

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

### PROGRESS REPORT TO SHAREHOLDERS

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Eurocastle Investment Limited (“Eurocastle”) today announced its financial results for the six months ended 30 June 2011. Eurocastle and its consolidated subsidiaries (together with Eurocastle, the “Group”) primarily own and manage German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol “ECT”. Eurocastle is managed by an affiliate of Fortress Investment Group LLC. For more information regarding Eurocastle and to be added to our email distribution list, please visit [www.eurocastleinv.com](http://www.eurocastleinv.com).

#### **Eurocastle First Half 2011 Progress Report to Shareholders**

During the first half of 2011, the Group focussed on continuing to make progress towards realising and driving value from its real estate holdings, on stabilising the Group’s financings and on extracting value from the Group’s debt investment business.

The first half of 2011 saw a comprehensive restructuring of the Mars Fixed 1 facility. Through a 3 year asset management service contract between Eurocastle’s German asset management platform and the Mars Fixed 1 portfolio, an immediate economic benefit has been derived for the Group worth approximately €1.5 million since completion of the restructuring. The Drive Junior facility also saw a further phase of an anticipated multi-phase restructuring complete in the first half of 2011, which has led to the release of approximately €1.8 million in cash distributions to Eurocastle from its Drive portfolio.

Our adjusted NAV per fully diluted share was €0.46 at the half year-end, compared to €0.55 per fully diluted share at the end of 2010. The adjusted real estate portion of the NAV was €0.61 per fully diluted share at the half year end compared to €0.73 per fully diluted share at the end of 2010. Of the reduction in the adjusted real estate NAV, €0.05 per fully diluted share is the result of the deferral of convertible securities interest, and €0.07 per fully diluted share from the decline in property values and the Mars Fixed 1 facility restructuring.

Non-cash valuation declines in the value of our real estate assets, the deconsolidation of the Mars Fixed 1 portfolio, together with the non-cash valuation impairments of some of our debt investments, has resulted in a net loss after taxation for the first six months of 2011 of €7.1 million (of which €3.9 million relates to the real estate business and €4.2 million to the debt investment business and other), compared to a net loss of €5.3 million for the first six months of 2010. Our Normalised Funds from Operations for the first half of 2011 totalled €3.0 million compared to €9.8 million for the first half of 2010. No dividends were declared or paid in the first half of 2011.

#### **Real Estate Portfolio and Market Commentary**

At the half year-end, Eurocastle owned 473 German commercial real estate assets, with a value of €2.3 billion, following the deconsolidation of the Mars Fixed 1 portfolio as described on page 10. Taking into account our 50% economic ownership of the Mars Floating portfolio, we have €2.2 billion of real estate investments with an NOI yield of 6.1%. The portfolio is comprised of a diversified mix of high quality office and retail properties concentrated in the five major German cities (Berlin, Hamburg, Frankfurt, Düsseldorf and Munich).

Positive developments in the German economy, especially in comparison to many other European countries, have continued in 2011 with a GDP growth forecast of 2.6% for the full-year, year-on-year unemployment down to 6.6%, and year-on-year exports up 7.5% compared to 2010. Thus far, the investment volume in the first two quarters totalled approximately €1.3 billion, which represents an increase of 20% compared to the six months ended 30 June 2010. Closed- and open-ended funds as well as international investors were amongst the most active buyers, investing mainly in core ‘prime’ assets in the major German office markets. While this has not translated directly to Eurocastle’s real estate portfolio, we feel it is broadly supportive of our asset values over the medium term. Based on the recent external forecasts, the overall commercial real estate transaction volume in Germany is expected to reach €22-24 billion, which would exceed the total 2010 transaction volume of approximately €20 billion.

During the first six months of 2011, Eurocastle sold 22 properties with sales proceeds of €26.1 million. In addition, we have signed sales and purchase agreements for a further 15 properties with sales proceeds of €31.3 million anticipated to close in the latter half of 2011. Furthermore, subsequent to the half year-end, Eurocastle has signed sales and purchase agreements for an additional two properties with sale proceeds of €2.2 million. In aggregate, this equates to a total volume of €59.6 million and 96% of current carrying value. We expect our upcoming sales activity in 2011 to be assisted by the ongoing positive outlook for the German economy and its commercial real estate investment markets.

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With regards to the German commercial real estate rental market, the major occupier markets recorded positive rental take-up figures in the first half of 2011, up 17% compared to the same period in 2010. In line with the positive trends in take-up, office vacancy rates in the major office markets have decreased. Real estate agents forecast a further increase of prime office rents in the five major office markets while secondary locations will remain unaffected by the favourable environment and show stagnating rents and low occupier demand.

Physical occupancy in the Eurocastle portfolios decreased on a like-for-like basis from 86.8% at the end of 2010 to 83.8% as at 30 June 2011, due to large Commerzbank lease expiries as it refocuses its real estate strategy following its acquisition of Dresdner Bank. Our average lease term in the portfolio is 4.6 years, with 1.5% of the rental income expiring in 2011.

#### **Debt Investment Portfolio**

Within our debt investment portfolio, we have €1.7 billion face value of assets which are financed through three separate term, non-recourse public CDO financings. Despite the relatively stable cash flow performance of our investments, rating agency downgrades continue to cause our CDO financings to trigger financial ratios which direct the cash they generate to pay down senior CDO financing. During the first half of 2011, these ratios have benefited from the re-investment of cash received from repayments of principal into higher yielding assets. However, as these ratios remain significantly below their trigger levels, our returns from these portfolios continue to be likely to be driven primarily by the return of capital once senior debt tranches have been repaid.

#### **Financing**

The Mars Fixed 1 facility was restructured in the first quarter. The Mars Fixed 1 facility lenders have agreed to modify the terms of the Mars Fixed 1 loan facility, which matures in July 2014, to include annual amortisation targets expected to be met from asset sales, the deferral of a significant part of the facility's current interest margin and new capital loaned from a junior lender for capital expenditure on the Mars Fixed 1 portfolio. In addition, Eurocastle's German asset management platform has been retained to provide asset management services to the portfolio for which it will be compensated over an anticipated minimum 3 year term. In consideration of these terms, Eurocastle transferred half of its remaining equity investment in the Mars Fixed 1 portfolio to a junior lender who will control 75% of the equity in the portfolio, leaving Eurocastle with a 25% residual investment in the portfolio. From a cashflow perspective, excess cash continues to be used to repay debt.

Preliminary negotiations with lenders in relation to the Mars Floating facility and related contingent guarantees given by Eurocastle in respect of the Mars Floating facility are currently underway. The Group anticipates the conclusion of a restructuring in the second half of 2011. From a cashflow perspective, excess cash continues to be used to repay debt.

The Group has signed two phases of an anticipated multi-phase restructuring of the Drive Junior facility. As a result, in relation to the period from the second half of 2010 and the first half of 2011, the Group has received cash distributions of approximately €1.8 million from the Drive portfolio. Continuing restructuring negotiations on this facility remain constructive and in progress.

On 8 June 2011, CDO II once again passed an overcollateralisation financial ratio and therefore came out of a default originally triggered by a breach of this ratio in September 2010.

The remainder of our financings at Eurocastle continue to perform. At the half year-end, we had €3.4 billion in financing with a weighted average life of 3.8 years. We remain active in managing our debt and look forward to advancing current negotiations on the Group's financings in the second half of 2011.

#### **Outlook**

We remain focused on our main priorities of realising the value of our real estate investment portfolio, stabilising our financing structures and extracting value from our debt investment business. To this end, we will continue to opportunistically sell assets we consider to be fully valued and take further steps to improve our overall long term capital structure.

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### BUSINESS REVIEW

#### **Commercial Property Portfolio**

As at 30 June 2011, Eurocastle owned a €2.3 billion portfolio of commercial property investments generating an average NOI\* yield of 6.0%. The investment property portfolio is a diversified mix of high-quality office and retail properties. The Group has an interest in 473 properties with approximately 1.4 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 83.8%, and a weighted average remaining lease term of 4.6 years. The Group derives 49.7% of its rental income from the five major German markets.

The properties are held in 11 separate financings. The tables below shows the investment portfolio split by asset, by use, and by geographical location on a like for like basis:

#### **Portfolio composition – 30 June 2011**

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent <sup>(2)</sup> €m	Annualised NOI <sup>(3)</sup> €m	Property valuation <sup>(4)</sup> €m	Average lease term	NOI yield on valuation %
Drive	197	361,069	77.0%	53.3	44.7	828	3.3	5.4%
Bridge	6	183,198	95.5%	29.7	27.2	426	6.9	6.4%
Wave	69	146,060	83.3%	16.6	14.0	213	3.6	6.6%
Mars – Floating	14	99,910	57.5%	10.8	7.2	192	2.7	3.7%
Turret	63	136,588	97.1%	15.1	13.4	174	4.6	7.7%
Truss	41	80,412	98.9%	8.4	7.6	98	5.4	7.7%
Mars – Fixed 2	3	33,679	87.9%	6.3	5.1	96	3.5	5.3%
Belfry	27	52,374	99.0%	5.3	4.8	61	4.8	7.8%
Tannenberg	27	47,344	95.6%	5.2	4.5	61	6.4	7.4%
Rapid	18	38,355	100.0%	4.4	4.1	56	10.3	7.2%
Zama	8	28,779	94.5%	3.6	3.3	45	4.7	7.3%
<b>Total portfolio<sup>(1)</sup></b>	<b>473</b>	<b>1,207,768</b>	<b>83.8%</b>	<b>158.7</b>	<b>135.9</b>	<b>2,250</b>	<b>4.6</b>	<b>6.0%</b>

#### **Like for like analysis<sup>(5)</sup> – 31 December 2010**

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent <sup>(2)</sup> €m	Annualised NOI <sup>(3)</sup> €m	Property valuation <sup>(4)</sup> €m	Average lease term	NOI yield on valuation %
Drive	197	405,644	86.6%	64.0	57.4	836	3.0	6.9%
Bridge	6	182,103	95.0%	29.6	27.7	425	4.2	6.5%
Wave	69	143,611	81.9%	15.8	13.4	215	4.0	6.2%
Mars – Floating	14	100,145	57.6%	11.1	8.0	196	2.7	4.1%
Turret	63	138,075	98.2%	15.1	13.8	175	5.0	7.9%
Truss	41	80,689	99.3%	8.5	7.7	98	5.6	7.8%
Mars – Fixed 2	3	33,659	87.9%	6.3	5.1	98	3.8	5.2%
Belfry	27	52,274	98.8%	5.2	4.8	62	5.1	7.7%
Tannenberg	27	47,475	95.9%	5.1	4.5	61	6.5	7.3%
Rapid	18	38,355	100.0%	4.4	4.1	56	10.8	7.4%
Zama	8	28,843	94.7%	3.5	3.2	45	5.1	7.0%
<b>Total portfolio<sup>(1)</sup></b>	<b>473</b>	<b>1,250,873</b>	<b>86.8%</b>	<b>168.6</b>	<b>149.7</b>	<b>2,267</b>	<b>4.0</b>	<b>6.6%</b>

(1) The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% equity investment.

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

(3) Net operating income is after deducting €3.4 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

(4) The above valuation does not include €23.5 million relating to head leases (31 December 2010: €13.2 million).

(5) Like for like represents common properties that are held at the end of both reporting periods.

\* Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses on an annualised basis.

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#### By Location – 30 June 2011

Location	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent <sup>(2)</sup> €m	Annualised NOI <sup>(3)</sup> €m	Property valuation <sup>(4)</sup> €m	Average lease term	NOI yield on valuation %
Frankfurt	35	290,598	84.4%	56.9	51.7	852	5.2	6.1%
Munich	8	29,443	36.0%	3.9	1.5	119	2.5	1.3%
Hamburg	6	15,880	80.9%	2.3	2.0	41	3.4	4.9%
Berlin	8	63,245	86.9%	7.7	6.5	120	3.2	5.5%
Düsseldorf	2	16,639	81.4%	2.6	1.2	47	3.1	2.5%
<b>Subtotal – top 5 markets</b>	<b>59</b>	<b>415,805</b>	<b>77.2%</b>	<b>73.4</b>	<b>62.9</b>	<b>1,179</b>	<b>4.7</b>	<b>5.3%</b>
Remaining West	320	620,830	89.0%	69.2	59.2	885	4.6	6.7%
Remaining East	94	171,133	83.8%	16.1	13.8	186	3.8	7.5%
<b>Total portfolio<sup>(1)</sup></b>	<b>473</b>	<b>1,207,768</b>	<b>83.8%</b>	<b>158.7</b>	<b>135.9</b>	<b>2,250</b>	<b>4.6</b>	<b>6.0%</b>

#### Like for like analysis<sup>(5)</sup> – 31 December 2010

Location	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent <sup>(2)</sup> €m	Annualised NOI <sup>(3)</sup> €m	Property valuation <sup>(4)</sup> €m	Average lease term	NOI yield on valuation %
Frankfurt	35	306,638	89.1%	62.8	58.4	858	3.6	6.8%
Munich	8	51,056	62.4%	8.5	7.0	123	1.3	5.7%
Hamburg	6	15,718	80.1%	2.3	2.0	41	3.5	4.7%
Berlin	8	63,006	86.6%	7.7	6.5	120	3.0	5.5%
Düsseldorf	2	15,187	74.3%	2.5	2.0	47	3.2	4.4%
<b>Subtotal – top 5 markets</b>	<b>59</b>	<b>451,605</b>	<b>83.8%</b>	<b>83.8</b>	<b>75.9</b>	<b>1,189</b>	<b>3.3</b>	<b>6.4%</b>
Remaining West	320	623,312	89.3%	68.2	59.2	890	5.0	6.6%
Remaining East	94	175,956	86.1%	16.6	14.6	188	3.9	7.8%
<b>Total portfolio<sup>(1)</sup></b>	<b>473</b>	<b>1,250,873</b>	<b>86.8%</b>	<b>168.6</b>	<b>149.7</b>	<b>2,267</b>	<b>4.0</b>	<b>6.6%</b>

(1) The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% equity investment.

