EUROCASTLE INVESTMENT LIMITED

2011 ANNUAL REPORT

Eurocastle Investment Limited primarily owns and manages German commercial property. The Company is Euro denominated and listed on Euronext Amsterdam, under the symbol "ECT." Eurocastle is managed by an affiliate of Fortress Investment Group LLC.

REPORT OF THE DIRECTORS

Eurocastle Investment Limited ("Eurocastle" or the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle and its consolidated subsidiaries (together with Eurocastle, the "Group") primarily own and manage German commercial properties. 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.

Activities

The principal activities of the Group include investing in, financing and management of German commercial properties. In addition, the Group also invests in European real estate related debt which is complementary to its core business. The Group is externally managed by its manager, FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC, a global alternative asset manager with approximately US $43.7 billion of assets under management as of 31 December 2011 (US $44.6 billion as of 31 December 2010). The Group 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, of which a majority are independent of the Manager. Eurocastle has no direct employees. For its services, the Manager receives an annual management fee (which includes a reimbursement for expenses) and incentive compensation, as defined in the Management Agreement. The Group has no ownership interest in the Manager.

Review of Business

During the year ended 31 December 2011, the Group signed 251 commercial leases for approximately 154,400 square metres (sqm). Physical occupancy was at 84.3% compared to 87.0% at the end of 2010. Going into 2012, the level of physical portfolio occupancy on a like-for-like basis decreased by 4.4% following an expiry relating to the consolidation of a major tenant's back-office locations in Frankfurt and Munich. In 2011, the Group sold 32 properties for total sales proceeds of €142.5 million versus a carrying value of €155.6 million with the loss reported in the decrease in fair value of investment properties. Excluding sales from the Mars Floating Portfolio from which the Group does not attribute any material net asset value ("NAV"), the group realised sales of €77.3 million for a carrying value of €76.8 million.

The Mars Fixed 1 facility was restructured in the second quarter. The Group transferred control to a junior lender in return for current running fixed asset management fees for the portfolio. To date, the Group has benefited economically by €2.9 million from fees relating to 2011. In January 2011, the Group disposed of its Bastion retail portfolio realising a loss of €0.7 million.

In the fourth quarter, the Group completed the restructuring of its investment in Eurocastle CDO II PLC ("CDO II") and Eurocastle CDO III PLC ("CDO III"). The Group sold a majority of its equity investment in both CDO II and CDO III and made a minority investment in the senior class notes issued by CDO II. The facility with the Eurocastle CDO IV PLC ("CDO IV") lender was also restructured resulting in all excess cashflow after interest and costs going to the Group (estimated at €0.5 million in 2012). Additional terms include the removal of all amortisation targets and an extension of the loan maturity to December 2014.

In aggregate, the debt portfolio reinvested €137.1 million (net of intercompany positions) in a combination of CMBS and RMBS. Additionally, the Group repurchased €26.3 million of its own CDO senior debt at an average price of 67.6% of nominal realising a net book gain of €8.4 million. Credit quality stabilised further in 2011 for all asset classes in the European debt market, albeit in the context of significant price volatility. The first half of the year was characterised by a broad rally across all structured products, while the second half saw a universal sell-off. Cash flows in the portfolio have remained strong; actual realised losses have been small to date and have been primarily associated with junior CMBS positions.

The Group has continued to generate cash at the holding company level that is available for corporate purposes. However, excess cashflow from Duncannon CRE CDO I PLC ("Duncannon"), Drive and the remaining Mars portfolios continues to be retained at the portfolio level and is not distributed to Eurocastle. During the year, the Group received cash distributions of €3.2 million from the Drive Portfolio and €2.9 million of net cash flow from asset management services provided to the Mars Fixed 1 Portfolio. The Group received €18.1 million from its investment in the senior CDO II Note in December 2011 and currently expects to receive in excess of €4.0 million in the medium term. As at 31 December 2011, the Group had a corporate cash balance of €28.9 million. The tables below show the summarised performance and development of the business:

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Income Statement		
Interest income	56,382	44,289
Rental income	179,572	236,030
Service charge income	38,407	49,826
Decrease in fair value of investment properties	(59,399)	(85,015)
Impairment losses	(49,781)	(66,127)
Interest expense	(125,739)	(192,560)
Service charges and property operating expenses	(72,815)	(86,395)
Other operating expenses	(38,961)	(39,040)
Net loss before taxation	(14,435)	(123,836)
Net loss after taxation	(18,473)	(124,922)
Funds from operations ("FFO")	(32,023)	(69,195)
Normalised FFO	7,295	34,600
Balance Sheet		
Total Assets	2,870,807	4,882,283
Total Liabilities	(2,507,866)	(4,596,739)
Net Assets	**362,941**	**285,544**
Weighted average number of ordinary shares outstanding, (basic)	74,752,269	64,984,347
Dilutive effect of ordinary share options and convertible securities	403,895,187	356,904,091
Weighted average number of ordinary shares outstanding (diluted)	**478,647,456**	**421,888,438**
Ordinary shares outstanding	86,577,189	65,739,646
Fully diluted ordinary shares outstanding	573,317,648	490,468,409

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

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

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Key Performance Indicators		
Loss per weighted average basic share and diluted share	(0.25)	(1.92)
FFO per weighted average basic share and diluted share	(0.43)	(1.06)
Normalised FFO per weighted average basic share	0.10	0.53
Normalised FFO per weighted average diluted share	0.02	0.08
Normalised FFO per fully diluted share	0.01	0.07
Net assets per fully diluted share	0.64	0.58
Real estate net assets per fully diluted share	0.52	0.76
Debt investment portfolio net assets per fully diluted share	0.12	(0.18)
Reconciliation of Funds from Operations and Normalised Funds from Operations		
Net loss after taxation	(18,473)	(124,922)
Decrease in fair values of investment properties	59,399	85,015
Realised loss on sale of investment properties	(72,308)	(25,000)
Unrealised movements on currency swaps (net of translation effects of related assets)	(926)	62
Increase in fair value of interest rate swaps	(1,463)	(3,523)
Deferred tax charge / (credit)	1,748	(827)
Funds from operations	**(32,023)**	**(69,195)**
Net realised losses on investment property sales after sales costs and closure of swaps	77,575	36,259
(Gains) / losses on foreign currency contracts, translation and swaps	(517)	363
Impairment losses	49,781	66,127
Realised loss on sale of available-for-sale securities	-	5,469
Realised (gain) / loss on sale of loans and receivables	(520)	6,184
Amortisation of cost of Mars refinancing[1]	(9,188)	9,537
Interest rate swap adjustments	1,475	3,567
Loss on sale of investment	711	-
Gain on repurchase of mezzanine debt	(2,753)	-
Realised gain on paydown of impaired assets	(24,815)	-
Gain on deconsolidation of CDO II and CDO III	(53,432)	-
Loss on transfer of investment in Mars Fixed 1 portfolio	9,377	-
Gain on repurchase of debt financing	(8,376)	(23,711)
Normalised funds from operations	**7,295**	**34,600**

[1] Represents the economic (non-IFRS impact of transferring 50% of the Group's equity in the Mars Floating Portfolio to the lender as part of the Mars Floating restructuring.

Property Valuation Data (by Portfolio)

For 2011

Portfolio	Number of properties	Occupancy	Lettable space	Property valuation**	Passing Rent	Net operating income (NOI)*	NOI yield on valuation
		%	(sqm)	€m	€m	€m	%
Drive	191	77.6%	462,862	816	53.3	44.9	5.5%
Bridge	6	96.2%	191,572	425	29.9	28.0	6.6%
Wave	66	83.1%	168,629	206	16.1	14.0	6.8%
Mars Floating***	13	58.7%	168,136	166	10.6	7.0	4.2%
Turret	63	97.6%	140,631	173	15.0	13.4	7.8%
Truss	41	98.6%	81,280	97	8.4	7.5	7.7%
Mars Fixed	3	86.1%	38,302	96	6.3	5.2	5.4%
Belfry	27	98.1%	52,914	61	5.2	4.6	7.6%
Tannenberg	27	95.6%	49,498	61	5.2	4.4	7.2%
Superstella	18	100.0%	38,355	56	4.4	4.1	7.2%
Zama	8	93.3%	30,399	45	3.5	3.2	7.2%
Total portfolio	**463**	**84.3%**	**1,422,578**	**2,202**	**157.9**	**136.3**	**6.2%**

For 2010 (on a like-for-like basis)

Portfolio	Number of properties	Occupancy	Lettable space	Property valuation**	Passing Rent	Net operating income (NOI)*	NOI yield on valuation
		%	(sqm)	€m	€m	€m	%
Drive	191	86.5%	400,203	830	63.5	56.9	6.9%
Bridge	6	95.1%	182,103	425	29.6	27.7	6.5%
Wave	66	82.9%	139,826	210	15.5	13.2	6.3%
Mars Floating***	13	57.1%	96,081	188	10.6	7.7	4.1%
Turret	63	98.2%	138,075	175	15.1	13.8	7.9%
Truss	41	99.3%	80,689	98	8.5	7.7	7.9%
Mars Fixed	3	87.9%	33,659	98	6.3	5.1	5.2%
Belfry	27	98.8%	52,274	62	5.2	4.8	7.7%
Tannenberg	27	95.9%	47,475	61	5.1	4.5	7.3%
Superstella	18	100.0%	38,355	56	4.4	4.1	7.4%
Zama	8	94.6%	28,745	45	3.5	3.2	7.0%
Total portfolio	**463**	**87.0%**	**1,237,485**	**2,248**	**167.3**	**148.7**	**6.6%**

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

** Property valuation excludes the leasehold gross-up of €22.6 million.

*** The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% investment.

For information regarding the risks facing the business, please refer to note 27 to the consolidated financial statements.

Dividends

No dividends have been declared or paid during 2011 (2010: € nil).

Management Agreement

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

The Independent Directors have concluded that the continued appointment of the Manager is in the best interest of the shareholders.

