Eurocastle Investment Limited

2014 ANNUAL REPORT

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

2014 was a very busy and productive year for Eurocastle and we are off to a great start in 2015. Our main objectives were to make new investments in Italy and realise recoveries from our Legacy Business. We are very pleased with the results we delivered on both fronts and in this letter we would like to highlight our key achievements and share our outlook for 2015:

- To date, we have invested or committed over €84 million in New Italian Investments with an expected unlevered IRR of approximately 18% with cash flows received well ahead of expectations.

- Subsequent to year end, together with Fortress affiliates, we announced our acquisition of UniCredit's non-performing loan related business, UCCMB, which is expected to result in an equity investment by the Company of approximately €200 million. We are convinced this investment will be transformational for Eurocastle and will significantly strengthen our competitive advantage in Italy.

- In addition, we realised €40 million of cash from the Legacy Business in 2014 and a further €29 million in the first quarter of 2015.

FINANCIAL RESULTS

The Group's Adjusted NAV at the end of 2014 was €258.4 million or €7.92 per share of which New Investments, comprised of Italian investments and corporate cash, represent almost 71% or €5.65 per share. The Adjusted NAV excludes the Mars Floating portfolio and reflects the impact of the recent sale of three of the five retail portfolios. The year-over-year decline in NAV was attributable to valuations in our two Legacy Businesses.

From an operating perspective, Normalised FFO for the year was €9.4 million, or €0.29 per share, with €8.6 million coming from our New Investments. This represents a yield of 24% based on an average net amount invested over the year of €36 million. Naturally, as we invest more of our available cash, this will continue to grow. If the net corporate cash of €104 million was fully invested at a net 16% return, Normalised FFO would increase by €16.6 million or €0.51 per share.

NEW INVESTMENTS

Our Italian investments showed outstanding performance in 2014, generating strong returns for our shareholders. As highlighted above, so far we have invested or committed approximately €84 million of new capital in 11 transactions comprised of Italian loan portfolios and Italian real estate funds. These investments have generated cash flows ahead of expectations: the €33 million of performing and non-performing loan investments made had returned €18.6 million by the end of 2014, approximately 34% ahead of underwriting. We also recently received good news on our €22 million investment in the UIU real estate fund where two assets representing 35% of the NAV were sold at a slight premium to their reported valuations, resulting in a distribution of €8.9 million to Eurocastle in March 2015.

The biggest and most exciting news at Eurocastle is our commitment to jointly acquire UCCMB together with certain other Fortress affiliates. Subsequent to year end, we reached an agreement with UniCredit, Italy's largest bank, to acquire UniCredit Credit Management Bank S.p.A. ("UCCMB") along with a large portfolio of non-performing loans with an approximate gross book value ("GBV") of €2.4 billion. UCCMB is the largest captive servicer in Italy with a banking license servicing over €34 billion GBV of loans. The opportunity includes a servicing contract on UniCredit's existing stock of non-performing loans with a GBV of over €34 billion and a contract to service all of future non-performing loans with balances below €1 million generated in the next 10 years. This investment opportunity is expected to create a potential servicing flow of approximately €36 billion. The transaction is subject to regulatory approval by the Bank of Italy and is expected to close in the second quarter of 2015. We are very excited about this investment and strongly believe it will have an accretive impact on Eurocastle's business in generating future earnings growth. We intend to make use of UCCMB's banking license to grow and expand our expertise in Italy.

LEGACY BUSINESS

We made significant progress during the year in realising value from our two Legacy Businesses: German real estate and other debt investments. At the end of 2014, our German real estate comprised 9 portfolios which are all non-recourse to the Company. In line with our strategy to accelerate recoveries from these portfolios, we sold 30 assets in 2014 generating approximately €170 million of sales proceeds which, together with operating cash flows, resulted in €17 million of cash available for distribution. Subsequent to year end, we sold three of our five retail portfolios, Superstella, Tannenberg and Turret, generating additional net proceeds of €25 million or

€0.76 cents per share. The Wave portfolio is also under offer. The Company hopes to agree a sale of this portfolio within the first half of 2015.

At the beginning of 2014, Eurocastle sold its remaining securities in the CDO IV portfolio, repaying all debt and realising approximately €23 million of cash to the Company. As with our real estate business, our goal is to liquidate our debt portfolios in the medium term, maximising returns and generating cash for New Investments. Subsequent to the year-end, Eurocastle received a further €3.9 million following the resolution of one position held unlevered on the balance sheet.

Outlook For 2015

Italy continues to present some of the most attractive investment opportunities in Europe, as it struggles to recover from the economic crisis.

While asset related transaction volumes were disappointingly slow at the beginning of 2014, we saw them begin to ramp up in the second half of the year, due primarily to the completion of a year-long comprehensive assessment by the European Central Bank ("ECB"). The assessment put Italian banks in the spotlight, revealing a capital shortfall of €9.7 billion among Italy's top 15 banks, the highest across the Eurozone. Although the majority of these banks have already covered reported shortfalls and taken steps toward restructuring, they are expected to continue shedding assets in order to strengthen their balance sheets. The problem is also not unique with Italy's biggest banks. For example, five small and mid-sized banks were taken over by the Bank of Italy in 2014 due to their inability to restructure and meet regulatory requirements. Across the banking sector, the inventory of NPLs reached a new all-time high of €186 billion in January 2015.

We expect the results of the comprehensive assessment to serve as a major driver of asset dispositions in 2015 as Italian banks work to meet new capital requirements and create liquidity. Among small and mid-sized institutions, we also expect to see banks forced to dispose of non-core business. We intend to continue to focus on loan related opportunities because we believe Eurocastle is exceptionally well positioned to take advantage of the Italian market given the expertise of our Manager, our partnership with Italfondiario and our future interest in UCCMB. We believe these strategic advantages put us ahead of our competitors and provide access to the largest and strongest servicing platforms in Italy.

In addition to loans and other credit opportunities, we will also continue to take advantage of other investment opportunities in Italy such as selective investments in the shares of real estate funds and other real estate related assets. As mentioned above, we have already seen such investments perform well with significant returns to the Company.

We continue to be very excited about investing in Italy and the potential those investments can create for Eurocastle and its shareholders. On behalf of everyone at Eurocastle, we thank you for your continued support and look forward to updating you on our progress as the year continues to unfold.

REPORT OF DIRECTORS

Financial Highlights

- ***Normalised FFO***
  - €9.4 million, or €0.29 per share, for the full year of which €4.4 million, or €0.13 per share, was generated in the fourth quarter.
  - New Investments alone generated €8.6 million, or €0.26 per share of Normalised FFO for the full year, resulting in a return on average net invested capital[1] of 24%.
- ***Adjusted Net Asset Value***[2] €258.4 million, or €7.92 per share, decrease of €70 million, or €2.14 per share for the full year (€30.3 million, or €0.93 per share for the fourth quarter), primarily due to revaluations of Legacy Assets.
- ***Annual Dividend*** paid in 2014 of €16.3 million, or €0.50 per share.

	FY 2014		FY 2013		Q4 2014		Q4 2013	
	€ million	€ per share	€ million	€ per share	€ million	€ per share	€ million	€ per share
Normalised FFO	9.4	0.29	15.8	0.48	4.4	0.13	1.1	0.03
Legacy Cash Flow Realised	39.8	1.22	37.0	1.13	2.9	0.09	6.3	0.19
Adjusted NAV [2]	258.4	7.92	328.4	10.06	258.4	7.92	354.4	10.86

Business Highlights

- **New Investments** – In 2014 invested or committed €67.6 million at an average targeted yield of 18% in Italian non-performing loans ("NPLs") and real estate fund units, including €9 million in three new NPL transactions in the fourth quarter of 2014.
- **Legacy Business Realisations –** During 2014 received €39.8 million of cash flow from the Legacy Business with €22.5 million primarily from the sale of the remaining CDO IV securities in January 2014. This includes €2.9 million realised in the fourth quarter of 2014.

Highlights Subsequent To 31 December 2014

- In February 2015, together with Fortress affiliates, the Company reached an agreement with UniCredit to acquire a portfolio of Italian NPLs with gross book value ("GBV") of €2.4 billion along with UniCredit Credit Management Bank S.p.A. ("UCCMB"). The opportunity also includes:
  - A servicing contract on €34.1 billion GBV of existing NPLs.
  - A contract to service all UniCredit's future NPLs with balances below €1 million generated in the next 10 years.

  The acquisition is expected to result in an investment by Eurocastle of approximately €200 million.
- In the first quarter of 2015, Eurocastle realised approximately a further €29 million from its Legacy Business following the sale of three of its German retail portfolios and the sale of a loan position.
- In March 2015, Eurocastle reached an agreement with its Manager, effective 1 January 2015, to reduce its annual management fee by an estimated initial €3 million and restructure how incentive compensation is calculated by focusing on the returns generated from its New Investments[3].

[1] *Time weighted average of investments made (net of any capital returned) over the relevant period.*
[2] *Adjusted NAV for 2014 excludes the negative net asset value of the Mars Floating portfolio and reflects the impact of the sale of 3 retail portfolios in Q1 2015 as outlined on page 10.*
[3] *Please refer to page 9 for further details of this amendment.*

REPORT OF DIRECTORS

Eurocastle Investment Limited ("Eurocastle" or the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle and its consolidated investments (together with Eurocastle, the "Group") have invested primarily in Italian loans and real estate fund units, German commercial real estate and European real estate debt. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". For more information regarding Eurocastle, please visit www.eurocastleinv.com.

Strategy

Alongside realising value from its Legacy Business, comprised of German commercial real estate and other debt investments, Eurocastle's strategy for its New Investments is to focus on investments in Italian performing and non-performing loans and other credit receivables, real estate related assets and related businesses. In addition, Eurocastle is seeking to opportunistically redeploy capital realised from its Legacy Business (including existing corporate cash) in line with this investment strategy.

New Investments:

As at 31 December 2014, Eurocastle had invested or committed €84.2 million in its New Investments at an average targeted gross yield of 18%. After adjusting for €18.6 million of cash returned, the current portfolio has a remaining value of €80.3 million and comprises (i) 10 pools of Italian NPL's and one performing loan valued at €27.6 million, (ii) an interest of €48.6 million in three Italian real estate funds, and (iii) €4 million of other investments in distressed bonds.

	Number of Portfolios	Equity Invested € million	Equity Committed € million	Total Equity € million	Cash flows Realised € million	Adjusted NAV € million	Adjusted NAV € per share
NPL/PL	11	33.3	-	**33.3**	18.6	27.6	0.85
Real Estate Funds	3	35.4	13.4	**48.8**	-	48.6	1.49
Other Investments	1	2.1	-	**2.1**	-	4.1[1]	0.12
TOTAL	***15***	***70.8***	***13.4***	***84.2***	***18.6***	***80.3***	***2.46***

[1] *Includes €4 million which has been reallocated from Other Debt Investments and €0.1 million of other assets & liabilities.*

ITALIAN NPL'S:

Since May 2013, the Company has invested approximately €33.3 million in 10 pools of NPLs and a portfolio of performing loans with a combined gross book value ("GBV") of €6.1 billion. To date, these investments have generated €18.6 million of cash flow or 56% of the amount invested, of which €9.7 million relates to 2014.

In particular, during 2014 Eurocastle invested €16.7 million in 5 separate transactions of which two, totaling €15.7 million, were with the same seller, a "top 5" Italian bank. The remaining acquisitions formed part of a series of small transactions with a group of Italian local co-operative banks.

Details of all NPL portfolios acquired up to 31 December 2014, can be found in the table below:

	Pools 1 to 5	**Pool 6**	**Pool 7**	**Pools 8,9,11**	**Pool 10**	**TOTAL**
Investment Date	May-13	Jul-13	May-13	Jul to Dec-14	Dec-14	**n/a**
Invested to Date (€ million)	14.0	2.6	7.4	1.0	8.3	**33.3**
CF Realised to Date (€ million)	14.6	1.3	2.2	0.0	0.5	**18.6**
NAV (€ million)	9.7	2.2	6.1	1.1	8.5	**27.6**
NAV (€ per share)	*0.30*	*0.07*	*0.19*	*0.03*	*0.26*	***0.85***
Eurocastle Ownership	81%	50%	25%	25%	25%	*n/a*
GBV (€ million)	4,040	14	883	210	1,001	**6,148**
Number of Claims	8,159	86	11,763	3,301	3,877	**27,186**
% Secured	12%	91%	19%	4%	8%	**12%**
Avg. Default Year	1994	2008	1997	2010	1995	**n/a**
% North & Central Italy	70%	54%	57%	68%	79%	**69%**

In February 2015, Eurocastle announced an expected investment of approximately €200 million in NPLs and a servicing business being sold by UniCredit. This transaction, in which the Company is investing jointly with other Fortress affiliates, has a total purchase price of approximately €500 million and consists of:

I. A large portfolio of Italian NPLs with a GBV of approximately €2.4 billion. The portfolio is 42% secured, which is on average more secured than portfolios previously acquired. In addition, the portfolio is characterised by a larger average loan size of €0.5 million and a greater exposure to Northern and Central Italy of 78%.

II. UCCMB the largest captive servicer in Italy with loans under management of over €34 billion and 25 offices throughout Italy.

In addition, the transaction includes a 10 year servicing contract on UniCredit's existing stock of NPLs with a GBV of over €34 billion and a contract to service all of UniCredit's future NPLs with balances below €1 million resulting in estimated future servicing flows of approximately €36 billion.

The acquisition is expected to close in the second quarter of 2015 and is subject to regulatory approval by the Bank of Italy.

ITALIAN REAL ESTATE FUNDS:

In 2014, Eurocastle made its first investments in this asset type, investing or committing €48.8 million in three separate real estate funds.

	Investment Date	Equity Invested € million	Equity Committed € million	Total Equity € million	Adjusted NAV[1] € million	Adjusted NAV € per share	Eurocastle Ownership	Collateral Type
Fund Investment I	Mar-14	22.2	-	**22.2**	21.9	0.67	7%	Mixed Use
Fund Investment II	Jul-14	13.2	2.1	**15.4**	15.4	0.47	49%	Residential Conversion
Fund Investment III	Unfunded	-	11.3	**11.3**	11.3	0.35	50%	Office & Light Industrial
TOTAL		***35.4***	***13.4***	***48.8***	***48.6***	***1.49***	***31%***	

In March 2014, Eurocastle invested €22.2 million (including transaction costs) to acquire 11,929 units (approximately 7.5% of the total units) in UniCredito Immobiliare Uno – Closed-End Real Estate Investment Fund ("UIU" or "Fund Investment I") at a 36.5% discount to the fund's NAV. Its assets consist of 14 mixed use properties with a current market value of €490 million. A large proportion of the properties are concentrated in Rome, Milan and elsewhere in northern Italy. The fund is managed by Torre Sgr, an affiliate of Eurocastle's Manager, Fortress Investment Group.

Subsequent to the year-end, two assets representing 35% of the UIU fund's NAV were sold at a slight premium to NAV. The majority of the net proceeds were distributed to unit holders in March 2015, resulting in the Company's first cash flow from this investment of €8.9 million, or approximately 40% of the amount invested. As at 16 March 2015, and after a distribution of €750 per unit, the price per unit was €1,275 compared to an acquisition price of €1,788.

In July 2014, Eurocastle made its second investment in Italian real estate funds, co-investing with certain affiliates of Fortress and a third party property developer to acquire 100% of the units of a newly established private fund ("Fund Investment II"). As at 31 December 2014, the Company had invested €13.2 million into the fund of an anticipated €15.4 million. The fund has purchased two office buildings in Rome that will be redeveloped into luxury residential properties for resale. It is understood that the project is currently on schedule with the expectation that the units will be developed and fully sold by the end of 2017.

In September 2014, Eurocastle entered into a joint venture agreement with an asset manager, committing an additional €11.3 million in another Italian real estate fund. The Company hopes to complete the transaction by the end of the second quarter of 2015.

[1] *Adjusted NAV includes €13.4m of commitments reallocated from Net Corporate Cash to New Investments in the Group's reported segmental Adjusted NAV as outlined on page 10.*

LEGACY BUSINESS:

Eurocastle continues to make steady progress on realising value from its Legacy German Commercial Real Estate and Other Debt Investments. As at 31 December 2014, after receiving €39.8 million of cash flow during the year and adjusting for a further €28.9 million received from sales in the first quarter of 2015, the Company's Legacy Business had a remaining Adjusted NAV of €74.1 million. The Company will remain focused on achieving its goal of realising value from the remaining assets over the medium term as it seeks to deploy any such proceeds into its New Investments Business in which it targets significantly higher returns.

	German Commercial Real Estate	Other Debt Investments	TOTAL
Number of portfolios	7	3	**10**
Assets (€ million)	813.9	213.3	**1,027.2**
Liabilities (€ million)	(754.3)	(198.8)	**(953.1)**
***Adjusted NAV* (€ million)**[1]	***59.6***	***14.5***	***74.1***
Adjusted NAV (€ per share)	*1.82*	*0.45*	*2.27*
2014 CFs (€ million)	16.7	23.1	**39.8**

GERMAN COMMERCIAL REAL ESTATE:

During 2014, Eurocastle made significant progress in resolving a number of loan maturities extending or refinancing over €750 million of debt across 7 facilities. In turn this has provided the Company with the structure and time to achieve its main goal of realising the remaining value from these portfolios.