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

(3) Net operating income is after deducting €3.4 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

(4) The above valuation does not include €23.5 million relating to head leases (31 December 2010: €13.2 million).

(5) Like for like represents common properties that are held at the end of both reporting periods.

During the six months ended 30 June 2011, the Group signed 143 commercial leases for approximately 104,500 sqm. This comprised 87 new leases for approximately 30,500 sqm, and 56 lease renewals for approximately 74,000 sqm. The renewal rate for the first six months of 2011 was 67.2%.

Overall, the level of physical portfolio occupancy, on a like for like basis, decreased to 83.8% from 86.8% in 2010, due to large Commerzbank lease expiries as it refocuses its real estate strategy following its acquisition of Dresdner Bank. Since the end of June 2011, approximately 2,100 sqm of new leases and 1,100 sqm of renewals have been completed, with a further 10,700 sqm of new leases and 11,200 sqm of renewals currently under negotiation.

As part of its ongoing sales programme, during the six months ended 30 June 2011, the Group has completed the sale of 22 properties for total sales proceeds of €126.1 million, compared to a carrying value of €137.0 million. These sales realised cash of €6.0 million, after repayment of asset level financings.

Since the half year end, the Group has entered into binding agreements to sell a further two properties for estimated total proceeds of €2.2 million. Once completed, these sales are expected to generate up to €0.1 million of cash, after repayment of asset level financings.

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As at 30 June 2011, the Group had signed 23 new leases for approximately €1.2 million of rental income per annum on approximately 10,300 sqm of vacant space, which will become effective during the second half of 2011 or later. These leases have not been included in the tables below.

#### Rental Data

##### By Use

Use	Lettable (sqm)	Occupancy %	Passing rent <sup>(1)</sup>		
			€million Annual	%	€per sqm/month
Office	753,356	77.5%	83.2	52.5%	11.9
Retail	388,990	97.0%	43.7	27.5%	9.7
Bank Hall	86,174	96.2%	13.6	8.6%	13.7
Other	212,402	77.0%	18.2	11.4%	9.3
<b>Total portfolio</b>	<b>1,440,922</b>	<b>83.8%</b>	<b>158.7</b>	<b>100%</b>	<b>11.0</b>

##### Like for like analysis<sup>(2)</sup> – 31 December 2010

Use	Lettable (sqm)	Occupancy %	Passing rent <sup>(1)</sup>		
			€million Annual	%	€per sqm/month
Office	753,979	81.6%	92.1	54.6%	12.5
Retail	388,868	97.5%	43.7	25.9%	9.6
Bank Hall	85,751	97.6%	13.5	8.0%	13.4
Other	212,324	81.5%	19.3	11.5%	9.3
<b>Total portfolio</b>	<b>1,440,922</b>	<b>86.8%</b>	<b>168.6</b>	<b>100%</b>	<b>11.2</b>

#### Lease Expiry Data

##### By Use

Use	Average lease term Years	Passing rent <sup>(1)</sup>						
		2011 €m	2012 <sup>(3)</sup> €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Office	4.5	1.5	15.8	5.8	9.8	7.7	35.9	6.7
Retail	5.5	0.6	2.8	4.5	6.5	5.0	18.5	5.9
Bank Hall	3.5	-	1.1	0.4	2.9	5.6	3.6	-
Other	3.8	0.2	5.4	1.0	1.3	1.9	7.7	0.6
<b>Total portfolio</b>	<b>4.6</b>	<b>2.3</b>	<b>25.1</b>	<b>11.7</b>	<b>20.5</b>	<b>20.2</b>	<b>65.7</b>	<b>13.2</b>
Percentage of portfolio		1.5%	15.8%	7.3%	12.9%	12.8%	41.4%	8.3%

##### By Location

Location	Average lease term Years	Passing rent <sup>(1)</sup>						
		2011 €m	2012 <sup>(3)</sup> €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Frankfurt	5.2	0.4	13.3	2.0	1.7	2.2	30.3	7.0
Munich	2.5	0.4	0.9	0.3	0.9	0.7	0.5	-
Hamburg	3.4	0.1	0.3	0.1	1.3	0.2	0.4	-
Berlin	3.2	0.3	1.0	1.7	1.7	0.4	2.7	-
Düsseldorf	3.1	-	0.4	0.5	0.9	0.6	0.3	-
<b>Subtotal – top 5 markets</b>	<b>4.7</b>	<b>1.2</b>	<b>15.9</b>	<b>4.6</b>	<b>6.5</b>	<b>4.1</b>	<b>34.2</b>	<b>7.0</b>
Remaining West	4.6	1.0	7.6	4.5	8.2	15.2	27.1	5.5
Remaining East	3.8	0.1	1.6	2.6	5.8	0.9	4.4	0.7
<b>Total portfolio</b>	<b>4.6</b>	<b>2.3</b>	<b>25.1</b>	<b>11.7</b>	<b>20.5</b>	<b>20.2</b>	<b>65.7</b>	<b>13.2</b>

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

<sup>(2)</sup> Like for like represents common properties that are held at the end of both reporting periods.

<sup>(3)</sup> Included in the Drive passing rent due to expire in 2012 is €1.4 million of leases that have been terminated and will not be renewed.

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**By Portfolio**

Portfolio	Average lease term Years	Passing rent <sup>(1)</sup>						
		2011 €m	2012 <sup>(2)</sup> €m	2013 €m	2014 €m	2015 €m	2016-2020 €m	2021+ €m
Drive	3.3	0.3	15.5	2.2	7.8	3.5	23.8	0.2
Bridge	6.9	0.3	2.2	1.6	1.8	0.5	16.5	6.8
Wave	3.6	0.3	1.2	1.0	1.5	10.1	2.4	0.1
Mars – Floating	2.7	0.7	2.8	2.2	2.3	0.9	1.8	0.2
Turret	4.6	0.1	0.4	2.4	4.0	1.7	5.3	1.0
Truss	5.4	-	0.3	0.8	0.6	1.4	4.8	0.5
Mars – Fixed 2	3.8	0.1	1.3	0.6	1.1	1.0	2.3	-
Belfry	4.8	0.4	0.3	0.6	0.5	0.6	2.9	-
Tannenberg	6.4	-	0.9	0.2	0.5	0.3	1.9	1.4
Rapid	10.3	-	-	-	-	-	1.4	3.0
Zama	4.7	0.1	0.2	0.1	0.4	0.2	2.6	-
<b>Total portfolio</b>	<b>4.6</b>	<b>2.3</b>	<b>25.1</b>	<b>11.7</b>	<b>20.5</b>	<b>20.2</b>	<b>65.7</b>	<b>13.2</b>

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

<sup>(2)</sup> Included in the Drive passing rent due to expire in 2012 is €1.4 million of leases that have been terminated and will not be renewed.

**Top 5 Tenants**

Tenant name	Business sector	Passing rent €000	% of total portfolio	Square meters
Commerzbank	Banking	43,268	27.3%	268,926
Edeka	Retail	11,732	7.4%	92,232
Deutsche Bank	Banking	10,465	6.6%	99,965
Deutsche Bahn	Railway	7,481	4.7%	41,301
Vodafone	Telecommunications	7,342	4.6%	40,495
<b>Total portfolio</b>		<b>80,288</b>	<b>50.6%</b>	<b>542,919</b>

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**Debt Investment Portfolio**

*Overview of the Debt Investment Portfolio*

	<b>30 June 2011 (Unaudited)</b>	<b>31 December 2010</b>
Carrying value of total debt investments (excluding restricted cash) (€000)	<b>1,291,883</b>	<b>1,301,705</b>
Implied discount margin (above Euribor) at carrying value	<b>7.12%</b>	<b>7.45%</b>
Amortised cost of total debt investments (excluding restricted cash) (€000)	<b>1,308,203</b>	<b>1,327,491</b>
Weighted average asset margin (above Euribor)	<b>1.92%</b>	<b>1.75%</b>
Weighted average liability spread	<b>0.56%</b>	<b>0.56%</b>
Weighted average net spread	<b>1.36%</b>	<b>1.19%</b>
Weighted average credit rating	<b>BB-</b>	<b>BB-</b>
Percentage investment grade of debt investment portfolio	<b>36%</b>	<b>34%</b>
Number of securities and loans	<b>188</b>	<b>176</b>
Nominal value of impaired assets (€000)	<b>499,763</b>	<b>469,117</b>
Number of impaired assets	<b>51</b>	<b>48</b>

Eurocastle's €1.3 billion investment portfolio (excluding restricted cash) consists primarily of commercial real estate backed and residential real estate backed debt. The following describes the investment portfolio as at 30 June 2011:

**Asset/liability structure for debt investment portfolio**

<b>30 June 2011 (unaudited)</b>	<b>Assets</b>			<b>Cash in hand</b>	<b>Liabilities</b>			
	<b>Nominal €000</b>	<b>Average life</b>	<b>Average rating</b>	<b>Nominal €000</b>	<b>Nominal amount €000</b>	<b>Average life</b>	<b>Legal maturity</b>	<b>M-T-M provisions</b>
Eurocastle CDO II PLC	316,181	6.9	BB	15	271,947	6.1	Dec 2060	No
Eurocastle CDO III PLC	723,692	7.3	BB+	4,590	658,295	6.2	Dec 2060	No
Eurocastle CDO IV PLC	75,845	4.1	BB-	-	40,744	1.0	Mar 2013	No
Duncannon CRE CDO I PLC <sup>(1)</sup>	673,562	3.4	B	11	443,609	4.3	Jun 2047	No
Eurocastle Funding Limited (unlevered)	7,286	0.5	CC	-	-	-	-	-
<b>Total</b>	<b>1,796,566</b>	<b>5.6</b>	<b>BB-</b>	<b>4,616</b>	<b>1,414,595</b>	<b>5.4</b>		

<sup>(1)</sup> Includes Balance Guaranteed Swap Asset of €57.6 million on the nominal value of some non Euro assets.

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#### Debt Investment Portfolio Composition (30 June 2011)

Asset class (Unaudited)	Nominal <sup>(1)</sup> €000	Total debt portfolio %	Average rating <sup>(2)</sup>
Commercial real estate backed	1,283,185	73.8%	B+
Residential real estate backed	432,730	24.9%	A-
Other	23,033	1.3%	BB+
	<b>1,738,948</b>	<b>100.0%</b>	<b>BB-</b>

(1) Excludes the balance guaranteed swap asset of €7.6 million on the nominal value of some non-Euro assets.

(2) 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 and Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current estimated carrying value, weighted by the current nominal par amount outstanding.

#### Rating distribution / country exposure

	AAA	AA	A	BBB	BB	B	CCC	CC / C	D	Total	Total portfolio
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	%
<b>UK</b>	106,310	25,588	72,709	124,774	99,448	50,887	55,480	104,241	122,504	<b>761,941</b>	<b>43.8%</b>
<b>Germany</b>	-	15,808	24,170	32,190	37,490	71,846	61,217	44,012	23,193	<b>309,926</b>	<b>17.8%</b>
<b>Italy</b>	-	-	13,400	43,000	20,988	50,972	38,151	-	-	<b>166,511</b>	<b>9.6%</b>
<b>France</b>	-	-	-	-	13,081	23,926	10,000	-	5,100	<b>52,107</b>	<b>3.0%</b>
<b>Netherlands</b>	30,250	7,256	6,375	4,790	17,500	12,800	11,535	7,610	-	<b>98,116</b>	<b>5.6%</b>
<b>Switzerland</b>	-	-	-	-	7,000	25,788	-	-	-	<b>32,788</b>	<b>1.9%</b>
<b>Spain</b>	-	-	12,200	6,219	2,200	4,334	11,600	1,398	-	<b>37,951</b>	<b>2.2%</b>
<b>Ireland</b>	-	-	4,000	-	-	-	12,062	12,050	-	<b>28,112</b>	<b>1.6%</b>
<b>Pan-European</b>	16,649	-	73,724	14,703	18,476	15,526	105,508	6,910	-	<b>251,496</b>	<b>14.5%</b>
<b>Total</b>	<b>153,209</b>	<b>48,652</b>	<b>206,578</b>	<b>225,676</b>	<b>216,183</b>	<b>256,079</b>	<b>305,553</b>	<b>176,221</b>	<b>150,797</b>	<b>1,738,948</b>	<b>100%</b>
<b>% of total debt portfolio</b>	<b>8.8%</b>	<b>2.8%</b>	<b>11.9%</b>	<b>13.0%</b>	<b>12.4%</b>	<b>14.7%</b>	<b>17.6%</b>	<b>10.1%</b>	<b>8.7%</b>	<b>100%</b>	
<b>% of total debt portfolio - 2010</b>	<b>10.3%</b>	<b>3.1%</b>	<b>7.6%</b>	<b>13.3%</b>	<b>13.1%</b>	<b>18.7%</b>	<b>20.5%</b>	<b>9.5%</b>	<b>3.9%</b>	<b>100%</b>	

During the six months ended 30 June 2011, the Group made purchases of €120 million, made no sales, and had principal repayments of €83 million. During the same period, the Group had 10 securities upgraded totalling €60 million and 47 downgrades totalling €385 million.

As at 30 June 2011, 51 securities with a nominal value of €499.8 million had been impaired by a total amount of €335.9 million.

#### Credit Quality

In the first half of 2011 credit quality stabilised further for multiple asset classes in the European debt market, although downgrades continued to outpace upgrades. Commercial real estate values in Europe have generally stabilised and in some markets actually increased over the last year which has been supportive of the CMBS market, while decreases in delinquencies and foreclosures have continued to support the RMBS market. Cash flows in the portfolio have remained strong; actual, realised losses have been small to date and have been primarily in the CMBS market.