Directors

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

Wesley R. Edens (resigned 18 November 2011)
Peter Smith (appointed 18 November 2011)
Paolo Giorgio Bassi*
Keith Dorrian*
Randal A. Nardone
Udo Scheffel*
Simon J. Thornton*

* Independent Directors

Directors' Interests

The interests of the Directors in the ordinary shares of Eurocastle as at 31 December 2011 were as follows:

	31 December 2011	31 December 2010
Paolo Giorgio Bassi	41,800	40,800
Keith Dorrian	8,000	7,000
Wesley R. Edens	-	50,000
Randal A. Nardone*	20,000	20,000
Udo Scheffel	5,000	4,000
Peter Smith	-	-
Simon J. Thornton	5,000	4,000

* Randal A. Nardone is a member of Fortress Operating Entity II LP which is the registered holder of 1,005,000 shares and as a result of this relationship Randal A. Nardone is interested in the shares owned by this entity or in some of such shares. Randal A. Nardone participated in the first issuance of convertible securities during 2009. If his participation in the issuance were fully converted, he would hold an additional 14,136,213 shares.

Substantial Shareholdings

As at 15 March 2012, the Group had notification that the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV*	62.30%
Euroclear Nominees Limited	20.49%
Goldman Sachs Securities (Nominees) Limited**	10.16%

* Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV is the Dutch central securities depositary (otherwise known as Euroclear Netherlands)
** The Company has been informed that certain entities constituting Fortress Investment Fund III own nearly 10% of outstanding shares in the Company through a Goldman Sachs nominee company.

Auditors

Ernst & Young LLP were re-appointed during the period. Ernst & Young LLP have expressed their willingness to continue in office.

Corporate Governance

The Directors will apply the principles of the Guernsey Code of Corporate Governance which comes into effect from the 1 January 2012, and which will apply to, amongst others, companies which hold a licence pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended or which are registered or authorised as collective investment schemes in Guernsey.

Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 5. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

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

Going Concern

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

The Directors have reviewed the Group's processes to control those financial risks to which the Group is exposed, as disclosed in note 27 to the consolidated financial statements, as well as reviewing the annual budget.

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

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors as at 31 December 2011 (whose names are listed on page 5) confirms that, to the best of each person's knowledge and belief:

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

Registered Office

International Administration Group (Guernsey) Limited
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey
GY1 1WW

On behalf of the Board

Simon J. Thornton
(Director and Audit Committee Chairman)
Date: 15 March 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

We have audited the financial statements of Eurocastle Investment Limited and its Subsidiaries ("the Group") for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs").

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

A. Wong.

Andrew Woosey
for and on behalf of Ernst & Young LLP
London
Date: 15 March 2012

Notes:

1. The maintenance and integrity of the Eurocastle Investment Limited web site is the responsibility of the Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Operating income			
Interest income	3	56,382	44,289
Rental income	4	179,572	236,030
Service charge income	4	38,407	49,826
Loss on disposal of asset backed securities, available-for-sale		-	(5,469)
Gain / (loss) on disposal of loans and receivables		520	(6,184)
Decrease in fair value of investment properties	7,16	(59,399)	(85,015)
Gain on repurchase of debt financing	19	8,376	23,711
Increase in fair value of interest rate swaps	15	1,463	3,523
Gains on foreign currency contracts, translation and swaps	8	1,443	-
Impairment losses	9	(49,781)	(66,127)
Loss on sale of shares in Bastion	16,22	(711)	-
Gain on repurchase of mezzanine financing	19	2,753	-
Loss on transfer of investment in Mars Fixed 1 Portfolio	22	(9,377)	-
Gain on deconsolidation of CDO II and CDO III	22	53,432	-
Income from associate	13	-	-
Total operating income		**223,080**	**194,584**
Operating expenses			
Interest expense	5	125,739	192,560
Service charge expenses	4	35,532	49,826
Property operating expenses	4	37,283	36,569
Losses on foreign currency contracts, translation and swaps	8	-	425
Other operating expenses	6	38,961	39,040
Total operating expenses		**237,515**	**318,420**
Net operating loss before taxation		**(14,435)**	**(123,836)**
Taxation expense - current	7	2,290	1,913
Taxation charge / (credit) - deferred	7	1,748	(827)
Net loss after taxation		**(18,473)**	**(124,922)**
Loss per ordinary share			
Basic and diluted	23	(0.25)	(1.92)

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Net loss after taxation		**(18,473)**	**(124,922)**
Other comprehensive income			
Available-for-sale securities			
Unrealised gain / (loss) on asset backed securities, available-for-sale	11	7,444	(2,959)
Unrealised losses reclassified to the income statement on disposal of available-for-sale securities		-	19,932
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables movements released to the income statement	12	27,808	33,898
Adjustment to amortisation of unrealised losses reflecting changes to expected cash flows	12	(1,944)	(15,174)
Unrealised losses reclassified to the income statement on disposal of available- for- sale securities, reclassified as loans and receivables		520	2,287
Net unrealised losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9, 12	9,494	13,787
Unrealised losses reclassified to the income statement on deconsolidation of CDO II and CDO III	22	61,266	-
Total available-for-sale securities		104,588	51,771
Cash flow hedges			
Net unrealised gain on hedge instruments		1,421	125
Realised losses / (gains) on hedge instruments reclassified to the income statement	25	35	(713)
Transfer of Mars Fixed 1 hedging reserve to the income statement	13,22	(7,183)	-
Amortisation of novated swaps	25	(2,992)	(4,082)
Total cash flow hedges		(8,719)	(4,670)
Other comprehensive income		**95,869**	**47,101**
Total comprehensive income / (loss) for the year		**77,396**	**(77,821)**

See notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2011 €'000	31 December 2010 €'000
Assets			
Cash and cash equivalents	10	117,669	113,990
Investment properties held for sale	16	53,152	93,340
Other assets	14	22,875	49,976
Available-for-sale securities	11	45,543	36,313
Loans and receivables (includes cash to be invested)	12	448,647	1,275,901
Fixtures and fittings	18	133	216
Derivative assets	15	20,170	29,313
Investment property	16	2,162,243	3,282,196
Investment in associate	13	-	-
Intangible assets	17	375	1,038
Total assets		**2,870,807**	**4,882,283**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	24	1,434,370	1,428,119
Accumulated loss		(1,186,680)	(1,143,354)
Net unrealised loss on available-for-sale securities and loans and receivables	11,12	(38,785)	(143,373)
Hedging reserve	25	(8,112)	607
Perpetual subordinated convertible securities	26	144,822	126,219
Other reserves	24	17,320	17,320
Total shareholders' equity		**362,935**	**285,538**
Non-controlling interest		**6**	**6**
Total equity		**362,941**	**285,544**
Liabilities			
Trade and other payables	21	56,088	81,104
CDO bonds payable	19	431,700	1,392,570
Bank borrowings	20	1,974,226	3,089,807
Derivative liabilities	15	13,228	14,325
Finance lease payable	16	22,692	13,213
Current taxation payable	7	5,230	2,205
Deferred taxation liability	7	4,702	3,515
Total liabilities		**2,507,866**	**4,596,739**
Total equity and liabilities		**2,870,807**	**4,882,283**

See notes to the consolidated financial statements.

The financial statements were approved by the Board of Directors on 15 March 2012 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED CASHFLOW STATEMENT

	Notes	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Cash flows from operating activities			
Operating loss before taxation		(14,435)	(123,836)
Adjustments for:			
Interest income		(38,058)	(41,065)
Interest expense		107,855	185,602
Unrealised loss on foreign currency contracts		(1,443)	425
Amortisation of discounts on securities		(18,502)	(3,224)
Amortisation of borrowing costs		4,437	6,958
Amortisation of tenant incentives / leasing commissions		10,936	7,357
Realised loss on disposal of available-for-sale securities		-	5,469
Realised loss on disposal of loans and receivables		520	6,184
Realised gain on repurchase of debt financing	19	(8,376)	(23,711)
Realised gain on repurchase of mezzanine financing	19	(2,753)	-
Impairment losses	9	49,781	66,127
Loss on transfer of investment in Mars Fixed 1 Portfolio	22	9,377	-
Gain on deconsolidation of CDO II and CDO III	22	(53,432)	-
Taxation paid		(437)	(2,133)
Amortisation of intangibles	17	663	798
Depreciation of fixtures and fittings	18	83	85
Decrease in fair value of investment properties	16	59,399	85,015
Increase in fair value of interest rate swaps	15	(1,463)	(3,523)
Decrease in other assets		1,795	2,627
Interest received		36,862	40,697
Interest paid		(122,452)	(185,195)
(Decrease) / increase in trade and other payables		(9,683)	8,941
Loss on sale of shares in Bastion	16,22	711	-
Shares issued to Directors	24	1	1
Decrease in provision for finance guarantee loss		-	(30,000)
Net cash flows from operating activities		**11,386**	**3,599**
Cash flows from investing activities			
Capital expenditures / tenant incentives	16	(11,981)	(19,932)
Proceeds from sale of investment properties	16	142,523	223,358
Proceeds on sale / prepayment of available-for-sale securities		-	38,807
Purchase of loans and receivables		(137,106)	(138,896)
Sale / prepayment of loans and receivables		168,119	310,102
Purchase of intangible assets		-	(114)
Cash impact of deconsolidation of CDO II and CDO III	22	(7,315)	-
Cash impact of deconsolidation of Mars Fixed 1	22	(6,328)	-
Net cash flows from investing activities		**147,912**	**413,325**
Cash flows from financing activities			
Repurchase of mezzanine financing		(248)	-
Payments for the repurchase of bonds issued		(18,173)	(69,539)
Repayments of bonds issued		-	(41,340)
Repayments of bank borrowings		(147,234)	(305,657)
Net cash flows from financing activities		**(165,655)**	**(416,536)**
Net increase in cash and cash equivalents		**(6,357)**	**388**
Cash and cash equivalents, beginning of year		**113,990**	**122,545**
Restricted CDO cash, beginning of year		**10,509**	**1,566**
Cash and cash equivalents, beginning of year		**124,499**	**124,111**
Cash and cash equivalents, end of year	10	**117,669**	**113,990**
Restricted CDO cash, end of year	12	**473**	**10,509**
Cash and cash equivalents, end of year		**118,142**	**124,499**