The Company intends to continue to sell its existing German commercial real estate assets as part of a comprehensive sales strategy to divest these Legacy Assets. Eurocastle primarily expects to receive cash flow both through net proceeds from asset sales (after costs and repayment of financing) and through sales fees. During 2014, the Company sold 30 assets (approximately €170 million of gross purchase price) with €8.6 million being distributed to Eurocastle. Including a further €14 million of cash flow received from operating distributions and €6.1 million of cash that was paid into the Wave portfolio to secure a refinancing, Eurocastle realised a net total of €16.7 million from its Legacy German commercial real estate portfolio in 2014.

Between 31 December 2014 and 20 March 2015, the Company disposed of a further 109 properties. Those sales include (i) the sale of 107 retail assets for €286 million comprising the Superstella, Tannenberg and Turret Portfolios generating net proceeds of approximately €25 million for the Company, and (ii) the sale of a large vacant asset from the Drive portfolio for approximately €62 million generating approximately €2.2 million in sales fees to the Company that are currently restricted and expected to be released on the next loan interest payment date in April 2015. A further 7 assets are under binding sales contracts for a total of €93 million in line with their year-end carrying values. These sales would generate an additional €1.8 million of net proceeds or fees to Eurocastle.

[1] *Adjusted NAV reflects the impact of the sale of 3 retail portfolios in Q1 2015 and excludes i) the negative net asset value of the Mars Floating portfolio ii) €4m which has been reallocated from Other Debt Investments to New Investments and iii) one position of €3.9 million sold in Q1 2015 from Other Debt investments which has been reallocated to Net Corporate Cash in the Group's reported segmental Adjusted NAV as outlined on page 10.*

The tables below contain a summary of data in relation to the Company's real estate portfolio[1] as at 31 December 2014 after excluding those portfolios sold in the first quarter of 2015.

	Remaining Retail € million	Zama € million	Wave € million	Drive € million	Mars € million	Bridge € million	Total € million
Assets	146.7	30.7	113.6	460.3	62.6	n/a	**813.9**
Liabilities	(141.3)	(26.5)	(88.8)	(450.2)	(47.5)	n/a	**(754.3)**
Adjusted NAV[1]	**5.4**	**4.2**	**24.8**	**10.1**	**15.1**	**n/a**	**59.6**
Adjusted NAV (€ per share)	*0.17*	*0.13*	*0.75*	*0.31*	*0.46*	**n/a**	***1.82***
Permitted Distributions	Excess Cashflow	Fees	Excess Cashflow[2]	Fees	Fees	n/a	**n/a**
2014 Cash Distributed[3]	**8.9**	**0.5**	**(2.1)**	**3.7**	**2.9**	**2.8**	**16.7**
Occupancy	91%	95%	74%	53%	75%	n/a	**69%**
WALT	3.9	2.9	5.0	2.7	3.9	n/a	**3.5**
LTV[4]	98%	90%	62%	93%	77%	n/a	**88%**
Debt Maturity	Oct-15, May-16	May-15	May-16	Jan-16	Jun-15	n/a	**-**

Other Debt Investments:

At the beginning of 2014, Eurocastle unwound a significant portion of this Legacy portfolio through the sale of the remaining securities in the CDO IV portfolio at an average price of approximately 96% of face realising €22.5 million of cash. The Company's remaining investment now consists of two portfolios held across three vehicles:

	Levered[5] € million	Unlevered[6] € million	Total € million
Total Assets	204.6	8.7	213.3
Total Liabilities	(198.6)	(0.2)	(198.8)
Adjusted NAV	**6.0**	**8.5**	**14.5**
Adjusted NAV (€ per share)	*0.19*	*0.26*	*0.45*
2014 Cash Distributed	0.2	22.9	23.1
WA Credit Rating[7]	CCC-	D	CCC-
Total Securities[8]	40	4	41
% Investment Grade	17%	0%	15%
Debt Maturity	Jun-47	n/a	-

1 *Excludes the Mars Floating portfolio and reflects the impact of the sale of 3 retail portfolios in Q1 2015 as outlined on page 10.*

2 *Limited distributions of €100,000 per quarter until the loan is repaid.*

3 *2014 distributions represent amounts received in 2014 relating to levered cash flows and sales CAD for Zama, Wave, Mars and all retail portfolios and asset management and sales fees for Drive and Mars. 2014 Distribution for the Wave portfolio is net of €6.1 million paid into the portfolio to secure the recent extension.*

4 *LTV represents the market value of the assets over the outstanding debt face amount.*

5 *Excludes €4 million which has been reallocated from Other Debt Investments to New Investments as outlined on page 10.*

6 *Excludes one position sold in Q1 2015 which has been reallocated to Net Corporate Cash in the Group's reported segmental Adjusted NAV as outlined on page 10.*

7 *Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.*

8 *Total Securities eliminates positions that are held in two or more portfolios.*

Levered: Duncannon is a portfolio primarily consisting of mezzanine CMBS and junior loan positions financed by securitised debt. Since 2009, as a result of Duncannon failing to meet certain cash flow triggers, Eurocastle receives no cash flows other than management fees which totaled €0.2 million for 2014. All of the remaining cash flows are diverted towards paying down the most senior class of debt with €104 million repaid in 2014.

Unlevered: The remaining portfolio as at 31 December 2014, consisted of 5 low value mezzanine loans or securities carried at 35% of their face value. In February 2015, Eurocastle sold one of these loans at its carrying value realising €3.9 million of initial proceeds.

Normalised FFO

Normalised FFO is a non-IFRS financial measure that, with respect to Eurocastle's Legacy Business, provides investors with additional information regarding the underlying performance of its Legacy Assets and their ability to service debt and make capital expenditure. The measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses and foreign exchange movements. On the Company's New Investments, income is recognised on an expected yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their projected annualised returns.

Eurocastle believes that, given the strategy of seeking to monetise the existing value of the Legacy Business, focusing on the Normalised FFO of the Company's New Investments will further enable the investor to understand current and future earnings given annualised returns achieved and the average net invested capital over the relevant period.

Looking back at 2014, Eurocastle generated Normalised FFO of €9.4 million, or €0.29 per share, of which €8.6 million, or €0.26 per share related to New Investments before corporate costs. Given the average net invested capital in 2014 was approximately €36 million, this equates to a yield of 24%.

In March 2015, in line with the Company's strategy and the related metric, Eurocastle's Board of Directors reached an agreement with the Manager to amend the terms of its Management Agreement with effect from 1 January 2015. These amendments include (i) resetting the capital base upon which the management fee is calculated from the current amount of €404 million to the Group's Adjusted NAV reported quarterly, (ii) reducing the fee upon which the management fee is paid from 1.5% to 0.75% on the share of Adjusted NAV relating to net corporate cash, and (iii) resetting the base upon which the Manager's entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in its New Investments and calculated against the Normalised FFO for New Investments after allocated corporate costs.

The Directors believe the new fee structure better incentivises the Manager to monetise the Legacy Business and deploy the resulting capital at higher returns, along with any additional available cash. Applying these amendments to the Group's Adjusted NAV of €258.4 million as at 31 December 2014, the new terms will initially reduce the annual management fee by approximately €3 million with potential additional fees should the Manager exceed the required 8% return hurdle on the net invested capital in each calendar year.

A reconciliation of Normalised FFO to the IFRS based net profit or loss after tax for the year ended 31 December 2014 can be found below:

Income Statement Reconciliation

	New Investments € million	Corporate[1] € million	Legacy € million	Total € million
Net Income / (loss) after tax & Non-controlling interest	**2.3**	**(14.1)**	**(97.5)**	**(109.3)**
Net Income / (loss) (€ per Share)	*0.07*	*(0.43)*	*(2.99)*	*(3.35)*
Mars Floating Portfolio Losses	-	-	15.4	15.4
Non-controlling interest	0.4	-	-	0.4
Fair Value to Effective Adjustments	5.9	-	-	5.9
Legacy Real Estate Revaluations	-	-	50.3	50.3
Legacy Bridge Portfolio Deconsolidation Loss	-	-	26.1	26.1
Legacy Debt Impairments	-	-	20.4	20.4
Transaction Costs, G/L on FX & Other Adjustments	-	0.4	(0.2)	0.2
Normalised FFO	**8.6**	**(13.7)**	**14.5**	**9.4**
Normalised FFO (€ per Share)	*0.26*	*(0.42)*	*0.45*	*0.29*

Adjusted NAV Reconciliation

	New Investments € million	Corporate[1] € million	Legacy € million	Total € million
Assets	67.9	97.0	1,369.0	1,533.9
Liabilities	(2.8)	(8.4)	(1,314.0)	(1,325.2)
NAV before Non-controlling interest	**65.1**	**88.6**	**55.0**	**208.7**
Non-controlling interest	(2.3)	-	-	(2.3)
NAV after Non-controlling interest as reported under IFRS	**62.8**	**88.6**	**55.0**	**206.4**
New Investments Commitment Reallocations	13.4	(13.4)	-	-
Legacy Debt Business Reallocation	4.0	-	(4.0)	-
Mars Floating Negative NAV Add-back	-	-	46.6	46.6
Retail Portfolios Sale Impact in Q1 2015	-	25.0	(19.5)	5.5
Legacy Debt Portfolio Realisations in Q1 2015	-	3.9	(3.9)	-
Other Roundings	0.1	(0.1)	(0.1)	(0.1)
Adjusted NAV	**80.3**	**104.0**	**74.1**	**258.4**
Adjusted NAV (€ per Share)	*2.46*	*3.19*	*2.27*	*7.92*

[1] *Corporate includes uninvested cash and fees payable to the Manager.*

REPORT OF DIRECTORS

Capital Structure

During the year, the Company issued 3,000 ordinary shares to the Independent Directors per their in-place compensation arrangements for €nil consideration. The Company had 32,635,502 ordinary shares in issue as at 31 December 2014.

Dividends

	€ million
First quarter at €0.125 per share	4.1
Second quarter at €0.125 per share	4.1
Third quarter at €0.125 per share	4.1
Fourth quarter at €0.125 per share	4.1
Total 2014 Dividends	**16.3**

Directors

The Directors who have held office during the year and subsequently were:

Keith Dorrian[1]
Randal A. Nardone
Udo Scheffel[1] (resigned 3 February 2014)
Jason Sherwill[1] (appointed 3 February 2014)
Peter Smith
Simon Thornton[1]

Directors Intersts

The interests of the Directors in the ordinary share of Eurocastle are as follows:

	As at 31 December 2014	As at 31 December 2013
Keith Dorrian	2,045	1,045
Randal A. Nardone[2]	772,082	772,082
Udo Scheffel	N/A	1,030
Jason Sherwill	1,000	-
Peter Smith	-	-
Simon J. Thornton	7,547	6,547

1 *Independent Directors.*

2 *Randal A. Nardone is a member of Fortress Operating Entity II LP which is the registered holder of 5,025 shares and as a result of this relationship he is interested in the shares owned by this entity or in some of such shares.*

Substantial Shareholdings

Per the shareholder register and as at 19 March 2015, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings
Euroclear Nominees Limited	81.49%
The Bank of New York (Nominees) Limited	9.58%

The shareholding above has been obtained from the share register. A number of individual shareholders have made a notification of exceeding the reporting thresholds per the Netherlands Authority for Financial Markets (AFM). These notifications can be found at the following website www.afm.nl.

Auditors

BDO LLP were appointed during the period and have expressed a willingness to continue in office.

Corporate Governance

The Directors have applied the principles of the Guernsey Code of Corporate Governance which came into effect from the 1 January 2012.

Management Agreement

The Independent Directors have reviewed the continued appointment of the Manager. In carrying out the review, the Independent Directors considered the past performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance. The Independent Directors also considered the length of notice period of the Management Agreement and the fees payable to the Manager, together with the standard of the other services provided. The Independent Directors have concluded that the continued appointment of the Manager is in the best interest of the shareholders.

Directors' Statements As To Disclosure Of Information To Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 8. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which Eurocastle's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that Eurocastle's auditors are aware of that information.

Going Concern

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have reviewed the Group's processes to control those financial risks to which the Group is exposed, as disclosed in note 32 to the consolidated financial statements, as well as reviewing the annual budget. As at 31 December 2014, the balance of corporate cash is €96.9 million (disclosed in note 10) which was increased subsequent to the year end by approximately €29 million from the proceeds of the sales of the Retail portfolio (refer note 31) and a loan investment within the Legacy Debt portfolio. In addition, the Directors have reviewed the commitment of the Group with respect to the acquisition of UniCredit Credit Management Bank S.p.A. ("UCCMB") from UniCredit. The transaction is expected to complete in the second quarter subject to closing conditions and regulatory approval by the Bank of Italy with a gross investment of approximately €250 million. The Group is expecting to fund this transaction through a combination of possible sources including (i) available corporate cash, (ii) investment level financing, and (iii) capital raised from the public markets.

As a result of this review, the Directors do have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Directors' Statements Pursuant To The Disclosure And Transparency Rules

Each of the Directors as at 31 December 2014 (whose names are listed on page 11) confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group and the undertakings included in the consolidation as a whole; and
- the Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Registered Office

Regency Court
Glategny Esplanade
St. Peter Port
Guernsey
GY1 1WW

On behalf of the Board

Simon J. Thornton
Director and Audit Committee Chairman
Date: 24 March 2015

REPORT OF DIRECTORS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue its business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS REPORT

Independent Auditors Report To The Members Of Eurocastle Investment Limited And Subsidiaries

We have audited the consolidated financial statements of Eurocastle Investment Limited for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board.

This report is made solely to the parent company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work is undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities Of Directors And Auditors

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's FRC's Ethical Standards for Auditors.

Scope Of The Audit Of The Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion Of Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Opinion On Other Matters

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Michael Goldstein
For and on behalf of BDO LLP
London
24 March 2015
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Operating income			
Interest income	3	8,357	14,241
Rental income	4	84,965	130,121
Service charge income	4	16,800	26,131
Loss on disposal of available for sale securities	11	(407)	-
Decrease in fair value of investment properties	7,21	(66,699)	(44,759)
Gain on repurchase of mezzanine financing	24	1,963	-
Decrease in fair value of interest rate swaps	20	-	(4)
Gains on foreign currency contracts, translation and swaps	8	681	1,424
Impairment losses	9	(20,437)	(54,534)
Fair value movements in real estate fund units	17	567	-
Fair value movements on Italian debt portfolio	14	2,099	5,050
Share of post tax profits from joint venture	16	471	221
Share of post tax profits from associate	15	582	-
Gain on paydown of loans and receivables		1,853	-
Loss on deconsolidation of Subsidiary	18	(26,077)	-
Total operating income		**4,718**	**77,891**
Operating expenses			
Interest expense	5	51,524	80,352
Service charge expenses	4	16,151	25,240
Property operating expenses	4	26,807	35,564
Other operating expenses	6	19,961	23,318
Total operating expenses		**114,443**	**164,474**
Net operating loss before taxation		**(109,725)**	**(86,583)**
Taxation expense / (credit) - current	7	1,318	(1,590)
Taxation (credit) / charge - deferred	7	(2,173)	890
Total tax credit		**(855)**	**(700)**
Net loss after taxation		**(108,870)**	**(85,883)**
Attributable to:			
Ordinary equity holders of the Company		(109,300)	(86,866)
Non-controlling interest	14	430	983
Net loss after taxation		**(108,870)**	**(85,883)**
Weighted average loss per ordinary share			
Basic and diluted	27	(3.34)	(3.24)

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Net loss after taxation		**(108,870)**	**(85,883)**
Items that may or will be reclassified to profit or loss:			
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables with movements released to the income statement	3	9,050	8,647
Adjustment to amortisation of unrealised losses on available-for-sale securities reclassified to loans and receivables reflecting changes in expected cash flows		-	(515)
Net unrealised gains released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9,13	(3,134)	(1,353)
Realised losses on hedge instruments reclassified to the income statement	29	-	(647)
Amortisation of novated swaps	29	(580)	(975)
Unrealised gain on asset backed securities, available-for-sale	11	467	11,793
Net unrealised gain on hedge instruments	29	2,038	6,259
		7,841	**23,209**
Total comprehensive loss for the year		**(101,029)**	**(62,674)**
Attributable to:			
Ordinary equity holders of the Company		(101,459)	(63,657)
Non-controlling interest	14	430	983
Total comprehensive loss for the year		**(101,029)**	**(62,674)**

See notes to the consolidated financial statements.

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2014 €'000	As At 31 December 2013 €'000
Assets			
Cash and cash equivalents	10	142,581	193,192
Investment properties held for sale	21	217,418	94,402
Assets in disposal groups classified as held for sale	31	283,060	-
Available-for-sale securities	11	188	26,879
Fair value investments - listed shares	12	2,198	-
Loans and receivables	13	199,676	316,650
Derivative assets	20	8,291	10,584
Other assets	19	18,091	32,896
Fair value investments	14	6,325	12,315
Real estate fund units	17	21,890	-
Fixture and fittings	23	-	4
Investment property	21	603,026	1,628,104
Investment in joint ventures	16	15,483	2,173
Investment in associates	15	15,681	-
Intangible assets	22	15	42
Total assets		**1,533,923**	**2,317,241**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	28	1,714,625	1,714,425
Accumulated loss		(1,525,145)	(1,399,529)
Net unrealised loss on available-for-sale securities and loans and receivables	11,13	(5,593)	(11,976)
Hedging reserve	29	588	(870)
Other reserves	33	21,888	22,088
Total shareholders' equity		**206,363**	**324,138**
Non-controlling interest		2,321	2,842
Total equity		**208,684**	**326,980**
Liabilities			
Trade and other payables	26	77,023	83,347
Liabilities directly associated with assets in disposal groups classified as held for sale	31	263,565	-
Current taxation payable	7	10,824	9,678
CDO bonds payable	24	194,248	299,912
Bank borrowings	25	757,916	1,561,858
Derivative liabilities	20	-	5,297
Finance lease payable	21	17,085	23,062
Deferred taxation liability	7	4,578	7,107
Total liabilities		**1,325,239**	**1,990,261**
Total equity and liabilities		**1,533,923**	**2,317,241**

See notes to the consolidated financial statements.

