

# BUSINESS AND FINANCIAL REVIEW

## FINANCIAL HIGHLIGHTS

### ◆ Normalised FFO

- €2.3 million, or €0.04 per share, for the second quarter of 2015.
- €6.6 million or €0.14 per share for the first half of 2015.
- Before costs, New Investments alone generated €3.7 million of Normalised FFO for the second quarter, resulting in a return on average net invested capital<sup>1</sup> of 26%.

### ◆ Adjusted Net Asset Value<sup>2</sup>

- €543.3 million, or €7.50 per share, a decline of €11.5 million or €0.16 per share from the first quarter.

### ◆ Second Quarter 2015 Dividend of €9.0 million, or €0.125 per share paid in July 2015.

	Q2 2015		Q1 2015		H1 2015		H1 2014	
	€ million	€ per share	€ million	€ per share	€ million	€ per share	€ million	€ per share
Normalised FFO	2.3	0.04	4.3	0.13	6.6	0.14	3.0	0.09
Legacy Cash Flow Received	3.8	0.06	29.3	0.40	33.1	0.46	30.9	0.95
Adjusted NAV <sup>2</sup>	543.3	7.50	554.8	7.66	543.3	7.50	293.6	9.00

## BUSINESS HIGHLIGHTS FOR THE SECOND QUARTER OF 2015

- ◆ **Capital Raising** - On 29 April 2015, the Company successfully completed an equity offering raising gross proceeds of €312.1 million through the issuance of 39.8 million shares at a price of €7.85 per share. Net proceeds of the offer were approximately €304.5 million or €7.66 per share and will be used by the Company to pursue new investment opportunities in the Italian debt and real estate markets in line with the Company's investment strategy.
- ◆ **New Investment Performance** – Realised €5.3 million of cash flow. Cash flows for the first half of 2015 total €15.9 million, €8.4 million ahead of expectations.
- ◆ **Legacy Business Realisations** – In addition to the €29.3 million generated from sales in the first quarter of 2015, Eurocastle received a further €3.8 million of cash flows primarily through sales fees in Drive. Further expected proceeds of €22 million to €24 million were secured after the Company agreed to sell the Wave portfolio in April 2015:
  - The majority of the assets sold from Wave closed in July, repaying its financing in full and generating approximately €26 million of the €30 million of expected net proceeds to the Company (before historic taxes in the range of €6 million to €8 million).

<sup>1</sup>Time weighted average of investments made (net of any capital returned) over the relevant period.

<sup>2</sup>Adjusted NAV excludes the negative net asset value of the Mars Floating and Drive portfolios as outlined on page 8.

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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](http://www.eurocastleinv.com).

## STRATEGY

Alongside realising value from its Legacy Business, comprised of German commercial real estate and other debt investments, Eurocastle’s strategy 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.

In line with its investment strategy, Eurocastle’s current portfolio is divided into three segments; (i) New Investments comprising all those investments made since the Company’s new strategy was established in April 2013, (ii) Net Corporate Cash, and (iii) Legacy Investments comprising German commercial real estate and European real estate related debt . The table below shows the segmental assets:

	Assets € million	Adjusted NAV € million	Adjusted NAV € per share
New Investments	317.1	317.1	4.38
Net Corporate Cash	185.4	185.4	2.56
Legacy Business	421.4	40.8	0.56
<b>TOTAL</b>	<b>923.9</b>	<b>543.3</b>	<b>7.50</b>

## NEW INVESTMENTS:

Separate to the UCCMB investment, in the period up to 30 June 2015 Eurocastle had invested or committed €86.1 million in its New Investments at an average targeted gross yield of 18%. After adjusting for €34.5 million of cash returned, the current portfolio has a remaining value of €67.1 million and comprises (i) 10 pools of Italian NPLs and one performing loan valued at €22.6 million, (ii) an interest of €37.4 million in three Italian real estate funds, and (iii) €7.1 million of other investments in a distressed bond.

	Number of Portfolios	Equity Invested € million	Equity Committed € million	Total Equity € million	Cash flows Realised € million	Adjusted NAV € million	Adjusted NAV € per share
NPL	11	33.3	-	33.3	22.3	22.6	0.31
Real Estate Funds	3	37.6	11.3	48.9	12.2	37.4	0.52
Other Investments <sup>1</sup>	1	3.9	-	3.9	0.0	7.1	0.10
<b>TOTAL before UCCMB</b>	<b>15</b>	<b>74.8</b>	<b>11.3</b>	<b>86.1</b>	<b>34.5</b>	<b>67.1</b>	<b>0.93</b>
UCCMB	2	-	250.0	250.0	-	250.0	3.45
<b>TOTAL</b>	<b>17</b>	<b>74.8</b>	<b>261.3</b>	<b>336.1</b>	<b>34.5</b>	<b>317.1</b>	<b>4.38</b>

<sup>1</sup> NAV represents an investment in €24 million face value of a distressed bond financed by a repurchase agreement.

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## UCCMB:

In February 2015, Eurocastle announced an expected investment in a portfolio of 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 gross book value (“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 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 subject to regulatory approval by the Bank of Italy and is expected to close in the third quarter of 2015.

## ITALIAN NPLs:

Since May 2013, the Company has invested approximately €33.3 million in one performing and ten non-performing loan pools with a combined GBV of €6.1 billion. To date, these investments have generated €22.3 million of cash flow or 67% of the amount invested, of which €2.1 million was generated in the first half of 2015.

Details of all portfolios acquired up to 30 June 2015, can be found in the table below:

	<b>Pools 1 to 5</b>	<b>Pool 6</b>	<b>Pool 7</b>	<b>Pools 8,9,11</b>	<b>Pool 10</b>	<b>TOTAL</b>
Investment Date	May-13	Jul-13	May-13	Jul 14-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)	16.2	1.5	3.2	0.3	1.1	22.3
NAV (€ million) <sup>1</sup>	5.3	1.7	6.2	1.1	8.3	22.6
NAV (€ per share)	0.05	0.02	0.05	0.01	0.07	0.20
Eurocastle Ownership	81%	50%	25%	25%	25%	62%
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%

<sup>1</sup> NAV includes €2.2 million relating to cash flows realised to date but not yet distributed.

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## ITALIAN REAL ESTATE FUNDS:

In 2014, Eurocastle made its first investments in this asset type, investing or committing €48.9 million in three separate real estate funds.

	Investment Date	Equity Invested € million	Equity Committed € million	Total Equity € million	Cash flows Realised € million	Adjusted NAV <sup>1</sup> € million	Adjusted NAV € per share	Eurocastle Ownership
Fund Investment I	Mar-14	22.2	-	22.2	8.9	13.9	0.19	7%
Fund Investment II	Jul-14	15.4	-	15.4	3.3	12.2	0.17	49%
Fund Investment III	Unfunded	-	11.3	11.3	-	11.3	0.16	50%
<b>TOTAL</b>		<b>37.6</b>	<b>11.3</b>	<b>48.9</b>	<b>12.2</b>	<b>37.4</b>	<b>0.52</b>	<b>30%</b>

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 consisted of 14 mixed use properties with a market value of €490 million<sup>2</sup>. 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.

In the first quarter of 2015, 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 31 July 2015, and after the first quarter distribution of €750 per unit, the price per unit was €1,155 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 30 June 2015, the Company had invested €15.4 million into the fund. 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 April 2015, Eurocastle received €3.3 million from this investment.

In September 2014, the Group entered into a joint venture agreement with an asset manager, committing an additional €11.3 million in another Italian fund at an estimated discount to its NAV of 51%. The fund consists of real estate assets leased on a long term basis to a prime tenant. The Company expects to complete the transaction within the third quarter of 2015.

<sup>1</sup> Adjusted NAV reflects €11.3m of commitments reallocated from Net Corporate Cash to New Investments in the Group's reported segmental Adjusted NAV as outlined on page 8.

<sup>2</sup> As of 31 December 2014.

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## LEGACY BUSINESS:

Eurocastle continues to make steady progress on realising value from its legacy German commercial real estate and other debt investments. As at 30 June 2015, after realising €33.1 million in the year primarily from sales, and excluding the Wave portfolio which the Company has agreed to sell for additional net proceeds of €22 million – €24 million, the Legacy Business had a remaining Adjusted NAV of €40.8 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	4	3	7
Assets (€ million)	242.6	178.8	421.4
Liabilities (€ million)	(218.5)	(162.1)	(380.6)
<i>Adjusted NAV (€ million)<sup>1</sup></i>	<b>24.1</b>	<b>16.7</b>	<b>40.8</b>
<i>Adjusted NAV (€ per share)</i>	0.33	0.23	0.56
<b>H1 2015 CFs (€ million)</b>	<b>28.2</b>	<b>4.9</b>	<b>33.1</b>

## GERMAN COMMERCIAL REAL ESTATE:

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 flows both through net proceeds from asset sales (after costs and repayment of financing) and through sales fees.

During the first half of 2015, Eurocastle made significant progress in realising value from these portfolios receiving €28.2 million of which €25.3 million was generated in the first quarter. The majority of these proceeds were received from the sale of three of its retail portfolios; Superstella, Tannenberg and Turret. In the second quarter, €2.9 million of cash flow was distributed primarily from the release of sales fees accrued in the Drive portfolio following a number of asset sales that closed earlier in the year. These included the sale of a large vacant asset in March for approximately €58 million generating approximately €2 million in sales fees alone. Since this distribution, Eurocastle has sold or agreed to sell another 29 assets in Drive for a total consideration of €76.9 million which would realise a further €2.7 million in sales fees to Eurocastle.

Following the revaluation of its properties as at 30 June 2015, the market value of the assets in the Drive portfolio now falls below its liabilities. Given the non-recourse nature of its financing, and as with Mars Floating, the Group no longer includes the NAV of Drive within its reported adjusted NAV. Any further sales fees received by Eurocastle would therefore increase the Group's adjusted NAV.

Since the end of the second quarter, Eurocastle has made further significant realisations. Having reached an agreement to sell the Wave portfolio in April 2015, proceeds from 39 of the 44 assets were received in July resulting in i) the repayment of all Wave portfolio level financing and ii) approximately €26 million of cash flow to the Company. The remaining 5 asset sales are expected to close in the third quarter of 2015. In total, the transaction is expected to result in net proceeds to Eurocastle of €22 to €24 million after expected historic taxes in the range of €6 million to €8 million.

<sup>1</sup> Adjusted NAV for the legacy business excludes i) the negative net asset value of the Mars Floating and Drive portfolios ii) excludes the Wave portfolio following the sale, as outlined on page 8.