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group								
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Perpetual subordinated convertible securities €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2010	**60,735,646**	**1,426,618**	**17,320**	**106,358**	**(195,144)**	**5,277**	**(997,071)**	**6**	**363,364**
Loss for the year	-	-	-	-	-	-	(124,922)	-	(124,922)
Other comprehensive income / (loss)	-	-	-	-	51,771	(4,670)	-	-	47,101
Total comprehensive income / (loss)	-	-	-	-	51,771	(4,670)	(124,922)	-	(77,821)
Shares issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 26)	5,000,000	1,500	-	(1,500)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (Note 26)	-	-	-	21,361	-	-	(21,361)	-	-
At 31 December 2010	**65,739,646**	**1,428,119**	**17,320**	**126,219**	**(143,373)**	**607**	**(1,143,354)**	**6**	**285,544**
Loss for the year	-	-	-	-	-	-	(18,473)	-	(18,473)
Other comprehensive income / (loss)	-	-	-	-	104,588	(8,719)	-	-	95,869
Total comprehensive income / (loss)	-	-	-	-	104,588	(8,719)	(18,473)	-	(77,396)
Shares issued to Directors	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 26)	20,833,543	6,250	-	(6,250)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (Note 246	-	-	-	24,853	-	-	(24,853)	-	-
At 31 December 2011	**86,577,189**	**1,434,370**	**17,320**	**144,822**	**(38,785)**	**(8,112)**	**(1,186,680)**	**6**	**362,941**

1. BACKGROUND

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost basis except for investment properties, available-for-sale securities and derivative financial investments which are measured at fair value. The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2010 and for the year then ended, except that the Group has adopted the following new and amended IFRS and IAS interpretations as of 1 January 2011:

- IAS 24 *Related Party Disclosures* (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Disclosures (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definition of a related party. The new definitions emphasis a symmetrical view of related party transactions and clarifies the circumstances in which persons and key management personnel affect related party relationships of the Group. The adoption of the amendment did not have any impact of the financial position or performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 7 *Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provide by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information into context. The Group reflects the revised disclosure requirements in note 27.
- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 27 *Consolidated and Separated Financial Statements*
- IAS 34 *Interim Financial Statements*

Other amendments resulting from Improvement to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations* (Measurement of non-controlling interests (NCI))
- IFRS 3 *Business Combinations* (Contingent consideration arising on business combinations prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payments awards)

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 12 *Customer Loyalty Programmes* (determining the fair value of award credits)
- IFRCI 19 *Extinguishing Financial Liabilities with Equity Instruments*

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2011. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 31 December 2011, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany (refer to note 32).

Eurocastle Funding Limited ("EFL"), CDO IV, 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. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation – Special Purpose Entities, 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.

On 30 September 2011, the Group sold the majority of its holding in the Class E and Subordinated Notes that it held in CDO II and Eurocastle CDO III and acquired a minority holding in the Class A Notes in CDO II. As a result, the Group lost the right to and the control of the benefits with respect to both CDO II and CDO III. A gain or loss is recognised in the income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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

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

The Group owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg and Germany, as disclosed in Note 32, which are consolidated into these financial statements.

Critical accounting judgements and estimates

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

The critical accounting judgements and estimates and significant accounting policies are the same as those disclosed in the financial statements for the year ended 31 December 2010.

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

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

(ii) Valuation of available-for-sale investments

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

(iii) Valuation of investment properties

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

(iv) Fair value of derivatives

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

Financial Instruments

Classification

Financial assets and liabilities classified at fair value through profit or loss include those designated as such in initial recognition, including interest rate swaps, foreign currency swaps and forward foreign exchange contracts that are not designated as effective hedging instruments.

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

Recognition

The Group recognises financial assets that are classified as held at fair value or classified as loans and receivables through the income statement and available-for-sale assets on the date it commits to purchase the assets (trade date). From this date, any gains and losses arising from changes in the fair value of the assets are recognised.

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

Measurement

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

Subsequent to initial recognition all instruments that are classified as held at fair value through the consolidated income statement and available-for-sale assets are carried at fair value.

All financial assets other than trading instruments and available-for-sale assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Loans and receivables

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

Reclassification of asset backed securities, available-for-sale to loans and receivable

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

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

An analysis of reclassified assets is disclosed in Note 12.

Interest-bearing loans and borrowings (financial liabilities measured at amortised cost)

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

Interest income and interest expense

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

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

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

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

Financial liabilities

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

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

Impairment

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

Loans and receivables investments

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

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

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

Available-for-sale investments

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

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

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

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

See Note 9, Note 11 and Note 12 for details of impairment losses on available-for-sale and loans and receivables investments.

Hedge accounting

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

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

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

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

Cash and cash equivalents

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

Restricted cash

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

Investment properties

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

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

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

Leases

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

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

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

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

Intangible Assets

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

Fixtures and Fittings

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

Non-controlling Interests

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

Revenue

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

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

Service Charges

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

Service Income

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

Service Costs

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

Property Expenses

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

Deferred Taxation

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

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

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

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

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

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

Foreign Currency Translation

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

Share-Based Payments

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

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

Perpetual Subordinated Convertible Securities

Perpetual subordinated convertible securities comprise the issuance of convertible securities, which are convertible into fully paid ordinary shares. The convertible securities and accrued interest are accounted for in equity under the guidance of IAS 32 as Eurocastle as the Issuer holds the option to redeem the securities (principal and interest), and does not have a present obligation to transfer financial assets to the shareholder. The redemption of the securities is solely at the discretion of Eurocastle. The option will be separated from the host contract and will be accounted for separately through the income statement.

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

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements. The directors have set out below only those which may have a material impact on the financial statements in future periods.

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's position or performance.

The amendment to IFRS 7 requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the Group's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors anticipate that IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards will not have significant impact on amounts reported in the consolidated financial statements.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may result in more extensive disclosures in the financial statements.

The directors anticipate that the application of the amendments to IAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

3. INTEREST INCOME

Included in interest income for the year ended 31 December 2011 is €56.4 million (31 December 2010: €44.3 million) of interest income earned on the available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2011 includes interest calculated using the effective interest method of €56.3 million (31 December 2010: €44.1 million). Coupon interest earned of €36.6 million (31 December 2010: €40.9 million) is split between available-for-sale securities (€1.0 million), loans and receivables (€26.4 million), and real estate related loans (€9.2 million) (31 December 2010: €0.9 million, €26.6 million, and €13.4 million respectively).

Interest earned using the effective interest method on impaired assets for the year ended 31 December 2011 of €6.2 million (31 December 2010: €8.4 million) includes €0.01 million interest on available-for-sale securities, interest on loans and receivables of €4.1 million, and interest on real estate related loans of €2.1million (31 December 2010: €0.03 million, €3.6 million, and €4.8 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €25.8 million (31 December 2010: €18.7 million) as a result of reclassification of available-for-sale securities to loans and receivables. This amortisation is offset by the accretion of the carrying value of the reclassified loans and receivables, resulting in a net nil impact on the income statement. The amortisation and accretion have been adjusted to reflect changes in the anticipated cash flows.

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

4.1. Rental income

Rental income for the year ended 31 December 2011 of €179.6 million (31 December 2010: €236.0 million) represents rental income earned on investment properties.

4.2. Property operating expense

Property operating expenses (including repairs and maintenance) arising from investment properties that generated rental income for the year ended 31 December 2011 were €37.3 million, (31 December 2010: €36.6 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €10.9 million, (31 December 2010: €7.4 million) and fund costs relating to the Drive portfolio of €2.2 million (31 December 2010: €2.4 million).

4.3. Service charge income and expense

Service charge income for the year ended 31 December 2011 of €38.4 million (31 December 2010: €49.8 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2011 of €35.5 million (31 December 2010: €49.8 million) represents the costs of operating the properties that are recoverable from tenants.

5. INTEREST EXPENSE

Interest expense for the year ended 31 December 2011 of €125.7 million (31 December 2010: €192.6 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings. Interest expense is calculated using the effective interest method.

Included within the interest expense for the year are losses on the termination of interest rate swaps of €1.3 million (31 December 2010: €6.5 million) and capitalised financing costs written off of €0.2 million (31 December 2010: €0.5 million) relating to the sale of non-core assets.

Interest expense includes a €8.9 million credit (31 December 2010: €9.2 million charge) relating to the release of a portion of the amortisation charge with respect to the Mars Floating portfolios (refer to note 20.1).

6. OTHER OPERATING EXPENSES

	Year ended 31 December 2011 €’000	Year ended 31 December 2010 €’000
Professional fees	1,809	757
Sales related costs	3,774	4,229
Management fees (Note 30)	21,722	21,678
Depreciation	83	85
Amortisation of intangible assets	663	798
Other*	10,910	11,493
Total other operating expenses	**38,961**	**39,040**

* Included within other operating expenses for the year ended 31 December 2011 are reimbursement of property related asset management services of €8.5 million (31 December 2010: €8.5 million) to FIG LLC (See Note 30).

7. TAXATION EXPENSE

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Current tax expense		
Germany	2,255	1,819
Luxembourg	35	94
Total current tax	**2,290**	**1,913**
Deferred tax charge / (credit)		
Germany	1,748	(837)
Luxembourg	-	10
Total deferred tax	**1,748**	**(827)**
Total tax expense	**4,038**	**1,086**

Current tax of €2.3 million includes €0.6 million of current tax creditor relating to the Mars Fixed 1 portfolio which was deconsolidated in May 2011 (refer to note 22) and €1.8 million of current tax payable relating to the Wave portfolio that was reclassified from a provision account.

Deferred tax charge of €1.7 million includes €0.5 million relating to the Bastion Portfolio which was deconsolidated in January 2011 (refer to note 22).