The financial statements were approved by the Board of Directors on 24 March 2015 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Cash flows from operating activities			
Operating loss before taxation		(109,725)	(86,583)
Adjustments for non-cash items			
Interest income	3	(4,586)	(9,010)
Interest expense	5	40,937	65,288
Unrealised (gain) / loss on foreign exchange contracts		(681)	(1,424)
Amortisation of discount on securities	11,13	(3,771)	(6,584)
Amortisation of borrowing costs		5,294	7,532
Amortisation of tenant incentives / leasing commissions	21	1,694	3,575
Realised loss on disposal of available for sale investments	11	407	-
Realised gain on repurchase of mezzanine financing	24	(1,963)	-
Impairment losses	9	20,437	54,534
Gain on paydown		(1,853)	-
Amortisation of intangibles	22	33	82
Depreciation of fixture and fittings	23	4	51
Decrease in fair value of investment properties	21	66,699	44,759
Increase in fair value investments	14	(2,099)	(5,050)
Share of post tax profits from joint ventures	16	(471)	(221)
Share of post tax profits from associates	15	(582)	-
Fair value movement on real estate fund units	17	(567)	-
Loss on deconsolidation of Subsidiary	18	26,077	-
Decrease in fair value of interest rate swaps	20	-	4
Shares issued to Directors	28	-	1
Decrease / (increase) in other assets		8,656	(14,597)
Increase in trade and other payables		4,801	24,218
Cash generated from operations		**48,741**	**76,575**
Interest received		5,350	10,581
Interest paid		(34,692)	(55,911)
Taxation paid		(1,488)	(3,858)
Net cash flows from operating activities		**17,911**	**27,387**
Cash flows from investing activities			
Capital expenditures / tenant incentives	21	(12,906)	(16,524)
Proceeds from sale of investment properties	21	169,618	270,679
Purchase of intangibles	22	(6)	-
Proceeds from prepayment of available-for-sale securities		4,607	37,230
Proceeds from sale of available for sale securities	11	22,201	-
Purchase of loans and receivables		-	(28,608)
Proceeds from prepayment of loans and receivables		108,911	51,307
Cash impact of acquisition in Italian Investments		-	(10,038)
Cash impact of investment in joint ventures	16	(13,225)	(2,633)
Cash impact of investment in associates	15	(16,908)	-
Cash impact on deconsolidation of Subsidiary	18	(3,757)	-
Purchase of real estate fund units	17	(21,323)	-
Cash collections from fair value investments	14	4,351	6,080
Cash received from joint ventures		386	681
Cash received from associates	15	1,809	-
Net cash flows from investing activities		**243,758**	**308,174**
Cash flows from financing activities			
Issue of share capital net of consolidation and issuance costs		-	103,844
Dividends paid		(16,316)	(8,158)
Repurchase of mezzanine financing	24	(2,043)	-
Cash distributed to minority interests		(952)	(1,458)
Repayments of bonds issued		(104,571)	(56,235)
Repayments of bank borrowings		(184,444)	(342,602)
Net cashflows from financing activities		**(308,326)**	**(304,609)**
Net increase in cash and cash equivalents		**(46,657)**	**30,952**
Cash and cash equivalents, beginning of year		**193,192**	**141,344**
Restricted CDO cash, beginning of year		**-**	**20,896**
Total cash and cash equivalents, beginning of year		**193,192**	**162,240**
Total cash and cash equivalents, end of year	10	**146,535**	**193,192**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Group								
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Perpetual subordinated convertible securities €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2013	**127,425,780**	**1,446,624**	**17,320**	**160,514**	**(30,548)**	**(5,507)**	**(1,296,297)**	**6**	**292,112**
(Loss) / profit for the year	-	-	-	-	-	-	(86,866)	983	(85,883)
Other comprehensive income	-	-	-	-	18,572	4,637	-	-	23,209
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**18,572**	**4,637**	**(86,866)**	**983**	**(62,674)**
Share issued to Directors (note 28)	3,000	1	-	-	-	-	-	-	1
Capitalised interest on Convertible Securities issued (note 30)	-	-	-	8,208	-	-	(8,208)	-	-
Convertible securities converted into ordinary shares (note 28 and 30)	3,398,474,717	168,722	-	(168,722)	-	-	-	-	-
Share consolidation of ordinary shares (note 28)	(3,508,270,995)	-	-	-	-	-	-	-	-
Costs in relation of consolidation of ordinary shares	-	(249)	-	-	-	-	-	-	(249)
Issue of ordinary shares (note 28)	15,000,000	108,750	-	-	-	-	-	-	108,750
Costs in relation of issue of ordinary shares	-	(4,655)	-	-	-	-	-	-	(4,655)
Costs in relation to issue of options following share issue	-	(4,968)	4,968	-	-	-	-	-	-
Acquisition of Italian Investments net of distributions	-	-	-	-	-	-	-	1,853	1,853
Release of option reserve for lapsed options	-	200	(200)	-	-	-	-	-	-
Dividend declared (note 34)	-	-	-	-	-	-	(8,158)	-	(8,158)
At 31 December 2013	**32,632,502**	**1,714,425**	**22,088**	**-**	**(11,976)**	**(870)**	**(1,399,529)**	**2,842**	**326,980**
(Loss) / profit for the year	-	-	-	-	-	-	(109,300)	430	(108,870)
Other comprehensive income	-	-	-	-	6,383	1,458	-	-	7,841
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**6,383**	**1,458**	**(109,300)**	**430**	**(101,029)**
Share issued to Directors (note 28)	3,000	-	-	-	-	-	-	-	-
Cash distributed to minority interest	-	-	-	-	-	-	-	(951)	(951)
Release of option reserve for lapsed options	-	200	(200)	-	-	-	-	-	-
Dividend declared (note 34)	-	-	-	-	-	-	(16,316)	-	(16,316)
At 31 December 2014	**32,635,502**	**1,714,625**	**21,888**	**-**	**(5,593)**	**588**	**(1,525,145)**	**2,321**	**208,684**

See notes to the consolidated financial statements.

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 Italian performing and non-performing loans and other credit receivables, real estate related assets and related businesses.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group's Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in note 35. The Group has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost basis except for investment properties, available-for-sale securities and derivative financial investments which are measured at fair value. The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2013 and for the year then ended, except for those additional polices detailed below:

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

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

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

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

Joint Ventures
Jointly controlled entities are those entities over whose activities the Group has joint control established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group's interest in these entities is consolidated using the equity method in accordance with IFRS 11 - *Joint Arrangements.*

Basis of consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2014. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 31 December 2014, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Italy, Luxembourg and Germany (refer to note 37).

As a result of the Group's investment in the performing and non-performing loan portfolios in Italy (refer note 14), it controls subsidiaries in Italy, Luxembourg and the United States of America. The Group holds 80.66% of the member's interest in NPL Top Tier Holding LLC ("Ieffe and Palazzo") and 100% of the outstanding notes in FMIL S.r.l. ("BAM"). The investments in the underlying loan portfolios are held through Law 130 securitisation notes.

The Group's investment in the BNL portfolio of non-performing loans is through a joint investment entity in Italy called Quintino Securitisation S.r.l. The financial and operating decisions of this entity require joint agreement and hence is subject to joint control. The results, assets and liabilities of the joint investment entity are incorporated in these financial statements using the equity method (refer note 16).

The Group's investment in CF Aula SCS partnership is accounted for as a joint venture using the equity method. CF Aula SCS is a limited liability partnership incorporated in Luxembourg. The Group owns 50% of the partnership interest (refer note 16) and the operating and financing decisions require joint agreement; hence it is subject to joint control.

The Group's investment in the MPS and BCC portfolios of non-performing loans is through an associate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC and is accounted for using the equity method (refer note 15). The Group holds a 25% interest in the associate entity which is managed by a fund manager. The Group exercises significant influence as a result of the ability to vote on the appointment and termination of the fund manager.

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

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

Critical accounting judgements and estimates

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The critical accounting judgements and estimates and significant accounting policies are the same as those disclosed in the financial statements for the year ended 31 December 2013 as follows:

(i) Impairment of available-for-sale investments and loans and receivables

The Group assesses on a regular basis whether there is any objective evidence of impairment in respect of the available-for-sale investments and loans and receivables portfolios. In determining whether objective evidence of impairment exists, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable significant financial difficulty of the issuer or obligor, defaults or breaches of contract, the probability of the borrower entering bankruptcy or other financial reorganisation, adverse changes in the payment status of the borrowers in a group or external events that would imply a high probability of default and loss (refer to notes 11 and 13).

(ii) Valuation of available-for-sale investments

Available-for-sale investments are stated at fair value. The determination of the fair value of available-for-sale investments requires considerable judgement and the consideration of factors such as the nature of the securities, credit rating, quality of collateral, extent of active market and the reputation of the issuers. The fair value is based on indicative dealer price quotations (refer note 11).

(iii) Valuation of investment properties

Investment properties are stated at fair value. The determination of fair values requires considerable judgement, and includes certain assumptions, which include passing rent, void periods, yield, relettability, marketability of properties, terms of lease and comparison with similar properties in the real estate market. The fair values are determined based on valuations by external valuers, which are carried out in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors. Accordingly, the values reflect the physical, economical, legal and regulatory status of the properties based on the information available at the date of valuation (refer to note 21).

(iv) Fair value of derivatives

The fair values of derivatives are determined by using valuation techniques. Where valuation techniques including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical models use only observable data, however, areas such as credit risk (both own and counterparty) and volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments (refer note 20).

(v) Refinancing of bank borrowings and CDO bonds payable

Refinancing of bank loans and CDO bonds payable are reviewed to determine if the terms of the new facility are substantially different to the existing terms. The Group makes this determination using the net present value of the cash flows under the new terms discounted at the original effective interest rate compared to the discounted present value of the remaining cash flows under the existing terms. If the comparison exceeds a 10% threshold, the refinancing is considered to be substantially different. The Group also reviews the qualitative changes to the financings (e.g. nature and amount of security, counterparties or change in type of financing) to make their assessment. The Group renegotiated the Drive and Wave term financing. Both are considered to be a continuance of existing facilities (refer note 25).

(vi) Financial assets at fair value through profit and loss

The underlying loan portfolio investments held by the Italian Investment entities are held at fair value through profit and loss on initial recognition. The fair value and changes therein are based on future expected cash flows based on the assumptions of the latest business plan discounted at the internal rate of return at the initial acquisition (refer note 14).

(vii) Disposal groups classified as held for sale

Assets and liabilities held in disposal groups classified as held for sale are recognised as such when the assets will be disposed of together as a group in a single transaction and liabilities associated with those assets will be transferred in the same transaction.

Financial Instruments

Classification

Financial assets and liabilities classified at fair value through profit or loss include those designated as such at initial recognition, including investments in listed shares and fund units, performing and non-performing and loan portfolios interest rate swaps, foreign currency swaps and forward foreign exchange contracts that are not designated as effective hedging instruments.

Available-for-sale assets, including restricted cash balances, are financial assets that are not classified as instruments held at fair value through the income statement, loans and advances, or held to maturity.

Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial liability is recognised on the date the Group becomes party to contractual provisions of the instrument.

Measurement

Financial instruments are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities that are not measured at fair value through profit or loss are included in the carrying amount.

Subsequent to initial recognition all instruments that are classified as held at fair value through profit and loss, available-for-sale assets and trading instruments are carried at fair value.

All financial assets other those classified as fair value through profit and loss and available-for-sale assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Reclassification of asset backed securities from available for sale to loans and receivables

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

For an asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the new effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled in the income statement.

An analysis of reclassified assets is disclosed in note 13.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, being the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Interest income and interest expense

Interest income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the asset / liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fair value measurement principles

The fair value of a financial instrument is based on its quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is calculated using pricing models or discounted cash flow techniques, as applicable.

Where discounted cash flow techniques are used, expected future cash flows are based on the Manager's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is calculated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of instruments that are classified as held at fair value through the profit and loss are recognised directly in the income statement. Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity until the investment is derecognised (sold, collected, or otherwise disposed of) or impaired, at which time the related cumulative gain or loss previously recognised in equity is included in the income statement for the year.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the calculated future cash flows of the financial asset or group of financial assets that can be reliably measured.

Loans and receivables investments

Loans and receivables investments are carried at amortised cost less provision for impairment. The Group assesses individually each loan and receivable asset to ascertain whether objective evidence of impairment as described above exists.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of the assets is reduced by the amount of the loss which is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the carrying amount of the asset is amended and the increase or decrease is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate ('EIR'). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified available-for-sale assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

Available-for-sale investments

Available-for-sale investments are carried at fair value. The Group assesses individually for each available-for-sale asset whether objective evidence of impairment as described above exists.

If there is evidence of impairment, the cumulative unrealised loss previously recognised in equity, in net unrealised gains and losses, is removed from equity and recognised in the income statement for the period, reported in net gains / losses on financial assets available-for-sale. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest Income".

Refer to notes 9, 11 and 13 for details of impairment losses on available-for-sale and loans and receivables investments.

Hedge accounting

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship and it meets the Group's risk management objective strategy for undertaking the hedge. Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged items affect the net profit and loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Derecognition of financial assets and liabilities

Financial assets
A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand, short-term deposits and restricted cash with an original maturity of three months or less.

Restricted cash

Restricted cash comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, cash held by the trustees of securitisation vehicles as a reserve for future trustee expenses and cash held as part of the minimum liquidity requirement by property funds. As such, these funds are not available for use by the Group.

Investment property

Investment property comprises land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment property is measured initially at cost, including transaction costs, and recognised when the customary conditions precedent under the relevant purchase agreement have been satisfied and the purchase price is paid to the vendor. The cost of replacing part of an existing investment property is included in the carrying amount when the cost is incurred, if the recognition criteria are met. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment property is included in the income statement in the year in which they arise. Tenant incentives and leasing commissions are held as other assets and are amortised over the life of the lease.

Investment property is derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Properties that meet the definition of investment property held under operating leases are accounted for as investment property. In such cases the operating leases are accounted for as if they were finance leases with an associated liability representing the present value of future minimum lease payments included in finance lease liabilities on the balance sheet.

Leases

The determination of whether an arrangement is, or contains, a finance lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

Other leases are classified as operating leases and the expenses are taken on a straight line basis over the lease term, unless they relate to properties that meet the definition of investment property (please refer to previous page).

Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease term. Incentives given to enter into lease agreements are spread evenly over the shorter of the lease term and 5 years as a reduction of rental expense, even if the payments are not made on such a basis.

Intangible assets

Software costs and software development costs are capitalised when they meet certain criteria relating to identification, it is probable that future economic benefits will flow to the Group, and the cost can be measured reliably. These software costs are recognised in the consolidated income statement through amortisation of the capitalised software costs on a straight line basis over their expected useful life of 5 years.

Fixtures and fittings

Fixtures and fittings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Fixtures and fittings are depreciated on a straight line basis over their expected useful life of 5 years.

Non-controlling interests

Non-controlling interests represent interests held by outside parties in the Group's consolidated subsidiaries.

Revenue

The Group considers revenue to comprise interest income and rental income as its principal business is investing in, financing and management of European real estate and other asset backed securities and other real estate related assets.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Service charges

The Group acts as a principal bearing the risk of under recovering of service costs from its tenants. The service charge income earned from the tenants and the service costs incurred are shown separately in the consolidated income statement.

Service income

Service income represents service costs recoverable from tenants and is recognised on the basis of services being provided.

Service costs

Service costs represent service contracts entered into for the operation of the property, relating to lettable space for which it has been agreed with tenants to recover these amounts and are recognised on an accruals basis.

Property expenses

Property expenses are expenses that are incurred on the property portfolio that are not able to be recovered from tenants or relate to vacant space. Property expenses are recognised on an accruals basis in the consolidated income statement.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Foreign currency translation

The presentation currency of the Group and functional currency of the Company is the Euro. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Share-based payments

Equity settled share-based payments are accounted for based on their fair value on grant date. The fair value is calculated by reference to an option pricing model. The fair value of the share options granted in relation to capital raises has been fully recognised (vested) on the date of grant as a cost relating to the issue of shares with a corresponding increase to other reserves.

Shares granted to Directors are recognised in the income statement over the period that the services are received.

Standards and interpretations that have been issued with an effective date after the date of these financial statements:

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of standards and interpretations with an effective date after the date of these financial statements. The Directors have set out below only those which may have a material impact on the financial statements in future periods.

IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These amendments are not expected to impact the Group’s current financial position or performance and will become effective for annual periods beginning on or after 1 January 2017.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments : Recognition and Measurement* in its entirety. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value and is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The new hedge accounting model is more principles-based, less complex and provides a better link to risk management and treasury operations than the model in IAS 39. The new model also allows entities to apply hedge accounting more broadly to manage profit or loss mismatches, and as a result, reduce artificial hedge ineffectiveness that can arise under IAS 39. The new standard also adds new impairment requirements for all financial assets not measured at fair value and amendments to the classification and measurement requirements. The impact of these amendments on the Group’s financial position or performance will be reviewed. The standard will become effective for annual periods beginning on or after 1 January 2018.

3. INTEREST INCOME

Interest income for the year ended 31 December 2014 represents €8.4 million (31 December 2013: €14.2 million) of interest income earned on the available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2014 includes interest calculated using the EIR method of €8.2 million (31 December 2013: €12.7 million). Coupon interest earned of €5.7 million (31 December 2013: €7.4 million) is split between available-for-sale securities (€1.8 million), loans and receivables (€2.9 million), and real estate related loans (€1.0 million) (31 December 2013: €0.8 million, €4.0 million, and €2.6 million respectively).

Interest earned using the EIR method on impaired assets for the year ended 31 December 2014 of €1.7 million (31 December 2013: €2.2 million) includes €nil interest on available-for-sale securities, interest on loans and receivables of €0.7 million, and interest on real estate related loans of €1.0 million (31 December 2013: €nil, €1.0 million, and €1.2 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €9.1 million (31 December 2013: €8.6 million) as a result of reclassification of available-for-sale securities to loans and receivables. This amortisation is offset by the accretion of the carrying value of the reclassified loans and receivables, resulting in a net nil impact on the income statement. The amortisation and accretion have been adjusted to reflect changes in the anticipated cash flows.

4. RENTAL INCOME / PROPERTY OPERATING EXPENSE / SERVICE CHARGE INCOME AND EXPENSE

4.1 Rental income

Rental income for the year ended 31 December 2014 of €85.0 million (31 December 2013: €130.1 million) represents rental income earned on investment properties.

4.2 Property operating expense

Property operating expenses (including repairs and maintenance) arising from investment properties that generated rental income for the year ended 31 December 2014 were €26.8 million (31 December 2013: €35.6 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €1.7 million (31 December 2013: €3.6 million) and fund costs relating to the Drive portfolio of €1.2 million (31 December 2013: €3.7 million).

4.3 Service charge income and expense

Service charge income for the year ended 31 December 2014 of €16.8 million (31 December 2013: €26.1 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2014 of €16.2 million (31 December 2013: €25.2 million) represents the costs of operating the properties that are recoverable from tenants.

5. INTEREST EXPENSE

Interest expense for the year ended 31 December 2014 of €51.5 million (31 December 2013: €80.4 million) comprises interest expense incurred on the CDO bonds payable and bank borrowings amounting to €3.2 million and €42.8 million (31 December 2013: €3.6 million and €68.6 million) respectively. Interest expense is calculated using the EIR method.

Included within the interest expense for the year are €nil losses in relation to the termination of interest rate swaps (31 December 2013: €0.6 million) and capitalised financing costs written off of €0.2 million (31 December 2013: €0.4 million) relating to the sale of investment property.

Interest expense also includes a € nil credit (31 December 2013: €nil credit) relating to the release of a portion of the amortisation charge with respect to the Mars Floating portfolios (refer to note 25.1).

The amortisation of financing costs and amortisation of discount/premium on debt investments have been reclassified to interest expense from other operating expenses in the current year. Amortisation of financing costs amounted to €4.7 million (31 December 2013: €6.4 million). Amortisation of discount/premium amounted to €0.5 million (31 December 2013: €1.1 million).

6. OTHER OPERATING EXPENSES

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Professional fees	613	1,140
Transaction costs on acquisition of real estate fund units	925	-
Sale related costs	5,710	5,431
Management fees (note 35)	6,090	9,727
Net Manager Recharge (note 35) [1]	5,422	5,372
Depreciation of fixtures and fittings	4	51
Amortisation of intangible assets	33	82
General and administrative expenses	1,164	1,515
Total other operating expenses	**19,961**	**23,318**

(1) Included within the Net Manager recharge for the year ended 31 December 2014 is €1.3 million of asset management fees from the Drive portfolio (31 December 2013: €2.0 million).

7. TAXATION EXPENSE / (CREDIT)

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Current tax expense / (credit)		
Germany	1,052	(602)
Luxembourg	266	(988)
Total current tax	**1,318**	**(1,590)**
Deferred tax (credit) / charge		
Germany	(2,173)	890
Luxembourg	-	-
Total deferred tax	**(2,173)**	**890**
Total tax credit	**(855)**	**(700)**

There are currently no tax expenses in Italy.

Reconciliation of total tax expense

The Group is exempt from Guernsey income tax. The tax expense in the consolidated income statement for the year ended is higher than the Group's Guernsey income tax rate of 0%. The difference is reconciled below:

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Net loss before taxation	(109,725)	(72,446)
Tax on ordinary activities based on Guernsey tax of 0% (31 December 2013: 0%)	-	-
Overseas taxation (credit) / expense - Germany	(1,121)	288
Overseas taxation expense / (credit) - Luxembourg	266	(988)
Total tax credit	**(855)**	**(700)**

Analysis of deferred tax:

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Tax losses carried forward	802	1,881
Temporary differences		
Loan expense	224	5
Tenant improvements and leasing commissions	22	34
Accelerated capital allowance	(984)	5,508
Revaluation of investment properties [(1)]	(1,822)	(5,164)
Capital expenditure	(384)	358
Disposal of investment properties	-	-
Other	(31)	(1,732)
Deferred tax (credit) / charge	**(2,173)**	**890**

(1) This represents deferred tax on the difference between the fair value and the German tax book value of the investment properties, except the Drive portfolio as the Group's investment in the underlying properties in relation to the Drive portfolio is by way of units in an open ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in the Drive portfolio.

Deferred tax on revaluation of investment properties

Portfolio	Year ended 31 December 2014 (decrease) / increase in fair values €'000	Year ended 31 December 2014 deferred tax asset / (liability) €'000	Year ended 31 December 2013 (decrease) / increase in fair values €'000	Year ended 31 December 2013 deferred tax asset / (liability) €'000
Mars [(1)]	(16,973)	-	(15,653)	-
Drive	(21,523)	-	(22,099)	-
Wave	(5,302)	(1,934)	7,343	273
Zama	(1,639)	-	21	-
Bridge	(253)	-	(8,420)	-
Retail	(21,009)	112	(5,951)	(5,437)
Total	**(66,699)**	**(1,822)**	**(44,759)**	**(5,164)**

(1) The Mars portfolio consists of 23 entities, of which 3 hold investment properties. Deferred tax represents the tax on the valuation losses / gains at the individual entity level.

Breakdown of taxation liability:

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Split between:		
Current tax	10,824	9,678
Deferred tax	4,578	7,107
	15,402	**16,785**
Classified as held for sale (refer note 31)		
Current tax	267	-
Deferred tax	356	-
Closing taxation payable	**16,025**	**16,785**

Reconciliation of total tax charge:

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Loss before tax	(109,725)	(86,583)
Tax at domestic tax rates applicable to profits in the respective countries	-	-
Tax effect of revaluation of investment properties	(1,822)	(5,164)
Tax effect on timing differences	(1,122)	5,905
Tax effect of tax losses	802	1,881
Other [(1)]	1,287	(3,322)
Total tax credit	**(855)**	**(700)**

(1) Includes current taxes expense relating to Germany and Luxembourg of €1.0 million and €0.3 million (31 December 2013 current tax credits of €0.6 million and €1.0 million) respectively.

Deferred tax liabilities (including disposal groups of €0.4 million) are attributed to the following:

	2014			2013		
	Assets €'000	Liabilities €'000	Net €'000	Assets €'000	Liabilities €'000	Net €'000
Loan expense	23	(383)	(360)	9	(145)	(136)
Tenant improvement and leasing commissions	-	(134)	(134)	-	(112)	(112)
Accelerated capital allowance	-	(11,795)	(11,795)	-	(12,779)	(12,779)
Revaluation of investment properties	8,448	(104)	8,344	8,560	(2,038)	6,522
Capital expenditure	-	(1,596)	(1,596)	-	(1,980)	(1,980)
Tax value of recognised losses	583	-	583	1,385	-	1,385
Short-term temporary differences	-	24	24	212	(219)	(7)
Net deferred tax asset / (liability)	**9,054**	**(13,988)**	**(4,934)**	**10,166**	**(17,273)**	**(7,107)**

Deferred tax liabilities are presented net of deferred tax assets where the legal right of offset exists.

Unrecognised tax losses

The Group has tax losses which arose in Germany of €111.2 million (31 December 2013: €113.1 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Included in this amount for 2013, is €41.1 million with respect to the Bridge Portfolio (please refer to note 18). A deferred tax asset of €17.0 million (31 December 2013: €17.8 million) has not been recognised in respect of those losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time.

Taxation Overview

The taxation expense for the year ended 31 December 2014 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, EFL, CDO IV, Duncannon 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 Group's German subsidiary companies, Longwave and Shortwave, are subject to German corporate income tax ("CIT") plus Solidarity Surcharge and German trade tax (TT) on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the year ended 31 December 2014 includes a provision relating to these subsidiaries.

The Group's subsidiaries Turret, Mars, Zama, Tannenberg and Superstella are also subject to CIT on rental income net of interest and other expense deductions on an accruals basis.

The Group's subsidiaries Belfry and Truss are transparent entities for tax purposes. The partners are subject to CIT on rental income net of interest and other expense deductions on an accruals basis. Foreign corporations with rental income have to compute the taxable income on an accruals basis.

The Group's investment in the underlying properties in relation to the Drive portfolio and the Real Estate Fund Units is by way of units in an open-ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in these units before 30 September 2011. Due to an amendment of the tax law foreign corporations, partners of an open-ended real estate fund are now liable for CIT which will be held by the underlying fund.

The Group's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries.

The Group's Italian subsidiaries are not subject to Italian tax. The Group's investment in the Law 130 notes are also not subject to Italian tax.

8. GAINS / (LOSSES) ON FOREIGN CURRENCY CONTRACTS, TRANSLATION AND SWAPS

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Fair value movements in currency swaps[1]	(2,293)	(2,776)
Foreign currency translation gains on assets subject to currency swaps [1]	133	715
Total losses on currency swaps	**(2,160)**	**(2,061)**
Other currency gains	2,841	3,485
Total currency gains	**681**	**1,424**

[1] The foreign currency swaps are disclosed in note 20.

9. IMPAIRMENT LOSSES

	Year ended 31 December 2014 €'000	Year ended 31 December 2013 €'000
Impairment losses on loans and receivables	5,833	20,373
Impairment losses on real estate related loans	17,738	35,514
Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale	(3,134)	(1,353)
Total impairment losses	**20,437**	**54,534**

During the year ended 31 December 2014, the Group has recognised impairment losses on 14 securities (31 December 2013: 24 securities). As at 31 December 2014, 26 securities have recognised impairment losses (31 December 2013: 29 securities).

The carrying value of the impaired securities or loans as at 31 December 2014 after the impairment losses was €93.4 million (31 December 2013: €109.6 million).

10. CASH AND CASH EQUIVALENTS

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Corporate cash	96,875	139,086
Cash within Italian Investments	8,575	6,745
Cash within the real estate operating companies	30,924	43,255
Cash within the CDO vehicles	6,207	4,106
Cash and cash equivalents	142,581	193,192
Cash and cash equivalents classified as held for sale (note 31)	3,954	-
Total cash and cash equivalents	**146,535**	**193,192**

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

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

Cash within Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €2.3 million which is to be distributed to the minority interests (31 December 2013: €2.5 million).

11. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 31 December 2014:

			Gross unrealised			Weighted average			
	Current face amount €'000	Amortised cost base €'000	Gains €'000	Losses €'000	Carrying value €'000	Average rating (1)	Coupon %	Margin %	Maturity (years)
Other securities									
CMBS	5,779	1,005	-	(817)	188	D	2.54%	2.70%	-
Total portfolio	**5,779**	**1,005**	**-**	**(817)**	**188**	**D**	**2.54%**	**2.70%**	**-**

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

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

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

During the year, Portfolio IV sold its portfolio of asset backed securities available for sale for a total consideration of €22.5 million realising a loss of €0.4 million (31 December 2013: none).

12. FAIR VALUE INVESTMENTS - SHARES

The following is a summary of the Group's fair value investments - shares:

	2014 €'000
Balance as at 1 January	-
Acquired in the year	2,675
Fair value movements	(477)
Balance as at 31 December	**2,198**

The investment relates to 1,399,491 shares in Punch Taverns Plc that were obtained during the restructuring of the Punch Taverns note (previously recorded in Loans and Receivables). The note of £2.4 million was exchanged for listed shares in Punch Taverns PLC with a share price of £1.63 at the date of the transaction. The share price as at 31 December 2014 was £1.22.

13. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2014:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating (1)	Coupon % (2)	Margin %	Maturity (years)
Portfolio IV								
Real estate related loans	12,253	12,257	(2,790)	9,467	D	0.66%	2.30%	1.53
	12,253	12,257	(2,790)	9,467	D	0.66%	2.30%	1.53
Portfolio V (3)								
CMBS	151,801	131,503	(36,983)	94,520	CCC+	0.91%	2.04%	1.91
Other ABS	40,542	39,120	-	39,120	BB+	2.76%	1.94%	4.51
Real estate related loans	143,794	143,713	(89,951)	53,762	D	0.56%	2.37%	0.60
	336,137	314,336	(126,934)	187,402	CCC-	0.98%	2.17%	1.66
Other securities								
Real estate related loans	18,174	5,847	(3,040)	2,807	D	1.19%	2.47%	-
	18,174	5,847	(3,040)	2,807	D	1.19%	2.47%	-
Total portfolio	**366,564**	**332,440**	**(132,764)**	**199,676**	**CCC-**	**0.98%**	**2.19%**	**1.58**

As at 31 December 2013:

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

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

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

(3) The securities within Portfolio V are encumbered by CDO securitisations (note 24).

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

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

	At 1 July 2008 Carrying Value €'000	At 31 December 2014 Carrying Value €'000	At 31 December 2013 Carrying Value €'000	At 31 December 2014 Fair Value €'000	At 31 December 2013 Fair Value €'000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	78,180	115,328	59,107	78,996

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

If the reclassification had not been made, Eurocastle's income statement for 2014 would have included €3.7 million on the reclassified available-for-sale securities of impairment losses, compared with impairment reversals of €10.2 million after the reclassification. During 2014, shareholders' equity (net losses not recognised in the income statement) would have included €17.1 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 December 2014.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year:

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Net interest income	1,759	2,742
Impairment losses on securities classified as loans and receivables	10,163	11,079
Losses on available-for-sale securities reclassified to loans and receivables	**11,922**	**13,821**

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 2014, €3.1 million of unrealised fair value gains have been released to the income statement for impaired reclassified financial assets available-for-sale (31 December 2013: €1.4 million of losses). Additionally, €9.1 million (31 December 2013: €8.6 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by nil to reflect changes in the expected cash flows (31 December 2013: €0.5 million).

At 31 December 2014, the net unrealised loss on loans and receivables was €5.6 million (31 December 2013: €10.7 million).

The movement in the impairment losses is shown below:

	2014 €'000	2013 €'000
Balance as at 1 January	(136,537)	(114,775)
Reversals due to paydowns and sales in the year	28,720	30,681
Losses for the year	(40,898)	(55,943)
Reversals for the year	15,951	3,500
Balance at 31 December	**(132,764)**	**(136,537)**

14. FAIR VALUE INVESTMENTS

	Gross book value (1) €'000	Cost (1) €'000	Fair value €'000	No. of borrowers	Weighted average life (1) (years)	Effective rate (2) %
Non-performing loans						
Pool 1 (Ieffe)	3,279,865	3,945	177	5,476	1.06	162.7%
Pool 2 (Ieffe Due)	88,033	1,825	816	297	1.97	19.9%
Pool 3 (Ieffe Tre)	649,438	5,648	3,218	1,498	2.72	20.7%
Pool 4 (BAM)	12,422	203	39	19	3.17	-33.1%
Total non-performing loans	**4,029,758**	**11,621**	**4,250**	**7,290**	**1.95**	**40.6%**
Performing loans						
Pool 5 (Palazzo)	10,046	5,696	2,075	869	1.28	37.5%
Total performing loans	**10,046**	**5,696**	**2,075**	**869**	**1.28**	**37.5%**
Total portfolio	**4,039,804**	**17,317**	**6,325**	**8,159**	**1.75**	**39.6%**

As at 31 December 2013:

	Gross book value (1) €'000	Cost (1) €'000	Fair value €'000	No. of borrowers	Weighted average life (1) (years)	Effective rate (2) %
Non-performing loans						
Pool 1 (Ieffe)	3,279,865	3,945	2,324	5,476	1.78	81.8%
Pool 2 (Ieffe Due)	88,033	1,825	1,079	297	1.85	21.9.%
Pool 3 (Ieffe Tre)	649,438	5,648	4,038	1,498	2.21	25.1%
Pool 4 (BAM)	12,422	203	165	19	2.78	12.4%
Total non-performing loans	**4,029,758**	**11,621**	**7,606**	**7,290**	**1.80**	**41.5%**
Performing loans						
Pool 5 (Palazzo)	10,046	5,696	4,709	869	1.33	37.5%
Total performing loans	**10,046**	**5,696**	**4,709**	**869**	**1.33**	**37.5%**
Total portfolio	**4,039,804**	**17,317**	**12,315**	**8,159**	**1.88**	**38.0%**

(1) At the acquisition date

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

The movement in fair value investments is as follows:

	2014				
	Group	Minority interest	Pools 1-3 and 5	Pool 4	Total Portfolio
Balance as at 1 January	9,799	2,350	12,149	165	12,314
Cash received within portfolios	(6,524)	(1,565)	(8,089)	-	(8,089)
Increase in fair value	1,795	430	2,225	(125)	2,100
Balance as at 31 December	**5,070**	**1,215**	**6,285**	**40**	**6,325**

	2013				
	Group	Minority interest	Pools 1-3 and 5	Pool 4	Total Portfolio
Balance as at 1 January	-	-	-	-	-
Acquisition of portfolios	13,804	3,310	17,114	203	17,317
Cash received within portfolios	(8,109)	(1,943)	(10,052)	-	(10,052)
Increase in fair value	4,104	983	5,087	(38)	5,049
Balance as at 31 December	**9,799**	**2,350**	**12,149**	**165**	**12,314**

The total of cash distributions received from the fair value investments in 2014 is €5.0 million (31 December 2013: €6.8 million) of which €0.6 million has been paid to minorities (31 December 2013: €0.8 million).