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The table below contains a summary of the Company's German real estate portfolio as at 30 June 2015:

	Remaining Retail € million	Zama € million	Mars Fixed 2 € million	Drive & Mars FL <sup>1</sup> € million	Total before Wave € million	Wave € million
Assets	147.3	31.1	64.2	-	242.6	109.5
Liabilities	(141.2)	(26.5)	(50.8)	-	(218.5)	(85.3)
<b>Adjusted NAV<sup>1</sup></b>	<b>6.1</b>	<b>4.6</b>	<b>13.4</b>	<b>-</b>	<b>24.1</b>	<b>24.3</b>
<i>Adjusted NAV (€ per share)</i>	<i>0.08</i>	<i>0.06</i>	<i>0.19</i>	<i>-</i>	<i>0.33</i>	<i>0.33</i>
Permitted Distributions	Excess Cash flow	Sales Fees	Sales CAD	Fees	-	Sales CAD
<b>H1 2015 Cash Distributed<sup>2</sup></b>	<b>25.1</b>	<b>0.0</b>	<b>-</b>	<b>2.9</b>	<b>28.0</b>	<b>0.2</b>
Occupancy	91%	95%	68%	-	89%	73%
WALT	3.7	2.4	4.1	-	3.6	4.7
LTV <sup>3</sup>	96%	91%	73%	-	70%	63%
Debt Maturity	2015-2016	May 2016	Dec 2015	-	-	May 2016

## OTHER DEBT INVESTMENTS:

In the first half of 2015, the Company realised €4.9 million of proceeds of which €0.9 million were received in the second quarter primarily from the sale of a loan position at its year end carrying value held unlevered on the balance sheet. Within its levered portfolio, €10.9 million of proceeds were received from the underlying assets and diverted towards repaying the outstanding debt. The table below summarises the remaining portfolio as at 30 June 2015:

	Levered <sup>4</sup> € million	Unlevered € million	Total € million
Total Assets	169.0	9.8	178.8
Total Liabilities	(162.0)	(0.1)	(162.1)
<b>Adjusted NAV</b>	<b>7.0</b>	<b>9.7</b>	<b>16.7</b>
<i>Adjusted NAV (€ per share)</i>	<i>0.10</i>	<i>0.13</i>	<i>0.23</i>
<b>H1 2015 Cash Distributed</b>	<b>0.0</b>	<b>4.9</b>	<b>4.9</b>
WA Credit Rating <sup>5</sup>	CCC-	D	CCC-
% Investment Grade	16%	0%	14%
Total Securities <sup>6</sup>	34	4	35
Debt Maturity	Jun-47	n/a	-

<sup>1</sup> Excludes the Mars Floating and Drive portfolios as outlined on page 8.

<sup>2</sup> H1 2015 distribution represents amounts received relating to levered cash flows and sales CAD from the three retail portfolios sold in Q1 and asset management and sales fees for Zama, Drive and Mars FL.

<sup>3</sup> LTV represents the market value of the assets over the outstanding debt face amount.

<sup>4</sup> Excludes €7 million which has been reallocated from Other Debt Investments to New Investments as outlined on page 8.

<sup>5</sup> Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.

<sup>6</sup> Total Securities eliminates positions that are held in two or more portfolios.

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**CDO V - 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 totalled €0.1 million for the first half of 2015. All of the remaining cash flows are diverted towards paying down the most senior class of debt with €10.9 million repaid in the first half of 2015.

**Balance Sheet - Unlevered:** The remaining portfolio as at 30 June 2015, consisted of four low value mezzanine loans or securities carried at 39% of their face value.

## 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.

In the first half of 2015, Eurocastle generated Normalised FFO of €6.6 million, or €0.14 per share, with €7.4 million (€0.16 per share) related to New Investments before corporate costs. Given the average net invested capital in the first half of 2015 was approximately €58.5 million, this equates to a yield of 26%.

## MANAGEMENT AGREEMENT

In March 2015, in line with the Company's strategy, 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. This amendment was subsequently signed in April 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) in relation to net corporate cash, reducing the management fee from 1.5% to 0.75%, 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.

Total fees for the first half of 2015, amounted to €2.9 million comprising €1.8 million of management fees and €1.1 million of incentive fees. The fees under the old arrangement for the same period would have been €3.8 million.

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A reconciliation of Normalised FFO to the IFRS based net loss after tax for the quarter ended 30 June 2015 can be found below:

## INCOME STATEMENT RECONCILIATION

	New Investments € million	Corporate <sup>1</sup> € million	Legacy € million	Total € million
<b>Net loss after taxation attributable to ordinary equity holders</b>	<b>(0.3)</b>	<b>(3.3)</b>	<b>(25.4)</b>	<b>(29.0)</b>
<i>Net loss (€ per Share)</i>	<i>(0.01)</i>	<i>(0.06)</i>	<i>(0.42)</i>	<i>(0.49)</i>
Mars Floating Portfolio Profitss	-	-	(0.1)	(0.1)
Fair Value to Effective Yield Adjustments	4.0	-	-	4.0
Legacy Real Estate Revaluations	-	-	30.4	30.4
Legacy Debt Impairments	-	-	(3.1)	(3.1)
Impact of Revised Management Agreement	-	(0.2)	-	(0.2)
Transaction Costs, G/L on FX & Other Adjustments	-	0.2	0.1	0.3
<b>Normalised FFO</b>	<b>3.7</b>	<b>(3.3)</b>	<b>1.9</b>	<b>2.3</b>
<i>Normalised FFO (€ per Share)</i>	<i>0.07</i>	<i>(0.06)</i>	<i>0.03</i>	<i>0.04</i>

## ADJUSTED NAV RECONCILIATION

	New Investments € million	Corporate <sup>1</sup> € million	Legacy € million	Total € million
Assets	52.9	435.9	950.3	1,439.1
Liabilities	3.0	13.4	951.4	967.8
<b>Total Equity</b>	<b>49.9</b>	<b>422.5</b>	<b>(1.1)</b>	<b>471.3</b>
Non-controlling interest	(1.2)	-	(0.1)	(1.3)
<b>Total Shareholders' Equity (NAV)</b>	<b>48.7</b>	<b>422.5</b>	<b>(1.2)</b>	<b>470.0</b>
Real Estate Fund Commitment Reallocation	11.3	(11.3)	-	-
Romeo Commitment Reallocation	250.0	(250.0)	-	-
Legacy Debt Business Investment Reallocation	7.1	-	(7.1)	-
Mars Floating and Drive Negative NAV Add-back <sup>2</sup>	-	-	73.3	73.3
Wave Portfolio Sale Reallocation	-	24.2	(24.2)	-
<b>Adjusted NAV</b>	<b>317.1</b>	<b>185.4</b>	<b>40.8</b>	<b>543.3</b>
<i>Adjusted NAV (€ per Share)</i>	<i>4.38</i>	<i>2.56</i>	<i>0.56</i>	<i>7.50</i>

<sup>1</sup> Corporate includes uninvested cash and fees payable to the Manager.

<sup>2</sup> The negative NAVs of the Mars Floating and Drive portfolios are excluded from the Groups reported adjusted NAV as these financings are non-recourse to the Company.



# DIRECTORS' STATEMENT

## STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE INTERIM FINANCIAL STATEMENTS

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

## INDEPENDENT AUDITORS' REVIEW

These consolidated interim financial statements as at 30 June 2015 and for the six month period then ended have not been reviewed or audited by our auditors, BDO LLP.

*On behalf of the Board*

S. Thornton  
Director

Date: 6 August 2015

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Unaudited)	Notes	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
<b>Operating income</b>			
Interest income		1,627	4,137
Rental income		30,281	45,001
Service charge income		5,870	8,818
Loss on disposal of available for sale investments	7	-	(407)
Decrease in fair value of investment properties	16	(36,301)	(34,452)
Gains on foreign currency contracts, translation and swaps		980	608
Impairment losses	5	(907)	(10,653)
Fair value movements on Italian debt portfolio	10	1,367	1,280
Fair value movements in real estate fund units	11	1,002	412
Share of post tax (losses) / profits from joint venture	12	(102)	302
Share of post tax profits / (losses) from associate	13	1,186	(33)
Gain on purchase of mezzanine financing	17	1,503	1,963
Loss on paydowns of loans and receivables		2,769	-
Gain / (loss) on deconsolidation	14	4,713	(26,077)
<b>Total operating income / (loss)</b>		<b>13,988</b>	<b>(9,101)</b>
<b>Operating Expenses</b>			
Interest expense		17,658	26,778
Service charge expenses		5,745	8,422
Property operating expenses		10,550	13,639
Other operating expenses	4	9,670	10,930
<b>Total operating expenses</b>		<b>43,623</b>	<b>59,769</b>
<b>Net operating loss before taxation</b>		<b>(29,635)</b>	<b>(68,870)</b>
Taxation (credit) / expense - current	3	(1,988)	2,445
Taxation credit - deferred	3	(391)	(1,292)
<b>Net loss after taxation</b>		<b>(27,256)</b>	<b>(70,023)</b>
<b>Attributable to:</b>			
Ordinary equity holders of the Company		(27,520)	(70,268)
Non-controlling interest	10	264	245
<b>Net loss after taxation</b>		<b>(27,256)</b>	<b>(70,023)</b>
<b>Loss per ordinary share</b>			
Weighted average - basic and dilutive	20	(0.69)	(2.15)

See notes to the interim consolidated financial statements

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Unaudited)	Notes	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
<b>Net loss after taxation</b>		<b>(27,256)</b>	<b>(70,023)</b>
<b>Items that may or will be reclassified to profit and loss</b>			
Amortisation of unrealised gains/losses on available-for-sale securities reclassified to the income statement	9	607	3,898
Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9	(70)	(3,134)
Amortisation of novated swaps	22	(129)	(395)
Unrealised (loss) / gain on asset backed securities, available-for-sale	7	(159)	589
Realised heading reserve on deconsolidation	14	(442)	-
Net unrealised gain on hedge instruments		-	2,039
<b>Total other comprehensive (loss) / income</b>		<b>(193)</b>	<b>2,997</b>
<b>Total comprehensive loss for the period</b>		<b>(27,449)</b>	<b>(67,026)</b>