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**Financing and Liquidity**

The Group's liquidity continues to be provided through cash flow from its real estate operations, the extension of its existing financings and asset sales. As at 30 June 2011, Eurocastle had an unrestricted corporate cash balance of €7.0 million.

The Group's financing position as at 30 June 2011 was as follows:

<b>Maturities and Mandatory Amortisation</b>								
<b>Portfolio (€million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 +</b>	<b>TOTAL</b>
<b>Non - Recourse</b>								
Drive <sup>(2) (3)</sup>	-	-	724.3	-	-	-	-	724.3
Bridge	-	-	-	372.1	-	-	-	372.1
Wave	-	-	-	173.8	-	-	-	173.8
Mars - Floating <sup>(1) (3)</sup>	13.9	50.0	100.0	-	-	-	-	163.9
Turret	-	-	-	-	-	147.6	-	147.6
Truss	-	0.9	0.9	0.9	0.9	81.7	-	85.3
Mars - Fixed 2	-	-	79.0	-	-	-	-	79.0
Belfry	-	-	-	-	54.8	-	-	54.8
Tannenberg	-	-	-	53.0	-	-	-	53.0
Superstella	-	-	-	-	-	-	54.5	54.5
Zama	-	-	-	39.9	-	-	-	39.9
<b>Real Estate Total</b>	<b>13.9</b>	<b>50.9</b>	<b>904.2</b>	<b>639.7</b>	<b>55.7</b>	<b>229.3</b>	<b>54.5</b>	<b>1,948.2</b>
CDO IV	18.6	11.1	11.0	-	-	-	-	40.7
<b>Debt Total</b>	<b>18.6</b>	<b>11.1</b>	<b>11.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40.7</b>
<b>GRAND TOTAL</b>	<b>32.5</b>	<b>62.0</b>	<b>915.2</b>	<b>639.7</b>	<b>55.7</b>	<b>229.3</b>	<b>54.5</b>	<b>1,988.9</b>

- (1) The Mars Floating facility includes €10 million recourse to Eurocastle in respect of any interest shortfall only. There is also a suspended €10 million credit support obligation, which is expected to remain suspended at least until the facility is restructured. Under this credit support obligation, Eurocastle is required to give credit support only to the extent assets are (i) sold and (ii) below their respective allocated loan amounts and (iii) a waiver under this obligation has not been granted. As at 30 June 2011, no amounts were outstanding under this credit support obligation.
- (2) Subsequent to the half-year end, there have been financing repayments of €28.3 million in the Drive portfolio, which have been included in the above table.
- (3) In 2010, the Mars Floating and Drive Junior loans breached certain loan covenants as described in the 2010 Annual Report. The table above assumes contractual amortisation. The legal maturities of these loans are December 2013 and January 2013, respectively.

<b>Non-Mandatory CDO Paydown Profile</b>								
<b>Portfolio (€million)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 +</b>	<b>TOTAL</b>
CDO II	8.8	8.8	49.3	54.8	30.1	21.8	98.4	272.0
CDO III	3.6	26.8	59.1	91.8	113.5	73.9	289.6	658.3
Duncannon	5.3	11.3	43.1	130.9	75.7	105.8	71.5	443.6
<b>GRAND TOTAL</b>	<b>17.7</b>	<b>46.9</b>	<b>151.5</b>	<b>277.5</b>	<b>219.3</b>	<b>201.5</b>	<b>459.5</b>	<b>1,373.9</b>

The repayment profiles of the CDOs do not constitute mandatory amortisations. The repayments represent the expected amortisations from excess interest, assuming no reinvestments occur after the relevant reinvestment period, and the expected cash receipts from the underlying investments.

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#### ***Convertible Securities***

In June 2011, in accordance with the terms of the convertible, annual interest of €3.1 million on €8.25 million of securities was deferred.

#### ***Real Estate Portfolio Financing***

The Group finances its core real estate portfolio with fixed rate term loans, which, during the period of ownership, has substantially eliminated its exposure to increased interest rates. This is consistent with the objective of locking in the spread between the yield on its investments and the cost of financing those investments.

#### **Mars Fixed 1 Facility**

The Mars Fixed 1 facility was restructured in the second quarter of 2011. The Mars Fixed 1 facility lenders have agreed to modify the terms of the Mars Fixed 1 loan facility, which matures in July 2014, to include annual amortisation targets expected to be met from asset sales, the deferral of a significant part of the facility's current interest margin and new capital loaned from a junior lender for capital expenditure on the Mars Fixed 1 portfolio. In addition, Eurocastle's German asset management platform will continue to provide asset management services to the portfolio for which it will be compensated over an anticipated minimum 3 year term. This fee stream is of direct economic benefit to the Group and since the restructuring the Group has received a net economic benefit worth €1.5 million from this ongoing fee stream. In consideration of these terms, Eurocastle transferred half of its remaining equity investment in the Mars Fixed 1 portfolio to a junior lender who will control 75% of the equity in the portfolio, leaving Eurocastle with a 25% residual investment in the portfolio. From a cashflow perspective, excess cash continues to be used to repay debt.

Following the restructuring, the Group no longer consolidates the Mars Fixed 1 portfolio and currently is not projecting significant value in its residual investment in the Mars Fixed 1 portfolio (aside from any value attributed to the asset management fee stream from the Mars Fixed 1 portfolio payable to Eurocastle's German asset management platform). As a result of the restructuring, the Group has recognised a loss on deconsolidation of its investment in the Mars Fixed 1 portfolio of €4 million (refer Note 10).

#### **Mars Floating Facility**

As at 30 June 2011, €63.9 million was outstanding under the Mars Floating facility, the terms of which were described in the 2010 Annual Report. The facility is subject to a temporary standstill pending negotiations with the lender around a restructuring. The Group does not expect to finalise a restructuring of this facility until the second half of 2011. The Group does not anticipate significant residual value in the Mars Floating portfolio following a restructuring.

Eurocastle continues to provide a €10 million interest shortfall guarantee and a €10 million credit support to the Mars Floating portfolio allowing assets to be sold in aggregate up to €10 million below their respective facility allocated loan amounts. No amounts are currently outstanding under these obligations.

All operating cash flows, net of agreed costs and expenses (including agreed capital expenditure costs), continue to be used to amortise the outstanding loan balance on the quarterly interest payment dates.

#### **Drive Junior Facility**

The Drive portfolio assets are held through a German real estate fund. A Group subsidiary holds its interest in the fund through the ownership of units issued by this fund. The structure is financed by a senior loan made to the fund and through a junior loan made to the Group subsidiary holding the fund units and secured by, amongst other things, the fund units. As at 30 June 2011, the combined debt on the Drive portfolio (all of which is non-recourse) was €750.6 million, split between the senior or fund level loan (€117.6 million) and the junior facility (€333.0 million).

The Group has signed two phases of an anticipated multi-phase restructuring of the Drive Junior facility. As a result, in relation to the second half of 2010 and the first quarter of 2011, the Group has received cash distributions of approximately €1.8 million, released on a discretionary basis by the Drive Junior facility lenders, from the Drive portfolio sized to cover the Group's overhead costs relating to the management of the Drive portfolio. Aside from the discretionary distributions, excess cash from the Drive portfolio is being accumulated in a reserve fund primarily for reinvestment back into the Drive portfolio real estate and debt service. As at half year-end, €20.2 million had been accumulated in the reserve fund. Continuing

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restructuring negotiations on this facility remain constructive and in progress with the lending syndicate which remains in a position to review its commitment on a periodic basis until a final restructuring has been effected.

#### *Debt Investment Portfolio Financing*

The Group has no mark-to-market or recourse exposure on its debt portfolio. As at 30 June 2011, out of total financing facilities of €1.4 billion, the Group has financing totalling €36.3 million maturing within the year, €17.7 million of which relates to non mandatory amortisations as a result of expected interest from the underlying investments.

At 30 June 2011, approximately 95.4% of the debt investment portfolio benefited from financing maturing beyond the maturity date of its assets.

A significant portion of the Group's debt investments are financed with non-recourse collateralised debt obligations, known as CDOs. As a consequence of the non-compliance with certain covenants, where compliance is generally a function of the default rate and external credit ratings of the underlying investments, substantially all the interest receipts are mandatorily being diverted to amortise senior debt, as are principal receipts unless, where appropriate, they are reinvested within strict timeframes in substitute eligible collateral. Eurocastle currently receives no material cash from its debt investment business.

#### *CDO Compliance Test Summary as at 22 July 2011*

##### **Overcollateralisation Compliance Summary**

<b>€000</b>	<b>Eurocastle CDO II PLC</b>	<b>Eurocastle CDO III PLC</b>	<b>Duncannon CRE CDO I PLC</b>
Nominal value of assets	280,880	744,080	661,778
Balance of the principal cash accounts	4,877	6,457	11,282
Sum of applied haircuts <sup>(1)</sup>	(65,616)	(116,520)	(296,995)
Overcollateralisation (par value) numerator (A)	220,141	634,017	376,065
Aggregate principal amount of rated liabilities <sup>(2)</sup> (B)	255,956	669,952	474,148
Interest diversion test (A / B)	86.0%	94.6%	79.3%
Trigger	103.5%	102.5%	102.0%
<b>Collateral shortfall</b>	<b>(44,773)</b>	<b>(52,684)</b>	<b>(107,567)</b>

##### **Interest Coverage Compliance Summary**

<b>€000</b>	<b>Eurocastle CDO II PLC</b>	<b>Eurocastle CDO III PLC</b>	<b>Duncannon CRE CDO I PLC</b>
Interest coverable amount (C)	1,060	4,015	3,278
Quarterly interest due on the liabilities <sup>(2)</sup> (D)	869	2,619	1,979
Mezzanine interest coverage ratio (C / D)	122.0%	153.3%	165.6%
Trigger	112.0%	112.0%	103.0%
<b>Interest cushion</b>	<b>87</b>	<b>1,081</b>	<b>1,240</b>

<sup>(1)</sup> An amount is subtracted from the nominal value of assets that are held as collateral within the CDO. The size of this haircut reflects the perceived risk as defined by the minimum rating associated with holding the assets and thus primarily depends on the credit ratings assigned to the collateral. For example, in Duncannon CRE CDO I Plc (1) assets rated below CCC- with a nominal value of €18 million on 22 July 2011 were treated as defaulted obligations and haircut to their respective recovery levels (4% on average) based on collateral type and (2) assets rated between CCC+ and CCC- with an aggregate nominal value of €120 million were treated as Haircut Obligations and haircut by 63%.

<sup>(2)</sup> Excludes the Class E Notes for Eurocastle CDO II and Eurocastle CDO III.

The interest diversion test is a customary CDO test based on collateral quality and is used primarily to determine whether interest on the mezzanine and subordinated notes may be paid and whether principal cash must on certain dates be used to amortise senior notes rather than remain available for reinvestment. As at 30 June 2011, the Group continued to breach this test. During the first half of 2011, €5.7 million of interest cash has been diverted to paydown senior liabilities.

On 8 June 2011, CDO II once again passed an overcollateralisation financial ratio and therefore came out of a default originally triggered by a breach of this ratio in September 2010, as described in the 2010 Annual Report.

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***Liquidity Outlook***

The Group continues to upstream cash to the holding company level where required to service current unsecured obligations of Eurocastle, notwithstanding that Eurocastle has now repaid all its current financing obligations. Cash flows from the Mars portfolios and the debt investment portfolios continue to be retained within those portfolios and so currently cannot be distributed to Eurocastle, although the Group expects to continue to derive an economic benefit from the Mars Fixed 1 portfolio through the compensation it receives as a result of the services Eurocastle's German asset management platform continues to provide over an anticipated 3 years. In addition, limited cash flow has been received from the Drive portfolio and may continue to be received from the Drive portfolio at the discretion of the Drive Junior lenders though there is no certainty that this cash flow stream from the Drive portfolio will continue.

The Group continues to seek to reduce capital expenditure committed on new leasing, focusing it on those leases and portfolios achieving the greatest economic benefit and thus maximising cash flow available to Eurocastle.

**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, methods of funding portfolios, timing 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", "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 renegotiate its credit facilities, or achieve its targets regarding asset disposals or reductions in capital expenditure.

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**Key Financial Information**

<b>Income Statement Data</b> <b>(in €000, except per share data) (Unaudited)</b>	<b>Six months ended</b> <b>30 June 2011</b>	<b>Six months ended</b> <b>30 June 2010</b>
Interest income	25,195	22,433
Rental income	100,447	120,911
Service charge income	20,738	25,123
Decrease in fair value of investment properties	(28,757)	(46,104)
Impairment losses	(41,038)	(12,807)
Interest expense	(80,866)	(99,667)
Service charges and property operating expenses	(41,153)	(43,836)
Other operating expenses	(18,409)	(19,844)
Net loss before taxation	(70,950)	(53,517)
Net loss after taxation	(72,113)	(55,264)
Funds from operations ("FFO")	(117,534)	(19,423)
Normalised funds from operations	13,040	19,762
Loss per weighted average basic share and diluted share	(1.10)	(0.86)
FFO per weighted average basic share	(1.79)	(0.30)
FFO per weighted average diluted share	(0.26)	(0.05)
Normalised FFO per weighted average basic share	0.20	0.31
Normalised FFO per weighted average diluted share	0.03	0.05
Normalised FFO per fully diluted share	0.02	0.04
Weighted average number of ordinary shares, outstanding, basic	65,739,646	64,216,530
Dilutive effect of ordinary share options and convertible securities <sup>(1)</sup>	385,828,767	327,500,000
<b>Weighted average number of ordinary shares outstanding, diluted</b>	<b>451,568,413</b>	<b>391,716,530</b>

<b>Ordinary shares outstanding</b>	<b>65,739,646</b>	<b>65,739,646</b>
<b>Fully diluted ordinary shares outstanding <sup>(1)</sup></b>	<b>528,734,167</b>	<b>451,757,865</b>

<sup>(1)</sup> For the six months ended 30 June 2011, fully diluted ordinary shares represent the impact of converting €98,250,000 of Convertible Securities at €0.30 per share, as well as the impact of converting the interest due on the Convertible Securities. The weighted average dilutive effect for the six months ended 30 June 2011 comprises a time weighting of the impact of fully converting the securities against the relative periods from the date of each Convertible Securities issue.