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

The performing loan portfolio is secured by residential and commercial properties in Italy.

All portfolios are serviced by Italfondiario S.p.A. a related party to the Manager (refer note 35).

The minority interest in the fair value of the portfolios is €2.3 million (31 December 2013: €2.9 million) which includes distributions payable of €1.1 million (31 December 2013: €0.5 million).

The fair value of the investments is based on internal valuation models. The assumptions used in the models are based on cash flows (actual and projected) provided by the Servicer of the portfolios as per the latest business plan. The Servicer uses market knowledge and historical performance as a basis for the projections. These projections are reviewed and updated on a quarterly basis. The cashflows are discounted at the internal rate of return at the initial acquisition.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to €2.1 million (31 December 2013: €5.1 million) and are presented in the Group income statement in the line item "Fair value movements on Italian debt portfolio".

The major inputs to the external valuation process are verified by senior management who also assess the individual property valuation changes from the prior period valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

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

	Non-performing loans	**Performing loans**
Total projected cashflows (€'000)	5.4	1.9
Weighted average life (years)	1.7	1.3
Internal rate of return (%)	57.6%	37.5%

For the year ended 31 December 2013:

	Non-performing loans	**Performing loans**
Total projected cashflows (€'000)	9.5	4.5
Weighted average life (years)	2.0	1.3
Internal rate of return (%)	19.9%	17.1%

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of fair value investments:

	Non-performing loans €'000	**Performing loans €'000**	**Total €'000**
Fair value	4,250	2,075	6,325
Increase in internal rate of return by 25bps	4,230	2,071	6,301
Value sensitivity	**(20)**	**(4)**	**(24)**

For the year ended 31 December 2013:

	Non-performing loans €'000	**Performing loans €'000**	**Total €'000**
Fair value	7,606	4,709	12,315
Increase in internal rate of return by 25bps	7,570	4,699	12,269
Value sensitivity	**(36)**	**(10)**	**(46)**

15. INVESTMENT IN ASSOCIATES

On 9 June 2014, the Group acquired 25% of the membership interest in the first series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series I Fund") for a total consideration of €7.4 million (Pool 7). The Series 1 Fund acquired the Banca Monte dei Paschi di Siena non-performing loan portfolio on 27 June 2014. The Series I Fund made a second investment of €8.5 million on 23 December 2014 in a second non-performing loan portfolio from the same counterparty (Pool 10).

On 14 July 2014, the Group acquired 25% of the membership in the second series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series II Fund") for a total consideration of €0.3m (Pool 8). The Series II Fund acquired the non-performing portfolio of loans from three Italian local co-operative banks affiliated with ICCREA Group ("BCC") on 29 July 2014. The Series II Fund made a second investment of €0.2 million in a non-performing loan portfolio on 29 October 2015 (Pool 9) and a third investment of €0.5 million on 23 December 2014 in a further non-performing loan portfolio (Pool 11).

The investments into the Associate were made at the net asset value at the time of acquisition.

The following table summarises the financial information of the Associates as at 31 December 2014:

	Series 1 (Pools 7 and 10) €'000	Series 2 (Pools 8,9 and 11) €'000	Total €'000
Non-current assets	57,723	4,154	61,877
Current assets	989	99	1,088
Current liabilities	(227)	(15)	(242)
Net assets	**58,485**	**4,238**	**62,723**
Group's share of net assets	**14,621**	**1,060**	**15,681**

	Series 1 (Pools 7 and 10) €'000	Series 2 (Pools 8,9 and 11) €'000	Total €'000
Post tax for the period	2,240	87	2,327
Group's share of post tax profit	**560**	**22**	**582**

16. INVESTMENT IN JOINT VENTURE

On 22 July 2014, the Group entered into a limited partnership called CF Aula SCS ("Aula"). The Group acquired a 50% equity interest in the partnership for a total consideration of €12.6 million. The other partner is an affiliate of the Manager who also has a 50% equity interest. The partnership has acquired 100% of the units in Torre Real Estate Fund III Value Added – Sub fund A which is managed by another affiliate of the Manager.

The fund has invested in two office buildings in Rome that will be redeveloped into luxury residential properties for resale. The redevelopment program is expected to take place over approximately three years. The first property (Via Bertoloni) will involve the demolition of the existing office building. A new residential and retail building will be constructed. The units will be sold on an individual basis. The second office building (Via Bolzano) will be converted into residential units and also sold on an individual basis.

In December 2014, the Group contributed an additional €0.6 million into the Fund as part of the agreed CAPEX program.

	Aula €'000
Total cash consideration paid	13,225
Proportional share of net assets acquired	13,225

The following table summarises the financial information of the Joint Ventures as at 31 December 2014:

	BNL (Pool 6) €'000	Aula €'000	Total €'000
Fair value investments	4,480	26,450	30,930
Cash	194	-	194
Accruals	(158)	-	(158)
Net assets	**4,516**	**26,450**	**30,966**
Group's share of net assets	**2,258**	**13,225**	**15,483**

	BNL (Pool 6) €'000 €'000	Aula €'000	Total €'000
Post tax profit for period	942	-	942
Group's share of post tax profit	**471**	**-**	**471**

The movement in the investment ventures is as follows:

	2014 €'000	2013 €'000
1 January	2,173	-
Acquisition	13,225	2,633
Cash distributions received	(386)	(681)
Share of current year's profits	471	221
31 December	**15,483**	**2,173**

The amounts above represent the Group's 50% share of the entire assets, liabilities and net income of the joint venture. These are based on the accounts made up to 31 December 2014.

17. REAL ESTATE FUND UNITS

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("UIU") for a total consideration of €21.3 million. The acquisition price per unit was €1,787.50. The holding represents 7.46% of the total units issued by UIU with the purchase settled in cash. The units are listed on the Italian Stock Exchange. UIU has a maturity of 31 December 2017. The Group incurred transaction costs of €0.9 million in connection with the acquisition which was recorded through profit and loss.

The fair value of the investment is determined by the share price of UIU at the reporting date. As at 31 December 2014, the share price was €1,835.00. The movement in the investment is as follows:

	2014 €'000
Balance as at 1 January	-
Acquisition	21,323
Increase in fair value	567
Balance as at 31 December	**21,890**

18. DECONSOLIDATION OF SUBSIDIARY

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

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

The impact of the deconsolidation is as follows:

	Total €'000
Cash and cash equivalents	3,757
Other assets	4,645
Investment property	399,540
Total assets	**407,942**
Trade and other payables	(10,413)
Current taxation payable	(161)
Bank borrowings	(371,291)
Total liabilities	**(381,865)**
Net loss on deconsolidation	**26,077**

19. OTHER ASSETS

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Tenant incentives and leasing commissions	4,775	5,598
Service charge receivable	3,639	3,766
Proceeds receivable from the disposal of investment properties	2,772	15,284
Interest receivable	577	848
Rent receivable	924	1,654
Prepaid expenses	468	517
Other accounts receivable	4,936	5,229
Total other assets	**18,091**	**32,896**

Service charge and rent receivables are net of a provision for doubtful debts of €2.8 million (31 December 2013: €4.6 million).

All the other assets are expected to mature in less than one year.

20. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Foreign currency swaps [(1)] - Pound Sterling	8,291	10,584
Total derivative assets	**8,291**	**10,584**

Derivative Liabilities

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Foreign currency swaps [(1)] - Swiss Franc	-	3,258
Interest rate swaps	-	2,039
Total derivative liabilities	**-**	**5,297**

(1) The foreign currency swap contract contains a Pound Sterling and Swiss Franc leg which is underwritten by individual positions in either currency. The facility does not allow the set-off of individual positions against each other. As such, the separate currency legs are disclosed on a gross basis.

Derivative Assets and Liabilities

Derivative assets and liabilities represent the fair value of interest rate swaps and foreign currency swaps. Interest rate swaps, which were used to hedge the Group's interest rate exposures, represent cash flow hedges and fair value hedges. The Wave cash flow hedge and the fair value hedges were deemed effective for hedge accounting purposes prior to the maturity of the derivative in April 2014.

Foreign Currency Swaps

During 2007, a subsidiary entered into a series of foreign currency swaps with a major investment bank to cover the foreign exchange risk in relation to its Pound Sterling / Swiss Franc denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling and / or Swiss Franc interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and with regards to interest Euribor plus a spread. The fair value loss of €2.3 million (31 December 2013: €2.8 million) is recorded in the income statement (refer to note 8).

Interest Rate Swaps
Please refer to note 29 for details of the swap.

21. INVESTMENT PROPERTY

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Investment property held for sale	217,418	94,402
Investment property held as a disposal group for sale (note 31)	278,445	-
Investment property	603,026	1,628,104
Total investment property net of tenant incentives and leasing commissions	1,098,889	1,722,506
Tenant incentives and leasing commissions (included in other assets - note 19 and note 31)	5,026	5,598
Total investment property	**1,103,915**	**1,728,104**

As at 31 December 2014, the investment property held for sale is financed by approximately €171.9 million of bank borrowings (31 December 2013: approximately €86.6 million). During the year ended 31 December 2014, the Group has sold 30 (31 December 2013: 33) properties for €169.6 million (31 December 2013: €270.7 million) versus a carrying value of €176.8 million (31 December 2013: €268.3 million).

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions included within other assets) as at 31 December 2014:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2014	1,653,775	74,329	1,728,104
Capital expenditures	12,254	-	12,254
Tenant incentives and leasing commissions	(1,694)	-	(1,694)
Free rent	652	-	652
Disposals	(159,618)	(10,000)	(169,618)
Deconsolidation of the Bridge Portfolio (prior to fair value movements)	(399,303)	-	(399,303)
Increase in minimum payments under head lease	-	219	219
Decrease in fair value	(67,407)	708	(66,699)
Balance at 31 December 2014	**1,038,659**	**65,256**	**1,103,915**

As at 31 December 2013:

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

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of investment being valued. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only rely on historical transactional comparisons. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, relettability 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.

These techniques are consistent with the principles in IFRS 13 - *Fair Value Measurement* and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to €66.7 million (31 December 2013: €44.8 million) and are presented in the Group income statement in the line item "Decrease in fair value of investment properties".

The major inputs to the external valuation process are verified by senior management who also assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The external valuers hold meetings with the Auditor to discuss the valuation process and outcome at each year end. The total fees, including the fee for the assignment earned by valuer from the Group is less than 5.0% of the total rental income.

Investment properties held for sale are stated at fair value, and are those properties that have been notarised for sale as at 31 December 2014. The gain or loss on the sale of investment property is reported in the fair value movements in the income statement.

Included within the carrying value of investment property is £1.8 million in respect of rent free periods granted to tenants. This balance arises as a result of the IFRS treatment of leases with rent free periods, which requires the recognition of rental income on a straight line basis over the expected term of the lease, with the difference between this and cash receipts changing the carrying value of the property against which revaluations are measured.

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

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Investment property at market value	1,080,634	1,705,042
Minimum payments under head leases separately included in liabilities on the balance sheet	23,281	23,062
Total investment property	1,103,915	1,728,104
Investment property held as a disposal group for sale (refer note 31)	(284,892)	-
Balance sheet carrying value of investment property	**819,023**	**1,728,104**

The significant assumptions made relating to the valuations are set out below which include those portfolios classified as disposal groups (refer note 31):

Year ending 31 December 2014	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	11.40	8.75	10.02
Market rent per sqm per month (€)	13.31	8.72	10.92
Average net initial yield	5.3%	7.1%	3.0%
Vacancy rate	34.7%	6.5%	22.5%

Year ending 31 December 2013	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	10.61	8.13	9.69
Market rent per sqm per month (€)	13.12	8.51	11.40
Average net initial yield	5.6%	6.8%	2.9%
Vacancy rate	27.3%	3.8%	20.1%

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 21 investment properties are built have unexpired terms ranging from 7 years to 85 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 year in respect of contingent rental is €0.5 million (31 December 2013: €1.0 million).

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2014 €'000	Present value 31 December 2014 €'000	Total value 31 December 2013 €'000	Present value 31 December 2013 €'000
Under 1 year	1,035	1,011	1,058	1,030
From 2 to 5 years	4,399	3,916	4,452	3,897
More than 5 years	42,887	18,354	47,316	18,135
Total	**48,321**	**23,281**	**52,826**	**23,062**

The carrying value of investment properties held under finance leases is approximately €42.0 million (31 December 2013: €50.5 million) and includes €6.2 million in relation to assets held in disposal groups (refer note 31).

Sensitivity analysis

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

2014 (€'million)	**Office**	**Retail**	**Total**
Market value	666	415	1,081
Increase in yield of 25 bps	540	402	942
Value sensitivity	**(126)**	**(13)**	**(139)**

2013 (€'million)	**Office**	**Retail**	**Total**
Market value	1,271	434	1,705
Increase in yield of 25 bps	1,107	407	1,514
Value sensitivity	**(164)**	**(27)**	**(191)**

Additional information

The table below provides additional information for various portfolios within the Group at 31 December 2014:

Portfolio	Property valuation (1) €'000	Term financing (face amount) €'000	Other (liabilities)/ assets (2) €'000	Net assets / (liabilities) (3) €'000	Net operating income (NOI) (4) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures / (accrual releases) (5) €'000
Drive	418,769	388,726	(19,916)	10,127	17,190	4.1%	52.8%	1,900
Wave	110,145	68,200	(17,196)	24,749	7,264	6.6%	74.4%	1,125
Mars Fixed 2	59,500	45,541	1,109	15,068	2,393	4.0%	74.8%	4,200
Truss	87,900	83,580	297	4,617	6,744	7.7%	94.9%	284
Belfry	52,420	53,544	1,910	786	3,846	7.3%	85.7%	(4)
Zama	28,700	25,868	1,351	4,183	2,155	7.5%	95.2%	351
Total portfolio excluding Mars Floating and classified as held for sale	**757,434**	**665,459**	**(32,445)**	**59,530**	**39,592**	**5.7%**	**68.9%**	**7,856**
Mars Floating (6)	50,700	97,746	471	(46,575)	2,959	5.8%	56.8%	2,034
Sub-total	**808,134**	**763,205**	**(31,974)**	**12,955**	**42,551**	**5.7%**	**68.2%**	**9,890**
Classified as held for sale (refer note 31)	272,500	254,373	1,370	19,495	20,156	7.4%	94.8%	666
Total portfolio	**1,080,634**	**1,017,578**	**(30,604)**	**32,450**	**62,707**	**5.8%**	**75.1%**	**10,556**

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

Portfolio	Property valuation (1) €'000	Term financing (face amount) €'000	Other (liabilities)/ assets (2) €'000	Net assets / (liabilities) (3) €'000	Net operating income (NOI) (4) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures / (accrual releases) (5) €'000
Drive	497,209	450,732	(18,680)	40,024	18,925	3.8%	57.9%	10,112
Wave	145,597	131,494	(14,010)	25,215	9,031	6.2%	78.4%	905
Turret	170,005	147,556	(2,467)	23,149	12,879	7.6%	96.2%	432
Mars Fixed 2	89,290	71,603	1,997	19,654	4,685	5.2%	92.1%	1,844
Truss	92,700	84,430	(1,946)	8,345	6,825	7.4%	92.9%	51
Tannenberg	58,520	54,500	(3,260)	5,666	4,205	7.2%	90.7%	18
Belfry	57,320	54,092	1,016	4,423	3,868	6.7%	86.7%	199
Superstella	55,140	52,960	240	1,582	4,027	7.3%	100.0%	(2)
Zama	44,590	39,896	272	4,926	3,303	7.4%	95.2%	13
Total portfolio excluding Bridge and Mars Floating	**1,210,371**	**1,087,263**	**(36,838)**	**132,984**	**67,748**	**5.6%**	**78.7%**	**13,572**
Bridge	399,539	372,090	1,957	28,628	25,578	6.4%	98.4%	1,024
Mars Floating (6)	95,132	126,704	1,349	(30,236)	4,324	4.5%	59.7%	1,902
Total portfolio	**1,705,042**	**1,586,057**	**(33,532)**	**131,376**	**97,650**	**5.7%**	**79.9%**	**16,498**

(1) Property valuation excludes the leasehold gross-ups of €23.3 million (31 December 2013: €23.1 million) of which €6.1 million relates to assets in disposal groups.