See notes to the interim consolidated financial statements

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

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	30 June 2015 (Unaudited) €000	31 December 2014 €000
<b>Assets</b>			
Cash and cash equivalents	6	474,565	142,581
Investment properties held for sale	16	258,765	217,418
Assets in disposal groups classified as held for sale		-	283,060
Available-for-sale securities	7	29	188
Fair value investments - listed shares	8	2,527	2,198
Loans and receivables	9	169,525	199,676
Derivative assets		2,871	8,291
Other assets	15	18,857	18,091
Fair value investments	10	5,638	6,325
Real estate fund units	11	13,945	21,890
Investment property	16	462,883	603,026
Investment in joint ventures	12	13,908	15,483
Investment in associates	13	15,535	15,681
Intangible assets		8	15
<b>Total assets</b>		<b>1,439,056</b>	<b>1,533,923</b>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Issued capital, no par value, unlimited number of shares authorised	21	2,015,023	1,714,625
Accumulated loss		(1,565,794)	(1,525,145)
Net unrealised loss on available-for-sale securities and loans and receivables	7,9	(5,215)	(5,593)
Hedging reserve	22	17	588
Other reserves	21	26,024	21,888
<b>Total shareholders' equity</b>		<b>470,055</b>	<b>206,363</b>
Non-controlling interest		1,239	2,321
<b>Total equity</b>		<b>471,294</b>	<b>208,684</b>
<b>Liabilities</b>			
Trade and other payables	19	93,295	77,023
Liabilities directly associated with assets in disposal groups classified as held for sale		-	263,565
Current taxation payable		8,796	10,824
CDO bonds payable	17	137,568	194,248
Bank borrowings	18	706,404	757,916
Finance lease payable	16	17,512	17,085
Deferred taxation liability		4,187	4,578
<b>Total liabilities</b>		<b>967,762</b>	<b>1,325,239</b>
<b>Total equity and liabilities</b>		<b>1,439,056</b>	<b>1,533,923</b>

See notes to the interim consolidated financial statements

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

(Unaudited)	Notes	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
<b>Cash flows from operating activities</b>			
Operating loss before taxation		(29,635)	(68,870)
Adjustments for:			
Interest income		(1,281)	(5,807)
Interest expense		15,224	22,092
Unrealised loss on foreign exchange contracts		(980)	(608)
Amortisation of discount/premium on securities		(346)	(1,464)
Amortisation of borrowing costs		2,434	2,488
Amortisation of tenant incentives / leasing commissions		831	873
Realised gain on disposal of available for sale investments		1	399
Realised gain on repurchase of mezzanine financing	17	(1,503)	(1,963)
Impairment (losses) / reversals	5	907	10,653
Taxation (paid) / received		(41)	844
Amortisation of intangibles		5	22
Loss on paydown		(2,769)	-
Depreciation of fixtures and fittings		1	5
Decrease in fair value of investment properties	16	36,301	34,452
Increase in fair value investments	10	(1,367)	(1,280)
Increase in interest rate swaps		-	-
Share of post tax losses / (profits) from joint venture	12	102	(302)
Share of post tax (profits) / losses from associate	13	(1,186)	33
Fair value loss on real estate fund units	11	(1,002)	(412)
Gain / (loss) on deconsolidation	14	(4,713)	26,077
<b>Cash generated from operations</b>		<b>10,983</b>	<b>17,232</b>
Interest received		1,489	3,507
Interest paid		(10,487)	(20,516)
(Increase) / decrease in other assets		(196)	9,201
Increase / (decrease) in trade and other payables		4,359	(2,117)
<b>Net cash flows from operating activities</b>		<b>6,148</b>	<b>7,307</b>
<b>Cash flows from investing activities</b>			
Capital expenditure / tenant incentives	16	(9,213)	(5,241)
Proceeds from sale of investment properties	16	70,243	87,364
Purchase of intangible assets		-	(8)
Proceeds from prepayment of available-for-sale securities		13,903	4,607
Proceeds from sale available-for-sale securities		1,264	22,201
Proceeds from the prepayment of loans and receivables		-	52,935
Sale / prepayment of loans and receivables		23,396	-
Net cash impact of deconsolidation of portfolios	14	20,135	(3,757)
Cash collections from Italian Investments	10	5,569	4,193
Net cash received from joint venture	12	1,473	227
Net cash impact of acquisition of associates	13	-	(7,357)
Cash received from associates	13	1,332	-
Cash distributions received from real estate fund units	11	8,947	-
Purchase of real estate fund units	11	-	(21,323)
<b>Net cash flows from investing activities</b>		<b>137,049</b>	<b>133,841</b>
<b>Cash flows from financing activities</b>			
Issue of share capital net of issuance costs		304,534	-
Dividends paid	24	(8,159)	(8,158)
Repurchase of mezzanine financing	17	(18,715)	(2,043)
Repayments of bonds issued		(37,599)	(50,910)
Cash funded through repurchase agreement		16,875	-
Cash distributed to minority interests		(1,346)	(951)
Repayments of bank borrowings		(70,757)	(99,747)
<b>Net cashflows from financing activities</b>		<b>184,833</b>	<b>(161,809)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>328,030</b>	<b>(20,661)</b>
<b>Total cash and cash equivalents, beginning of period</b>		<b>146,535</b>	<b>193,192</b>
<b>Total cash and cash equivalents, end of period</b>		<b>474,565</b>	<b>172,531</b>

See notes to the interim consolidated financial statements

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Unaudited)	Attributable to equity holder of the Group							
	Ordinary shares Number	Share capital €000	Other reserves €000	Net unrealised	Hedging reserves €000	Accumulated loss €000	Non- controlling interest €000	Total equity €000
				gains/ (losses) €000				
<b>At 1 January 2014</b>	<b>32,632,502</b>	<b>1,714,425</b>	<b>22,088</b>	<b>(11,976)</b>	<b>(870)</b>	<b>(1,399,529)</b>	<b>2,842</b>	<b>326,980</b>
(Loss) / income for the six months	-	-	-	-	-	(70,268)	245	(70,023)
Other comprehensive income	-	-	-	1,353	1,644	-	-	2,997
<b>Total comprehensive income / (loss)</b>	-	-	-	<b>1,353</b>	<b>1,644</b>	<b>(70,268)</b>	<b>245</b>	<b>(67,026)</b>
Share issued to Directors	3,000	-	-	-	-	-	-	-
Dividend declared (note 24)	-	-	-	-	-	(8,158)	-	(8,158)
Cash distributed to non-controlling interest	-	-	-	-	-	-	(951)	(951)
Release of other reserve for lapsed options	-	200	(200)	-	-	-	-	-
<b>At 30 June 2014</b>	<b>32,635,502</b>	<b>1,714,625</b>	<b>21,888</b>	<b>(10,623)</b>	<b>774</b>	<b>(1,477,955)</b>	<b>2,136</b>	<b>250,845</b>
(Loss) / income for the six months	-	-	-	-	-	(39,032)	185	(38,847)
Other comprehensive income / (loss)	-	-	-	5,030	(186)	-	-	4,844
<b>Total comprehensive (loss) / income</b>	-	-	-	<b>5,030</b>	<b>(186)</b>	<b>(39,032)</b>	<b>185</b>	<b>(34,003)</b>
Cash distributed to non-controlling interest	-	-	-	-	-	-	-	-
Dividend declared (note 24)	-	-	-	-	-	(8,158)	-	(8,158)
<b>At 31 December 2014</b>	<b>32,635,502</b>	<b>1,714,625</b>	<b>21,888</b>	<b>(5,593)</b>	<b>588</b>	<b>(1,525,145)</b>	<b>2,321</b>	<b>208,684</b>
(Loss) / income for the six months	-	-	-	-	-	(27,520)	264	(27,256)
Other comprehensive loss	-	-	-	(193)	(571)	-	-	(764)
<b>Total comprehensive income/(loss)</b>	-	-	-	<b>(193)</b>	<b>(571)</b>	<b>(27,520)</b>	<b>264</b>	<b>(28,020)</b>
Dividends declared (note 24)	-	-	-	-	-	(13,129)	-	(13,129)
Cash distributed to non-controlling interest	-	-	-	-	-	-	(1,346)	(1,346)
Issue of ordinary shares (note 21)	39,762,992	312,139,487	-	-	-	-	-	351,902,479
Costs in relation of issue of ordinary shares	-	(7,605,976)	-	-	-	-	-	(7,605,976)
Costs in relation to issue of options following share issue	-	4,756	(4,756)	-	-	-	-	-
Release of other reserve for lapsed options	-	620	(620)	-	-	-	-	-
<b>At 30 June 2015</b>	<b>72,398,494</b>	<b>306,253,512</b>	<b>16,512</b>	<b>(5,786)</b>	<b>17</b>	<b>(1,565,794)</b>	<b>1,239</b>	<b>344,462,692</b>

## 1. BACKGROUND

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

Eurocastle is externally managed by its investment manager, FIG LLC (the “Manager”). Eurocastle has entered into a management agreement (the “Management Agreement”) under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group’s Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in note 25. The Group has no ownership interest in the Manager.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The consolidated financial statements are presented in Euros, the functional currency of the parent company, because the Group conducts its business predominantly in Euros. The consolidated interim financial statements represent a condensed set of financial statements and should be read in conjunction with the Group’s financial statements for the year ended 31 December 2014, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issue by the International Accounting Standards Board (“IASB”).

The interim consolidated financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2014 and for the year then ended except for repurchase agreement which are accounted for as financial liabilities.

### Real Estate Fund Units

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

### Deconsolidation of Subsidiaries

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

### Investment in Associates

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

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

### Investment in Joint Ventures

Jointly controlled entities are those entities over whose activities the Group has joint control established by the 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*. The cost of the investment includes transaction costs.

**Basis of consolidation**

The interim consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the six months period ended 30 June 2015. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 30 June 2015, the Group consisted of a number of subsidiaries in Germany, Italy, Ireland, Luxembourg and the United States of America.

As a result of the Group's investment in the performing and non-performing loan portfolios in Italy (pools 1 to 5 and refer note 10), it has acquired subsidiaries in Italy, Luxembourg and the United States of America. The Group holds 80.66% of the member's interest in NPL Top Tier Holding LLC ("Ieffe and Palazzo") and 100% of the outstanding notes in FMIL S.á r.l. ("BAM"). The investments in the underlying loan portfolios are held through Law 130 securitisation notes.

The Group's investment in the BNL (pool 6) portfolio of non-performing loans is through a joint investment entity in Italy called Quintino Securitisation S.á r.l. This entity sold the underlying notes to a Delaware company called Fortress Italian NPL Opportunities Series Fund LLC in 2015. The financial and operating decisions of this entity require joint agreement and hence is subject to joint control. The results, assets and liabilities of the joint investment entity are incorporated in these financial statements using the proportionate consolidation method. Refer to note 12.