Reconciliation of the total tax expense

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

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Net loss before taxation	(14,435)	(123,836)
Tax on ordinary activities based on Guernsey tax of 0% (2010: 0%)	-	-
Overseas taxation expense – Germany	4,003	982
Overseas taxation expense – Luxembourg	35	104
Total tax expense	**4,038**	**1,086**

Analysis of deferred tax:

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Tax losses carried forward / (utilised)	1,309	(405)
Temporary differences		
Loan expense	(93)	(40)
Tenant improvements and leasing commissions	(105)	(274)
Accelerated capital allowance	961	568
Revaluation of investment properties*	(906)	(1,408)
Capital expenditure	110	534
Other	472	198
Deferred tax charge / (credit)	**1,748**	**(827)**

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

Deferred tax on revaluation of investment properties:

Portfolio	Year ended 31 December 2011 (decrease) in fair value €'000	Year ended 31 December 2011 deferred tax €'000	Year ended 31 December 2010 (decrease) in fair value €'000	Year ended 31 December 2010 deferred tax €'000
Mars*	(38,468)	(200)	(49,453)	(56)
Drive	(10,788)	-	(19,400)	-
Wave	(2,970)	(366)	(1,583)	(1,118)
Zama	(475)	-	(856)	-
Bridge	(1,612)	-	(6,247)	-
Retail	(5,086)	(340)	(7,476)	(234)
	(59,399)	**(906)**	**(85,015)**	**(1,408)**

* The Mars portfolio consists of 23 entities, of which 16 hold investment properties. Deferred tax represents the tax on the valuation losses/ gains at the individual entity level.

Breakdown of taxation liability:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Split between:		
Current tax	5,230	2,205
Deferred tax	4,702	3,515
Closing taxation payable	**9,932**	**5,720**

Reconciliation of the total tax charge:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Loss before tax	(14,435)	(123,836)
Tax at domestic tax rates applicable to profits in the respective countries	-	-
Movement in deferred tax assets	-	-
Tax effect of revaluation of investment properties	55	(840)
Tax effect of timing differences	270	408
Tax effect of non-deductible expenses	-	-
Tax effect of tax losses	1,309	(405)
Tax effect of changes in tax rates	-	-
Other*	2,404	1,923
Total tax expense	**4,038**	**1,086**

* includes current taxes relating to Germany and Luxembourg of €2.2 million and €0.1 million, respectively.

Deferred tax liabilities are attributed to the following:

	2011			2010		
	Assets €'000	**Liabilities €'000**	**Net €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
Loan expense	-	(211)	(211)	-	(297)	(297)
Tenant improvement and leasing commissions	-	(173)	(173)	-	(277)	(277)
Accelerated capital allowance		(6,611)	(6,611)	-	(6,220)	(6,220)
Revaluation of investment properties	1,363	-	1,363	533	-	533
Capital expenditure	-	(1,627)	(1,627)	-	(1,521)	(1,521)
Tax value of recognised losses	2,722	-	2,722	4,135	-	4,135
Short-term temporary differences	-	(165)	(165)	132	-	132
Net deferred tax asset / (liability)	**4,085**	**(8,787)**	**(4,702)**	**4,800**	**(8,315)**	**(3,515)**

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

Unrecognised tax losses

The Group has tax losses which arose in Germany of €201.4 million (31 December 2010: €202.8 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets of €31.9 million (31 December 2010: €32.1 million) have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time.

The taxation expense for the year ended 31 December 2011 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, EFL, CDO IV, Duncannon and Feco, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

The Group's German subsidiary companies, Longwave and Shortwave, are subject to German corporate income tax (CIT) plus Solidarity Surcharge and German trade tax (TT) on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the year ended 31 December 2011 includes a provision relating to these subsidiaries.

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

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

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

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

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

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Fair value movements on currency swaps*	(9,154)	(23,727)
Foreign currency translation loss on assets subject to currency swaps*	10,098	22,176
Sub-total	**944**	**(1,551)**
Other currency gains	499	1,126
Total currency gains / (losses)	**1,443**	**(425)**

* The foreign currency swap is disclosed in Note 15.2.

9. IMPAIRMENT LOSSES

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Impairment losses / (reversal) on loans and receivables	34,881	(19,590)
Impairment losses on real estate related loans	5,406	71,930
Realisation of previously unrealised losses on impaired loans and receivables, previously held as available-for-sale	9,494	13,787
	49,781	**66,127**

During the year ended 31 December 2011, the Group has recognised impairment losses on 31 securities or loans (31 December 2010: 33 securities or loans). As at 31 December 2011, 17 securities had recognised impairment losses (31 December 2010: 48).

The carrying value of the impaired securities or loans as at 31 December 2011 after the impairment losses was €58.2 million (31 December 2010: €164.1 million).

10. CASH AND CASH EQUIVALENTS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Corporate cash	28,860	7,014
Cash within the real estate operating companies	80,694	102,186
Cash within the CDO vehicles	8,115	4,790
Total cash and cash equivalents	**117,669**	**113,990**

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

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

11. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE

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

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

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

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

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

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

12. LOANS AND RECEIVABLES

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

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

Restricted cash - cash to be invested	**473**
Total loans and receivables (including cash to be invested)	**448,647**

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

The securities within Portfolio V are encumbered by CDO securitisations (Note 19). Refer to note 22 for details of the deconsolidation of CDO II and CDO III.

As at 31 December 2010:

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

Restricted cash - cash to be invested	**10,509**
Total loans and receivables (including cash to be invested)	**1,275,901**

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

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:

	01 July 2008 Carrying value €'000	31 December 2011 Carrying value €'000	31 December 2010 Carrying value €'000	31 December 2011 Fair value €'000	31 December 2010 Fair value €'000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	219,571	1,013,471	126,602	687,542

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 2011 would have included €1.1 million on the reclassified available-for-sale securities of impairment losses, compared with impairment reversals of €1.4 million after the reclassification. During 2011, shareholders' equity (net losses not recognised in the income statement) would have included €81.5 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 December 2011.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year ended 31 December 2011:

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Net interest income	25,856	**25,837**
Impairment (losses) / reversals on securities classified as loans and receivables	(44,375)	**5,803**
(Losses) / income on available-for-sale securities reclassified to loans and receivables	**(18,519)**	**31,640**

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

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity relating to the impaired asset is released to the income statement at the impairment date. During 2011, €9.5 million of unrealised fair value losses have been released to the income statement for impaired reclassified financial assets available-for-sale (31 December 2010: €13.8 million). Additionally, €25.9 million (31 December 2010: €18.7 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by €1.9 million to reflect changes in the expected cash flows (31 December 2010: €15.2 million).

At 31 December 2011, the net unrealised loss on loans and receivables was €20.5 million (31 December 2010: €117.6 million).

The movement in the impairment losses is show below:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
As at 1 January	(217,484)	(184,635)
Reversals due to paydowns and sales	55,563	7,554
Losses for the year	(48,919)	(105,402)
Reversals for the year	6,085	64,999
Reversal due to deconsolidation of CDO II and CDO III	92,103	-
As at 31 December	**(112,652)**	**(217,484)**

13. INVESTMENT IN ASSOCIATE

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

At the date of transfer, the Group recognised a loss on deconsolidation through the income statement of €9.4 million (note 22), as well as an additional decline in the Group's net asset value of €7.2 million through the write-off of the outstanding Mars Fixed 1 term loan hedge reserve through equity.

As at 31 December 2011, the value of the Group's 25% retained investment in the Mars Fixed 1 equity and shareholder loans is nil.

The following tables illustrate summary financial information of the Group's investment in the Mars Fixed 1 portfolio. Share of associate's balance sheet:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Non-current assets	972,080	-
Current Assets	13,444	-
Current Liabilities	(243,996)	-
Non-current liabilities	(1,352,211)	-
Net liabilities	**(610,683)**	**-**
Share of Associate's net liabilities	-	-

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Loss for the period post transfer	(89,122)	-
Share of Associate's loss for the period post transfer	-	-

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

14. OTHER ASSETS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Tenant incentives and leasing commissions	9,056	25,379
Service charge receivable	5,397	12,881
Interest receivable	3,575	6,079
Rent receivable	1,239	961
Prepaid expenses	1,006	1,828
Other accounts receivable	2,602	2,848
Total other assets	**22,875**	**49,976**

15. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Foreign currency swaps	20,170	29,313
Total derivative assets	**20,170**	**29,313**

Derivative Liabilities

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Interest rate swaps*	13,228	14,325
Total derivative liabilities	**13,228**	**14,325**

* Included within the derivative liabilities is a € nil (31 December 2010: €1.8 million) prepaid collateral deposit held by the swap counterparty, who holds a legal right of offset.

15.1. Derivative Assets and Liabilities

Derivative assets and liabilities represent the fair value of interest rate swaps, foreign exchange forward contracts and foreign currency swaps. Interest rate swaps, which are used to hedge the Group's interest rate exposures, represent cash flow hedges and fair value hedges. The Wave cash flow hedge is deemed effective for hedge accounting purposes. The Mars cash flow hedges and the fair value hedges are deemed ineffective for hedge accounting purposes (refer to note 25).

15.2. Foreign Currency Swaps

During 2007, a subsidiary entered into a series of foreign currency swaps with a major investment bank to cover the foreign exchange risk in relation to its Pound Sterling / Swiss Franc denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling and / or Swiss Franc interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and with regards to interest Euribor plus a spread. The fair value loss of €9.2 million (31 December 2010: €23.7 million) is recorded in the income statement (refer to note 8).