(2) Other assets / liabilities do not include unallocated assets and liabilities per note 36 and include cash.

(3) Net assets / (liabilities) exclude holding companies within the real estate structure with net liabilities of €0.2 million (31 December 2013: €0.1 million)

(4) Net operating income is after deducting €0.5 million (31 December 2013: €2.2 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.

(5) Capitalised expenditures represent actual expenditure for the year.

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

The financing arrangements on all portfolios additionally require the sale of investment properties to achieve minimum release price thresholds before lenders will release security over the assets being sold. This release pricing varies from portfolio to portfolio. Release pricing in excess of current values will hinder the ability of the Group to sell certain assets without specific lender waivers.

As at the end of 2014, there were 29 vacant properties with a carrying value of €78.8 million and annual operating costs of €0.7 million. The corresponding figures as at 31 December 2013 was 27 properties with a carrying value of €58.8 million and annual operating costs of €0.5 million.

22. INTANGIBLE ASSETS

	2014 €'000	2013 €'000
Cost		
Balance at 1 January	4,106	4,106
Acquisitions	6	-
Balance at 31 December	**4,112**	**4,106**
Amortisation		
Balance at 1 January	(4,064)	(3,982)
Charge in the year	(33)	(82)
Balance at 31 December	**(4,097)**	**(4,064)**
Carrying amount		
Balance at 1 January	42	124
Balance at 31 December	**15**	**42**

Intangible assets represent capitalised computer costs and are amortised over a period of 5 years.

23. FIXTURE AND FITTINGS

	2014 €'000	2013 €'000
Cost		
Balance at 1 January	494	494
Balance at 31 December	**494**	**494**
Depreciation		
Balance at 1 January	(490)	(439)
Charge in the year	(4)	(51)
Balance at 31 December	**(494)**	**(490)**
Carrying amount		
Balance at 1 January	4	55
Balance at 31 December	**-**	**4**

24. CDO BONDS PAYABLE

As at 31 December 2014:

	Class	Rating [1]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years) [2]
Duncannon	A, B, C1, C2, D1, D2, D3, E1, E2	B/CC C/C/ C/C/C/ C/C	194,572	194,248	1.54%	0.92%	2.9
Total			**194,572**	**194,248**	**1.54%**	**0.92%**	**2.9**

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

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

In 2006, Duncannon acquired a number of asset-backed securities that were later financed by the issuance of limited recourse notes. The obligation to the external note holders has been recorded as a financial liability in the balance sheet as CDO bonds payable. The carrying value of the financial assets and associated note liabilities as at 31 December 2014 was €197.9 million and €194.2 million (31 December 2013: €308.2 million and €299.9 million) respectively, with a net position of €3.6 million (31 December 2013: €8.3 million). Refer to note 11,13 and 20 for the financial asset disclosures.

The fair value of the financial assets and associated note liabilities as at 31 December 2014 was €138.2 million and €114.7 million (31 December 2013: €192.9 million and €165.3 million) respectively, with a net position of €23.5 million (31 December 2013: €27.6 million). Refer to note 32 for the fair value disclosures.

Eurocastle Funding Limited purchased €4.0 million of Duncannon Class C1 notes at a price of 51% of nominal resulting in a gain to the Group of €2.0 million. The Group did not repurchase any of the Duncannon bonds payable in 2013.

As at 31 December 2013:

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

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

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

25. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2014 €'000	As at 31 December 2013 €'000
Term financing	(note 25.1)	757,916	1,561,858
Loans and notes relating to the Mars Portfolios	(note 25.2)	-	-
Total		**757,916**	**1,561,858**

25.1 Term Financing

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month raised**	**As at 31 December 2014**	**As at 31 December 2013**	**As at 31 December 2014 (1)**	**As at 31 December 2013 (1)**	**Weighted average effective rate of financing**	**Weighted average funding cash coupon**	**Maturity**
Debt Investments								
CDO IV (2)	Jul 2005	-	4,260	-	4,260	-	-	-
Investment Property								
Drive - Senior (3)	Feb 2006	80,259	142,265	78,958	141,980	4.53%	3.18%	Jan 2016
Drive - Junior	Feb 2006	308,467	308,467	306,380	307,540	3.57%	3.09%	Jan 2016
Wave	Apr 2007	68,200	106,759	66,651	106,715	4.01%	2.53%	May 2016
Truss (4)	Dec 2005	83,580	84,430	83,479	84,241	4.93%	4.85%	Feb 2016
Mars Fixed 2	Jun 2008	45,541	71,603	45,451	70,993	2.93%	2.58%	June 2015
Belfry (4)	Aug 2005	53,544	54,092	53,458	53,901	4.87%	4.66%	Oct 2015
Zama	Feb 2007	25,868	39,896	25,793	39,856	2.60%	1.91%	May 2015
Total investment property excluding Bridge, Mars Floating and portfolios held for sale		**665,459**	**807,512**	**660,170**	**805,226**	**3.93%**	**3.31%**	
Bridge (6)	Oct 2006	-	372,090	-	372,058	-	-	-
Mars Floating (5)	Jan 2007	97,746	126,704	97,746	126,704	1.80%	1.80%	Mar 2015
Total investment property		**763,205**	**1,306,306**	**757,916**	**1,303,988**	**3.65%**	**3.12%**	
Total term financing		**763,205**	**1,310,566**	**757,916**	**1,308,248**	**3.65%**	**3.12%**	
Term financing held in disposal group (refer note 31)		254,373	255,016	253,560	253,610	4.05%	3.99%	
Adjustment for costs of Mars refinancing (7)				-	-			
Net total term financing		**1,017,578**	**1,565,582**	**1,011,476**	**1,561,858**	**3.75%**	**3.34%**	

(1) The carrying value is net of disposal proceeds received at year-end and applied at the next interest payment date

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

(3) The Drive Senior and Zama loans reflect contractual repayments made in January 2015 following asset sales that were closed as of December 2014.

(4) These portfolios make up the Retail portfolios.

(5) The maturity date reflects the latest roll-over status of the facility

(6) The Bridge portfolio has been disclosed separately as the portfolio was deconsolidated in January 2014 (refer note 18).

(7) 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 (refer note 25.2). The amortised credit for the year ended 31 December 2014 was €nil (31 December 2013: €nil). The cost of refinancing has been fully amortised.

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.

Debt Investments

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank and the facility is secured over, inter alia, the collateral making up the portfolio. The facility has been restructured on a number of occasions with the latest agreement completed in December 2011. The final maturity date of the facility was December 2014. In January 2014, further principal proceeds were received (refer note 11) and the remaining debt was repaid in full.

Investment Property

In order to finance the investment property portfolios, the Group entered into loan facilities as described in the table in note 25.1. These facilities are secured in the customary manner for German real estate lending granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly. All facilities are non-recourse to the Company.

In April 2014, the Senior loan of the Drive portfolio was refinanced by the lending syndicate of the Junior facility to a maturity date of 15 January 2016 with interim amortisation targets of €70.0 million in January 2015 and €35.0 million in July 2015. The Junior loan was also extended in parallel at in-place terms to the same final maturity date.

As long as the Senior loan is performing, sale fees equivalent to 3.5% of gross sales proceeds will continue to be paid to the Group with €1.2 million released to the Company in April and a further €1.1 million in July. The January 2015 amortisation was not met due to delays in the asset sale process. Subsequent to year-end (refer note 38), asset sales have occurred which will allow the Group to meet the April 2015 amortisation target and release sales fees totalling €2.8 million to the Group.

In April 2014, the Group agreed a short term extension of the Wave As part of the terms of the extension, the loan was repaid by €38.7 million in 2014, reducing the outstanding balance to €68.2 million (equivalent to a loan to value of 60% on the remaining assets). Of the €38.7 million repaid, €29.0 million was generated from the sale of four assets. The remaining amount of €9.7 million was paid using available cash within the Group, of which €6.1 million came from corporate cash and €3.6 million from cash reserves held within the Wave portfolio. This facility was refinanced in November 2014 with an 18 month facility. Pricing on the facility was improved with interest set at Euribor plus a margin of 2.5%. There is a step-up to 3.0% after six months and 3.5% after twelve months. The portfolio is currently being marketed for sale and disclosed as such in the investment property note.

In January 2014, the Group secured an amendment to the Mars Floating facility extending the December 2013 maturity for a further six months to 30 June 2014. The facility has been subject to short term standstill agreements following this date. The Group continues to benefit from running asset management and sales fees, receiving €0.9 million. The two remaining two assets as at 31 December 2014 are under binding contracts to be sold in the first half of 2015 for a total sales price of €50.7 million. As with all of the Group's real estate financings, the debt is non-recourse to Eurocastle.

Following the maturity of the Zama portfolio facility in May 2014, two assets have been sold repaying the outstanding balance by €14.0 million. The remaining loan of €25.9 million has been extended to May 2015. The maturity date of the facility date will automatically roll to May 2016 once certain asset management targets in relation to lease renewals are met.

The Tannenberg portfolio loan originally due to mature in October 2014 was extended to facilitate the disposal of the portfolio which was completed in March 2015. Please refer to note 31 for details of the disposal.

On 15 January 2014, the Bridge facility reached its maturity. The outstanding loan balance of €372.1 million had not been repaid and the Group was unable to negotiate an extension. As such, following the distribution of €2.6 million of cash in January 2014, the Lender foreclosed on this portfolio leaving the Group no further material interest in the portfolio. Please refer to note 18 for further details. The Group received final fees comprising of €0.2 million during 2014 in respect of work completed post the foreclosure.

25.2 Loans and notes relating to Mars Portfolio

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Within Mars Floating Portfolio		
Loan notes and Shareholder Loans	238,485	312,516
Less: Remeasurement adjustment to amortised cost	(284,497)	(342,280)
Adjusted amortised cost	(46,012)	(29,764)
Transfer of 50% of the adjusted amortised cost to the lender	**-**	**-**

In consideration of the extension of the Mars Floating facility, the Group agreed to transfer to the Mars Floating lender half of its equity investment in the combined Mars portfolios. This transfer was legally effected on 27 May 2009 and comprised the transfer of Loan Notes and Shareholder's Loans relating to the lender's financing of the portfolios. The terms and conditions of the loan notes and shareholder loans provide that the holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying investment properties. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. As at 31 December 2014, no receivable has been recorded for the shortfall of the NAV below zero.

26. TRADE AND OTHER PAYABLES

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Security deposit	3,497	3,978
Interest payable	27,661	24,791
Due to Manager (refer note 35)	1,874	2,139
Capital expenditure accruals	15,690	4,676
Accrued expenses and other payables	28,301	47,763
Total trade and other payables	**77,023**	**83,347**

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

27. LOSS PER SHARE

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

Diluted earnings per share is calculated by dividing net loss available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the year. The share options and convertible securities are not dilutive as the Group is in a loss position. Therefore, the basic earnings per share and dilutive earnings per share are the same in the current year and in the prior year.

The Group's potential ordinary shares during the year were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements (refer note 33).

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

	As at 31 December 2014	**As at 31 December 2013**
Weighted average number of ordinary shares	32,634,105	26,506,716
Dilutive effect of ordinary share options	-	74,895
Weighted average number of ordinary shares - dilutive	**32,634,105**	**26,581,611**

28. SHARE CAPITAL AND RESERVES

As at 31 December 2014, there were 32,635,502 shares (31 December 2013: 32,632,502) issued and outstanding.

The movement in issued share capital is shown as follows:

	Number of shares
Balance at 1 January 2013	127,425,780
€168,722,000 of convertible securities issued on 12 April 2013	3,398,474,717
Share consolidation in the ratio of 200:1 on 8 May 2013	(3,508,270,995)
Issued on 30 May 2013 at a price of €7.25	15,000,000
Issued to the Directors per their in-place compensation arrangements on 1 October 2013 for €nil consideration	3,000
Balance at 31 December 2013	**32,632,502**
Issued to the Directors per their in-place compensation arrangements on 20 June 2014 for €nil consideration	3,000
Balance at 31 December 2014	**32,635,502**

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 June 2005, January 2006, December 2006 and May 2013 (refer note 33).

Hedging reserves
Hedging reserves represent cumulative unrealised losses on hedge instruments with respect to the investment property finance (refer note 29).

Net unrealised loss on available-for-sale securities and loans and receivables
The reserve represents the remaining unrealised losses on reclassified loans and receivables and unrealised gains and losses on available-for-sale securities (refer notes 13 and 11).

29. 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.

For the year ended 31 December 2014, unrealised losses on hedge instruments were €1.4 million (31 December 2013: €4.5 million). The unrealised gains comprise the gain in value of the novated swaps of €0.6 million (31 December 2013: €1.6 million) and the fair value loss of the interest rate swaps of €2.0 million (31 December 2013: €6.3 million).

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

Novated swaps

The novated swaps represent derivatives initially used as cash flow hedges that were subsequently novated to the lending banks. The remaining amount of the cash flow hedge in the reserves is amortised over the remaining life of the loan. The details of the carrying value of swaps novated to lending banks in conjunction with the loans are as follows:

Portfolio	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Drive	-	141
Bridge	-	20
Superstella [(1)]	442	596
Tannenberg [(1)]	-	135
Turret [(1)]	115	200
Zama	-	17
Truss	31	59
Total	**588**	**1,168**

(1) These portfolios have been classified as available for sale; refer note 31.

The details of interest rate swaps entered into by the Group in respect of certain term financing agreements are as follows:

Cash flow hedges

The Wave financing facility matured in April 2014 and has subsequently been refinanced (refer note 25.1). The cashflow hedge matured at the same time resulting in the realisation through the consolidated statement of comprehensive income of the interest rate derivative liability with a fair value of €2.0 million at 31 December 2013.

31 December 2013	Wave
Nominal amount (€'000)	106,759
Pay rate	4.03%
Receive rate	3 month Euribor
Remaining life (years)	0.3
Fair value of swaps (€'000)	(2,039)

30. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	As at 31 December 2014 €'000	As at 31 December 2013 €'000
Convertible securities issued	-	99,750
Accrued interest	-	83,441
Capitalised issue costs	-	(1,200)
Convertible securities converted into ordinary shares - prior periods	-	(13,269)
Convertible securities converted into ordinary shares - current year	-	(168,722)
Total	**-**	**-**

On 25 June 2009, the Company issued €75 million of perpetual subordinated convertible securities (net of transaction costs of €1.2 million) on the following terms:

- The convertible securities were issued at par and will be entitled to a coupon of 20 per cent, payable annually in arrears. Interest may accrue and is capable of being paid in shares at the conversion price upon conversion. The Company does not currently expect to pay interest on its convertible securities.
- The convertible securities are perpetual but the Company may redeem the securities after 2 years at a premium of 20 per cent.
- The securities will be convertible into shares at the holder's option at a conversion price per ordinary share of €0.30.
- The securities have a minimum denomination of €50,000, are unlisted but can be transferred.
- The interest accrued for the relevant period does not vest until after 30 June of that 12 month period.

In 2013, the Company obtained approval from the holders of its convertible securities to lower the conversion price from €0.30 to €0.05 per share in exchange for, inter alia, the right for the Company to require a conversion of all outstanding convertible securities. Conditional upon such conversion, the Company reached agreement with the Manager to rebase the fees under its Management Agreement (refer note 35). On 12 April 2013, the Company converted all outstanding convertible securities to ordinary shares with the effect that the share count was increased by 3,398,474,717 shares on 19 April 2013 resulting in the adjusted fully diluted NAV per share reducing from €0.46 to €0.09 or €92.00 and €18.00 after the share consolidation.

31. ASSETS AND LIABILITIES IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In December 2014, the Group signed a heads of terms to disposal of the Superstella, Tannenberg and Turret portfolios. The disposal closed on 11 March 2015 with the Company realising €25.0 million in net asset value to the Group. The assets and liabilities of these portfolios have been classified as held for sale in the consolidated statement of financial position.

	Superstella €'000	Tannenberg €'000	Turret €'000	As at 31 December 2014 €'000
Cash and cash equivalents	757	804	2,393	3,954
Other assets [(1)]	59	100	502	661
Investment property	58,383	52,378	167,684	278,445
Assets held for sale	**59,199**	**53,282**	**170,579**	**283,060**
Trade and other payables	597	317	2,272	3,186
Current taxation payable	-	-	267	267
Bank borrowings	53,979	52,317	147,264	253,560
Finance lease payable	-	3,150	3,046	6,196
Deferred taxation liability	-	-	356	356
Liabilities held for sale	**54,576**	**55,784**	**153,205**	**263,565**

(1) Included in other assets are tenant incentives and leasing commissions of €0.3 million.

The following tables provide additional information for various portfolios within the Group at 31 December 2014:

Portfolio	Property valuation €'000	Term financing (face amount) €'000	Other (liabilities)/ assets €'000	Net assets / (liabilities) €'000	Net operating income (NOI) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures / (accrual releases) €'000
Turret	164,887	147,556	44	17,374	12,186	7.4%	95.3%	558
Superstella	58,383	54,500	741	4,623	3,967	6.8%	100.0%	81
Tannenberg	49,230	52,317	585	(2,502)	4,003	8.1%	89.3%	27
Total	**272,500**	**254,373**	**1,370**	**19,495**	**20,156**	**7.40%**	**94.8%**	**666**

Term financing:

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month raised**	**As at 31 December 2014**	**As at 31 December 2013**	**As at 31 December 2014 [1]**	**As at 31 December 2013 [1]**	**Hedged weighted average funding cost**	**Weighted average funding cash coupon**	**Maturity**
Turret	May 2006	147,556	147,556	147,264	147,076	4.93%	4.85%	May 2016
Superstella	Aug 2007	54,500	54,500	53,979	53,798	4.96%	4.91%	Nov 2017
Tannenberg [1]	May 2007	52,317	52,960	52,317	52,736	0.61%	0.61%	Mar 2015
Total		**254,373**	**255,016**	**253,560**	**253,610**	**4.05%**	**3.99%**	

(1) The financing of the portfolio is under a short-term standstill in anticipation of the closing of the sale process.