The Group's investment in CF Aula SCS partnership is accounted for as a joint venture. CF Aula SCS is a limited liability partnership incorporated in Luxembourg. The Group owns 50% of the partnership interest. Refer to note 12.

The Group's investment in the MPS (pools 7 and 10) and BCC (pools 8,9 and 11) portfolios of non-performing loans is through an associate entity in Delaware company called Fortress Italian NPL Opportunities Series Fund LLC and is accounted for using the equity method. Refer to note 13.

The Group's investment in the Unicredit Credit Management Bank S.p.A ("UCCMB") will be made through a Luxembourg subsidiary called Verona S.á r.l. This company will hold the investment through a joint venture called Avio S.á r.l.

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

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

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

**3. TAXATION EXPENSE**

The taxation expense for the six months ended 30 June 2015 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, Eurocastle Funding Limited, CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies. There are currently no tax expenses in Italy.

The deferred tax credit for the six months ended 30 June 2015 was €0.4 million, compared to a credit of €1.3 million for the six months ended 30 June 2014.



**4. OTHER OPERATING EXPENSES**

	Six months ended 30 June 2015	Six months ended 30 June 2014
(Unaudited)	€000	€000
Professional fees	574	751
Transaction costs on acquisition of real estate fund units	-	1,012
Sale related costs	3,189	2,633
Management fees (note 25)	1,772	3,004
Incentive fees (note 25)	1,107	-
Net Manager recharge	2,583	2,656
Depreciation	1	5
Amortisation of intangible assets	6	22
General and administrative expenses	438	847
<b>Total other operating expenses</b>	<b>9,670</b>	<b>10,930</b>

**5. IMPAIRMENT LOSSES**

	Six months ended 30 June 2015	Six months ended 30 June 2014
(Unaudited)	€000	€000
Impairment (reversals) / losses on loans and receivables	(875)	675
Impairment losses on real estate related loans	1,852	13,112
Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale	(70)	(3,134)
<b>Total impairment losses</b>	<b>907</b>	<b>10,653</b>

During the six months ended 30 June 2015, the Group has recognised impairment adjustments on 11 securities compared to 8 securities or loans for six months ended 30 June 2014. As at 30 June 2015, 24 securities have recognised impairment losses (31 December 2014: 26 securities).

The carrying value of the impaired securities or loans as at 30 June 2015 after the impairment losses was €79.3 million (31 December 2014: €93.4 million).

**6. CASH AND CASH EQUIVALENTS**

	30 June 2015 (Unaudited)	31 December 2014
	€000	€000
Corporate cash	435,813	96,875
Cash within Italian Investments	3,912	8,575
Cash within the real estate operating companies	31,332	30,924
Cash within the CDO vehicles	3,508	6,207
<b>Cash and cash equivalents</b>	<b>474,565</b>	<b>142,581</b>
Cash and cash equivalents classified as held for sale (note 14)	-	3,954
<b>Total cash and cash equivalents</b>	<b>474,565</b>	<b>146,535</b>

Cash within Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €0.2 million which received by the portfolios and to be distributed to the minority interests (31 December 2014: €2.3 million).

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.

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

**7. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE**

The following is a summary of the Group's available-for-sale securities at 30 June 2015 (unaudited):

	Current face amount €000	Amortised cost base €000	Gross unrealised losses €000	Carrying value €000	Weighted average			
					Average rating <sup>(1)</sup>	Coupon %	Margin %	Maturity (in years)
<b>Other securities</b>								
CMBS	5,779	1,005	(976)	29	D	2.35%	2.70%	0.09
<b>Total portfolio</b>	<b>5,779</b>	<b>1,005</b>	<b>(976)</b>	<b>29</b>	<b>D</b>	<b>2.35%</b>	<b>2.70%</b>	<b>0.09</b>

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

	Current face amount €000	Amortised cost base €000	Gross unrealised losses €000	Carrying value €000	Weighted average			
					Average rating <sup>(1)</sup>	Coupon %	Margin %	Maturity (in years)
<b>Other securities</b>								
CMBS	5,779	1,005	(817)	188	D	2.54%	2.70%	-
<b>Total portfolio</b>	<b>5,779</b>	<b>1,005</b>	<b>(817)</b>	<b>188</b>	<b>D</b>	<b>2.54%</b>	<b>2.70%</b>	<b>-</b>

During the six months ended 30 June 2014, 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.

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

**8. FAIR VALUE INVESTMENTS - SHARES**

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

	<b>2015</b> <b>(Unaudited)</b> <b>€000</b>
Balance as at 1 January	2,198
Fair value and exchange rate movements	329
<b>Balance as at 30 June</b>	<b>2,527</b>

The investment relates to 1,399,491 shares in Punch Taverns Plc that were obtained during the restructuring of the Punch Taverns note held in Portfolio V (previously recorded in Loans and Receivables). The share price as at 30 June 2015 was £1.28 (31 December 2014: £1.22).

No comparisons have been presented as the shares were transacted in October 2014.

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

## 9. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 30 June 2015 (unaudited):

	Current face amount €000	Amortised cost basis €000	Impairment losses €000	Carrying value €000	Weighted Average			
					Average rating <sup>(1)</sup>	Coupon <sup>(2)</sup> %	Margin %	Maturity (in years)
<b>Portfolio IV</b>								
Real estate related loans	10,214	10,218	(696)	9,522	D	0.00%	2.25%	1.51
	10,214	10,218	(696)	9,522	D	0.00%	2.25%	1.51
<b>Portfolio V</b>								
CMBS	125,839	106,472	(25,119)	81,353	CCC+	1.13%	1.55%	1.78
Other ABS	34,993	33,592	-	33,592	BB	2.63%	2.28%	4.96
Real estate related loans	119,342	119,289	(74,394)	44,895	D	0.16%	2.44%	0.50
	280,174	259,353	(99,513)	159,840	CCC-	0.91%	2.02%	1.63
<b>Other securities</b>								
Real estate related loans	9,380	3,040	(2,877)	163	D	0.00%	2.50%	0.02
	9,380	3,040	(2,877)	163	D	0.00%	2.50%	0.02
<b>Total portfolio</b>	<b>299,768</b>	<b>272,611</b>	<b>(103,086)</b>	<b>169,525</b>	<b>CCC-</b>	<b>0.85%</b>	<b>2.04%</b>	<b>1.62</b>

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 <sup>(1)</sup>	Coupon <sup>(2)</sup> %	Margin %	Maturity (in years)
<b>Portfolio IV</b>								
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
<b>Portfolio V</b>								
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
<b>Other securities</b>								
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%	-
<b>Total portfolio</b>	<b>366,564</b>	<b>332,440</b>	<b>(132,764)</b>	<b>199,676</b>	<b>CCC-</b>	<b>0.98%</b>	<b>2.19%</b>	<b>1.58</b>

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

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

The securities within Portfolio V are encumbered by a CDO securitisation (note 17).

The movement in the impairment losses is shown below:

(Unaudited)	2015	2014
	€000	€000
Balance as at 1 January	(132,764)	(136,537)
Reversals due to paydowns, sales and principal write-offs in the period	30,585	(11,241)
Losses for the period	(6,240)	12,542
Reversals for the period	5,333	(1,889)
<b>Balance as at 30 June</b>	<b>(103,086)</b>	<b>(137,125)</b>

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

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

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

	1 July 2008 Carrying Value €000	30 June 2015 Carrying Value (unaudited) €000	31 December 2014 Carrying Value €000	30 June 2015 Fair Value (unaudited) €000	31 December 2014 Fair Value €000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	68,835	78,180	53,236	59,107

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

If the reclassification had not been made, Eurocastle's income statement for six months ended 30 June 2015 would have included €13.6 million on the reclassified available-for-sale securities of impairment reversals, compared with impairment reversals of €5.2 million after the reclassification. For the six months ended 30 June 2015, shareholders' equity (net losses not recognised in the income statement) would have included €5.4 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 30 June 2015.

After reclassification, the reclassified financial assets contributed the following amounts to income for the six months ended 30 June 2015 and 30 June 2014 respectively:

(Unaudited)	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
Net interest income	864	2,253
Impairment reversals / (losses) on securities classified as loans and receivables	5,210	(10,653)
<b>Losses available-for-sale securities reclassified to loans and receivables</b>	<b>6,074</b>	<b>(8,400)</b>

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

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity relating to the impaired asset is released to the income statement at the impairment date. For the six months ended 30 June 2015, €0.1 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (six months ended 30 June 2014: €3.1 million). Additionally, €0.6 million (six months ended 30 June 2014: €3.9 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has not been adjusted to reflect changes in the expected cash flows in either year.

At 30 June 2015, the net unrealised loss on loans and receivables was €4.2 million (31 December 2014: €5.6 million).

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

## 10. FAIR VALUE INVESTMENTS

(Unaudited)	Gross book value <sup>(1)</sup> €000	Cost <sup>(1)</sup> €000	Fair value €000	No. of borrowers	Weighted average life <sup>(1)</sup> (years)	Effective rate <sup>(2)</sup> %
<b>Non-performing loans</b>						
Pool 1	3,279,865	3,945	979	5,476	1.50	177.1%
Pool 2	88,033	1,825	819	297	2.13	18.2%
Pool 3	649,438	5,648	2,792	1,498	3.13	19.5%
Pool 4	12,422	203	43	19	3.11	-33.5%
<b>Total non-performing loans</b>	<b>4,029,758</b>	<b>11,621</b>	<b>4,633</b>	<b>7,290</b>	<b>2.27</b>	<b>44.9%</b>
<b>Performing loans</b>						
Pool 5	10,046	5,696	1,005	869	1.37	32.0%
<b>Total performing loans</b>	<b>10,046</b>	<b>5,696</b>	<b>1,005</b>	<b>869</b>	<b>1.37</b>	<b>32.0%</b>
<b>Total portfolio</b>	<b>4,039,804</b>	<b>17,317</b>	<b>5,638</b>	<b>8,159</b>	<b>2.03</b>	<b>41.1%</b>

(1) Remaining weighted average life as at reporting date

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

The movement in the fair value investments is as follows:

(Unaudited)	2015				Total Portfolio
	Group	Non-controlling Interest	Total pools 1-3 and 5	Pool 4	
Balance as at 1 January	5,070	1,215	6,285	40	6,325
Cash received within portfolios for distribution	(1,656)	(398)	(2,054)	-	(2,054)
Increase in fair value	1,100	263	1,363	4	1,367
<b>Balance as at 30 June</b>	<b>4,514</b>	<b>1,080</b>	<b>5,594</b>	<b>44</b>	<b>5,638</b>

The total of cash distributions received from the fair value investments for the six months ended 30 June 2015 is €6.9 million with €1.3 million being paid to the non-controlling interest in the half-year. (30 June 2014: €4.2 million and €1.0 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 the portfolios are serviced by Italfondario S.p.A. a related party to the Manager (refer note 25).