<b>Balance Sheet Data</b> <b>(in €000, except per share data)</b>	<b>30 June 2011</b> <b>(Unaudited)</b>	<b>31 December 2010</b>
Cash and cash equivalents	121,223	113,990
Investment property (including properties held for sale)	2,260,663	3,375,536
Debt investments	1,296,499	1,312,214
Other assets	61,991	80,543
<b>Total assets</b>	<b>3,740,376</b>	<b>4,882,283</b>
Interest bearing debt financing	(3,390,197)	(4,482,377)
Other liabilities	(104,161)	(114,362)
<b>Total liabilities</b>	<b>(3,494,358)</b>	<b>(4,596,739)</b>
<b>Net assets</b>	<b>246,018</b>	<b>285,544</b>
<b>Net assets per fully diluted share</b>	<b>0.46</b>	<b>0.58</b>
<b>Real estate net assets per fully diluted share</b>	<b>0.61</b>	<b>0.76</b>
<b>Debt investment portfolio net assets per fully diluted share</b>	<b>(0.15)<sup>(2)</sup></b>	<b>(0.18)<sup>(2)</sup></b>

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

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<b>FFO Reconciliation</b> <b>€000 (Unaudited)</b>	<b>Six months ended</b> <b>30 June 2011</b>	<b>Six months ended</b> <b>30 June 2010</b>
<b>Reconciliation of FFO to net loss after taxation</b>		
Net loss after taxation	(72,113)	(55,264)
Decrease in fair value of investment properties	28,757	46,104
Increase in fair value of interest rate swaps	(901)	(2,012)
Unrealised movements on currency swaps (net of translation gains on related assets)	142	(47)
Realised loss on sale of investment properties	(74,934)	(9,618)
Deferred tax benefit on investment properties	1,515	1,414
Funds from operations (FFO)	<b>(117,534)</b>	<b>(19,423)</b>
Net realised losses on investment property sales after sales costs and closure of swaps	79,096	16,750
Losses / (gains) on foreign currency contracts, translation and swaps	531	(454)
Impairment losses	41,038	12,807
Realised loss on sale of available-for-sale securities	-	20,612
Amortisation of cost of Mars refinancing	1,663	5,904
Interest rate swap adjustments	911	1,939
Gain on repurchase of debt in CDO V	-	(18,373)
Loss on sale on shares in subsidiary	711	-
Gain on purchase of mezzanine financing	(2,753)	-
Loss on transfer of investment in the Mars Fixed 1 portfolio	9,377	-
<b>Normalised FFO</b>	<b>13,040</b>	<b>19,762</b>

The table below shows the summarised financial data of the Group's business segments with the unallocated amounts per Note 22 as per IFRS allocated between the segments on the basis disclosed below the table.

	<b>Debt</b> <b>investments</b> <b>€000</b>	<b>Investment</b> <b>properties</b> <b>€000</b>	<b>Total</b> <b>Eurocastle</b> <b>€000</b>
Funds from operations	(28,528)	(89,006)	(117,534)
Funds from operations per ordinary share €	(0.43)	(1.36)	(1.79)
Normalised funds from operations	10,309	2,731	13,040
Normalised funds from operations per ordinary share €	0.16	0.04	0.20

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

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

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#### **Funds from operations (FFO)**

FFO and Normalised FFO are appropriate measures of underlying operating performance of companies primarily involved in real estate as they provide investors with information regarding the Group's ability to service debt and make capital expenditure.

FFO for the six months ended 30 June 2011 was a loss of €17.5 million (six months ended 30 June 2010: loss of €19.4 million) and included impairments of €1.0 million (six months ended 30 June 2010: €12.8 million).

FFO for the six months ended 30 June 2011 decreased by €98.1 million against the six months ended 30 June 2010 mainly due to:

- higher realised losses on sale of investment properties by €65.3 million
- higher impairments of debt investments by €28.2 million
- net rental income, service charge income and expense, and property operating expenses were lower by €22.2 million due mainly to investment property disposals and de-recognition of the Mars Fixed 1 portfolio
- lower gain on the repurchase of CDO financing of €18.4 million
- loss on transfer of Mars Fixed 1 portfolio €9.4 million
- foreign exchange loss increased by €1.0 million due to weakening Sterling exchange rates
- €0.7 million loss on sale of shares relating to the Bastion portfolio

Offset by:

- higher interest income and lower interest expense totalling €21.6 million
- €20.6 million loss on sale of debt investments during the six months ended 30 June 2010
- gain on purchase of mezzanine debt €2.8 million
- other operating expenses and taxation decreased by €2.1 million

#### **Operating Income**

The Group's operating income consists of rental and service charge income from German commercial property, interest income from debt investments, gains/losses on sale of available-for-sale assets, impairment losses on securities and fair value movements on investment properties and interest rate swaps.

Operating income, excluding fair value movements is shown in the table below:

<b>Operating income (excluding fair value movements) €000 (Unaudited)</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Interest income	25,195	22,433
Rental income	100,447	120,911
Service charge income	20,738	25,123
<b>Total</b>	<b>146,380</b>	<b>168,467</b>

The increase in interest income compared to the first six months of 2010 was due mainly to gains from redemptions of debt investment securities that had been impaired in previous periods.

The decrease in rental income compared to the first six months of 2010 reflects mainly the Mars Fixed 1 portfolio no longer being consolidated, sale of properties and budgeted lease expiries.

Service charge income represents the service costs that have been charged to the tenants and includes common area maintenance, insurance, utilities costs and property taxes. Lower service charge income compared to the first six months of 2010 is due mainly to the Mars Fixed 1 portfolio no longer being consolidated and the sale of properties.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

### FINANCIAL REVIEW

Fair value movements / impairment losses €000 (Unaudited)	Six months ended 30 June 2011	Six months ended 30 June 2010
Decrease in fair value of investment properties (a)	(28,757)	(46,104)
Loss on sale of available-for-sale securities and loans and receivables (b)	-	(5,469)
Loss on sale of loans and receivables (b)	-	(15,143)
Increase in fair value of interest rate swaps (c)	901	2,012
Gain on repurchase of debt financing (d)	-	18,373
Impairment losses (e)	(41,038)	(12,807)
Loss on sale on shares in subsidiary (f)	(711)	-
Gain on purchase of mezzanine financing (g)	2,753	-
Loss on transfer of investment in the Mars Fixed 1 portfolio (h)	(9,377)	-
	-	-
<b>Total</b>	<b>(76,229)</b>	<b>(59,138)</b>

(a) The Group's investment properties are revalued for the purposes of the Group's financial statements on a semi-annual basis by external valuers. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, reletability and marketability of properties.

(b) The Group did not sell any debt securities in the six months ended 30 June 2011 compared to a total realised loss on sale of €20.6 million for the six months ended 30 June 2010.

(c) The decrease in the fair value of interest rate swaps is due to lower outstanding nominal associated with the expiration of a swap facility at the end of 2010.

(d) The Group did not repurchase debt issued by CDO V in the six months ended 30 June 2011 compared to a realised gain of €18.4 million for the six months ended 30 June 2010.

(e) During the six months ended 30 June 2011, the Group recognised €41.0 million of impairment losses within the debt investment portfolio on a total of 35 assets, compared to €2.8 million of impairment losses on six assets in the first six months of 2010.

(f) At the start of the year, the Group disposed of the Bastion real estate portfolio which consisted of 13 assets, giving rise to a loss on sale of share in subsidiary of €0.7 million.

(g) The Group purchased €3.0 million of Eurocastle CDO III Class B notes at a price of 8.25% in the first six months ended 30 June 2011, resulting in a gain of €2.8 million.

(h) As a result of the Mars Fixed 1 portfolio restructuring, the Group no longer consolidates the Mars Fixed 1 portfolio; the transfer of investment has resulted in a loss of €9.4 million (refer to page 10).



**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**  
**FINANCIAL REVIEW**

**Operating Expenses**

The Group's operating expenses consist of interest expenses, service charge expenses, property operating expenses and other operating expenses as shown in the table below:

<b>Operating expenses €000 (Unaudited)</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Interest expense	80,866	99,667
Losses / (gains) on foreign currency contracts, translation and swaps	673	(501)
Service charge expenses	20,738	25,123
Property operating expenses	20,415	18,713
Other operating expenses	18,409	19,844
<b>Total operating expenses</b>	<b>141,101</b>	<b>162,846</b>
<b>Operating income (excluding fair value movements and impairment losses)</b>	<b>146,380</b>	<b>168,467</b>

A significant proportion of the Group's operating expenses represent interest expense (57% for the six months ended 30 June 2011, against 61% for the comparative period in 2010). The decrease in interest expense compared to the six months ended 30 June 2010 was due mainly to the impact of Mars Fixed 1 facility no longer being consolidated, lower interest expense from the sale of properties and lower swap losses realised from the sale of properties.

The Group's property operating expenses include common area maintenance, insurance, utilities costs and property taxes that cannot be recovered from tenants or that relate to vacant space. The increase as compared to the six months ended 30 June 2010 was predominantly due to higher amortisation of tenant improvements, which is offset by lower property expenses due to the impact from the sale of properties and the Mars Fixed 1 portfolio no longer being deconsolidated.

The Group's other operating expenses include management fees paid to the Manager of €10.9 million for the first half of 2011, which was consistent with the comparative period in 2010. Other operating expenses decreased by €1.4 million in the first half of 2011 when compared to the first half of 2010, due mainly to the economic benefit gained from the asset management services provided to the Mars Fixed 1 portfolio.

**Corporation Tax**

The Group's corporation tax is shown in the table below:

<b>€000 (Unaudited)</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Current tax (credit) / charge	(352)	333
Deferred tax charge	1,515	1,414
<b>Total tax charge</b>	<b>1,163</b>	<b>1,747</b>

The deferred tax represents temporary timing differences between the fair value and the German tax book value of all investment properties, except those within the Drive portfolio (which are exempt from corporation tax on all income generated and revaluation gains).

The Group has structured its investments in a tax efficient manner but changes in tax legislation or management non-compliance with certain tax principles in relevant jurisdictions (including Guernsey, Luxembourg, Ireland, United Kingdom and Germany) could affect the Group's effective rate of taxation.

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**  
**FINANCIAL REVIEW**

**Balance Sheet Review**

The segmental analysis prepared according to IFRS has been disclosed in Note 22. The table below shows the summarised financial data of the Group's business segments on a pro-forma basis with the unallocated amounts per Note 22 allocated between the segments on the basis disclosed in the table below.

**Balance sheet data**

<b>As at 30 June 2011</b>	<b>Debt investments</b>	<b>Investment properties</b>	<b>Total Eurocastle</b>
<b>(Unaudited)</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Investments	1,296,499	2,260,663	3,557,162
Other assets <sup>1</sup>	40,893	142,321	183,214
<b>Total assets</b>	<b>1,337,392</b>	<b>2,402,984</b>	<b>3,740,376</b>
Interest-bearing debt financing	(1,408,522)	(1,981,675)	(3,390,197)
Other liabilities <sup>2</sup>	(4,483)	(94,239)	(98,722)
<b>Total liabilities</b>	<b>(1,413,005)</b>	<b>(2,075,914)</b>	<b>(3,488,919)</b>
<b>Segment net (liabilities) / assets</b>	<b>(75,613)</b>	<b>327,070</b>	<b>251,457</b>
Tax liability	-	(5,439)	(5,439)
Minority interest	(2)	(4)	(6)
<b>Net (liabilities) / assets</b>	<b>(75,615)</b>	<b>321,627</b>	<b>246,012</b>
<b>Net (liabilities) / assets per fully diluted share €</b>	<b>(0.15)</b>	<b>0.61</b>	<b>0.46</b>
<b>Adjusted NAV for 50% Mars transfer<sup>3</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjusted net (liabilities) / assets after transfer</b>	<b>(75,615)</b>	<b>321,627</b>	<b>246,012</b>
<b>Adjusted net (liabilities) / assets per fully diluted share after transfer</b>	<b>(0.15)</b>	<b>0.61</b>	<b>0.46</b>

(1) Unallocated other assets of €0.6 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.1 million and investment properties: €0.5 million.

(2) Unallocated other liabilities of €3.6 million have been allocated between debt investment and investment property segments based on each segment's share of invested equity. Amounts allocated were: debt investments: €0.2 million and investment properties: €3.4 million.

(3) Represents the economic (non-IFRS) impact of transferring 50% of the Group's equity in the Mars Floating portfolio to the lender as part of the Mars Floating refinancing.

The debt investment securities portfolio is predominantly financed to maturity with long-term collateralised debt obligations ("CDOs") that are not callable as a result of changes in value and are non-recourse to the Group. While the assets in the CDOs are consolidated in the financial statements for IFRS purposes, the Group's exposure to losses is limited to its initial investment in each CDO. The 30 June 2011 net asset value reflects approximately €11.9 million of unrealised losses in assets within the Group's CDOs that exceeds its investment in the CDOs and, therefore, could not be realised in cash terms by the Group.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

### FINANCIAL REVIEW

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#### **Accounting for the Mars Fixed 1 Refinancing**

The Group's equity transfer to the Mars Fixed 1 junior lender in respect of the Mars Fixed 1 portfolio refinancing settled on 11 May 2011, and comprised of the transfer of 50% of its remaining investment in the loan notes and shareholder loans held in the Mars Fixed 1 portfolio following the Mars Floating refinancing that was completed in May 2009.