The table below represents the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 31 December 2014:

Type	**Total outstanding at 31 December 2014 €'000**	**Within 1 year €'000**	**1 to 5 years €'000**	**Over 5 years €'000**
Assets				
Cash and cash equivalents	3,954	3,954	-	-
Total assets	**3,954**	**3,954**	**-**	**-**
Liabilities				
Interest payable [1]	1,477	10,299	17,700	-
Bank borrowings	253,560	52,317	201,243	-
Finance leases payable	6,196	288	1,075	4,833
Total liabilities	**261,233**	**62,904**	**220,018**	**4,833**

Maturities and mandatory amortisation by current face:

Portfolio (€ million)	**2015**	**2016**	**2017**	**Total**
Superstella	-	-	54.5	54.5
Tannenberg	52.3	-	-	52.3
Turret	-	147.6	-	147.6
Total	**52.3**	**147.6**	**54.5**	**254.4**

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

Please refer to note 21 for the fair value disclosure with respect to investment property

32. FINANCIAL INSTRUMENTS

Risk Management

This section provides details of the Group's exposure to risk and describes the methods used by the Group to control risk. The most important types of financial risk to which the Group is exposed are market, credit, liquidity, interest rate and foreign currency risk.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to support the business and to maximise shareholder value.

The Group recognises the effect on shareholder returns of the level of equity capital employed within the Group and seeks to manage its capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

In order to maintain an adequate capital structure in current uncertain market conditions, the Group considers strategies such as refinancing existing loan facilities, raising capital and asset sales to reduce outstanding loan balances. Capital management is under the constant scrutiny of the Board. Please refer to notes 28 and 30 for the changes to the capital structure.

At 31 December 2014, the Group had net equity of €208.7 million (31 December 2013: €327.0 million) and a leverage ratio of 85.4% (31 December 2013: 85.2%). The increase in the ratio from 2013 is primarily as a result of the reduction in fair values of the investments properties and impairments of the debt investment securities.

Market Risk

The Group's real estate investment assets are located in Germany and therefore, the performance of such assets depends on the strength of the German economy and other factors affecting German real estate values. A decline in the German economy or the commercial property market may have an immediate effect on the net income of the properties and could lead to higher rates of delinquency or defaults under leases. The Group is also subject to general property market risks including, among other things, fluctuations in rental levels and property yields. These risks are assessed by the Group at the point of acquisition and are then monitored on an ongoing basis. In addition, external third party valuations of the Group's real estate assets are obtained during each financial year. These appraisals take current market developments into consideration.

The Group recognises that the significant deterioration in economic conditions on the back of the global credit crisis continues to have adversely impacted the property valuations. This has affected and may continue to affect the Group's ability to dispose of assets or the level of proceeds received in relation to any such disposals. Due to the current market conditions and the nature of the assets in which the Group has invested, sale of assets by the Group could result in significantly lower proceeds than the carrying value of those assets in the consolidated financial statements included herein. Also, due to the nature of the Group's assets, asset sales may not be effected swiftly enough to avoid default of the Group's existing financings. The Group also recognises that the economic situation may result in a lower leasing or renewals volume or in a reduction in rents as a result of tenant defaults. In addition, the Group's top five tenants accounted for 59.4% of its passing rental income for the Year ended 31 December 2014 (31 December 2013: 59.0%) after excluding Mars Floating and Bridge. Loss of any one of these tenants could have a significant impact on the Group's performance.

The Group's available-for-sale securities are predominantly floating rate and as such are valued based on a market credit spread over Euribor, Libor and CHF benchmarks for Euro and non-Euro denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

At 31 December 2014, a 100 basis point increase / (decrease) in credit spreads would increase / (decrease) net equity by €nil (31 December 2013: €0.7 million) due to the carrying value of the portfolio being recognised at zero.

The Group's securities that were reclassified as Loans and Receivables (refer note 13) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financings.

Interest Rate Risk

The Group's primary interest rate exposures relate to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate swaps. In the event of a significant rising interest rate environment and/or economic downturn, mortgage and loan defaults may increase and result in credit losses. Interest rates are highly sensitive to many factors, including governmental monetary and political conditions, and other factors beyond the Group's control.

Currently, the Group has financed the Retail real estate portfolios with fixed rate loans excluding Tannenberg. Changes in interest rates affect the break costs incurred to unwind the financing arrangements and thus affect the gain or loss on disposal of the group's real estate assets and also may affect the Group's ability to sell assets should the net proceeds be insufficient to repay their allocated liability.

Based on the Group's primary interest rate exposure to floating rate financial assets held and financial liabilities due held at 31 December 2014, including the effect of hedging instruments, a 100 basis point increase / decrease in interest rates would increase / (decrease) earnings by approximately €0.4 million per annum (31 December 2013: €0.9 million per annum). The impact on equity due to the cash flow hedging would be an increase / (decrease) of approximately €nil (31 December 2013: €0.1 million) as the facility matured in April 2014.

Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets. Increasing interest rates would decrease the value of the fixed rate assets because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market. At 31 December 2014, a 100 basis point change in interest rates would impact the net equity by €nil (31 December 2013: €1.2 million) as all such bonds have been repaid.

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposure relates to its non-Euro denominated portfolio of securities and loans. Changes in the currency exchange rates can adversely impact the fair values and earnings streams of the Group's non-Euro denominated assets and liabilities. In the past, the Group has mitigated this impact through a combination of non-Euro denominated financing; the use of balance guaranteed hedging; and rolling forward foreign exchange contracts to hedge its net non-Euro equity investment.

Recognising the liquidity risk and related margin requirements associated with entering into forward foreign exchange contracts and the increased uncertainty as to the future cash flows from, and value of, its equity investments in the debt portfolio, the Group stopped hedging its net non-Euro equity investments from the beginning of 2009.

No sensitivity analysis is presented for foreign exchange risk, as the impact of reasonably possible market movements on the Group's revenue and equity are not significant. The Group currently match-funds its debt investment portfolios, meaning that any non-Euro denominated debt investments are funded by financings in the same currency, therefore eliminating any material foreign currency exposure.

Credit Risk

The Group is subject to credit risk in its real estate business, primarily in relation to its underlying tenants. The Group is also subject to credit risk with respect of its debt investment business (including its investments in Italian loans) by virtue of the risk of delinquency, foreclosure, speed of foreclosure proceedings and loss on the loans underpinning the securities in which the Group invests.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes including, among other things, structural features that divert such payments to those classes when the delinquency of the pool exceeds certain levels. The securities do benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction but if such support is exhausted, in the event of default, the Group may not be able to recover all of its investment in the securities purchased. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group minimises credit risk by assessing the creditworthiness of its larger tenants and its securities portfolio and the underlying credit quality of its holdings and where appropriate, repositioning such investments to upgrade the credit quality and yield on the investments.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. At 31 December 2014, the Group's securities, which serve as collateral for its CDO financing and other borrowings, had an overall weighted average credit rating of approximately CCC- (31 December 2013: CCC).

The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case.

The maximum credit risk exposure in respect of debt investments as at 31 December 2014 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €0.2 billion (31 December 2013: €0.3 billion).

Excluding the Company's Italian loan investments, the Group's loans and receivables, available-for-sale securities and real estate loans portfolios were split between countries within Europe as follows:

	31 December 2014			31 December 2013		
	Number of securities / loans	**Face value €'000**	**Location split %**	**Number of securities / loans**	**Face value €'000**	**Location split %**
United Kingdom	10	100,045	24.4%	15	117,550	25.9%
Italy	4	51,894	9.8%	6	92,558	10.3%
Germany	11	78,422	26.8%	18	137,255	31.0%
Pan-European	11	105,343	26.8%	11	124,192	19.0%
France	4	27,289	9.8%	5	37,289	8.6%
Other	1	9,350	2.4%	3	28,320	5.2%
Total	**41**	**372,343**	**100.0%**	**58**	**537,164**	**100.0%**

The Group's hedging and trading transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case.

Liquidity risk

The Group's ability to carry on its business for the long-term depends to a significant degree on the Group's ability to generate sufficient revenue to meet its general corporate expenses.

Eurocastle's liquidity is primarily generated by cash flows from asset sales with respect to its real estate portfolios and distributions from Italian Investments.

Since the repayment in full by Eurocastle of its two corporate loan facilities in December 2010, debt service costs at the Eurocastle level have been eliminated. All portfolio-level financing is non-recourse to Eurocastle. Cash received at the Eurocastle level is therefore for Eurocastle's corporate purposes. Following the full conversion of the Convertible Securities in 2013, no interest or principal remains outstanding.

The Group expects to meet its long-term liquidity requirements, especially in relation to its term financing maturities through negotiated extensions of its term debt, the refinancing of its term debt and asset sales at or before maturity. However, although the Group has historically been able to obtain and renegotiate many of its financings on acceptable terms, there can be no assurance that future financing and / or renegotiation of existing terms will be available or, if it is, that it will be available on terms that the Group considers acceptable. In particular, should the current difficult financial market conditions persist, the Group may have difficulty in renewing, extending or refinancing its existing facilities in the future.

The Group's debt investments are generally financed long-term, with 93.9% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored.

The Group's investment property portfolio has a number of non-recourse financing facilities which are due to reach maturity within the next twelve months at which time, the outstanding balance of the financings will become due and payable unless such financings can be extended. If proceeds from the sale of the assets which secure the relevant portfolio financing do not equal or exceed the amount outstanding under the relevant portfolio financing, the Group would be unable to repay the outstanding balance of the relevant portfolio financing when it becomes due and payable.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 31 December 2014:

Type	Total outstanding at 31 December 2014 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	142,581	142,581	-	-
Interest receivable [(1)]	577	3,059	5,230	-
Asset backed securities, available-for-sale	188	188	-	
Fair value investments - listed shares	2,198	2,198	-	-
Loans and receivables (includes cash to be invested)	199,676	26,290	147,067	26,319
Fair value investments	6,325	2,654	3,370	301
Real estate fund units	21,890	-	21,890	-
Derivative assets	8,291	1,715	5,370	1,206
Total assets	**381,726**	**178,685**	**182,927**	**27,826**
Liabilities				
Interest payable [(1)]	27,661	19,907	3,846	-
CDO bonds payable	194,248	-	-	194,248
Bank borrowings	757,916	607,786	150,130	-
Finance leases payable [(2)]	17,085	723	2,841	13,521
Total liabilities	**996,910**	**628,416**	**156,817**	**207,769**

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

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

Gross settled derivatives	Total outstanding at 31 December 2014 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(52,127)	(11,127)	(33,272)	(7,728)
Contractual amounts receivable	60,418	12,842	38,641	8,935
Total undiscounted gross settled derivatives outflow	**8,291**	**1,715**	**5,369**	**1,207**

Maturities and mandatory amortisation (current face)

Portfolio (€ million)	2015	2016	Total
Non recourse			
Drive Senior [(1)]	-	80.3	80.3
Drive Junior [(1)]	-	308.5	308.5
Wave		68.2	68.2
Truss	0.9	82.7	83.6
Mars Fixed 2	45.5	-	45.5
Belfry	53.5	-	53.5
Zama [(1)]	-	25.9	25.9
Real estate portfolio excluding Mars Floating	**99.9**	**565.6**	**665.5**
Mars Floating	97.7	-	97.7
Real estate portfolio	**197.6**	**565.6**	**763.2**

(1) The Drive and Zama loan reflect contractual repayments made in January 2015 following asset sales that were closed as of December 2014.

As at 31 December 2013:

Type	Total outstanding at 31 December 2013 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	193,192	193,192	-	-
Interest receivable [(1)]	848	5,588	11,822	1,901
Asset backed securities, available-for-sale	26,879	4,734	21,015	1,130
Loans and receivables (includes cash to be invested)	316,650	71,584	185,988	59,078
Fair value investments	12,315	3,841	8,468	6
Derivative assets	10,584	23	5,369	5,192
Total assets	**560,468**	**278,962**	**232,662**	**67,307**
Liabilities				
Interest payable [(1)]	24,791	36,814	23,701	-
Derivative liabilities	5,297	5,297	-	-
CDO bonds payable	299,912	-	-	299,912
Bank borrowings	1,561,858	1,223,904	337,954	-
Finance leases payable [(2)]	23,062	1,030	3,897	18,135
Total liabilities	**1,914,920**	**1,267,045**	**365,552**	**318,047**

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

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

Gross settled derivatives

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

Fair values of financial assets and financial liabilities

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

	As at 31 December 2014 Carrying value €'000	As at 31 December 2013 Carrying value €'000	As at 31 December 2014 Fair value €'000	As at 31 December 2013 Fair value €'000
Financial assets				
Cash and cash equivalents	142,581	193,192	142,581	193,192
Asset backed securities, available-for-sale	188	26,879	188	26,879
Fair value investments - listed shares	2,198	-	2,198	-
Loans and receivables (includes cash to be invested)	199,676	316,650	128,863	192,919
Fair value investments	6,325	12,315	6,325	12,315
Real estate fund units	21,890	-	21,890	-
Derivative assets	8,291	10,584	8,291	10,584
Financial liabilities				
CDO bonds payable	194,248	299,912	114,684	165,276
Bank borrowings	757,916	1,561,858	779,178	1,631,341
Finance lease payable	17,085	23,062	17,085	23,062
Derivative liabilities	-	5,297	-	5,297

The fair value of loans and receivables is based on market prices of the underlying positions at the balance sheet date (level 1)

The fair value of CDO Borrowings is based on the latest market prices obtained from financial institutions (level 2)

The fair value of bank borrowings is based on the adjustment of facilities with novated swaps such that they are presented at the underlying fixed rate (level 2).

Fair value hierarchy

The following table shows an analysis of the fair value of financial instruments recognised in the balance sheet by level of hierarchy (refer next page for definitions):

31 December 2014:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale (refer note 11)	188	-	-	188
Fair value investments - listed shares	2,198	-	-	2,198
Fair value investments (refer note 14)	-	-	6,325	6,325
Real estate fund units	21,890	-	-	21,890
Derivative assets (refer note 20)	-	8,291	-	8,291

31 December 2013:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale (refer note 11)	26,879	-	-	26,879
Fair value investments (refer note 14)	-	-	12,315	12,315
Derivative assets (refer note 20)	-	10,584	-	10,584
Financial liabilities				
Derivative liabilities (refer note 20)	-	5,297	-	5,297

Explanation of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Use of a model with inputs (other than quoted prices included in Level 1) that are directly and indirectly observable market data.
- Level 3: Use of a model with inputs that are not based on observable market data.

The following table shows reconciliation for the Level 3 fair value measurements:

	2014	**2013**
	€'000	**€'000**
As at 1 January	12,315	46,098
Total losses recognised in the income statement in interest income	-	(19,219)
Reclassification of Asset back securities, available for sale to Level 1	-	(26,879)
Cash received from fair value investments	(8,090)	-
Fair value movement in year	2,100	-
Fair value investments acquired in the year	-	12,315
As at 31 December	**6,325**	**12,315**

33. SHARE OPTION PLAN

In June 2004, following the IPO, the Manager was granted 660,000 options at an exercise price of €12 per share. The fair value of the additional options at the date of grant was €0.2 million and was also calculated by reference to an option pricing model. In June 2005, following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of €17.25 per share. The fair value of the additional options at the date of grant was €0.6 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. These options lapsed as at 31 December 2014.

In January 2006, following the third public offering, the Manager was granted 1,282,300 options at €30.00 per share and, pursuant to December 2005 Board action, an additional 857,142 options at an exercise price of €18.00 per share. The fair value of the additional options at the date of grant was €2.1 million and €4.8 million, respectively. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group in respect of the public and private offerings that preceded the Drive acquisition. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In December 2006, following the fourth public offering, the Manager was granted an additional 1,783,748 options at €37.00 per share. The fair value of the additional options at the date of grant was €9.4 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

On 8 May 2013, the Company completed a 200:1 share consolidation. The number of options and exercise price of the share options issued prior to 2013 were restated for this consolidation. In May 2013, the Manager was granted an additional 1,500,000 options at €7.25 per share which represents 10% of the ordinary shares issued by the Group at this time. The options granted to the Manager remain fully vested on the date of the grant and expire ten years from the date of issuance.

The fair value at the date of grant of options granted to the Manager has been offset against the proceeds from issuance of ordinary shares as the grant of options is a cost of capital.

The weighted average fair value of the options at date of grant was determined using a trinomial model. The significant inputs into the model were the weighted average share price at the grant date (€7.30) , the exercise price (€7.25), volatility (32.0%) , expected option life (10 years), historic dividend yield (2.0%) and a risk free rate. The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share price since the date of the initial public offering of Eurocastle Investment Limited.