16. INVESTMENT PROPERTY

Total investment property consists of:

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Tenant incentives and leasing commission (included in other assets – note 14)	9,056	25,379
Investment property held for sale	53,152	93,340
Investment property	2,162,243	3,282,196
Closing balance	**2,224,451**	**3,400,915**

As at 31 December 2011, the investment property held for sale is financed by approximately €41.6 million of bank borrowings (31 December 2010: approximately €83.0 million). In January 2011, following the sale of the 13 retail properties for €31.8 million making up the Bastion Portfolio, the Group sold its shares in two subsidiaries realising a loss of €0.7 million. The Group has sold another 19 properties for €110.7 million versus a carrying value of €123.8 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 31 December 2011:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Opening balance at 1 January 2011	3,321,712	79,203	3,400,915
Capital expenditure	10,991	-	10,991
Tenant incentives and leasing commissions	(10,936)	-	(10,936)
Free rent	990	-	990
Disposals	(139,960)	(2,563)	(142,523)
Transfer of investment in Mars Fixed 1 (refer to note 22)	(985,066)	-	(985,066)
Increase in minimum payments under head lease	-	9,479	9,479
Decrease in fair value	(53,328)	(6,071)	(59,399)
Total	**2,144,403**	**80,048**	**2,224,451**

As at 31 December 2010:

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

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, relettability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

Investment properties held for sale are stated at fair value, and are those properties that have been notarised for sale as at 31 December 2011. The gain or loss on the sale of investment property is reported in the fair value movements in the income statement.

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

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Investment property at market value	2,201,759	3,387,702
Minimum payments under head leases separately included in trade and other payables on the balance sheet	22,692	13,213
Balance sheet carrying value of investment property	**2,224,451**	**3,400,915**

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

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

2010	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	12.4	8.9	11.6
Market rent per sqm per month (€)	12.5	8.5	11.6
Average net initial yield	5.8%	7.1%	6.0%
Vacancy rate	17.4%	1.5%	14.3%

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. Lease arrangements over the land on which the 24 investment properties are built have unexpired terms ranging from 5 years to 88 years. Most are at a fixed rental, but some contain an obligation to pay a contingent rental calculated by reference to a retail price index. The amount recognised as an expense in the year in respect of contingent rental is €1.2 million (2010: €1.6 million).

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2011 €'000	Present value 31 December 2011 €'000	Total value 31 December 2010 €'000	Present value 31 December 2010 €'000
Under 1 year	1,044	1,017	1,154	1,094
From 2 to 5 years	4,287	3,757	4,633	3,577
More than 5 years	48,090	17,918	49,990	8,542
Total	**53,421**	**22,692**	**55,777**	**13,213**

The carrying value of investment properties held under finance leases is approximately €56.4 million (2010: €65.2 million).

Sensitivity analysis

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

2011 (€ million)	Office	Retail	Total
Market value	1,753	449	2,202
Increase in yield of 25 bps	1,688	436	2,124
Value sensitivity	**(65)**	**(13)**	**(78)**

2010 (€ million)	Office	Retail	Total
Market value	2,901	487	3,388
Increase in yield of 25 bps	2,849	479	3,328
Value sensitivity	**(52)**	**(8)**	**(60)**

Additional Information

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

Portfolio	Property valuation***	Term financing (face amount)	Other assets / (liabilities)****	Net operating income*	NOI yield on valuation	Occupancy	Capitalised expenditure**
	€'000	€'000	€'000	€'000	%	%	€'000
Drive	816,402	716,083	33,520	45,022	5.5%	77.6%	3,646
Bridge	424,360	372,090	886	28,134	6.6%	96.2%	1,201
Wave	205,754	172,081	(19,314)	13,967	6.8%	83.1%	940
Mars Floating*****	165,800	159,844	5,036	6,959	4.2%	58.7%	1,799
Turret	172,865	147,556	1,734	13,418	7.8%	97.6%	302
Truss	97,290	85,280	703	7,457	7.7%	98.6%	189
Mars Fixed 2	96,340	78,384	3,251	5,176	5.4%	86.1%	342
Belfry	61,100	54,770	(389)	4,617	7.6%	98.1%	214
Tannenberg	61,130	52,960	765	4,429	7.2%	95.6%	51
Rapid	56,260	54,500	1,296	4,055	7.2%	100.0%	10
Zama	44,460	39,896	390	3,206	7.2%	93.3%	79
Total	**2,201,761**	**1,933,444**	**27,878**	**136,440**	**6.2%**	**84.3%**	**8,773**

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

** Capitalised expenditure represents actual expenditure for the year.

*** Property valuation excludes the leasehold gross-up of €22.6 million.

**** Other assets / liabilities do not include unallocated assets and liabilities per Note 31- Segmental Reporting.

***** The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% investment.

The table below provides additional information for various portfolios within the Group at 31 December 2010:

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

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

** Capitalised expenditure represents actual expenditure for the year.

*** Property valuation excludes the leasehold gross-up of €13.2 million.

**** Other assets / liabilities do not include unallocated assets and liabilities per Note 31 - Segmental Reporting.

***** The total portfolio includes 100% of the Mars Floating portfolio, in which the Group has a 50% investment.

Under their respective financing arrangements, the Drive portfolio has loan to value covenants. German public fund legislation (to which ECTGPROP1 is subject) requires that a fund may not have long-term borrowing exceeding 50 per cent of the value of its real estate assets. For the purposes of this regulation, the value of real estate assets is determined with reference to the relevant Fund Manager's expert committee valuation of the Fund's real estate. In connection with this fund legislation, the Drive Senior Loan contains a valuation-based covenant, requiring the maintenance of a loan-to-expert committee valuation ratio of not more than 49.5%. A failure to comply would result in a mandatory prepayment obligation of the loan. Complying with this covenant could restrict the ability of ECTGPROP1 to distribute cash upstream or to dispose of assets. As at 31 December 2011, this ratio was 49.4% (31 December 2010: 49.3%).

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

As at the end of 2011, there were 22 vacant properties with a carrying value of €45.4 million and annual operating costs of €0.7 million. The corresponding figures as at 31 December 2010 was 22 properties with a carrying value of €41.2 million and operating costs of €0.7 million.

17. INTANGIBLE ASSETS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Cost		
Balance at 1 January	4,106	3,992
Additions in the year	-	114
Balance at 31 December 2011	**4,106**	**4,106**
Amortisation		
Balance at 1 January	(3,068)	(2,270)
Charge for the year	(663)	(798)
Balance at 31 December 2011	**(3,731)**	**(3,068)**
Carrying amount		
At 1 January	**1,038**	**1,722**
At 31 December 2011	**375**	**1,038**

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

18. FIXTURES AND FITTINGS

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Cost		
Balance at 1 January	494	494
Additions in the year	-	-
Balance at 31 December 2011	**494**	**494**
Depreciation		
Balance at 1 January	(278)	(193)
Charge for the year	(83)	(85)
Balance at 31 December 2011	**(361)**	**(278)**
Carrying amount		
At 1 January	**216**	**301**
At 31 December 2011	**133**	**216**

19. CDO BONDS PAYABLE

As at 31 December 2011:

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

* CDO bonds payable are rated at the lower of S&P and Fitch

In May 2011, the Group purchased the B Notes in CDO III from an investor for €0.3 million realising a gain on the purchase of mezzanine debt of €2.7 million.

In the year and pre the deconsolidation of CDO II and CDO III, the Group repurchased €26.3 million of current face value of the CDO II, CDO III and Duncannon bonds payable, recognising a net gain of €8.4 million, compared to repurchasing €93.9 million of current face value of the Duncannon bonds payable during the year ended 31 December 2010, realising a net gain of €23.7 million.

Refer to note 22 for details of the deconsolidation of CDO II and CDO III.

As at 31 December 2010:

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

* CDO bonds payable are rated at the lower of S&P and Fitch

20. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2011 €'000	As at 31 December 2010 €'000
Term financing	(Note 20.1)	1,968,912	3,051,936
Loans and notes relating to the Mars Portfolios	(Note 20.2)	5,314	37,871
Total		**1,974,226**	**3,089,807**

20.1. Term Financing

Portfolios	Month Raised	Current face amount €'000 As at 31 December 2011	Current face amount €'000 As at 31 December 2010	Carrying amount €'000 As at 31 December 2011	Carrying amount €'000 As at 31 December 2010	Hedged weighted average funding cost	Weighted average funding cash coupon	Maturity
Debt investments								
CDO IV	Jul 2005	44,131	42,936	44,131	42,936	1.98%	1.93%	Dec 2014
Investment property								
Drive***	Feb 2006	716,083	765,763	714,745	763,114	4.21%	4.09%	Jan 2013
Bridge	Oct 2006	372,090	372,090	370,437	369,649	4.74%	4.67%	Jan 2014
Wave	Apr 2007	172,081	178,245	171,428	177,315	4.94%	4.78%	Apr 2014
Mars Floating***	Jan 2007	159,844	224,317	159,765	224,131	3.37%	3.33%	Dec 2013
Turret*	May 2006	147,556	147,556	146,713	146,539	4.93%	4.85%	May 2016
Truss*	Dec 2005	85,280	85,280	84,920	84,839	4.93%	4.85%	Feb 2016
Mars Fixed 2	Jun 2008	78,384	79,729	77,114	77,375	5.21%	5.07%	Jun 2013
Belfry*	Aug 2005	54,770	56,240	54,383	55,768	4.85%	4.66%	Oct 2015
Rapid*	Aug 2007	54,500	54,500	53,440	53,262	4.96%	4.91%	Nov 2017
Tannenberg*	May 2007	52,960	52,960	52,176	51,897	4.87%	4.66%	Oct 2014
Zama	Feb 2007	39,896	39,896	39,660	39,566	4.99%	4.86%	May 2014
Mars Fixed 1****	-	-	965,750	-	953,938	-	-	-
Bastion****	-	-	26,500	-	26,138	-	-	-
		1,933,444	**3,048,826**	**1,924,781**	**3,023,531**	**4.51%**	**4.40%**	
Total		**1,977,575**	**3,091,762**	**1,968,912**	**3,066,467**	**4.45%**	**4.34%**	
Adjustment for costs of Mars refinancing**				**-**	**(14,531)**		**-**	
Total				**1,968,912**	**3,051,936**			

* These portfolios make up the retail property portfolio.