The non-controlling interest in the fair value of the portfolios is €1.2 million (31 December 2014: €2.3 million).

## 11. REAL ESTATE FUND UNITS

The Group has invested in 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("UIU") representing 7.46% of the total units issued by UIU. The units are listed on the Italian Stock Exchange with a maturity of 31 December 2017. In March 2015, the Group received a distribution of €750 per unit for a total amount of €8.9 million.

The fair value of the investment is determined by the share price of UIU at the reporting date. As at 30 June 2015, the share price was €1,169.00.

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

(Unaudited)	2015 €000	2014 €000
Balance as at 1 January	21,890	-
Acquisition	-	21,323
Distributions received	(8,947)	-
Increase / (decrease) in fair value	1,002	412
<b>Balance as at 30 June</b>	<b>13,945</b>	<b>21,735</b>

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

## 12. INVESTMENT IN JOINT VENTURES

The Group has a 50% equity interest in a limited partnership called CF Aula SCS ("Aula"). 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.

The Group holds 25% of the membership interest in the third series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series 3 Fund") which holds the notes in Quintino Securitisation S.r.l. (pool 6). This securitisation vehicle owns a non-performing loan portfolio in Italy. The joint venture partner is a credit fund managed by an affiliate of the Manager.

The following table summarises the financial information of the joint ventures:

	30 June 2015 (unaudited)			31 December 2014		
	Pool 6 €000	Aula €000	Total €000	Pool 6 €000	Aula €000	Total €000
Fair value investments	3,496	24,000	27,496	4,480	26,450	30,930
Cash	552	320	872	194	-	194
<b>Total Assets</b>	<b>4,048</b>	<b>24,320</b>	<b>28,368</b>	<b>4,674</b>	<b>26,450</b>	<b>31,124</b>
<b>Total Liabilities</b>	<b>(552)</b>	<b>-</b>	<b>(552)</b>	<b>(158)</b>	<b>-</b>	<b>(158)</b>
<b>Net assets</b>	<b>3,496</b>	<b>24,320</b>	<b>27,816</b>	<b>4,516</b>	<b>26,450</b>	<b>30,966</b>
<b>Group's share of net assets</b>	<b>1,748</b>	<b>12,160</b>	<b>13,908</b>	<b>2,258</b>	<b>13,225</b>	<b>15,483</b>

The following table summarises the joint ventures' financial performance:

	30 June 2015			30 June 2014		
	Pool 6 €000	Aula €000	Total €000	Pool 6 €000	Aula €000	Total €000
<b>Unaudited</b>						
Fair value movements on Italian debt portfolio	(204)	-	(204)	604	-	604
(Loss) / profit before tax	(204)	-	(204)	604	-	604
Taxation	-	-	-	-	-	-
<b>(Loss) / profit after tax</b>	<b>(204)</b>	<b>-</b>	<b>(204)</b>	<b>604</b>	<b>-</b>	<b>604</b>
<b>Group's share of (loss) / profit after tax</b>	<b>(102)</b>	<b>-</b>	<b>(102)</b>	<b>302</b>	<b>-</b>	<b>302</b>

The amounts above represent the Group's 50% share of the entire assets, liabilities and net income of the joint venture.

## 13. INVESTMENT IN ASSOCIATES

The Group holds 25% of the membership interest in the first series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series 1 Fund"). The Series 1 Fund has invested in the Banca Monte dei Paschi di Siena non-performing loan portfolio (pools 7 and 10)

The Group holds 25% of the membership in the second series of the Fortress Italian NPL Opportunities Series Fund LLC ("the Series II Fund"). The Series II Fund has invested in the non-performing portfolio of loans (pools 8,9 and 11) from Italian local co-operative banks affiliated with ICCREA Group ("BCC").

The following table summarises the financial information of the associates as at 30 June 2015:

	30 June 2015 (unaudited)			31 December 2014		
	Pools 7 and 10 €000	Pools 8,9 and 11 €000	Total €000	Pools 7 and 10 €000	Pools 8,9 and 11 €000	Total €000
<b>(Unaudited)</b>						
Fair value investments	57,552	4,331	61,883	57,723	4,154	61,877
Current assets	266	86	352	989	99	1,088
Current liabilities	(317)	(8)	(325)	(227)	(15)	(242)
<b>Net Assets</b>	<b>57,501</b>	<b>4,409</b>	<b>61,910</b>	<b>58,485</b>	<b>4,238</b>	<b>62,723</b>
<b>Group's share of net assets</b>	<b>14,375</b>	<b>1,102</b>	<b>15,477</b>	<b>14,621</b>	<b>1,060</b>	<b>15,681</b>

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

The following table summarises the associates' financial performance:

	30 June 2015			30 June 2014	
	Pools 7 and 10	Pools 8,9 and 11	Total	Pools 7	Total
(Unaudited)	€000	€000	€000	€000	€000
Operating profit for the period	4,592	172	4,764	(133)	(133)
<b>Group's share of operating profit</b>	<b>1,148</b>	<b>43</b>	<b>1,191</b>	<b>(33)</b>	<b>(33)</b>

## 14. DECONSOLIDATION OF SUBSIDIARIES

On 11 March 2015, the Group sold the Superstella S.á r.l., TannenberG S.á r.l. and Turret S.á r.l. companies (and related portfolios) for a cash purchase price of €24.5 million. The portfolios had been disclosed as available for sale in the 2014 Annual Report.

The impact of the deconsolidation is as follows:

(Unaudited)	Total €000
Cash and cash equivalents	4,392
Other assets	574
Investment property	278,815
<b>Total Assets</b>	<b>283,781</b>
Trade and other payables	(2,536)
Current taxation payable	(622)
Finance Lease payable	(2,836)
Bank borrowings	(253,581)
<b>Total Liabilities</b>	<b>(259,575)</b>
Net assets of portfolios sold	24,206
Gain on deconsolidation	4,713
<b>Total consideration</b>	<b>28,919</b>
Net of cash within portfolio	(4,392)
<b>Net cash consideration received</b>	<b>24,527</b>
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	24,527
Less: cash and cash equivalents disposed of	(4,392)
<b>Net cash inflow arising from disposal</b>	<b>20,135</b>

The Group deconsolidated the Bridge portfolios on 15 January 2014 which resulted in a net loss on deconsolidation of €26.1 million for the year.

## 15. OTHER ASSETS

	As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
Tenant incentives and leasing commission	5,717	4,775
Service charge receivable	2,331	3,639
Proceeds receivable from the disposal of investment properties	4,602	2,772
Interest receivable	369	577
Rent receivable	950	924
Prepaid expenses	764	468
Other accounts receivable	4,124	4,936
<b>Total other assets</b>	<b>18,857</b>	<b>18,091</b>

Service charge and rent receivables are net of a provision for doubtful debts of €3.6 million (31 December 2014: €2.8 million). All other assets are expected to mature in less than one year.

## 16. INVESTMENT PROPERTY

	As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
Investment property held for sale	258,765	217,418
Investment property held as a disposal group held for sale (note 14)	-	278,445
Investment property	462,883	603,026
Total investment property net of tenant incentives and leasing commissions	721,648	1,098,889
Tenant incentives and leasing commission (included in other assets - note 15)	5,717	5,026
<b>Closing balance</b>	<b>727,365</b>	<b>1,103,915</b>

As at 30 June 2015, the investment property held for sale is financed by approximately €205.9 million of bank borrowings (31 December 2014: approximately €171.9 million).

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions classified in other assets) as at 30 June 2015:

(Unaudited)	Freehold land and buildings €000	Leasehold property €000	Total €000
Opening balance at 1 January 2015	1,038,659	65,256	1,103,915
Capital expenditure	9,002	-	9,002
Tenant incentives and leasing commissions	(831)	-	(831)
Free rent	211	-	211
Disposals	(70,243)	-	(70,243)
Deconsolidation of the Retail Portfolios	(244,841)	(33,974)	(278,815)
Decrease in minimum payments under head lease	-	427	427
Decrease in fair value	(35,729)	(572)	(36,301)
<b>Balance as at 30 June 2015</b>	<b>696,228</b>	<b>31,137</b>	<b>727,365</b>

As at 31 December 2014:

	Freehold land and buildings €000	Leasehold property €000	Total €000
Opening balance at 1 January 2014	1,653,775	74,329	1,728,104
Capital expenditure	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	(399,303)	-	(399,303)
Increase in minimum payments under head lease	-	219	219
Decrease in fair value	(67,407)	708	(66,699)
<b>Balance as at 31 December 2014</b>	<b>1,038,659</b>	<b>65,256</b>	<b>1,103,915</b>

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

Investment properties held for sale are stated at fair value, and are those properties that have been notarised for sale as at 30 June 2015. The gain or loss on the sale of investment property is reported in the fair value movements in the income statement.



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

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

	As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
Investment property at market value	709,852	1,080,634
Minimum payments under head leases separately included in liabilities on the balance sheet	17,512	23,281
<b>Total investment property</b>	<b>727,364</b>	<b>1,103,915</b>
Investment property held as a disposal group for sale (refer note 14)	-	(284,892)
<b>Balance sheet carrying value of investment property</b>	<b>727,364</b>	<b>819,023</b>

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

<b>30 June 2015 (unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Average</b>
Passing rent per sqm per month (€)	11.99	8.40	10.71
Market rent per sqm per month (€)	13.24	8.51	11.56
Average net initial yield	5.7%	7.3%	6.7%
Vacancy rate	31.5%	8.8%	24.8%
<b>31 December 2014</b>	<b>Office</b>	<b>Retail</b>	<b>Average</b>
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%

#### Sensitivity analysis

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

<b>30 June 2015 (€million and unaudited)</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
Market value	464	139	603
Increase in yield of 25 bps	393	135	528
<b>Value sensitivity</b>	<b>(71)</b>	<b>(4)</b>	<b>(75)</b>
<b>31 December 2014 (€million)</b>	<b>Office</b>	<b>Retail</b>	<b>Average</b>
Market value	666	415	1,081
Increase in yield of 25 bps	540	402	942
<b>Value sensitivity</b>	<b>(126)</b>	<b>(13)</b>	<b>(139)</b>

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 11 investment properties are built have unexpired terms ranging from 7 years to 56 years. Most are at a fixed rental, but some contain an obligation to pay a contingent rental calculated by reference to a retail price index. The amount recognised as an expense in the six months ended 30 June 2015 in respect of contingent rental is €1.8 million (six months ended 30 June 2014: €2.6 million).