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

Date of grant	Options outstanding at 1 January 2014	Options lapsed	Options remaining at 31 December 2014	Fair value at grant date €'000	Exercise price €	Date of expiration
23 Jun 2004	3,003	(3,003)	-	-	2,400.00	23 Jun 2014
24 Jun 2005	2,521	-	2,521	620	3,450.00	24 Jun 2015
27 Jan 2006	3,956	-	3,956	4,800	3,600.00	27 Jan 2016
27 Jan 2006	6,101	-	6,101	2,100	6,000.00	27 Jan 2016
1 Dec 2006	8,829	-	8,829	9,400	7,400.00	1 Dec 2016
30 May 2013	1,500,000	-	1,500,000	4,968	7.25	30 May 2023
Total	**1,524,410**	**(3,003)**	**1,521,407**	**21,888**		

34. DIVIDENDS PAID AND DECLARED

The following dividends were declared and paid for the year ended 31 December 2014 (31 December 2013: €8.2 million):

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
1 April 2014	7 April 2014	9 April 2014	30 April 2014	€ 0.125	4,079
20 June 2014	30 June 2014	2 July 2014	31 July 2014	€ 0.125	4,079
25 September 2014	1 October 2014	3 October 2014	31 October 2014	€ 0.125	4,079
18 December 2014	29 December 2014	30 December 2014	30 January 2015	€ 0.125	4,079
Total					**16,316**

35. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Group and the Manager, incentive compensation (as outlined below) will continue to be payable to the Manager post termination. Pursuant to the Management Agreement, the Manager, under the supervision of the Group's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, Eurocastle will pay the Manager an annual fee (payable monthly in arrear) of 1.5% of the gross equity of the Group, as described in the Management Agreement.

With effect from 28 February 2013, an amendment agreement between the Group and Manager was entered into in relation to the original agreement described above. The agreed amendments took effect on 12 April 2013 to (i) reduce the amount payable by Eurocastle to Fortress as annual management fee by resetting the capital base upon which such fee is calculated from an amount equal to aggregate equity proceeds raised to €300 million plus an amount equal to the proceeds of any future issue of equity share capital; and (ii) similarly reset the capital base upon which Fortress's entitlement to incentive compensation is calculated; in both cases, in respect of the period commencing 1 April 2013. As at 31 December 2014, the amount on which the fee is based is €403.8 million. Following the year end, the agreement was amended further (refer note 38).

The Management Agreement provides that Eurocastle will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Group's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Group by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the consolidated income statement.

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

The Manager is deemed to be the key employee for reporting purposes. The total compensation recharged to the Company is €5.0 million (31 December 2013: €5.7 million).

FFO is used to compute the Company's incentive compensation to the Manager. FFO, for these purposes, represents net income (computed in accordance with International Financial Reporting Standards), excluding changes in fair value of investment properties net of attributable deferred taxation, changes in fair value of interest rate swaps that are taken to the income statement, unrealised movements on currency swaps (net of translation gains/losses of related assets), and accounting losses on investments made with non-recourse financing to the extent they exceed the net amount invested, but including realised gains or losses on the sale of investment properties.

At 31 December 2014, management fees, incentive fees and expense reimbursements of approximately €1.9 million (refer note 26) (31 December 2013: €2.1 million) were due to the Manager. For the year ended 31 December 2014 management fees of €6.1 million (refer note 6) (31 December 2013: €9.7 million), no incentive fees (31 December 2013: €nil), and expense reimbursements of €5.7 million (31 December 2013: €5.4 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.1 million (31 December 2013: €0.1 million) payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondario S.p.A. ("Italfondario") which is majority owned by Fortress Investment Group LLC funds and affiliates. The terms of the agreements have been approved by the Independent Directors. Italfondario will provide portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the year was €2.8 million (31 December 2013: €1.9 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 December 2014.

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

The Group purchased a minority interest in the UIU real-estate fund (refer note 17). The fund is managed by Torre SGR S.p.A which is majority owned by an affiliate of the Manager.

The Group's joint venture investment in Aula (refer note 16) is managed by Torre S.p.A which is majority owned by an affiliate of the Manager. The total fee expense for the year is €0.1 million, of which €0.1 million is outstanding at 31 December 2014.

The Group's investment in the MPS and BCC portfolios (refer note 15) was through a shared interest in a fund which is managed by an affiliate of the Manager. The total fee expense for the year is €0.1 million which is set-off against the Group Management Fee payable to the Manager.

36. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group is organised into three business units and conducts business through three primary segments: debt investments (relating to the Irish entities that it consolidates under IFRS 10), German investment properties and Italian investments. The debt investments consist of investments in European real estate related debt. The investment properties segment includes investing in, financing and management of high-quality German commercial properties. The Italian Investments are currently made up of non-performing and performing loan portfolios.

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.

The Italian investments segment derives its income from loan collections and distributions from real estate fund units.

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.

The major tenants of the Group (including all portfolios) whose rental income exceed 10% of the Groups total rental income are (2013 on a like-for-like basis):

	31 December 2014		31 December 2013	
	Passing rent €'000	% of total portfolio	Passing rent €'000	% of total portfolio
Commerzbank AG	19,004	24.3%	19,827	24.7%
EDEKA	10,268	13.1%	10,255	12.8%

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

Year ended 31 December 2014	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Mars Floating and Non-controlling interest €'000	Total Eurocastle €'000
Revenue [1]	8,308	93,469	45	83	101,905	8,217	110,122
Impairment losses	(20,437)	-	-	-	(20,437)	-	(20,437)
Other operating income / (loss)	4,668	(78,247)	3,701	(561)	(70,439)	(14,528)	(84,967)
Total operating income	**(7,461)**	**15,222**	**3,746**	**(478)**	**11,029**	**(6,311)**	**4,718**
Interest expense	(5,160)	(44,067)	(5)	-	(49,232)	(2,292)	(51,524)
Other operating expense	(837)	(40,679)	(967)	(13,613)	(56,096)	(6,823)	(62,919)
Total operating expenses	**(5,997)**	**(84,746)**	**(972)**	**(13,613)**	**(105,328)**	**(9,115)**	**(114,443)**
Net operating (loss) / profit	**(13,458)**	**(69,524)**	**2,774**	**(14,091)**	**(94,299)**	**(15,426)**	**(109,725)**
Taxation (credit) / expense	(1)	829	(21)	-	807	48	855
Net (loss) / income after taxation	**(13,459)**	**(68,695)**	**2,753**	**(14,091)**	**(93,492)**	**(15,378)**	**(108,870)**
Minority interest	-	-	-	-	-	(430)	(430)
Net (loss) / income	**(13,459)**	**(68,695)**	**2,753**	**(14,091)**	**(93,492)**	**(15,808)**	**(109,300)**
Decrease / (increase) in fair values	-	50,296	2,965	(18)	53,243	15,125	68,368
Realised losses / (gains) on sale	-	1,580	-	-	1,580	(12,729)	(11,149)
Deferred tax	-	(2,173)	-	-	(2,173)	-	(2,173)
Funds from operations	**(13,459)**	**(18,992)**	**5,718**	**(14,109)**	**(40,842)**	**(13,412)**	**(54,254)**
Net realised losses on investment property sales	-	4,929	-	-	4,929	13,208	18,137
Realised losses on paydown and sales	(3,024)	-	-	-	(3,024)	-	(3,024)
Fair value adjustment on real estate fund units	-	-	2,115	-	2,115	-	2,115
Loss on deconsolidation	-	26,077	-	-	26,077	-	26,077
Impairment losses on debt	20,437	-	-	-	20,437	-	20,437
Other	(1,259)	-	827	578	146	-	146
Normalised funds from operations	**2,695**	**12,014**	**8,660**	**(13,531)**	**9,838**	**(204)**	**9,634**

(1) Included within revenue income is interest income of €8.3 million within the debt investment segment and €0.1 million within the investment properties segment.

Year ended 31 December 2013	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Bridge, Mars Floating and Non-controlling interests €'000	Total Eurocastle €'000
Revenue [1]	14,419	113,673	5	32	128,129	42,364	170,493
Impairment losses	(54,534)	-	-	-	(54,534)	-	(54,534)
Other operating income / (loss)	1,535	(22,346)	4,285	(115)	(16,641)	(21,427)	(38,068)
Total operating income	**(38,580)**	**91,327**	**4,290**	**(83)**	**56,954**	**20,937**	**77,891**
Interest expense	(5,278)	(46,721)	(1)	-	(52,000)	(20,820)	(72,820)
Other operating expenses	(1,968)	(58,848)	(44)	(16,226)	(77,086)	(14,568)	(91,654)
Total operating expenses	**(7,246)**	**(105,569)**	**(45)**	**(16,226)**	**(129,086)**	**(35,388)**	**(164,474)**
Net operating (loss) / profit	**(45,826)**	**(14,242)**	**4,245**	**(16,309)**	**(72,132)**	**(14,451)**	**(86,583)**
Taxation (credit) / expense	(3)	611	(9)	-	599	101	700
Net (loss) / income after taxation	**(45,829)**	**(13,631)**	**4,236**	**(16,309)**	**(71,533)**	**(14,350)**	**(85,883)**
Minority interest	-	-	-	-	-	(983)	(983)
Net (loss) / income	**(45,829)**	**(13,631)**	**4,236**	**(16,309)**	**(71,533)**	**(15,333)**	**(86,866)**
Decrease / (increase) in fair values	4	25,733	(2,205)	-	23,532	21,869	45,401
Realised gains on sale	-	-	-	-	-	-	-
Deferred tax	-	890	-	-	890	-	890
Funds from operations	**(45,825)**	**12,992**	**2,031**	**(16,309)**	**(47,111)**	**6,536**	**(40,575)**
Net realised losses on investment property sales	-	2,488	-	-	2,488	829	3,317
Impairment losses on debt	54,534	-	-	-	54,534	-	54,534
Other	(1,539)	571	-	115	(853)	-	(853)
Normalised funds from operations	**7,170**	**16,051**	**2,031**	**(16,194)**	**9,058**	**7,365**	**16,423**

(1) Included within revenue income is interest income of €12.7 million within the debt investment segment and €0.1 million within the investment properties segment.

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

Normalised FFO is a non-IFRS financial measure used to provide investors with additional information regarding the underlying performance of the Group and its ability to service debt and make capital expenditure. This measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements, and accounting adjustments related to the Mars refinancing. On the Company's new investments income is recognised on an effective yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns.

Segmental Balance Sheet:

As at 31 December 2014	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Mars Floating and Non-controlling interests €'000	Total Eurocastle €'000
Total assets	217,247	1,096,961	67,940	97,005	1,479,153	54,772	1,533,925
Total liabilities	(194,774)	(1,006,808)	(2,798)	(8,421)	(1,212,801)	(101,350)	(1,314,151)
Segment net assets / (liabilities)	**22,473**	**90,153**	**65,142**	**88,584**	**266,352**	**(46,578)**	**219,774**
Tax liabilities	-	(11,090)	-	-	(11,090)	-	(11,090)
Non-controlling interest	(2)	(4)	-	-	(6)	(2,315)	(2,321)
Net assets / (liabilities)	**22,471**	**79,059**	**65,142**	**88,584**	**255,256**	**(48,893)**	**206,363**

Included in the amount above; is the following balances in relation to the assets held in disposal groups for sale (refer note 31):

As at 31 December 2014	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Mars Floating and Non-controlling interests €'000	Total Eurocastle €'000
Net assets/(liabilities)	-	19,495	-	-	19,495	48	19,543
Total	**-**	**19,495**	**-**	**-**	**19,495**	**48**	**19,543**

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

Segmental Cashflows:

As at 31 December 2014	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Mars Floating and Non-controlling interests €'000	Total Eurocastle €'000
Cashflows from operating activities	9,138	20,633	(944)	(14,091)	14,736	3,175	17,911
Cashflows from investing activities	135,719	95,236	(44,910)	-	186,045	57,713	243,758
Cashflows from financing activities	(106,614)	(130,111)	(952)	(16,316)	(253,993)	(54,333)	(308,326)
Net increase / (decrease) in cash and cash equivalents	**38,243**	**(14,242)**	**(46,806)**	**(30,407)**	**(53,212)**	**6,555**	**(46,657)**

As at 31 December 2013	European Real Estate Debt €'000	German Commercial Real Estate €'000	Italian Investments €'000	Unallocated €'000	Total Adjusted Eurocastle €'000	Mars Floating and Non-controlling interests €'000	Total Eurocastle €'000
Cashflows from operating activities	12,604	16,413	(43)	(17,073)	11,901	7,328	19,229
Cashflows from investing activities	59,929	231,701	(5,910)	-	285,720	22,454	308,174
Cashflows from financing activities	(56,235)	(316,122)	(1,458)	103,844	(269,971)	(26,480)	(296,451)
Net increase / (decrease) in cash and cash equivalents	**16,298**	**(68,008)**	**(7,411)**	**86,771**	**27,650**	**3,302**	**30,952**

37. INVESTMENT IN SUBIDIARIES

The legal entity group structure of the Group is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework.

The significant operating subsidiaries, in which the Group owns directly or indirectly a 100% equity interest (unless otherwise stated), are listed by jurisdiction below:

Luxembourg:
Turret Lux Participation S.à r.l
Zama (Windhoek) S.à r.l
Superstella S.à r.l
Tannenberg S.à r.l
Mars PropCo 2-39 S.à r.l
(23 real estate holding companies numbered 2, 4 - 5, 7, 9 - 24, 33, 38 - 39)
Drive S.à r.l
Italy Investment S.à r.l

Italy:
FMIL S.r.l
Palazzo Finance S.r.l. (Group holding of 80.66%)
SPV Ieffe S.r.l. (Group holding of 80.66%)
SPV Ieffe Due S.r.l. (Group holding of 80.66%)
SPV Ieffe Tre S.r.l. (Group holding of 80.66%)

Germany:
ECTGPROP1 (formerly known as Dresdner Grund-Fonds)
Shortwave Acquisition GmbH
Longwave Acquisition GmbH
Belfry GmbH & Co.KG
Truss GmbH & Co.KG

Additionally the Group has investments in Eurocastle Funding Limited, CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC.

Following the restructuring of the Mars Floating finance facility during 2009, the Mars Floating lender has acquired a 50% interest in the Mars Floating portfolio. The Mars Fixed 1 portfolio was restructured and deconsolidated in the second quarter of 2011. The remaining equity interest was sold in 2012.

38. SUBSEQUENT EVENTS

In February 2015, together with Fortress affiliates, the Company reached an agreement with UniCredit to acquire a portfolio of Italian NPLs with gross book value (“GBV”) of €2.4 billion along with UniCredit Credit Management Bank S.p.A. (“UCCMB”). The opportunity also includes a servicing contract on €34.1 billion GBV on existing NPLs and a contract to service all UniCredit’s future NPLs with balances below €1 million generated in the next 10 years. The acquisition is expected to result in an investment by Eurocastle of approximately €200 million after assumed financing.

On 12 February 2015, the Group has agreed to sell the Superstella, Tannenberg and Turret portfolios to a private investor. The portfolios consist of 107 retail properties totalling approximately 229,000 square meters located throughout Germany The gross sale price is €286.0 million which will be used to repay the existing debt of three portfolios. The transaction closed on 11 March 2015 and realised a net gain of €25.0 million to the Company. Refer note 31.

Following the year-end, the Group received a capital distribution from its investment in UIU (refer note 17) totalling €8.9 million or 40% of the amount invested.

Following the year-end, the Group has completed 5,109 sqm of new leases and 2,171 sqm of renewals. A further 9,288 sqm of new leases and 35,900 sqm of renewals are currently under negotiation. These amounts exclude the Mars Floating portfolio.

The Group has sold a further 2 properties subsequent to year-end of €58.4 million generating no cash after repayment of asset level financings. These sales include a Drive asset which will generate a sales fee to the Group in June 2015 (refer note 25.1). The Group has also entered into binding agreements to sell a further 8 properties for estimated total sale proceeds of €96.2 million. Once completed, these properties are expected to generate €0.1 million of cash after repayment of asset level financings and fees.

In March 2015, in line with the Company’s strategy and the related metric, Eurocastle’s board of Directors reached an agreement with the Manager to amend the terms of its Management Agreement with effect from 1 January 2015. These amendments include (i) resetting the capital base upon which the management fee is calculated from the current amount of €404 million to the Company’s adjusted NAV reported quarterly, (ii) reducing the fee upon which the management fee is paid from 1.5% to 0.75% on the share of adjusted NAV relating to net corporate cash, and (iii) resetting the base upon which the Manager’s entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in its New Investments and calculated against the Normalised FFO for New Investments after allocated corporate costs.

39. COMMITMENTS

As at 31 December 2014, the Company has entered into a letter of comfort for a term of fifteen months with respect to an asset sale in its subsidiaries. The letter of comfort relates to warranties and documentation regarding the sold asset. The maximum exposure at the reporting date is €6.0 million.

The Company has entered into an investment agreement with an asset manager relating to an investment of approximately €11.3 million in fund units issued by a closed-ended Italian real estate fund. This investment is anticipated to occur following the collapse of a structured debt vehicle which currently owns the units. While the Company expects that the vehicle will be collapsed in the course of 2015, the investment agreement provides a put and call option to the parties in relation to the debt issued by the vehicle all of which is currently held by the asset manager, in case the anticipated collapse does not occur. The options initially expired on 31 January 2015 and were extended to 30 June 2015. They are expected to be extended to accommodate a longer timeline for the collapse of the vehicle, if required.