** 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 20.2). The amortised credit (2010: charge) for the year ended 31 December 2011 was €9.1 million (2010 €9.5 million).

*** As per Note 27, these loans have been reclassified as payable within one year in the current and prior year.

**** Mars Fixed 1 and Bastion portfolios were sold during the year ended 31 December 2011.

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

Debt Investments

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank. This facility was previously used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements. The lender used a rating agency CDO model to determine the level of equity contribution the Group is required to make to support the portfolio from time to time. The facility is secured over, inter alia, the collateral making up the portfolio.

In January 2008, the CDO IV term financing was extended out to 1 December 2009 under a €127 million facility. In December 2009, the CDO IV term financing was extended out to 31 December 2011. In December 2010, the CDO IV term financing was further extended to March 2013 with semi-annual amortisation targets. In addition the minimum equity contribution covenant was removed and the Lender is entitled to 25% of all principal receipts upon full repayment of the facility. In 2011, the CDO IV term financing was restructured again resulting in all excess cashflow after interest and costs going to the Group (estimated at €0.5 million in 2012). Additional terms include the removal of all amortisation targets and an extension of the loan maturity to December 2014.

Investment Property

In order to finance the investment property portfolios, the Group entered into loan facilities as described in the table on page 41. These facilities are secured in the customary manner for German real estate lending granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly.

On 14 May 2008, the short-term financing on the Mars portfolio of €330 million (the outstanding balance at the time of signing) was signed for a 20 June 2009 maturity, amortising down to €250 million by 30 June 2008 and €200 million by 31 December 2008. The Mars Floating facility of €236 million was refinanced in February 2009. This amended facility was due to mature on 31 December 2012 and had scheduled amortisation payments of €36 million, €50 million, and €75 million at the end of 2009, 2010, and 2011, respectively. In consideration of the extension of this facility, Eurocastle agreed to transfer to the Mars Floating facility lender half of its equity investment in the combined Mars Fixed 1 and Floating portfolios as at 31 January 2009. The Group had also provided an interest top-up guarantee up to a maximum of €10 million, and €10 million credit support to the Mars Floating portfolio allowing assets to be sold in aggregate up to €10 million below their respective facility-allocated loan amounts.

In December 2009 and January 2010, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments were also extended by 12 months. The first payment to reduce the outstanding balance to below the required €200 million was in January 2011. A further €50 million was due at the end of 2011 and 2012, and €100 million due at the end of 2013. The remaining €9.8m in relation to the 2011 payment remains outstanding and is temporarily waived by the lender pending a restructuring due to be completed in the first quarter of 2012 (refer subsequent events note 33).

On 25 June 2008, the Group successfully refinanced three of the properties out of the Mars Floating portfolio, with a major German bank, for an amount of €79.0 million. This facility, referred to as the Mars Fixed 2 facility, is non-recourse to Eurocastle, has an effective interest rate of 5.21% and matures in June 2013. The Mars Fixed 1 facility was restructured in the second quarter of 2011. The Group transferred control to the junior lender in return for current running fixed asset management fees for the portfolio (refer to notes 13 and 22).

20.2. Loans and notes relating to the Mars Portfolios

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Within the Mars portfolio		
Loan Notes and Shareholder Loans	265,444	784,427
Less: Remeasurement adjustment to amortised cost	(254,816)	(708,685)
Adjusted amortised cost	10,628	75,742
Transfer of 50% of the adjusted amortised cost to the lender*	**5,314**	**37,871**

*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.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Security deposit	4,968	7,010
Interest payable	15,780	28,298
Due to Manager (note 30)	3,690	4,057
Accrued expenses and other payables*	31,650	41,739
Total trade and other payables	**56,088**	**81,104**

* Accrued expenses and other payables include provisions relating to capital expenditure of €18.0 million (31 December 2010: €20.5 million).

22. (GAIN) / LOSS ON DECONSOLIDATION

In the third quarter of 2011, the Group swapped the majority of its holding in the Class E and Subordinated Notes that it held in CDO II and CDO III for a minority holding in the Class A Notes in CDO II during the reporting period. Based on the book values of the net assets disposed of, the related sale proceeds, the recycling of unrealised losses and effect of recognising financial assets previously eliminated on consolidation, the profit on deconsolidation is calculated as follows:

	Year ended 31 December 2011 €'000
Cash and cash equivalents	7,315
Other assets	3,714
Loans and receivables	843,948
Trade and other payables	(852)
CDO bonds payable	(948,850)
Net liabilities disposed of	(94,725)
Considerations received - Investment in Class A notes of CDO II	(19,973)
Gain on deconsolidation prior to recycling of unrealised losses	(114,698)
Recycling of unrealised losses	61,266
Gain on deconsolidation of CDO II and CDO III	**(53,432)**

The net cash outflow from the disposal was €7.3 million made up of the cash and cash equivalents released on consolidation. The value attributed to the investment in the Class A notes of CDO II was based on the market value of €20.0 million based on expected cash flows in 2012 and medium term.

In the second quarter of 2011, the Group restructured the Mars Fixed 1 Facility in the transfer of half of its equity to a junior lender resulting in a 25% shareholding (note 13). The transfer was in return for a modification of the terms of the loan facility, amortisation targets and the retention of the Group's German asset management platform as asset managers. Based on the book values of the net assets disposed of, the related sale proceeds, the loss on deconsolidation is calculated as follows:

	Year ended 31 December 2011 €'000
Cash and cash equivalents	6,328
Other assets	6,415
Investment properties	985,066
Trade and other payables	(15,151)
Hedging reserves	(7,183)
Bank borrowings	(957,260)
Net assets disposed of	18,215
Write-off adjusted amortised cost to lender	(8,838)
Loss on deconsolidation of Mars Fixed 1	**9,377**

The net cash outflow from the disposal was €6.3 million made up of the cash and cash equivalents released on consolidation.

In the first quarter of 2011, the Group sold the Bastion property portfolio at market value and the controlling interest in the company for nil value. The net loss on the deconsolidation was €0.7 million.

23. LOSS PER SHARE

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

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

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

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

	As at 31 December 2011	As at 31 December 2010
Weighted average number of ordinary shares, outstanding, basic	74,752,269	64,984,347
Potential dilutive effect of ordinary share options and convertible securities	403,895,187	356,904,091

24. SHARE CAPITAL AND RESERVES

As at 31 December 2011, there were 86,577,189 shares (31 December 2010: 65,739,646) issued and outstanding.

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

Date	Value of convertible securities €'000	No. of ordinary shares issued
25 July 2011	3,015	10,050,268
29 July 2011	3,169	10,563,550
4 August 2011	66	219,725
Total	**6,250**	**20,833,543**

On 12 July 2011, 4,000 shares were issued to the Directors of the Group per their in-place compensation arrangements at nil consideration. These shares are valued at fair value.

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

Other Reserves

Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006 (Note 30).

25. HEDGE ACCOUNTING

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

At 31 December 2011, cumulative unrealised gains on hedge instruments were €0.6 million (31 December 2010: €0.6 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €4.5 million (31 December 2010: €14.6 million) and the fair value loss of the interest rate swaps of €12.6 million (31 December 2010: €14.0 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.

Novated Swaps

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

Portfolio	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Mars	979	9,356
Drive	478	961
Bridge	1,045	1,557
Rapid	907	1,061
Tannenberg	473	642
Bastion	-	285
Turret	371	457
Zama	112	159
Truss	115	143
Total	**4,480**	**14,621**

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

Cash Flow Hedges

31 December 2011	Wave
Nominal amount (€'000)	172,108
Pay rate	4.03%
Receive rate	3 Month Euribor
Remaining life (years)	2.3
Fair value of swaps (€'000)	(12,592)

* Please refer to note 27 for details of when the related cash flows are expected to occur. The Wave swap is deemed effective with fair value gains and losses recognised in the consolidated statement of comprehensive income. The hedges in Mars 2 were deemed ineffective for hedge accounting purposes and a gain of €1.5 million was recognised in the income statement.

31 December 2010	Wave	Mars 2*	Mars 2 Receiver*
Nominal amount (€'000)	173,807	111,763	111,763
Pay rate	4.03%	3.92%	3 Month Euribor
Receive rate	3 Month Euribor	3 Month Euribor	2.30%
Remaining life (years)	3.3	0.8	0.8
Fair value of swaps (€'000)	(14,014)	(2,586)	1,119

* Please refer to note 27 for details of when the related cash flows are expected to occur. The Wave swap is deemed effective with fair value gains and losses recognised in the consolidated statement of comprehensive income. The hedges in Mars 2 were deemed ineffective for hedge accounting purposes and a gain of €3.5 million was recognised in the income statement.

Fair Value Hedges

31 December 2011	Feco GBP B Notes	Feco GBP B Notes *
Nominal amount (€'000)	5,330	6,391
Pay rate	5.11%	-
Receive rate	3 Month Libor	-
Remaining life (years)	2.6	-
Fair value of swap liabilities (€'000)	(530)	(636)
Fair value of assets attributable to the risk hedged (€'000)	(527)	(632)

* The amount stated is a Euro notional, mark-to-market equivalent of GBP swaps.

31 December 2010	Feco GBP B Notes	Feco GBP B Notes *
Nominal amount (€'000)	5,366	6,260
Pay rate	5.11%	-
Receive rate	3 Month Libor	-
Remaining life (years)	3.6	-
Fair value of swap liabilities (€'000)	(578)	(674)
Fair value of assets attributable to the risk hedged (€'000)	(578)	(674)

* The amount stated is a Euro notional, mark-to-market equivalent of GBP swaps.

26. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Convertible securities issued	99,750	99,750
Accrued interest	52,107	29,169
Capitalised issue costs	(1,200)	(1,200)
Convertible securities converted into ordinary shares	(5,835)	(1,500)
Total	**144,822**	**126,219**

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

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

On 6 October 2009, the Group raised an additional €15 million of capital through the issuance of further convertible securities on terms that economically represented a premium to par. On 19 October 2009, the Group issued a further €9.75 million of convertible securities on the same terms as the prior issuance.