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

## Additional information

The table below provides additional information for various portfolios within the Group at 30 June 2015 (unaudited):

Portfolio	Property valuation <sup>(1)</sup>	Term financing (face amount)	Other (liabilities) / assets <sup>(2)</sup>	Net assets / (liabilities) <sup>(2)</sup>	Net operating income (NOI) <sup>(3)</sup>	NOI yield on valuation	Occupancy	Capitalised expenditure / (accrual releases) <sup>(4)</sup>
	€000	€000	€000	€000	€000	%	%	€000
Wave	106,553	67,619	(14,688)	24,245	6,784	6.4%	73.5%	1,801
Truss	88,691	83,155	113	5,648	6,111	6.9%	95.0%	88
Mars Fixed 2	61,980	45,541	(3,008)	13,431	1,966	3.2%	68.5%	2,251
Belfry	50,520	52,242	2,212	490	3,321	6.6%	85.4%	20
Zama	28,370	25,727	1,908	4,551	2,379	8.4%	94.6%	108
<b>Total portfolio excluding Drive and Mars Floating</b>								
Mars Floating	336,114	274,284	(13,463)	48,365	20,561	6.1%	83.1%	4,268
Drive	323,040	320,061	(29,432)	(26,454)	16,296	5.0%	61.1%	5,141
Mars Floating <sup>(5)</sup>	50,701	97,746	194	(46,851)	2,774	5.5%	68.8%	1,127
<b>Total portfolio</b>	<b>709,855</b>	<b>692,091</b>	<b>(42,701)</b>	<b>(24,940)</b>	<b>39,631</b>	<b>5.6%</b>	<b>73.0%</b>	<b>10,536</b>

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

Portfolio	Property valuation <sup>(1)</sup>	Term financing (face amount)	Other (liabilities) / assets <sup>(2)</sup>	Net assets / (liabilities) <sup>(2)</sup>	Net operating income (NOI) <sup>(3)</sup>	NOI yield on valuation	Occupancy	Capitalised expenditure / (accrual releases)
	€000	€000	€000	€000	€000	%	%	€000
Wave	110,145	68,200	(17,196)	24,749	7,264	6.6%	74.4%	1,125
Truss	87,900	83,580	297	4,617	6,744	7.7%	94.9%	284
Mars Fixed 2	59,500	45,541	1,109	15,068	2,393	4.0%	74.8%	4,200
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
<b>Total portfolio excluding Drive, Mars Floating and classified as held for sale</b>								
Mars Floating	338,665	276,733	(12,529)	49,403	22,402	5.7%	68.9%	5,956
Drive	418,769	388,726	(19,916)	10,127	17,190	4.1%	52.8%	1,900
Mars Floating <sup>(5)</sup>	50,700	97,746	471	(46,575)	2,959	5.8%	56.8%	2,034
<b>Sub-total</b>	<b>808,134</b>	<b>763,205</b>	<b>(31,974)</b>	<b>12,955</b>	<b>42,551</b>	<b>5.7%</b>	<b>68.2%</b>	<b>9,890</b>
Classified as held for sale (refer note 14)	272,500	254,373	1,370	19,495	20,156	7.4%	94.8%	666
<b>Total portfolio</b>	<b>1,080,634</b>	<b>1,017,578</b>	<b>(30,604)</b>	<b>32,450</b>	<b>62,707</b>	<b>5.8%</b>	<b>75.1%</b>	<b>10,556</b>

(1) Property valuation excludes the leasehold gross-ups of €17.5 million (31 December 2014: €23.3 million)

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

(3) Net operating income is after deducting €1.8 million of free rent (six months ended 30 June 2014: €1.2 million). It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

(4) Capitalised expenditure represents actual expenditure for the six months ended 30 June 2015 of €8.2 million (30 June 2014 €4.3 million) annualised for the full year.

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

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

## 17. CDO BONDS PAYABLE

As at 30 June 2015 (unaudited):

	Class	Rating <sup>(1)</sup>	Current face amount €000	Carrying amount €000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity <sup>(2)</sup> (in years)
	B,	CC/					
	C1, C2,	C/C/					
	D1, D2, D3,	C/C/C/					
Duncannon	E1, E2	C/C	137,720	137,568	1.93%	1.49%	2.4
<b>Total</b>			<b>137,720</b>	<b>137,568</b>	<b>1.93%</b>	<b>1.49%</b>	<b>2.4</b>

The Class A notes were repaid at the March 2015 IPD.

In the six months ending 30 June 2015, Eurocastle Funding Limited purchased €5.1 million of Duncannon Class C1 notes at a price of 89.8% of nominal resulting in a gain to the Group of €0.5 million; and a further tranche of €1.2 million at a price of 93.5% resulting in a gain to the Group of €1.0 million.

In the six months ended 30 June 2014, 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.

As at 31 December 2014:

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

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

<sup>(2)</sup> The legal maturity of the portfolio is 20 June 2047

## 18. BANK BORROWINGS

The bank borrowings comprise:

		As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
Term financing	(note 18.1)	689,529	757,916
Loans and notes relating to the Mars Portfolios	(note 18.2)	-	-
Repurchase agreement	(note 18.3)	16,875	-
<b>Total</b>		<b>706,404</b>	<b>757,916</b>

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

## 18.1 Term Financing

Portfolios	Month raised	Current face amount €000		Carrying amount €000		Weighted average effective rate of financing (Unaudited)	Weighted average funding cash coupon (Unaudited)	Maturity
		As at 30 June 2015 (Unaudited)	As at 31 December 2014	As at 30 June 2015 (Unaudited)	As at 31 December 2014			
Wave <sup>(1)</sup>	Apr 2007	67,619	68,200	66,515	66,651	4.45%	3.01%	May 2016
Truss <sup>(2)</sup>	Dec 2005	83,155	83,580	83,099	83,479	4.93%	4.85%	Feb 2016
Mars Fixed 2 <sup>(1)</sup>	Jun 2008	45,541	45,541	45,541	45,451	2.52%	2.52%	Dec 2015
Belfry <sup>(2)</sup>	Aug 2005	52,242	53,544	52,210	53,458	4.87%	4.66%	Oct 2015
Zama <sup>(1)</sup>	Feb 2007	25,727	25,868	25,727	25,793	1.77%	0.75%	May 2016
<b>Total investment property excluding Drive, Mars Floating and portfolios held for sale</b>								
		<b>274,284</b>	<b>276,733</b>	<b>273,092</b>	<b>274,832</b>	<b>4.10%</b>	<b>3.59%</b>	
Drive - Senior	Feb 2006	11,594	80,259	11,089	78,958	7.79%	3.10%	Jan 2016
Drive - Junior	Feb 2006	308,467	308,467	307,602	306,380	3.48%	3.00%	Jan 2016
Mars Floating <sup>(1)</sup>	Jan 2007	97,746	97,746	97,746	97,746	1.70%	1.70%	Sept 2015
<b>Sub-total</b>		<b>692,091</b>	<b>763,205</b>	<b>689,529</b>	<b>757,916</b>	<b>3.54%</b>	<b>3.05%</b>	
Term financing held in disposal group (refer note 14) <sup>(3)</sup>								
		-	254,373	-	253,560	-	-	-
Adjustment for costs of Mars refinancing <sup>(4)</sup>								
		-	-	-	-	-	-	-
<b>Net total term financing</b>		<b>692,091</b>	<b>1,017,578</b>	<b>689,529</b>	<b>1,011,476</b>			

<sup>(1)</sup> The current status of the maturity is described below.

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

<sup>(3)</sup> The Group deconsolidated the Superstella, Tannenberg and Turret portfolios in March 2015. Refer note 14; and note 31 of the 2014 Annual Report.

<sup>(4)</sup> Eurocastle transferred 50% of its interest in the Mars Fixed 1 and Floating portfolios to the lender and this is considered to be a cost of refinancing and is amortised over the life of the new loan facility (see note 18.2). The amortisation charge for the six months ended 30 June 2015 was €nil (six months ended 30 June 2014: €nil).

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

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. As of the reporting date, sales fees totalling €2.8 million have been received in 2015 with a further €0.3 million to be received in August 2015.

The Wave 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 has been marketed for sale and on 24 April 2015. The Company agreed to sell all the assets in the Wave portfolio with proceeds from 39 of the 44 assets received resulting in the facility being fully repaid. The sale process (once complete) is expected to generate net proceeds in the range of €2.0 to €4.0 million to the Company. The remaining assets are expected to close before the end of October 2015.

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 remaining two assets as at the reporting date are under binding contracts to be sold in the third quarter 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 9 May 2016 given certain asset management targets in relation to lease renewals have been met.

The Mars Fixed II facility matured on 30 June 2015. An extension was signed in July 2015 to a new maturity date of 31 December 2015.

## 18.2 Loans and notes relating to Mars Portfolio

	As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
<b>Within Mars Floating Portfolio</b>		
Loan notes and Shareholder Loans	318,791	238,485
Less: Remeasurement adjustment to amortised cost	(460,863)	(284,497)
Adjusted amortised cost	(142,072)	(46,012)
<b>Transfer of 50% of the adjusted amortised cost to the lender</b>	-	-

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

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

**18.3 Repurchase agreement**

On 6 May 2015, the Group entered into a repurchase agreement with a major investment bank to finance the purchase of €15.0 million of Duncannon C1 notes. The obligations under those agreements are guaranteed by the company. The terms of the repurchase agreement provide for interest to be calculated with reference to Euro Libor which reset or roll monthly with the corresponding security coupon payment dates, plus an applicable spread.

As at 30 June 2015, the Group's carrying amount and weighted average financing cost of these repurchase agreements were €16.9 million and 2.29%.