As a result of the transfer, 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.

#### **Total Assets**

Total assets as at 30 June 2011 amounted to €3.7 billion, representing a 24.5% decrease from €4.9 billion as at 31 December 2010. This primarily reflects the Mars Fixed 1 portfolio no longer being consolidated, a 0.7% reduction in value of the commercial property portfolio and the sale of 22 assets within the commercial property portfolio, valued at €37.0 million. In addition debt investments declined by €5.7 million, through a combination of impairment charges, purchases, and redemptions.

#### **Real Estate Investments**

As at 30 June 2011, the Group's real estate portfolio comprised €2.25 billion of commercial property investments compared with €2.27 billion as at 31 December 2010, on a like-for-like basis. This represents a decrease of 0.7% in the fair value of investment properties on the 31 December 2010 values.

The main reductions in the valuations are in Drive (€3.2 million), Mars Floating (€3.3 million) and Wave (€2.0 million) which account for €3.5 million, or 79%, of the total value decline. The 5 largest single asset value reductions amount to €7.2 million, or 42%, of the total value decline, which shows that the majority of the portfolio is generally stable with a few assets contributing to a significant part of the valuation decline. Despite the general devaluation of the Group's portfolio, the Bridge portfolio increased by €1.2 million, or 0.3%, compared to the end of 2010 due to the renewal of a major lease contract.

The main assumed drivers of the reduction in value on a like-for-like basis were lower passing rents (a decrease of €10.9 million, or 6.6%) and higher vacancy (an increase of 34,700 sqm or 2.4%) due to leases that expired at the end of 2010 or during the first half of 2011. In addition, market rent assumptions have been reduced in several critical assets. Yield assumptions for the property valuations have generally remained stable, which is in-line with the current market environment.

#### **Debt Investments**

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available-for-sale securities within CDO II, CDO III and 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 to maturity or for the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

The accounting treatment for loans and receivables allows the securities to be carried at their amortised cost (based on the carrying value at the date of reclassification), with no adjustment for changes in the market value unless there has been any impairments. The change in the value of the reclassified securities during the six months ended 30 June 2011, had they been held as available-for-sale, would have been a €35.2 million unrealised gain.

#### **Risks**

The Group's exposure to risk and methods used by the Group to control risk have not changed since the 2010 Annual Report. The most important types of financial risk to which the Group is exposed are market, credit, liquidity, interest rate and foreign currency risk. A detailed description of these is provided in the Notes to the Consolidated Financial Statements for the year ended 31 December 2010.

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**  
**STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL**  
**STATEMENTS**

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

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

**Independent Auditors' Review**

These consolidated interim financial statements as at 30 June 2011 and for the six month period then ended have not been reviewed or audited by our auditors, Ernst & Young LLP.

*On behalf of the Board*



Wesley R. Edens  
Date: 11 August 2011

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

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
<b>Operating income</b>			
Interest income		25,195	22,433
Rental income		100,447	120,911
Service charge income		20,738	25,123
Loss on disposal of available-for-sale securities		-	(5,469)
Loss on disposal of loans and receivables		-	(15,143)
Decrease in fair value of investment properties	3,9	(28,757)	(46,104)
Gain on repurchase of debt financing	12	-	18,373
Increase in fair value of interest rate swaps		901	2,012
Impairment losses	5	(41,038)	(12,807)
Loss on sale on shares in subsidiary	9	(711)	-
Gain on purchase of mezzanine financing	12	2,753	-
Loss on transfer of investment in the Mars Fixed 1 portfolio	10	(9,377)	-
<b>Total operating income</b>		<b>70,151</b>	<b>109,329</b>
<b>Operating expenses</b>			
Interest expense		80,866	99,667
Losses / (gains) on foreign currency contracts, translation and swaps		673	(501)
Service charge expenses		20,738	25,123
Property operating expenses		20,415	18,713
Other operating expenses	4	18,409	19,844
<b>Total operating expenses</b>		<b>141,101</b>	<b>162,846</b>
<b>Net operating loss before taxation</b>		<b>(70,950)</b>	<b>(53,517)</b>
Taxation (credit) / expense - current	3	(352)	333
Taxation expense - deferred	3	1,515	1,414
<b>Net loss after taxation</b>		<b>(72,113)</b>	<b>(55,264)</b>
<b>Loss per ordinary share</b>			
Basic and diluted	15	(1.10)	(0.86)
<b>Weighted average ordinary shares outstanding</b>			
Basic	15	65,739,646	64,216,530
Diluted	15	451,568,413	391,716,530

See notes to the consolidated financial statements.

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

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
<b>Net loss after taxation</b>		<b>(72,113)</b>	<b>(55,264)</b>
<b>Other comprehensive income</b>			
<b>Available-for-sale securities</b>			
Unrealised gain / (loss) on asset backed securities, available-for-sale	7	9,415	(9,234)
Unrealised losses reclassified to the income statement on disposal of available-for-sale securities		-	19,687
Amortisation of unrealised gains/losses on available-for-sale securities reclassified to loans and receivables movements released to the income statement	8	18,715	8,534
Unrealised losses reclassified to the income statement on disposal of available for sale securities, reclassified as loans and receivables		-	2,287
Net unrealised losses released to the income statement on impaired asset backed securities, available-for-sale	7	-	(4)
Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	8	9,495	4,300
<b>Total available-for-sale securities</b>		<b>37,625</b>	<b>25,570</b>
<b>Cash flow hedges</b>			
Net unrealised gain / (loss) on hedge instruments		4,028	(4,225)
Realised gains on hedge instruments reclassified to the income statement	17	(47)	(58)
Deconsolidation of the Mars Fixed 1 hedging reserve	10	(7,183)	-
Amortisation of novated swaps	17	(1,836)	(2,429)
<b>Total cash flow hedges</b>		<b>(5,038)</b>	<b>(6,712)</b>
<b>Other comprehensive income</b>		<b>32,587</b>	<b>18,858</b>
<b>Total comprehensive loss for the period</b>		<b>(39,526)</b>	<b>(36,406)</b>

See notes to the consolidated financial statements.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

	Notes	30 June 2011 (Unaudited) €000	31 December 2010 €000
<b>Assets</b>			
Cash and cash equivalents	6	121,223	113,990
Investment properties held for sale	9	26,252	93,340
Other assets	11	32,725	49,976
Available-for-sale securities	7	42,813	36,313
Loans and receivables (includes cash to be invested)	8	1,253,686	1,275,901
Fixtures and fittings		175	216
Derivative assets		28,361	29,313
Investment property	9	2,234,411	3,282,196
Intangible assets		730	1,038
<b>Total assets</b>		<b>3,740,376</b>	<b>4,882,283</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Issued capital, no par value, unlimited number of shares authorised	16	1,428,119	1,428,119
Accumulated loss		(1,226,946)	(1,143,354)
Net unrealised loss on available-for-sale securities, and loans and receivables	7,8	(105,748)	(143,373)
Hedging reserve	17	(4,431)	607
Perpetual subordinated convertible securities	18	137,698	126,219
Other reserves	16	17,320	17,320
<b>Total shareholders' equity</b>		<b>246,012</b>	<b>285,538</b>
<b>Minority interest</b>		<b>6</b>	<b>6</b>
<b>Total equity</b>		<b>246,018</b>	<b>285,544</b>
<b>Liabilities</b>			
Trade and other payables	14	65,026	81,104
CDO bonds payable	12	1,368,672	1,392,570
Bank borrowings	13	2,021,525	3,089,807
Derivative liabilities		10,237	14,325
Finance lease payable	9	23,459	13,213
Current taxation payable	3	969	2,205
Deferred taxation liability	3	4,470	3,515
<b>Total liabilities</b>		<b>3,494,358</b>	<b>4,596,739</b>
<b>Total equity and liabilities</b>		<b>3,740,376</b>	<b>4,882,283</b>

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED CASHFLOW STATEMENT

<b>(Unaudited)</b>	<b>Notes</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
<b>Cash flows from operating activities</b>			
Operating loss before taxation		(70,950)	(53,517)
Adjustments for:			
Interest income		(20,119)	(21,232)
Interest expense		78,237	96,057
Unrealised loss / (gain) on foreign currency contracts		673	(501)
Amortisation of discounts on securities		(5,076)	(1,201)
Amortisation of borrowing costs		2,629	3,610
Amortisation of tenant incentives and leasing commissions		5,977	3,654
Realised loss on disposal of available-for-sale securities		-	5,469
Realised loss on disposal of loans and receivables		-	15,143
Realised gain on repurchase of debt financing		-	(18,373)
Impairment losses		41,038	12,807
Loss on sale on shares in subsidiary		711	-
Gain on purchase of mezzanine financing		(2,753)	-
Loss on transfer of investment in the Mars Fixed portfolio		9,377	-
Shares granted to directors		-	1
Taxation paid		(1,444)	(732)
Amortisation of intangibles		327	411
Depreciation of fixtures and fittings		41	59
Decrease in fair value of investment properties		28,757	46,104
Increase in fair value of interest rate swap		(901)	(2,012)
Decrease / (increase) in other assets		1,879	(7,488)
Interest received		20,790	21,343
Interest paid		(88,376)	(97,292)
Increase in trade and other payables		8,537	10,062
Decrease in provision for finance guarantee loss		-	(30,000)
<b>Net cash flows from operating activities</b>		<b>9,354</b>	<b>(17,628)</b>
<b>Cash flows from investing activities</b>			
Capital expenditures / tenant incentives		(6,568)	(8,273)
Proceeds from sale of investment properties		126,075	162,808
Proceeds on sale / prepayment of available-for-sale securities		1,310	23,670
Purchase of loans and receivables		(94,268)	(59,505)
Sale / prepayment of loans and receivables		81,543	191,590
Purchase of intangible assets		(19)	(56)
Purchase of fixtures and fittings		-	(16)
<b>Net cash flows from investing activities</b>		<b>108,073</b>	<b>310,218</b>
<b>Cash flows from financing activities</b>			
Purchase of mezzanine financing		(248)	-
Payments for the repurchase of bonds issued		-	(54,963)
Repayments of bonds issued		(9,015)	(16,539)
Decrease of bank borrowings		(106,824)	(250,585)
<b>Net cash flows from financing activities</b>		<b>(116,087)</b>	<b>(322,087)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,340</b>	<b>(29,497)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>113,990</b>	<b>122,545</b>
<b>Restricted CDO cash, beginning of year</b>		<b>10,509</b>	<b>1,566</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>124,499</b>	<b>124,111</b>
<b>Cash and cash equivalents, end of year</b>	6	<b>121,223</b>	<b>93,827</b>
<b>Restricted CDO cash, end of year</b>	8	<b>4,616</b>	<b>787</b>
<b>Cash and cash equivalents, end of year</b>		<b>125,839</b>	<b>94,614</b>

See notes to the consolidated financial statements.



EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders 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 losses €000	Minority interest €000	Total equity €000
<b>At 1 January 2010</b>	<b>60,735,646</b>	<b>1,426,618</b>	<b>17,320</b>	<b>106,358</b>	<b>(195,144)</b>	<b>5,277</b>	<b>(997,071)</b>	<b>6</b>	<b>363,364</b>
Loss for the six months	-	-	-	-	-	-	(55,264)	-	(55,264)
Other comprehensive income / (loss)	-	-	-	-	25,570	(6,712)	-	-	18,858
<b>Total comprehensive income / (loss)</b>	-	-	-	-	25,570	(6,712)	(55,264)	-	(36,406)
Shares issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible securities converted to ordinary shares	5,000,000	1,500	-	(1,500)	-	-	-	-	-
Capitalised interest on the Convertible securities issued	-	-	-	9,744	-	-	(9,744)	-	-
<b>At 30 June 2010 (Unaudited)</b>	<b>65,739,646</b>	<b>1,428,119</b>	<b>17,320</b>	<b>114,602</b>	<b>(169,574)</b>	<b>(1,435)</b>	<b>(1,062,079)</b>	<b>6</b>	<b>326,959</b>
Loss for the six months	-	-	-	-	-	-	(69,658)	-	(69,658)
Other comprehensive income / (loss)	-	-	-	-	26,201	2,042	-	-	28,243
<b>Total comprehensive income / (loss)</b>	-	-	-	-	26,201	2,042	(69,658)	-	(41,415)
Capitalised interest on the Convertible securities issued	-	-	-	11,617	-	-	(11,617)	-	-
<b>At 31 December 2010</b>	<b>65,739,646</b>	<b>1,428,119</b>	<b>17,320</b>	<b>126,219</b>	<b>(143,373)</b>	<b>607</b>	<b>(1,143,354)</b>	<b>6</b>	<b>285,544</b>
Loss for the six months	-	-	-	-	-	-	(72,113)	-	(72,113)
Other comprehensive income / (loss)	-	-	-	-	37,625	(5,038)	-	-	32,587
<b>Total comprehensive income / (loss)</b>	-	-	-	-	37,625	(5,038)	(72,113)	-	(39,526)
Capitalised interest on the Convertible securities issued	-	-	-	11,479	-	-	(11,479)	-	-
<b>At 30 June 2011 (Unaudited)</b>	<b>65,739,646</b>	<b>1,428,119</b>	<b>17,320</b>	<b>137,698</b>	<b>(105,748)</b>	<b>(4,431)</b>	<b>(1,226,946)</b>	<b>6</b>	<b>246,018</b>

See notes to the consolidated financial statements.