In February 2010, convertible security holders presented €1.5 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 5,000,000 shares. No interest was payable on these converted securities.

In July 2011, convertible security holders presented €6.2 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 20,613,818 shares (see Note 24).

In August 2011, convertible security holders presented €0.1 million of convertible securities for conversion. Eurocastle duly converted these securities and issued 219,725 shares (see Note 24).

Upon a full conversion of all convertible securities, the Group's number of shares outstanding would increase by 403,895,187, which includes 38,899,996 of shares related to deferred interest capitalised in June 2011.

27. FINANCIAL INSTRUMENTS

Risk Management

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

Capital Risk Management Policy

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

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

In order to maintain an adequate capital structure in current uncertain market conditions, the Group considers strategies such as refinancing existing loan facilities, raising capital and asset sales to reduce outstanding loan balances. Capital management is under constant scrutiny of the Board. The payment of dividends is blocked until interest on the convertible securities is brought current.

At 31 December 2011, the Group had net equity of €362.9 million (31 December 2010: €285.5 million) and a leverage ratio of 86.8% (31 December 2010: 94.0%). The decrease from 2010 is primarily as a result of sale of the Mars Fixed Portfolio and restructurings within the Debt Portfolio, net of the reduction in fair values of the investments properties and impairments of the debt investment securities.

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its investments and derivative financial instruments.

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

The Group recognises that the significant deterioration in economic conditions on the back of the global credit crises continue to have adversely impacted the property valuations. This has affected and may continue to affect the Group's ability to dispose of assets or the level of proceeds received in relation to any such disposals. Due to the current market conditions and the nature of the assets in which the Group invests, sales of assets by the Group could result in significantly lower proceeds than the carrying value of those assets in the consolidated financial statements included herein. Also, due to the nature of the Group's assets, asset sales may not be affected swiftly enough to avoid default of the Group's existing financings. The Group also recognises that the economic situation may result in a lower leasing or renewals volume or in a reduction in rents including as a result of tenant defaults. In addition, the Group's top five tenants accounted for 50.4% of its passing rental income for the year ended 31 December 2011 (31 December 2010: 42.6%). Loss of any one of these tenants could have a significant impact on the Group's performance. All of these factors could result in a cash flow shortfall compared to budget which may affect the Group's ability to, among other things, repay its debt obligations as they become due.

The Group is also exposed to market risk in respect of its interest rate swaps where it receives floating rate and pays fixed rate. A significant decrease in underlying interest rates and variations in the yield curve could have an adverse impact on the valuations of its interest rate swaps.

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

At 31 December 2011, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €2.9 million (31 December 2010: €2.4 million).

The Group's securities that were reclassified as Loans and Receivables (see Note 12) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financing.

Interest Rate Risk

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

Changes in interest rates affect net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with debt obligations and hedges.

The Group's general financing strategy for its debt business focuses on the use of match-funded structures, meaning that it seeks to match the maturities of its debt obligations with the maturities of its investments to minimise the risk that the Group will have to refinance its liabilities prior to the maturities of its assets, reducing the impact of changing interest rates on its earnings. In addition, the Group seeks to match fund interest rates on its investments with like-kind debt directly or through the use of interest rate swaps.

However, for a variety of reasons, the Group finances certain assets on a short-term basis. The Group anticipates that, in most cases, for any period during which its assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of its borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence the Group's net income.

The Group generally finances its core real estate portfolios with fixed rate loans for original terms ranging from 7 to 13 years, or where it takes out floating rate term loans, it enters into hedging instruments (such as interest rate swaps), to lock in a fixed rate for the duration of the loan. Changes in interest rates can affect the cost of unwinding these hedging arrangements and thus affect the gains from the disposal of the group's real estate assets.

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 31 December 2011, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €0.8 million per annum (31 December 2010: €0.8 million per annum). The impact on equity due to the cash flow hedging would be an increase / (decrease) of approximately €0.1 million (31 December 2010: €0.1 million).

Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets. Increasing interest rates would decrease the value of the fixed rate assets because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market. At 31 December 2011, a 100 basis point change in interest rates would impact the net book value by €0.1 million (31 December 2010: €0.2 million).

Foreign Currency Risk

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

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

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

Credit Risk

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

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

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

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

The Group's securities portfolio is diversified by asset type, industry, location and issuer. At 31 December 2011, the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately B (31 December 2010: BB-).

The maximum credit risk exposure in respect of debt investments as at 31 December 2011 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €0.5 billion (31 December 2010: €1.3 billion).

The Group's loans and receivables, available-for-sale securities and real estate loans portfolios were split between countries within Europe as follows:

	31 December 2011			31 December 2010		
	Number of securities/ loans	Face value €'000	Location split	Number of securities/ loans	Face value €'000	Location split
United Kingdom	28	235,426	32.1%	85	808,708	46.7%
Italy	6	86,542	11.8%	13	174,592	10.1%
Germany	20	190,307	25.9%	30	298,460	17.2%
Pan-European	8	135,875	18.5%	10	182,177	10.5%
France	7	37,337	5.1%	7	52,626	3.0%
Other	5	48,664	6.6%	31	216,143	12.5%
Total	**74**	**734,151**	**100%**	**176**	**1,732,706**	**100%**

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

Liquidity Risk

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

Eurocastle's liquidity is generated by cash flows (from ordinary operations as well as asset sales) from its real estate portfolios other than its Drive and Mars portfolios, the majority of whose excess net operating cash flow and sale proceeds is and will continue to be retained within the relevant subsidiaries to fund capital expenditure, finance costs and amortisation.

Since the repayment in full by Eurocastle of its two corporate loan facilities in December 2010, debt service costs at the Eurocastle level have been eliminated. Cash received at the Eurocastle level is used to satisfy Eurocastle's general corporate and trade obligations. Eurocastle does not currently expect to pay interest on its convertible securities.

The Group's loans and debt securities are generally secured directly over its assets with no direct recourse to Eurocastle itself. The Group expects that its cash in hand and cash flow from operations including net proceeds from asset sales will satisfy its liquidity needs over the next twelve months. However, the Group recognises that i) there is a risk that planned sales will not materialise and that if they do, proceeds received could be lower than anticipated, and ii) lease terminations may outstrip lease renewals leading to a net reduction in the Group's main source of ordinary operating revenue.

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

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

The Group's investment property portfolio is generally financed with long-term, fixed rate, non-recourse financing with the exception of some non-core assets within the Mars portfolio which, as at 31 December 2011, were financed with a floating rate facility of €159.8 million. During 2009, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments were also extended by 12 months. The first payment to reduce the outstanding balance to below the required €200.0 million was met in January 2011. A further €50.0 million was due at the end of 2011 (of which €40.2m was repaid) and €100.0 million due at the end of 2013. The remaining €9.8 million in relation to the 2011 payment remains outstanding and is temporarily waived by the lender pending a restructuring due to be completed in the first quarter of 2012 (refer to subsequent events note 33).

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

31 December 2011

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

(1) Derivative assets/liabilities reflect the cash flows over the remaining life of the assets.
(2) Interest receivable and payable reflects the interest receivable and payable over the weighted average life of the assets and financing.
(3) Finance leases payable represent all lease payments due over the lives of the leases.
(4) As at 31 December 2011, the Group is in default for the Mars Floating, and Drive Junior loan. Therefore, the loans have been reclassified as payable within one year.

Gross settled derivatives	Total outstanding at 31 December 2011 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(134,453)	(7,196)	(95,812)	(31,445)
Contractual amounts receivable	154,623	8,965	105,986	39,672
Total undiscounted gross settled derivatives outflow	**20,170**	**1,769**	**10,174**	**8,227**

Maturities and Mandatory Amortisation							
Portfolio (€million)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
Non - Recourse							
Drive [1]	-	716.1	-	-	-	-	716.1
Bridge	-	-	372.1	-	-	-	372.1
Wave	-	-	172.1	-	-	-	172.1
Mars Floating[1] [2]	59.8	100.0	-	-	-	-	159.8
Turret	-	-	-	-	147.6	-	147.6
Truss	-	0.9	0.9	0.9	82.7	-	85.4
Mars Fixed 2	-	78.4	-	-	-	-	78.4
Belfry	-	0.5	0.5	53.6	-	-	54.6
Superstella	-	-	-	-	-	54.5	54.5
Tannenberg	-	-	53.0	-	-	-	53.0
Zama	-	-	39.9	-	-	-	39.9
Real Estate Total	59.8	895.9	638.5	54.5	230.3	54.5	1,933.5
CDO IV	-	-	44.1	-	-	-	44.1
Debt Total	-	-	44.1	-	-	-	44.1
Grand Total	**59.8**	**895.9**	**682.6**	**54.5**	**230.3**	**54.5**	**1,977.6**

(1) The Mars Floating and Drive Junior loans continue to breach certain loan covenants as described in the 2010 Annual Report. The table above assumes contractual amortisation. The legal maturities of these loans are December 2013 and January 2013, respectively.

(2) The Mars Floating facility includes €10.0 million recourse to Eurocastle in respect of any interest shortfall only. There is also a suspended €10 million credit support obligation, which is expected to remain suspended at least until the facility is restructured. Under this credit support obligation, Eurocastle is required to give credit support only to the extent assets are (i) sold and (ii) below their respective allocated loan amounts and (iii) a waiver under this obligation has not been granted. As at 30 June 2011, no amounts were outstanding under this credit support obligation.

31 December 2010

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

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

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

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

(4) As a result of the event of default that occurred on 9 September 2010, the Group has designated the CDO II bonds payable as at 31 December 2011 as payable within one year, as the debt has become payable on demand.

(5) As at 31 December 2010, the Group is in default for the Mars Fixed, Mars Floating, and Drive Junior loan. Therefore, the loans have been reclassified as payable within one year.