**19. TRADE AND OTHER PAYABLES**

	As at 30 June 2015 (Unaudited) €000	As at 31 December 2014 €000
Security deposit	3,478	3,497
Interest payable	32,910	27,661
Due to Manager (note 25)	2,409	1,874
Capital expenditure accruals	20,154	15,690
Accrued expenses and other payables	34,344	28,301
<b>Total trade and other payables</b>	<b>93,295</b>	<b>77,023</b>

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

**20. LOSS PER SHARE**

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

The Group's potential ordinary shares during the year were the share options issued under its share option plan (refer to note 21). There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements other than those described in note 21 which would have a dilutive effect as at 30 June 2015. The exercise of the share options would have a dilutive effect based on the average share price during which the share options were in issue.

	As at 30 June 2015 (Unaudited)	As at 31 December 2014
Weighted average number of shares	39,498,703	32,634,105
Dilutive effect of ordinary share options	161,445	-
<b>Weighted average number of shares - dilutive</b>	<b>39,660,148</b>	<b>32,634,105</b>

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

As at 30 June 2015, there were 72,398,494 shares (31 December 2014: 32,635,502) issued and outstanding.

The movement in share capital is shown as follows:

	Number of shares
Balance as at 31 December 2013	32,632,502
Issued to Directors as part of their in-place compensation arrangements on 20 June 2014 for €nil consideration	3,000
<b>Balance as at 31 December 2014</b>	<b>32,635,502</b>
Issued on 29 April 2015 at a price of €7.85 per share	39,762,992
<b>Balance as at 30 June 2015</b>	<b>72,398,494</b>

Under the Company's Articles of Incorporation, the Directors have the authority to effect the issuance of additional ordinary shares or to create new classes of shares as they deem necessary.

**Other reserves**

Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in June 2005, January 2006, December 2006 and May 2013. The terms of the options are set out in note 33 of the Notes to the Consolidated Financial Statements in the 2014 Annual Report. Movement in the number of share options and the related average exercise prices are as follows:

Date of grant	Options remaining at		Options lapsed	Options remaining at		Fair value at grant date €'000	Exercise price <sup>(1)</sup> €	Date of expiration
	1 January 2015	Options issued		30 June 2015	at 30 June 2015			
24 Jun 2005	2,521	-	(2,521)	-	-	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	
29 April 2015	-	3,976,299	-	3,976,299	4,756	7.85	29 April 2025	
<b>Total</b>	<b>1,521,407</b>	<b>3,976,299</b>	<b>(2,521)</b>	<b>5,495,185</b>	<b>26,024</b>			

<sup>(1)</sup> The exercise price of the options issued prior to 2013 have been restated following the share consolidation in the ratio 200:1.

Following the share capital issue in April 2015 of 39,762,992 shares at an issue price €7.85 per share, the Manager received an additional 3,976,299 options (refer note 27).

**22. 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.

At 30 June 2015, cumulative unrealised gains on hedge instruments were €0.6 million (31 December 2014: €1.4 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €0.6 million (31 December 2014: €0.6 million) and the fair value loss of the interest rate swaps of €nil (31 December 2014: €2.0 million).

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

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

**23. FINANCIAL INSTRUMENTS**

The Group's debt investments are generally financed long-term, with 94% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored.

The Group's investment property portfolio was generally financed at acquisition with long-term, fixed rate, non-recourse financing.

The status of the refinancing is disclosed in note 18.1

As at 30 June 2015 (Unaudited)

Type	Total outstanding at 30 June 2015 €000	Within 1 year €000	1 to 5 years €000	Over 5 years €000
<b>Assets</b>				
Cash and cash equivalents	474,565	474,565	-	-
Interest receivable <sup>(1)</sup>	369	2,672	4,787	-
Asset backed securities, available-for-sale	29	29	-	-
Fair value investments - listed shares	2,527	2,527	-	-
Loans and receivables	169,525	20,326	131,298	17,901
Fair value investments	5,638	1,559	3,984	95
Real estate fund units	13,945	-	13,945	-
Derivative assets <sup>(2)</sup>	2,672	198	1,952	522
<b>Total assets</b>	<b>669,270</b>	<b>501,876</b>	<b>155,966</b>	<b>18,518</b>
<b>Liabilities</b>				
Interest payable <sup>(1)</sup>	32,910	27,198	1,836	-
CDO bonds payable	137,568	-	-	137,568
Bank borrowings	706,404	706,404	-	-
Finance leases payable <sup>(3)</sup>	17,512	747	2,870	13,895
<b>Total liabilities</b>	<b>894,394</b>	<b>734,349</b>	<b>4,706</b>	<b>151,463</b>

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

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

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

Gross settled derivatives	Total outstanding at 30 June 2015 €000	Within 1 year €000	1 to 5 years €000	Over 5 years €000
Contractual amounts payable	(48,627)	(3,715)	(36,446)	(8,466)
Contractual amounts receivable	51,299	3,913	38,398	8,988
<b>Total undiscounted gross settled derivatives inflow</b>	<b>2,672</b>	<b>198</b>	<b>1,952</b>	<b>522</b>

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

**Maturities and mandatory amortisation of the Term Financing**

<b>Portfolio (€m)</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
<b>Non recourse</b>			
Wave <sup>(1)</sup>	-	67.6	67.6
Truss	83.2	-	83.2
Mars Fixed 2 <sup>(2)</sup>	45.6	-	45.6
Belfry	52.2	-	52.2
Zama <sup>(2)</sup>	-	25.7	25.7
<b>Real estate portfolio excluding Drive and Mars Floating</b>	<b>181.0</b>	<b>93.3</b>	<b>274.3</b>
Drive - Senior	-	11.6	11.6
Drive - Junior	-	308.5	308.5
Mars Floating <sup>(2)</sup>	97.7	-	97.7
<b>Total</b>	<b>278.7</b>	<b>413.4</b>	<b>692.1</b>

<sup>(1)</sup> Following the sale of 39 assets in July 2015, the facility was repaid in full. Refer note 27.

<sup>(2)</sup> The portfolios have been shown with the maturity date as per the latest extensions agreed at the date of reporting.

**As at 31 December 2014**

<b>Type</b>	<b>Total outstanding at 31 December 2014</b>			
	<b>€000</b>	<b>Within 1 year €000</b>	<b>1 to 5 years €000</b>	<b>Over 5 years €000</b>
<b>Assets</b>				
Cash and cash equivalents	142,581	142,581	-	-
Interest receivable <sup>(1)</sup>	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	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 <sup>(2)</sup>	8,291	1,715	5,370	1,206
<b>Total assets</b>	<b>381,726</b>	<b>178,685</b>	<b>182,927</b>	<b>27,826</b>
<b>Liabilities</b>				
Interest payable <sup>(1)</sup>	27,661	19,907	3,846	-
CDO bonds payable	194,248	-	-	194,248
Bank borrowings	757,916	607,786	150,130	-
Finance leases payable <sup>(3)</sup>	17,085	723	2,841	13,521
<b>Total liabilities</b>	<b>996,910</b>	<b>628,416</b>	<b>156,817</b>	<b>207,769</b>

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

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

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



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

## Gross settled derivatives

	Total outstanding at 31 December 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
<b>Total undiscounted gross settled derivatives inflow</b>	<b>8,291</b>	<b>1,715</b>	<b>5,369</b>	<b>1,207</b>

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

	Unaudited as at 30 June 2015 Carrying Value €000	As at 31 December 2014 Carrying Value €000	Unaudited as at 30 June 2015 Fair Value €000	As at 31 December 2014 Fair Value €000
<b>Financial assets</b>				
Cash and cash equivalents	474,565	142,581	474,565	142,581
Asset back securities, available-for-sale	29	188	29	188
Fair value investments - listed shares	2,527	2,198	2,527	2,198
Loans and receivables (including cash to be invested)	169,525	199,676	101,800	128,863
Fair value investments	5,638	6,325	5,638	6,325
Real estate fund units	13,945	21,890	13,945	21,890
Derivative assets	2,871	8,291	2,871	8,291
<b>Financial liabilities</b>				
CDO bonds payable	137,568	194,248	63,831	114,684
Bank borrowings	706,404	757,916	710,289	779,178
Finance lease payable	17,512	17,085	17,512	17,085

## 24. DIVIDENDS PAID AND DECLARED

The following dividends were declared and paid for the six months ended 30 June 2015 (30 June 2014: €8.2 million):

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €000
25 March 2015	1 April 2015	2 April 2015	30 April 2015	€0.125	4,079
26 June 2015	1 July 2015	2 July 2015	30 July 2015	€0.125	9,050
<b>Total</b>					<b>13,129</b>

## 25. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

On 7 April 2015, the Company and the Manager entered into an amendment to the Management Agreement effective 1 January 2015. The amendment was subsequently signed in April 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.

At 30 June 2015, management fees, incentive fees and expense reimbursements of approximately €2.4 million (31 December 2014: €1.9 million) were due to the Manager. For the six months ended 30 June 2015, management fees of €1.8 million (30 June 2014: €3.0 million), incentive fees of €1.1 million (30 June 2014: €nil), and expense reimbursements of €2.6 million (30 June 2014: €3.3 million) were due to the Manager. The Manager is deemed to be the key employee for reporting purposes. The total compensation recharged to the Company for the quarter ending 30 June 2015 is €2.5 million (30 June 2014: €2.8 million).

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

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondario S.p.A. ("Italfondario") which is majority owned by an affiliate of the Manager. The terms of the agreements have been approved by the Independent Directors. Italfondario will provide portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the six months ending 30 June 2015 was €1.6 million (six months ending 30 June 2014: €0.7 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 30 June 2015 and 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 11). 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 Redbrick (refer note 12) is managed by Torre S.p.A which is majority owned by an affiliate of the Manager. The total fee expense for the six months ended 30 June 2015 is €0.1 million, of which €0.1 million is outstanding at 30 June 2015.

The Group's investment in the BAM (pool 6) (refer note 12) and MPS (pools 7 and 10) and BCC portfolios (pools 8,9 and 11) (refer note 13) is through a shared interest in a fund which is managed by an affiliate of the Manager. The total fee expense for the six months ended 30 June 2015 is €0.2 million which is set-off against the Group Management Fee payable to the Manager.

## 26. SEGMENTAL REPORTING

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

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

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

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

Segment assets for the Italian investments represent the loan portfolios and real estate fund units. Segment assets for the debt investment segment include available-for-sale securities and loans and receivables. Segment assets for the German investment properties segment represent investment properties (including investment properties held for sale).