## **EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

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

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#### **1. BACKGROUND**

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

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

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 (Interim Financial Statements). The consolidated financial statements are presented in Euros, the functional currency of the parent company, because the Group conducts its business predominantly in Euros.

The critical accounting judgements and estimates and significant accounting policies are disclosed in the financial statements for the year ended 31 December 2010. The same accounting policies, presentation and methods of computation have been followed in these interim financial statements except for the impact of the Groups’ transfer of 50% of its remaining equity in the Mars Fixed 1 portfolio, as described below.

##### **Accounting for the Mars Fixed 1 Refinancing**

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 Loan Notes and Shareholder’s loans 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. The consolidated income statement reflects the share of Mars Fixed 1 results after tax.

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 in the Group’s financial statements to eliminate the Group’s share of unrealised gains and losses on transactions between the Group and its associates.

##### **Basis of Consolidation**

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

At 30 June 2011, the Group’s subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

Eurocastle Funding Limited (“EFL”), Eurocastle CDO II PLC (“CDO II”), Eurocastle CDO III PLC (“CDO III”), Eurocastle CDO IV PLC (“CDO IV”), Duncannon CRE CDO I PLC (“Duncannon” or “CDO V”) and FECO SUB SPV PLC (Feco) are

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

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. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation – Special Purpose Entities, the Group consolidates EFL, CDO II, CDO III, CDO IV, Duncannon and FECO as it retains control over these entities and retains the residual risks of ownership of these entities.

The Group owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg and Germany, which are consolidated into these financial statements.

#### 3. TAXATION EXPENSE

The taxation expense for the six months ended 30 June 2011 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, EFL, CDO II, CDO III, CDO IV, CDO V and Feco, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

The deferred tax charge for the six months ended 30 June 2011 was €1.5 million, compared to €1.4 million for the six months ended 30 June 2010.

#### 4. OTHER OPERATING EXPENSES

<b>(Unaudited)</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
Professional fees	328	373
Sale related costs	2,641	2,187
Management fees (Note 21)	10,862	10,743
Depreciation	41	59
Amortisation of intangible assets	327	411
Other <sup>(1)</sup>	4,210	6,071
	<b>18,409</b>	<b>19,844</b>

<sup>(1)</sup> Included within other operating expenses for the six months ended 30 June 2011 are reimbursement of property related asset management services of €2.7 million (30 June 2010: €4.2 million) to FIG LLC (See Note 21).

#### 5. IMPAIRMENT LOSSES

<b>(Unaudited)</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
Impairment losses on loans and receivables	29,702	5,515
Impairment losses on real estate related loans	1,841	2,992
Realisation of previously unrealised losses on impaired loans and receivables, previously held as available-for-sale	9,495	4,300
	<b>41,038</b>	<b>12,807</b>

During the six months ended 30 June 2011, the Group has recognised impairment adjustments on 35 securities or loans for €41.0 million within the debt investment portfolio, compared to 6 securities or loans for €2.8 million for the six months ended 30 June 2010.

There were €0.1 million impairment write-backs for the six months ended 30 June 2011 on the derivative asset as a result of the impairment of the underlying loans and receivables held within CDO V, compared to nil for the six months ended 30 June 2010.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

The carrying value of the impaired securities or loans as at 30 June 2011 after the impairment losses was €162.6 million (31 December 2010: €164.1 million).

#### 6. CASH AND CASH EQUIVALENTS

	As at 30 June 2011 (Unaudited) €000	As at 31 December 2010 €000
Corporate cash	7,571	7,014
Cash within the real estate operating companies	107,240	102,186
Cash within the CDO vehicles	6,412	4,790
	<b>121,223</b>	<b>113,990</b>

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

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

#### 7. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 30 June 2011 (unaudited):

	Current face amount €000	Amortised cost basis €000	Impairment losses €000	Gross unrealised		Carrying value €000	Weighted average			
				Gains €000	Losses €000		Average Rating <sup>(1)</sup>	Coupon	Margin	Maturity (years)
<b>Portfolio IV</b>										
CMBS	58,540	58,026	-	-	(15,972)	42,054	BB+	1.82%	0.66%	4.29
Other ABS	1,107	1,107	-	-	(348)	759	BBB-	3.28%	2.05%	14.60
	59,647	59,133	-	-	(16,320)	42,813	BB+	1.85%	0.69%	4.48
<b>Total portfolio</b>	<b>56,647</b>	<b>59,133</b>	<b>-</b>	<b>-</b>	<b>(16,320)</b>	<b>42,813</b>	<b>BB+</b>	<b>1.85%</b>	<b>0.69%</b>	<b>4.48</b>

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

The following is a summary of the Group's available-for-sale securities at 31 December 2010:

	Current face amount €000	Amortised cost basis €000	Impairment losses €000	Gross unrealised		Carrying value €000	Weighted average			
				Gains €000	Losses €000		Average Rating <sup>(1)</sup>	Coupon	Margin	Maturity (years)
<b>Portfolio IV</b>										
CMBS	60,365	59,766	-	-	(24,547)	35,219	BB+	1.25%	0.68%	3.28
Other ABS	2,333	2,333	(51)	-	(1,188)	1,094	BB	2.65%	1.75%	19.13
	62,698	62,099	(51)	-	(25,735)	36,313	BB+	1.30%	0.72%	3.87
<b>Total portfolio</b>	<b>62,698</b>	<b>62,099</b>	<b>(51)</b>	<b>-</b>	<b>(25,735)</b>	<b>36,313</b>	<b>BB+</b>	<b>1.30%</b>	<b>0.72%</b>	<b>3.87</b>

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

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

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

**8. LOANS AND RECEIVABLES**

The following is a summary of the Group's loans and receivables as at 30 June 2011 (unaudited):

	Current face amount €000	Amortised cost basis €000	Impairment losses €000	Carrying value €000	Weighted average			Maturity (years)
					Average Rating <sup>(1)</sup>	Coupon <sup>(2)</sup>	Margin	
<b>Portfolio II</b>								
CMBS	178,494	156,034	(21,146)	134,888	BB-	1.93%	1.50%	4.42
Other ABS	123,181	103,337	(10,299)	93,038	BBB-	2.70%	1.57%	10.97
Real estate related loans	14,506	14,307	(3,097)	11,210	AAA	2.92%	2.37%	3.24
	<b>316,181</b>	<b>273,678</b>	<b>(34,542)</b>	<b>239,136</b>	<b>BB</b>	<b>2.28%</b>	<b>1.56%</b>	<b>6.92</b>
<b>Portfolio III</b>								
CMBS	265,307	230,332	(28,215)	202,117	B+	1.95%	1.74%	6.14
Other ABS	448,972	391,982	(26,434)	365,548	BBB	2.83%	1.63%	8.07
Real estate related loans	9,413	9,385	(4,883)	4,502	CCC	-	2.50%	3.35
	<b>723,692</b>	<b>631,699</b>	<b>(59,532)</b>	<b>572,167</b>	<b>BB+</b>	<b>2.47%</b>	<b>1.68%</b>	<b>7.30</b>
<b>Portfolio IV</b>								
Real estate related loans	16,198	16,183	(4,419)	11,764	CC	2.69%	2.41%	2.77
	<b>16,198</b>	<b>16,183</b>	<b>(4,419)</b>	<b>11,764</b>	<b>CC</b>	<b>2.69%</b>	<b>2.41%</b>	<b>2.77</b>
<b>Portfolio V</b>								
CMBS	287,006	236,175	(30,793)	205,382	BB-	2.12%	2.15%	4.32
Other ABS	30,505	24,835	(4,527)	20,308	BB-	2.43%	0.99%	4.41
Real estate related loans	298,433	299,044	(99,088)	199,956	CCC	3.20%	2.97%	2.40
	<b>615,944</b>	<b>560,054</b>	<b>(134,408)</b>	<b>425,646</b>	<b>B</b>	<b>2.66%</b>	<b>2.50%</b>	<b>3.40</b>
<b>Other Securities</b>								
Real estate related loans	7,286	7,281	(6,924)	357	CC	-	2.76%	0.48
	<b>7,286</b>	<b>7,281</b>	<b>(6,924)</b>	<b>357</b>	<b>CC</b>	<b>-</b>	<b>2.76%</b>	<b>0.48</b>
<b>Total portfolio</b>	<b>1,679,301</b>	<b>1,488,895</b>	<b>(239,825)</b>	<b>1,249,070</b>	<b>BB-</b>	<b>2.49%</b>	<b>1.97%</b>	<b>5.72</b>

Restricted cash - cash to be invested

4,616

Total loans and receivables (including cash to be invested)

1,253,686

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

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

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 12).

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

The following is a summary of the Group's loans and receivables as at 31 December 2010:

	Current face amount €000	Amortised cost basis €000	Impairment losses €000	Carrying value €000	Weighted average			Maturity (years)
					Average Rating <sup>(1)</sup>	Coupon <sup>(2)</sup>	Margin	
<b>Portfolio II</b>								
CMBS	175,600	150,481	(23,490)	126,991	B	1.87%	1.28%	3.78
Other ABS	141,332	118,047	(13,043)	105,004	BBB-	2.22%	1.63%	10.05
Real estate related loans	15,058	14,848	(3,318)	11,530	CCC	2.69%	2.37%	2.93
	331,990	283,376	(39,851)	243,525	BB	2.06%	1.48%	6.41
<b>Portfolio III</b>								
CMBS	247,287	214,806	(17,832)	196,974	BB-	2.00%	1.39%	3.48
Other ABS	456,106	394,467	(12,420)	382,047	BBB	2.44%	1.67%	7.46
Real estate related loans	9,423	9,394	(3,308)	6,086	CCC	3.54%	2.50%	0.40
	712,816	618,667	(33,560)	585,107	BBB-	2.30%	1.58%	5.99
<b>Portfolio IV</b>								
Real estate related loans	17,152	17,125	(4,670)	12,455	CC	3.20%	2.65%	3.17
	17,152	17,125	(4,670)	12,455	CC	3.20%	2.65%	3.17
<b>Portfolio V</b>								
CMBS	245,525	207,601	(25,492)	182,109	BB-	1.92%	1.40%	3.55
Other ABS	32,210	25,117	(4,771)	20,346	BB-	1.68%	0.99%	4.83
Real estate related loans	322,637	323,317	(101,834)	221,483	CCC+	3.49%	2.87%	2.15
	600,372	556,035	(132,097)	423,938	B	2.76%	2.17%	2.87
<b>Other Securities</b>								
Real estate related loans	7,678	7,673	(7,306)	367	CCC-	1.63%	2.76%	0.63
	7,678	7,673	(7,306)	367	CCC-	1.63%	2.76%	0.63
<b>Total portfolio</b>	<b>1,670,008</b>	<b>1,482,876</b>	<b>(217,484)</b>	<b>1,265,392</b>	<b>BB-</b>	<b>2.42%</b>	<b>1.79%</b>	<b>4.90</b>

<b>Restricted cash - cash to be invested</b>	<b>10,509</b>
<b>Total loans and receivables (including cash to be invested)</b>	<b>1,275,901</b>

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

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified all available-for-sale securities within CDO II, CDO III and 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. 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 that continue to be held by the Group at 30 June 2011:

	01 July 2008 Carrying value (restated) <sup>(1)</sup> €000	30 June 2011 Carrying value €000	31 December 2010 Carrying value (restated) <sup>(1)</sup> €000	30 June 2011 Fair value €000	31 December 2010 Fair value (restated) <sup>(1)</sup> €000
Available-for-sale securities, reclassified to loans and receivables	899,375	738,317	819,539	516,841	493,829

(1) The carrying values and fair values have been restated to reflect only the available-for-sale securities that were originally reclassified as at 1 July 2008 that are still held within the loans and receivables portfolio as at the respective balance sheet dates.

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.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

If the reclassification had not been made, Eurocastle's income statement for the six months ended 30 June 2011 would have included €23.1 million on the reclassified available-for-sale securities of impairment losses, compared with €37.2 million after the reclassification. During the six months ended 30 June 2011, shareholders' equity (net losses not recognised in the income statement) would have included €74.2 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 2011.

After reclassification, the reclassified financial assets contributed the following amounts to income for the six months ended 30 June 2011:

<b>(Unaudited)</b>	<b>Six months ended 30 June 2011 €000</b>	<b>Six months ended 30 June 2010 €000</b>
Net interest income	15,113	12,694
Impairment losses on securities classified as loans and receivables	(39,197)	(9,815)
<b>(Loss) / income on available-for-sale securities reclassified to loans and receivables</b>	<b>(24,084)</b>	<b>2,879</b>

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

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity relating to the impaired asset is released to the income statement at the impairment date. During the six months ended 30 June 2011, €9.5 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (six months ended 30 June 2010: €4.3 million). Additionally, €8.7 million (six months ended 30 June 2010: €10.9 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables.

At 30 June 2011, the net unrealised loss on loans and receivables was €89.4 million (31 December 2010: €17.6 million).

### 9. INVESTMENT PROPERTY

Total investment property consists of:

	<b>As at 30 June 2011 (unaudited) €000</b>	<b>As at 31 December 2010 €000</b>
Tenant incentives and leasing commission (included in other assets)	12,567	25,379
Investment property held for sale	26,252	93,340
Investment property	2,234,411	3,282,196
<b>Closing balance</b>	<b>2,273,230</b>	<b>3,400,915</b>

As at 30 June 2011, the investment property held for sale is financed by approximately €9.2 million of bank borrowings (31 December 2010: approximately €3.0 million).

