Company has entered into a letter of comfort for a term of 18 months with respect to an asset sale in its subsidiaries. The letter of comfort relates to warranties and documentation regarding the sold asset. The maximum exposure at the reporting date is €6.0 million.

As at 31 December 2013, there were no commitments.