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

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

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

Six months ended 30 June 2015 (unaudited)	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 <sup>(1)</sup>	1,752	33,097	-	-	34,849	3,049	37,898
Impairment losses	(907)	-	-	-	(907)	-	(907)
Other operating income / (loss)	6,611	(30,870)	3,453	(1,359)	(22,165)	(717)	(22,882)
<b>Total operating income / (loss)</b>	<b>7,456</b>	<b>2,227</b>	<b>3,453</b>	<b>(1,359)</b>	<b>11,777</b>	<b>2,332</b>	<b>14,109</b>
Interest expense	(2,067)	(14,701)	-	(17)	(16,785)	(874)	(17,659)
Other expense	(223)	(18,146)	(93)	(6,021)	(24,483)	(1,603)	(26,086)
<b>Total operating expenses</b>	<b>(2,290)</b>	<b>(32,847)</b>	<b>(93)</b>	<b>(6,038)</b>	<b>(41,268)</b>	<b>(2,477)</b>	<b>(43,745)</b>
<b>Net operating profit / (loss)</b>	<b>5,166</b>	<b>(30,620)</b>	<b>3,360</b>	<b>(7,397)</b>	<b>(29,491)</b>	<b>(145)</b>	<b>(29,636)</b>
Taxation expense	-	2,441	(17)	-	2,424	(44)	2,380
<b>Net profit / (loss) after taxation</b>	<b>5,166</b>	<b>(28,179)</b>	<b>3,343</b>	<b>(7,397)</b>	<b>(27,067)</b>	<b>(189)</b>	<b>(27,256)</b>
Minority interest	-	-	-	-	-	(264)	(264)
<b>Net profit / (loss) after minority interest</b>	<b>5,166</b>	<b>(28,179)</b>	<b>3,343</b>	<b>(7,397)</b>	<b>(27,067)</b>	<b>(453)</b>	<b>(27,520)</b>
Movement in fair values	1,725	35,189	2,560	-	39,474	510	39,984
Real estate revaluations	-	3,919	-	-	3,919	(128)	3,791
Deferred tax	-	(391)	-	-	(391)	-	(391)
Realised losses on paydowns and sales	(4,272)	-	-	-	(4,272)	-	(4,272)
Gain on deconsolidation	-	(4,713)	-	-	(4,713)	-	(4,713)
Impairment losses on debt	907	-	-	-	907	-	907
Other	(2,340)	-	-	1,359	(981)	-	(981)
<b>Normalised funds from operations</b>	<b>1,186</b>	<b>5,825</b>	<b>5,903</b>	<b>(6,038)</b>	<b>6,876</b>	<b>(71)</b>	<b>6,805</b>

<sup>(1)</sup> Included within revenue income is interest income of €1.6 million within the debt investment segment and €0.1 million within the investment properties segment.

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

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

Six months ended 30 June 2014 (unaudited)	European Real Estate Debt €000	German Commercial Real Estate €000	Italian Investments €000	Unallocated €000	Total Adjusted Eurocastle €000	Mars Floating and Non- controlling interest €000	Total Eurocastle €000
Revenue <sup>(1)</sup>	4,140	49,549	(5)	31	53,715	4,241	57,956
Impairment losses	(10,653)	-	-	-	(10,653)	-	(10,653)
Other operating (loss) / income	2,463	(46,551)	1,961	(298)	(42,425)	(13,980)	(56,405)
<b>Total operating (loss) / income</b>	<b>(4,050)</b>	<b>2,998</b>	<b>1,956</b>	<b>(267)</b>	<b>637</b>	<b>(9,739)</b>	<b>(9,102)</b>
Interest expense	(2,442)	(20,959)	45	-	(23,356)	(1,223)	(24,579)
Other expense	(841)	(25,093)	(1,059)	(5,017)	(32,010)	(3,179)	(35,189)
<b>Total operating expenses</b>	<b>(3,283)</b>	<b>(46,052)</b>	<b>(1,014)</b>	<b>(5,017)</b>	<b>(55,366)</b>	<b>(4,402)</b>	<b>(59,768)</b>
<b>Net operating (loss) / profit</b>	<b>(7,333)</b>	<b>(43,054)</b>	<b>942</b>	<b>(5,284)</b>	<b>(54,729)</b>	<b>(14,141)</b>	<b>(68,870)</b>
Taxation expense	(1)	(1,109)	(12)	-	(1,122)	(31)	(1,153)
<b>Net (loss) / profit after taxation</b>	<b>(7,334)</b>	<b>(44,163)</b>	<b>930</b>	<b>(5,284)</b>	<b>(55,851)</b>	<b>(14,172)</b>	<b>(70,023)</b>
Minority interest	-	-	-	-	-	(245)	(245)
<b>Net (loss) / profit after minority interest</b>	<b>(7,334)</b>	<b>(44,163)</b>	<b>930</b>	<b>(5,284)</b>	<b>(55,851)</b>	<b>(14,417)</b>	<b>(70,268)</b>
Movement in fair values	-	20,347	347	-	20,694	13,980	34,674
Real estate revaluations	-	3,676	-	-	3,676	308	3,984
Deferred tax	-	(1,292)	-	-	(1,292)	-	(1,292)
Realised losses on paydowns and sales	(1,557)	-	-	-	(1,557)	-	(1,557)
Fair value adjustment	-	-	-	-	-	-	-
Loss on deconsolidation	-	26,077	-	-	26,077	-	26,077
Impairment losses on debt	10,653	-	-	-	10,653	-	10,653
Other	(906)	-	1,489	298	881	-	881
<b>Normalised funds from operations</b>	<b>856</b>	<b>4,645</b>	<b>2,766</b>	<b>(4,986)</b>	<b>3,281</b>	<b>(129)</b>	<b>3,152</b>

<sup>(1)</sup> Included within revenue income is interest income of €1.6 million within the debt investment segment and €0.1 million within the investment properties segment.

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

## Segmental Balance Sheet:

	European Real Estate Debt €000	German Commercial Real Estate €000	Italian Investments €000	Unallocated €000	Total Adjusted Eurocastle €000	Drive, Mars Floating and Non- controlling interest €000	Total Eurocastle €000
<b>As at 30 June 2015 (unaudited)</b>							
Total assets	178,840	352,165	52,949	435,892	1,019,846	419,217	<b>1,439,063</b>
Total liabilities	(155,000)	(295,686)	(3,035)	(13,395)	(467,116)	(491,850)	<b>(958,966)</b>
<b>Segment net assets / (liabilities)</b>	<b>23,840</b>	<b>56,479</b>	<b>49,914</b>	<b>422,497</b>	<b>552,730</b>	<b>(72,633)</b>	<b>480,097</b>
Tax liability	-	(8,452)	-	-	(8,452)	(345)	<b>(8,797)</b>
Non-controlling interest	(2)	(4)	-	-	(6)	(1,239)	<b>(1,245)</b>
<b>Net assets / (liabilities)</b>	<b>23,838</b>	<b>48,023</b>	<b>49,914</b>	<b>422,497</b>	<b>544,272</b>	<b>(74,217)</b>	<b>470,055</b>

	European Real Estate Debt €000	German Commercial Real Estate €000	Italian Investments €000	Unallocated €000	Total Adjusted Eurocastle €000	Drive, Mars Floating and Non- controlling interest €000	Total Eurocastle €000
<b>As at 31 December 2014</b>							
Total assets	217,247	636,779	67,940	97,005	1,018,971	514,954	<b>1,533,925</b>
Total liabilities	(194,774)	(557,082)	(2,798)	(8,421)	(763,075)	(551,076)	<b>(1,314,151)</b>
<b>Segment net assets / (liabilities)</b>	<b>22,473</b>	<b>79,697</b>	<b>65,142</b>	<b>88,584</b>	<b>255,896</b>	<b>(36,122)</b>	<b>219,774</b>
Tax liability	-	(10,762)	-	-	(10,762)	(328)	<b>(11,090)</b>
Non-controlling interest	(2)	(4)	-	-	(6)	(2,315)	<b>(2,321)</b>
<b>Net assets / (liabilities)</b>	<b>22,471</b>	<b>68,931</b>	<b>65,142</b>	<b>88,584</b>	<b>245,128</b>	<b>(38,765)</b>	<b>206,363</b>

## Segmental Cashflows:

	European Real Estate Debt €000	German Commercial Real Estate €000	Italian Investments €000	Unallocated €000	Total Adjusted Eurocastle €000	Floating and Non- controlling interest €000	Total Eurocastle €000
<b>Six months ended 30 June 2015 (unaudited)</b>							
Cashflows from operating activities	4,208	1,728	(93)	(2,426)	3,417	2,730	<b>6,147</b>
Cashflows from investing activities	38,563	6,440	17,321	-	62,324	74,725	<b>137,049</b>
Cashflows from financing activities	(45,470)	(24,979)	(21,891)	341,364	249,024	(64,190)	<b>184,834</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2,699)</b>	<b>(16,811)</b>	<b>(4,663)</b>	<b>338,938</b>	<b>314,765</b>	<b>13,265</b>	<b>328,030</b>

	European Real Estate Debt €000	German Commercial Real Estate €000	Italian Investments €000	Unallocated €000	Total Adjusted Eurocastle €000	Drive, Mars Floating and Non- controlling interest €000	Total Eurocastle €000
<b>Six months ended 30 June 2014 (unaudited)</b>							
Cashflows from operating activities	(1,851)	12,875	(1,019)	(5,284)	4,721	2,586	<b>7,307</b>
Cashflows from investing activities	79,743	4,218	(2,937)	(8)	81,016	52,825	<b>133,841</b>
Cashflows from financing activities	(52,953)	(49,977)	(951)	(8,158)	(112,039)	(49,770)	<b>(161,809)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>24,939</b>	<b>(32,884)</b>	<b>(4,907)</b>	<b>(13,450)</b>	<b>(26,302)</b>	<b>5,641</b>	<b>(20,661)</b>

**27. SUBSEQUENT EVENTS**

The first tranche of the Wave assets (39 out of 44 assets) were notarised on 9 July 2015 for a combined sales price of €01.5 million. The Wave facility has been repaid in full and the remaining assets are expected to close by October.

The Group has sold or entered into binding contracts for a further 3 properties subsequent to 30 June 2015 for €1.6 million generating €0.1 million of fees to the Company.

**28. COMMITMENTS**

As at 30 June 2015, the Company has entered into a letter of comfort for a term of nine 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 €1.3 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 September 2015. They are expected to be extended to accommodate a longer timeline for the collapse of the vehicle, if required.

In March 2015, as part of the terms of the sale of the Superstella, Tannenbergl and Turret portfolio as is customary for such transactions in Germany, the Company agreed to provide certain warranties to the buyer. With the exception of those related to tax and title, these warranties are capped at €21.9 million and endure for a remaining 21 months.