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

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 2011:

<b>(Unaudited)</b>	<b>Freehold land and buildings €000</b>	<b>Leasehold property €000</b>	<b>Total €000</b>
Opening balance at 1 January 2011	3,321,712	79,203	3,400,915
Capital expenditure	5,909	-	5,909
Tenant incentives and leasing commissions	(5,977)	-	(5,977)
Free rent	659	-	659
Disposals	(126,075)	-	(126,075)
Transfer of Investment in Mars Fixed 1	(983,690)	-	(983,690)
Increase in minimum payments under head lease	-	10,246	10,246
Decrease in fair value	(28,539)	(218)	(28,757)
<b>Total</b>	<b>2,183,999</b>	<b>89,231</b>	<b>2,273,230</b>

In January 2011, following the sale of the 13 retail properties making up the Bastion portfolio, the Group sold its shares in two subsidiaries, realising a loss of €0.7 million.

#### As at 31 December 2010:

	<b>Freehold land and buildings €000</b>	<b>Leasehold property €000</b>	<b>Total €000</b>
Opening balance at 1 January 2010	3,574,379	128,656	3,703,035
Capital expenditure	20,196	-	20,196
Tenant incentives and leasing commissions	(7,357)	-	(7,357)
Free rent	(264)	-	(264)
Disposals	(191,820)	(31,538)	(223,358)
Increase in minimum payments under head lease	-	(6,322)	(6,322)
Decrease in fair value	(73,422)	(11,593)	(85,015)
<b>Total</b>	<b>3,321,712</b>	<b>79,203</b>	<b>3,400,915</b>

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of investment being valued. 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 2011.

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:

	<b>As at 30 June 2011 (unaudited) €000</b>	<b>As at 31 December 2010 €000</b>
Investment property at market value	2,249,771	3,387,702
Minimum payments under head leases separately included in trade and other payables on the balance sheet	23,459	13,213
<b>Balance sheet carrying value of investment property</b>	<b>2,273,230</b>	<b>3,400,915</b>



## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

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

<b>30 June 2011 (Unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Passing rent per sqm per month (€)	11.8	9.0	11.0
Market rent per sqm per month (€)	11.7	8.5	10.8
Average net initial yield	5.7%	7.1%	6.0%
Vacancy rate	20.9%	2.1%	16.2%

  

<b>31 December 2010</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Passing rent per sqm per month (€)	12.2	8.9	11.2
Market rent per sqm per month (€)	11.6	8.5	10.7
Average net initial yield	6.2%	7.1%	6.4%
Vacancy rate	17.1%	1.6%	13.2%

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 26 investment properties are built have unexpired terms ranging from 4 years to 89 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 2011 in respect of contingent rental is €0.6 million (six months ended 30 June 2010 : €0.8 million).

#### Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property, on a like-for-like basis.

<b>30 June 2011 (€million) (Unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Market value	1,800	450	2,250
Increase in yield of 25 bps	1,767	442	2,209
Value sensitivity	(33)	(8)	(41)

  

<b>31 December 2010 (€million)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Market value	1,814	453	2,267
Increase in yield of 25 bps	1,780	445	2,225
Value sensitivity	(33)	(8)	(42)

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

#### Additional Information

The table below provides additional information for various portfolios within the Group at 30 June 2011 (unaudited):

Portfolio	Property valuation <sup>(1)</sup>	Term financing (face amount)	Other assets / (liabilities) <sup>(2)</sup>	Net operating income <sup>(3)</sup>	NOI yield on valuation	Occupancy	Capitalised expenditure <sup>(4)</sup>
	€000	€000	€000	€000	%	%	€000
Drive	828,011	752,555	36,201	44,796	5.4%	77.0%	2,158
Bridge	426,060	372,090	495	27,301	6.4%	95.5%	1,246
Wave	212,445	173,807	(17,682)	13,965	6.6%	83.3%	1,462
Mars – Floating	192,190	163,948	5,215	7,167	3.7%	57.5%	7,366
Turret	173,725	147,556	2,168	13,377	7.7%	97.1%	295
Truss	97,420	85,280	593	7,560	7.7%	98.9%	217
Mars – Fixed 2	96,240	79,018	4,097	5,103	5.3%	87.9%	94
Belfry	61,300	54,770	701	4,769	7.8%	99.0%	252
Tannenberg	61,170	52,960	1,391	4,507	7.4%	95.6%	8
Rapid	56,350	54,500	1,462	4,065	7.2%	100.0%	9
Zama	44,860	39,896	543	3,295	7.3%	94.5%	31
<b>Total</b>	<b>2,249,771</b>	<b>1,976,380</b>	<b>35,184</b>	<b>135,905</b>	<b>6.0%</b>	<b>83.8%</b>	<b>13,138</b>

<sup>(1)</sup> Property valuation excludes the leasehold gross-up of €23.5 million.

<sup>(2)</sup> Other assets / liabilities do not include unallocated assets and liabilities per Note 22 - Segmental Reporting.

<sup>(3)</sup> Net operating income is after deducting €3.4 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

<sup>(4)</sup> Capitalised expenditure represents the six months ended 30 June 2011 annualised expenditure, excluding any expenditure incurred during the period relating to the Mars Fixed 1 portfolio.

The tables below provide additional information for various portfolios within the Group at 31 December 2010:

Portfolio	Property valuation <sup>(1)</sup>	Term financing (face amount)	Other assets / (liabilities) <sup>(2)</sup>	Net operating income <sup>(3)</sup>	NOI yield on valuation	Occupancy	Capitalised expenditure <sup>(4)</sup>
	€000	€000	€000	€000	%	%	€000
Mars – Fixed 1	983,690	965,750	9,950	48,782	5.0%	83.4%	5,472
Drive	868,487	765,763	31,234	59,191	6.8%	86.8%	10,240
Bridge	424,900	372,090	1,429	27,712	6.5%	95.0%	869
Mars – Floating	266,890	224,317	5,479	9,253	3.5%	56.6%	1,411
Wave	214,430	178,245	(17,073)	13,396	6.2%	82.0%	1,205
Turret	175,310	147,556	1,600	13,777	7.9%	98.2%	120
Truss	98,180	85,280	970	7,716	7.9%	99.3%	186
Mars – Fixed 2	97,810	79,729	5,161	5,078	5.2%	87.4%	480
Belfry	63,565	56,240	821	4,909	7.7%	98.6%	66
Tannenberg	61,430	52,960	1,310	4,479	7.3%	95.9%	21
Rapid	56,220	54,500	1,283	4,150	7.4%	100.0%	1
Zama	44,990	39,896	339	3,161	7.0%	94.7%	114
Bastion	31,800	26,500	(81)	2,568	8.1%	100.0%	11
<b>Total</b>	<b>3,387,702</b>	<b>3,048,826</b>	<b>42,422</b>	<b>204,172</b>	<b>6.0%</b>	<b>85.7%</b>	<b>20,196</b>

<sup>(1)</sup> Property valuation excludes the leasehold gross-up of €13.2 million.

<sup>(2)</sup> Other assets / liabilities do not include unallocated assets and liabilities per Note 22 - Segmental Reporting.

<sup>(3)</sup> Net operating income is after deducting €6.7 million of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

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

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

#### 10. INVESTMENT IN ASSOCIATE

On 11 May 2011, the Group transferred 50% of its remaining equity investment in the Mars Fixed 1 portfolio to the Mars Junior Lender. After the transfer, the Group retains 25% of its investment in the Mars Fixed 1 Loan Notes and Shareholder Loans.

At the date of transfer, the Group recognized a loss on derecognition through the income statement of €0.4 million, as well as an additional decline in the Group's net asset value of €7.2 million through the write-off of the outstanding Mars Fixed 1 term loan hedge reserve through equity.

As at 30 June 2011, the value of the Group's 25% retained investment in the Mars Fixed 1 Loan Notes and Shareholder Loans is nil.

The following tables illustrate summary financial information of the Group's investment in the Mars Fixed 1 portfolio.

Share of associate's balance sheet:

<b>(Unaudited) (€000)</b>	<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
Non-current assets	983,690	-
Current assets	14,432	-
Current liabilities	(205,649)	-
Non-current liabilities	(1,349,526)	-
Net liabilities	(557,053)	-
<b>Share of Associate's net liabilities</b>	-	-

Share of associate's post-transfer date results:

<b>€000 (Unaudited)</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Loss for the period post transfer	11,117	-
<b>Share of Associate's loss for the period post transfer</b>	-	-

#### 11. OTHER ASSETS

	<b>As at 30 June 2011 (Unaudited) €000</b>	<b>As at 31 December 2010 €000</b>
Tenant incentives and leasing commissions	12,567	25,379
Service charge receivable	8,004	12,881
Interest receivable	5,408	6,079
Rent receivable	1,793	961
Prepaid expenses	2,565	1,828
Other accounts receivable	2,388	2,848
	<b>32,725</b>	<b>49,976</b>

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

#### 12. CDO BONDS PAYABLE

As at 30 June 2011 (Unaudited):

	Class	Rating <sup>(1)</sup>	Current face amount €000	Carrying amount €000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A1, A2, B and C notes	CCC/CC/C/ C	271,947	271,315	2.15%	0.27%	6.1
CDO III	A1, A2, B, C and D notes	B/CCC/CC/ CC/C	658,295	656,480	1.98%	0.49%	6.2
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	CCC/B/CCC+/ CC/C/C/C/C/C/ C/C	443,609	440,877	2.36%	0.86%	4.3
<b>Total</b>			<b>1,373,851</b>	<b>1,368,672</b>	<b>2.14%</b>	<b>0.57%</b>	<b>5.6</b>

<sup>(1)</sup> CDO bonds payable are rated at the lower of Standard and Poor's and Fitch

During the six months ended 30 June 2011, the Group did not repurchase any of the Duncannon bonds payable. During the six months ended 30 June 2010, the Group repurchased €73.9 million of current face value of the Duncannon bonds payable and recognised a net gain of €18.4 million.

In May 2011, Eurocastle Funding Limited purchased €3.0 million of Eurocastle CDO III Class B notes at a price of 8.25% in the first six months ended 30 June 2011, resulting in a gain to the Group of €2.8 million.

As at 31 December 2010:

	Class	Rating <sup>(1)</sup>	Current face amount €000	Carrying amount €000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A1, A2, B and C notes	BB/B/CC/CC	289,178	288,303	1.69%	0.29%	4.3
CDO III	A1, A2, B, C and D notes	B/CCC/CC/ CC/C	664,603	662,352	1.51%	0.49%	4.7
Duncannon	AR, X, A, B, C1, C2, D1, D2, D3, E1, E2	B-/B/B- /CCC/CC/CC/C /C/C/C/C	445,005	441,915	1.89%	0.86%	4.7
<b>Total</b>			<b>1,398,786</b>	<b>1,392,570</b>	<b>1.67%</b>	<b>0.57%</b>	<b>4.6</b>

<sup>(1)</sup> CDO bonds payable are rated at the lower of Standard and Poor's and Fitch

As a result of the event of default that occurred on 9 September 2010, the Group has designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the CDO II bonds are treated as payable on demand. However, on 8 June 2011, CDO II came out of default and its bonds have therefore been redesignated as having a weighted average maturity of 6.1 years as at 30 June 2011.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

13. BANK BORROWINGS

The bank borrowings comprise:

		As at 30 June 2011 (Unaudited) €000	As at 31 December 2010 €000
Term financing	(Note 13.1)	2,005,360	3,051,936
Loans and notes relating to the Mars portfolios	(Note 13.2)	16,165	37,871
<b>Total</b>		<b>2,021,525</b>	<b>3,089,807</b>

13.1 Term Financing

Portfolios	Month Raised	Current face amount €000		Carrying amount €000		Hedged weighted average funding cost	Weighted average funding cash coupon	Maturity
		As at 30 June 2011 (Unaudited)	As at 31 December 2010	As at 30 June 2011 (Unaudited)	As at 31 December 2010			
<b>Debt investments</b>								
CDO IV	Jul 2005	40,744	42,936	39,850	42,936	1.54%	1.50%	Mar 2013
<b>Investment property</b>								
Mars – Fixed 1 <sup>(1)</sup>	Jan 2007	-	965,750	-	953,938	-	-	-
Drive	Feb 2006	752,555	765,763	750,579	763,114	4.20%	4.09%	Jan 2013
Bridge	Oct 2006	372,090	372,090	370,038	369,649	4.74%	4.67%	Jan 2014
Wave	Apr 2007	173,807	178,245	173,009	177,315	4.94%	4.78%	Apr 2014
Mars – Floating	Jan 2007	163,948	224,317	163,843	224,131	3.13%	3.09%	Dec 2013
Turret <sup>(2)</sup>	May 2006	147,556	147,556	146,625	146,539	4.93%	4.85%	May 2016
Truss <sup>(2)</sup>	Dec 2005	85,280	85,280	84,879	84,839	4.93%	4.85%	Feb 2016
Mars – Fixed 2	Jun 2008	79,018	79,729	77,202	77,375	5.21%	5.07%	Jun 2013
Belfry <sup>(2)</sup>	Aug 2005	54,770	56,240	54,337	55,768	4.85%	4.66%	Oct 2015
Tannenberg <sup>(2)</sup>	May 2007	52,960	52,960	52,035	51,897	4.87%	4.66%	Oct 2014
Rapid <sup>(2)</sup>	Aug 2007	54,500	54,500	53,350	53,262	4.96%	4.91%	Nov 2017
Zama	Feb 2007	39,896	39,896	39,613	39,566	4.99%	4.86%	May 2014
Bastion <sup>(2)(3)</sup>	Sep 2005	-	26,500	-	26,138	-	-	-
		<b>1,976,380</b>	<b>3,048,826</b>	<b>1,965,510</b>	<b>3,023,531</b>	<b>4.48%</b>	<b>4.38%</b>	
<b>Total</b>		<b>2,017,124</b>	<b>3,091,762</b>	<b>2,005,360</b>	<b>3,066,467</b>	<b>4.42%</b>	<b>4.32%</b>	
<b>Adjustment for costs of Mars refinancing <sup>(4)</sup></b>				<b>-</b>	<b>(14,531)</b>			
<b>Total</b>				<b>2,005,360</b>	<b>3,051,936</b>			

<sup>(1)</sup> On 11 May 2011, the Group transferred 50% of its remaining equity investment in the Mars Fixed 1 portfolio to the Mars Junior Lender. As a result of the transfer, the Group has derecognised the assets and liabilities of the Mars Fixed 1 portfolio, and accounts for its remaining investment as an Investment in Associate (refer Note 10).