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

Fair values of financial assets and financial liabilities

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

	As at 31 December 2011 Carrying value €'000	As at 31 December 2010 Carrying value €'000	As at 31 December 2011 Fair value €'000	As at 31 December 2010 Fair value €'000
Financial assets				
Cash and cash equivalents	117,669	113,990	117,669	113,990
Asset backed securities, available-for-sale	45,543	36,313	45,543	36,313
Loans and receivables (includes cash to be invested)	448,647	1,275,901	291,677	856,644
Derivative assets	20,170	29,313	20,170	29,313
Financial liabilities				
CDO bonds payable	431,700	1,392,570	167,914	451,675
Bank borrowings	1,974,226	3,089,807	2,091,289	3,307,411
Finance lease payable	22,692	13,213	22,692	13,213
Derivative liabilities	13,228	14,325	13,228	14,325

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognised in the balance sheet by level of hierarchy*:

31 December 2011:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	45,543	45,543
Derivative assets	-	16,057	4,113	20,170
Financial liabilities				
Derivative liabilities	-	13,228	-	13,228

31 December 2010:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	36,313	36,313
Derivative assets	-	23,915	5,398	29,313
Financial liabilities				
Derivative liabilities	-	14,325	-	14,325

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

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

	As at 31 December 2011 €'000	As at 31 December 2010 €'000
Opening balance at 1 January	41,711	66,396
Total gains / (losses) recognised in the income statement	500	(2,851)
Total gains recognised in other comprehensive income	7,445	16,973
Proceeds on sale/prepayment of available-for-sale securities during the year	-	(38,807)
Closing balance at 31 December	**49,656**	**41,711**

During the year ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

28. SHARE OPTION PLAN

In December 2003, the Group (with the approval of the Board of Directors and pursuant to the confidential information memorandum dated August 2003) adopted a nonqualified share option plan (the "Group Option Plan") for officers, Directors, employees, consultants and advisors, including the Manager. In December 2003, for the purpose of compensating the Manager for its successful efforts in raising capital for the Group, the Manager was granted options representing the right to acquire 1,185,767 ordinary shares at an exercise price of €10 per share (number of shares and exercise price adjusted for share consolidation). The fair value of the options at the date of grant was €0.2 million and was calculated by reference to an option pricing model.

In June 2004, following the IPO, the Manager was granted an additional 660,000 options at an exercise price of €12 per share. The fair value of the additional options at the date of grant was €0.2 million and was also calculated by reference to an option pricing model. In June 2005, following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of €17.25 per share. The fair value of the additional options at the date of grant was €0.6 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

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

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

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

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

Date of grant	Options outstanding at 1 January 2011	Exercised in the year ended 31 December 2011	Options remaining at 31 December 2011	Exercise price €	Date of expiration	Fair value at grant date €'000
31 Dec 03	984,783	-	984,783	10.00	31-Dec-2013	200
23 Jun 04	600,600	-	600,600	12.00	23-Jun-2014	200
24 Jun 05	504,356	-	504,356	17.25	24-Jun-2015	620
27 Jan 06	791,286	-	791,286	18.00	27-Jan-2016	4,800
27 Jan 06	1,220,325	-	1,220,325	30.00	27-Jan-2016	2,100
1 Dec 06	1,765,945	-	1,765,945	37.00	1-Dec-2016	9,400
Total	**5,867,295**	**-**	**5,867,295**			**17,320**

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

29. DIVIDENDS PAID AND DECLARED

No dividends were declared or paid during the year ended 31 December 2011 (31 December 2010: nil).

30. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Group and the Manager, incentive compensation (as outlined below) will continue to be payable to the Manager post termination. Pursuant to the Management Agreement, the Manager, under the supervision of the Group's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, Eurocastle will pay the Manager an annual fee (payable monthly in arrear) of 1.5% of the gross equity of the Group, as described in the Management Agreement. As at 31 December 2011, gross equity was €1.45 billion.

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

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

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

At 31 December 2011, management fees, incentive fees and expense reimbursements of approximately €3.7 million (refer note 21) (31 December 2010: €4.1 million) were due to the Manager. For the year ended 31 December 2011: management fees of €21.7 million (refer note 6) (31 December 2010: €21.7 million), no incentive fees (31 December 2010: € nil), and expense reimbursements of €8.5 million (31 December 2010: €8.5 million) were charged to the income statement.

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

31. SEGMENTAL REPORTING

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

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

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

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

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

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

Year ended 31 December 2011	Debt investment €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue[1]	56,499	217,801	61	274,361
Impairment losses	(49,781)	-	-	(49,781)
Other operating income / (losses)	66,523	(68,023)	-	(1,500)
Total operating income	**73,241**	**149,778**	**61**	**223,080**
Interest expense	(23,579)	(102,160)	-	(125,739)
Other operating expenses	(1,917)	(83,985)	(25,874)	(111,776)
Total operating expenses	**(25,496)**	**(186,145)**	**(25,874)**	**(237,515)**
Net operating profit / (loss)	**47,745**	**(36,367)**	**(25,813)**	**(14,435)**
Taxation expense	-	(4,038)	-	(4,038)
Net profit / (loss)	**47,745**	**(40,405)**	**(25,813)**	**(18,473)**
Decrease in fair values of investment properties	-	57,010	-	57,010
Realised gain on sale of investment properties	-	(72,307)	-	(72,307)
Deferred tax	-	1,747	-	1,747
Funds from operations	**47,745**	**(53,955)**	**(25,813)**	**(32,023)**

(1) Included within revenue income is interest income of €56.3 million within the debt investment segment and €0.2 million within the investment properties segment.

Year ended 31 December 2010	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue[(1)]	44,201	285,890	54	330,145
Impairment losses	(66,127)	-	-	(66,127)
Other operating income / (losses)	12,193	(81,627)	-	(69,434)
Total operating (losses) / income	**(9,733)**	**204,263**	**54**	**194,584**
Interest expense	(24,183)	(168,377)	-	(192,560)
Other operating expenses	(1,931)	(99,394)	(24,535)	(125,860)
Total operating expenses	**(26,114)**	**(267,771)**	**(24,535)**	**(318,420)**
Net operating loss	**(35,847)**	**(63,508)**	**(24,481)**	**(123,836)**
Taxation expense	-	(1,086)	-	(1,086)
Net loss	**(35,847)**	**(64,594)**	**(24,481)**	**(124,922)**
Decrease in fair values of investment properties	62	81,492	-	81,554
Realised gains on sale of investment properties	-	(25,000)	-	(25,000)
Deferred tax	-	(827)	-	(827)
Funds from operations	**(35,785)**	**(8,929)**	**(24,481)**	**(69,195)**

(1) Included within revenue income is interest income of €44.2 million within the debt investment segment and €0.03 million within the investment properties segment.

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

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

As at 31 December 2011	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Cashflows from operating activities	14,231	31,121	(33,966)	11,386
Cashflows from investing activities	23,697	124,215	-	147,912
Cashflows from financing activities	(18,421)	(147,234)	-	(165,655)
Net increase / (decrease) in cash and cash equivalents	**19,507**	**8,102**	**(33,966)**	**(6,357)**

As at 31 December 2010	**Debt investment €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Cashflows from operating activities	22,421	24,091	(42,913)	3,599
Cashflows from investing activities	210,013	203,312	-	413,325
Cashflows from financing activities	(110,879)	(305,657)	-	(416,536)
Net increase / (decrease) in cash and cash equivalents	**121,555**	**(78,254)**	**(42,913)**	**388**

32. INVESTMENT IN SUBSIDIARIES

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

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

Luxembourg:

Turret Lux Participation S.à r.l
Zama (Windhoek) S.à r.l
Sulzbach (Bridge) S.à r.l
Wiesbaden (Bridge) S.à r.l
Berlin (Bridge) S.à r.l
Galluspark (Bridge) S.à r.l
Dusseldorf Bridge) S.à r.l
Eschborn (Bridge) S.à r.l
Superstella S.à r.l
Tannenberg S.à r.l
Mars PropCo 2-39 S.à r.l
(23 real estate holding companies numbered 2,4-5,7, 9-24, 33, 38- 39)
Drive S.à r.l

Germany:

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

Additionally, the Group has investments in Eurocastle Funding Limited, Eurocastle CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC which are consolidated in accordance with SIC 12.

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

33. SUBSEQUENT EVENTS

The Group is in discussions with the Mars Floating portfolio lenders to modify the terms of the facility, which matures in December 2013. The terms under discussion include revising the amortisation profile to be met from asset sales and the removal of all contingent guarantees previously provided by the Group. In addition, the Group will receive a cash distribution in respect of its services to the portfolio in 2011 with further distributions to be released in order to cover costs for the asset management and sales activity for work done by the Group's German asset management platform. The remaining excess cash flow after payment of interest will continue to be used to amortise the outstanding loan balance.

The Group is currently in negotiations to sell its remaining 25% interest in the Mars Fixed 1 portfolio and with this to terminate its connection with this portfolio including asset management services provided by the Group's German Asset Management platform.

The Group continues to be in an active and constructive dialogue with the lending syndicate of the Drive Junior facility. The lenders have continued to exercise their discretion to allow distributions to be made from portfolio cash flows to the Group to offset asset management costs for this portfolio. In addition, as of the reporting date, €16.2 million had been accumulated in a reserve fund for reinvestment back into the Drive portfolio real estate and for debt service.

The Group has sold a further 11 properties subsequent to year end for €9.4 million generating €0.8 million of cash after repayment of asset level financings, and has entered into binding agreements to sell a further 6 properties for estimated total sale proceeds of €10.4 million. Once completed, these properties are expected to generate up to €1.0 million of cash, after repayment of asset level financings.

34. COMMITMENTS

As at 31 December 2011, the Group had no material commitments that were not disclosed in these financial statements (31 December 2010: none).

CORPORATE INFORMATION

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Randal A. Nardone

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FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, availability of attractive investment opportunities, methods of funding portfolios, timing of completion of acquisitions, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including the risks regarding Eurocastle’s ability to achieve its targets regarding asset disposals or leasing or that Eurocastle will be able to fund or repay its liabilities.

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