<sup>(2)</sup> These portfolios make up the retail property portfolio.

<sup>(3)</sup> Following the sale of the Bastion properties in January 2011, the outstanding portfolio loan balance was repaid in full.

<sup>(4)</sup> Eurocastle transferred 50% of its interest in the Mars Fixed 1 and Floating portfolios to the lender and this is considered to be a cost of refinancing and is amortised over the life of the new loan facility (see Note 13.2). The amortisation charge for the six months ended 30 June 2011 was €1.7 million (30 June 2010: €5.9 million).

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

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

There were no material changes to the terms of the bank borrowings from those stated in Note 19 of the Notes to the Consolidated Financial statements in the 2010 annual report.

#### 13.2 Loans and notes relating to the Mars portfolios

	As at 30 June 2011 (Unaudited) €000	As at 31 December 2010 €000
<u>Within the Mars portfolio</u>		
Loan Notes and Shareholder Loans	244,941	784,427
Less: Remeasurement adjustment to amortised cost	(212,611)	(708,685)
Adjusted amortised cost	32,330	75,742
Transfer of 50% of the adjusted amortised cost to the lender <sup>(1)</sup>	<b>16,165</b>	<b>37,871</b>

<sup>(1)</sup> As noted in the Financial Review, in consideration of the extension of the Mars Fixed facility, the Group agreed to transfer to the Mars Fixed 1 Junior lender half of its equity investment in the combined Mars portfolios, which resulted in the Group retaining a 25% equity investment in the portfolio. This transfer was legally effected on 11 May 2011 and comprised the transfer of Loan Notes, Shareholder's Loans and shares in Eurocastle subsidiaries. As a result of the transfer, the Group no longer retains control of the Mars Fixed 1 portfolio, and as such accounts for its investment under IAS 28 – Investments in Associates.

#### 14. TRADE AND OTHER PAYABLES

	As at 30 June 2011 (Unaudited) €000	As at 31 December 2010 €000
Security deposit	5,852	7,010
Interest payable	16,281	28,298
Due to Manager (Note 21)	3,521	4,057
Accrued expenses and other payables <sup>(1)</sup>	39,372	41,739
<b>Total trade and other payables</b>	<b>65,026</b>	<b>81,104</b>

<sup>(1)</sup> Accrued expenses and other payables include provisions relating to capital expenditure of €17.4 million (31 December 2010: €20.5 million).

#### 15. LOSS PER SHARE

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

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

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

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

	As at 30 June 2011 (Unaudited)	As at 31 December 2010
Weighted average number of ordinary shares, outstanding, basic	65,739,646	64,984,347
Dilutive effect of ordinary share options and convertible securities	385,828,767	356,904,091
<b>Weighted average number of ordinary shares outstanding, diluted</b>	<b>451,568,413</b>	<b>421,888,438</b>

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

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#### 16. SHARE CAPITAL AND RESERVES

As at 31 December 2010, there were 65,739,646 shares issued and outstanding.

No shares were issued during the six months ended 30 June 2011.

As at 30 June 2011, there were 65,739,646 shares issued and outstanding.

Under the group's Articles of association, 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 December 2003, June 2004, June 2005, February 2006 and December 2006.

#### 17. HEDGE ACCOUNTING

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

At 30 June 2011, cumulative unrealised losses on hedge instruments were €4.4 million (31 December 2010: gains of €0.6 million). The cumulative unrealised losses comprise the gain in value of the novated swaps of €5.6 million (31 December 2010: €4.6 million) and the fair value loss of the interest rate swaps of €10.0 million (31 December 2010: €4.0 million).

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

#### 18. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	<b>As at 30 June 2011 (Unaudited) €000</b>	<b>As at 31 December 2010 €000</b>
Convertible securities issued	99,750	99,750
Accrued interest	40,648	29,169
Capitalised issue costs	(1,200)	(1,200)
Convertible securities converted into ordinary shares	(1,500)	(1,500)
	<b>137,698</b>	<b>126,219</b>

There were no material changes to the terms of the perpetual subordinated convertible securities from those stated in Note 24 of the Notes to the Consolidated Financial statements in the 2010 Annual Report.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

#### 19. FINANCIAL INSTRUMENTS

The Group's exposure to risk and methods used by the Group to control risk have not changed since the 2010 Annual Report. The most important types of financial risk to which the Group is exposed are market, credit, liquidity, interest rate and foreign currency risk. A detailed description of these is provided in the Notes to the Consolidated Financial Statements for the year ended 31 December 2010.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 30 June 2011 and 31 December 2010:

#### 30 June 2011 (Unaudited)

Type	Total outstanding at			
	30 June 2011 €000	Within 1 year €000	1 to 5 years €000	Over 5 years €000
<b>Assets</b>				
Cash and cash equivalents	121,223	121,223	-	-
Interest receivable <sup>(2)</sup>	5,408	42,963	144,295	58,866
Asset backed securities, available-for-sale	42,813	-	34,847	7,966
Loans and receivables (includes cash to be invested) <sup>(4)</sup>	1,253,686	56,363	747,625	449,698
Derivative assets <sup>(1)</sup>	28,361	4,787	12,592	10,982
<b>Total assets</b>	<b>1,451,491</b>	<b>225,336</b>	<b>939,359</b>	<b>527,512</b>
<b>Liabilities</b>				
Interest payable <sup>(2)</sup>	16,281	118,473	253,566	25,672
Derivative liabilities <sup>(1)</sup>	10,237	5,182	14,272	-
CDO bonds payable	1,368,672	-	-	1,373,851
Bank borrowings <sup>(5)</sup>	2,021,525	957,247	1,005,377	54,500
Finance leases payable <sup>(3)</sup>	23,459	1,159	4,607	49,396
<b>Total liabilities</b>	<b>3,440,174</b>	<b>1,082,061</b>	<b>1,277,822</b>	<b>1,503,419</b>

<sup>(1)</sup> Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.

<sup>(2)</sup> Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.

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

<sup>(4)</sup> On 8 June 2011 CDO II came out of default and its bonds have therefore been redesignated as having a weighted average maturity of 6.1 years as at 30 June 2011.

<sup>(5)</sup> As at 30 June 2011, the Group is in default for the Mars Floating and Drive Junior loans. Therefore, the loans have been reclassified as payable within one year.

Gross settled derivatives	Total outstanding at			
	30 June 2011 (Unaudited) €000	Within 1 year €000	1 to 5 years €000	Over 5 years €000
Contractual amounts payable	(129,353)	(14,167)	(82,890)	(32,296)
Contractual amounts receivable	157,714	18,954	95,482	43,278
<b>Total undiscounted gross settled derivatives inflow</b>	<b>28,361</b>	<b>4,787</b>	<b>12,592</b>	<b>10,982</b>



## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

31 December 2010

Type	Total outstanding at			
	31 December 2010	Within 1 year	1 to 5 years	Over 5 years
	€000	€000	€000	€000
<b>Assets</b>				
Cash and cash equivalents	113,990	113,990	-	-
Interest receivable <sup>(2)</sup>	6,079	41,058	110,913	42,578
Asset backed securities, available-for-sale	36,313	8,356	27,140	817
Loans and receivables (includes cash to be invested) <sup>(4)</sup>	1,275,901	342,869	816,132	116,900
Derivative assets <sup>(1)</sup>	29,313	8,889	20,424	-
<b>Total assets</b>	<b>1,461,596</b>	<b>515,162</b>	<b>974,609</b>	<b>160,295</b>
<b>Liabilities</b>				
Interest payable <sup>(2)</sup>	28,298	165,617	401,656	2,247
Derivative liabilities <sup>(1)</sup>	14,325	5,182	14,272	-
CDO bonds payable	1,392,570	289,178	-	1,109,608
Bank borrowings <sup>(5)</sup>	3,089,807	1,998,766	805,660	287,336
Finance leases payable <sup>(3)</sup>	13,213	1,154	4,633	49,990
<b>Total liabilities</b>	<b>4,538,213</b>	<b>2,459,897</b>	<b>1,226,221</b>	<b>1,449,181</b>

<sup>(1)</sup> Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.

<sup>(2)</sup> Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.

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

<sup>(4)</sup> As a result of the event of default that occurred on 9 September 2010, the Group designated the CDO II bonds payable as at 31 December 2010 as payable within one year, as the debt became payable on demand.

<sup>(5)</sup> As at 31 December 2010, the Group was in default for the Mars Fixed, Mars Floating, and Drive Junior loans. Therefore, the loans were reclassified as payable within one year.

	Total outstanding at			
	31 December 2010	Within 1 year	1 to 5 years	Over 5 years
	€000	€000	€000	€000
<b>Gross settled derivatives</b>				
Contractual amounts payable	(155,005)	(32,409)	(122,596)	-
Contractual amounts receivable	184,318	41,298	143,020	-
<b>Total undiscounted gross settled derivatives inflow</b>	<b>29,313</b>	<b>8,889</b>	<b>20,424</b>	<b>-</b>

## 20. DIVIDENDS PAID AND DECLARED

No dividends were paid or declared in the six months ended 30 June 2011 (2010: nil).

## 21. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

At 30 June 2011, management fees, incentive fees and expense reimbursements of approximately €3.5 million (31 December 2010: €4.1 million) were due to the Manager. For the six months ended 30 June 2010: management fees of €10.9 million (30 June 2010: €10.7 million), no incentive fees (30 June 2010: nil), and expense reimbursements of €2.7 million (30 June 2010: €4.2 million) were charged to the income statement.

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

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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

#### 22. SEGMENTAL REPORTING

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

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

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

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

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

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

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

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

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

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

<b>Six months ended</b>	<b>Debt investment</b>	<b>Investment properties</b>	<b>Unallocated</b>	<b>Total Eurocastle</b>
<b>30 June 2010 (Unaudited)</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Revenue <sup>(1)</sup>	22,060	146,374	33	168,467
Impairment losses	(12,807)	-	-	(12,807)
Other operating income / (losses)	(2,104)	(44,227)	-	(46,331)
<b>Total operating (losses) / income</b>	<b>7,149</b>	<b>102,147</b>	<b>33</b>	<b>109,329</b>
Interest expense	(12,205)	(87,462)	-	(99,667)
Other operating expenses	(465)	(50,406)	(12,308)	(63,179)
<b>Total operating expenses</b>	<b>(12,670)</b>	<b>(137,868)</b>	<b>(12,308)</b>	<b>(162,846)</b>
<b>Net operating loss</b>	<b>(5,521)</b>	<b>(35,721)</b>	<b>(12,275)</b>	<b>(53,517)</b>
Taxation expense	-	(1,747)	-	(1,747)
<b>Net loss</b>	<b>(5,521)</b>	<b>(37,468)</b>	<b>(12,275)</b>	<b>(55,264)</b>
Decrease in fair values	(47)	44,092	-	44,045
Realised loss on sale of investment properties	-	(9,618)	-	(9,618)
Deferred tax	-	1,414	-	1,414
<b>Funds from operations</b>	<b>(5,568)</b>	<b>(1,580)</b>	<b>(12,275)</b>	<b>(19,423)</b>

<sup>(1)</sup> Included within revenue income is interest income of €2.1 million within the debt investment segment and €0.3 million within the investment properties segment.

  

<b>As at</b>	<b>Debt investment</b>	<b>Investment properties</b>	<b>Unallocated</b>	<b>Total Eurocastle</b>
<b>30 June 2011 (unaudited)</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Total assets	1,337,357	2,402,456	563	3,740,376
Total liabilities	(1,412,784)	(2,072,574)	(3,561)	(3,488,919)
<b>Segment net (liabilities) / assets</b>	<b>(75,427)</b>	<b>329,882</b>	<b>(2,998)</b>	<b>251,457</b>
Tax liability	-	(5,439)	-	(5,439)
Minority interest	(2)	(4)	-	(6)
<b>Net (liabilities) / assets</b>	<b>(75,429)</b>	<b>324,439</b>	<b>(2,998)</b>	<b>246,012</b>

  

<b>As at</b>	<b>Debt investment</b>	<b>Investment properties</b>	<b>Unallocated</b>	<b>Total Eurocastle</b>
<b>31 December 2010</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Total assets	1,352,963	3,522,501	6,819	4,882,283
Total liabilities	(1,438,113)	(3,149,030)	(3,876)	(4,591,019)
<b>Segment net (liabilities) / assets</b>	<b>(85,150)</b>	<b>373,471</b>	<b>2,943</b>	<b>291,264</b>
Tax liability	-	(5,720)	-	(5,720)
Minority interest	(2)	(4)	-	(6)
<b>Net (liabilities) / assets</b>	<b>(85,152)</b>	<b>367,747</b>	<b>2,943</b>	<b>285,538</b>

## **EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**

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

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#### **23. SUBSEQUENT EVENTS**

Since the half year end, the Group has entered into binding agreements to sell a further two properties for estimated total proceeds of €2.2 million. Once completed, these sales are expected to generate up to €0.1 million of cash, after repayment of asset level financings.

Subsequent to the 30 June 2011, €4,334,770 of Eurocastle's convertible securities were presented for conversion into shares. Taking into account deferred interest on these securities of €1,915,303, these securities were converted into 20,833,543 ordinary shares.

#### **24. COMMITMENTS**

As at 30 June 2011, the Group had no commitments that were not disclosed in these financial statements.