EUROCASTLE INVESTMENT LIMITED

2012 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.

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 currently relate to the ownership and management of a portfolio of German commercial properties and of European real estate related debt. 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 $53.4 billion of assets under management as of 31 December 2012 (US $43.7 billion as of 31 December 2011). Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager manages the Group's day-to-day operations, subject to the supervision of the Group's Board of Directors, of which a majority are independent of the Manager. For its services, the Manager receives fees and expense reimbursements, as defined in the Management Agreement. The Group has no ownership interest in the Manager.

Review of Business

The Company's Net Asset Value ("NAV") has decreased to €292.1 million in 2012 from €362.9 million in 2011. This is as a result of fair value adjustments to investment property primarily in the Drive, Mars Floating and Bridge portfolios and impairments of debt securities offset by the gain on repurchase of debt. Excluding the negative NAV of the Mars Floating portfolio, which has financing that is non-recourse to Eurocastle, the NAV for 2012 would be €307.3 million.

On a like for like basis, the portfolio value has declined moderately by €91.2 million or 4.3% year-on-year as a result of individual asset-related factors. Three large assets in the Drive and Bridge portfolios, where single-tenants have either already vacated or indicated to leave at the end of the lease terms, had a particularly negative effect, accounting for 72.3% of the decline. In addition, the continuation of the agreed sales programme in the Mars Floating portfolio, to which the group previously attributed little NAV, has resulted in the carrying value of its assets falling below its liabilities. Due to the non-recourse nature of the financing of this portfolio, it is therefore considered to contribute zero NAV to the Group.

Following the year-end, the Company obtained approval from the holders of its convertible securities (refer note 25) to lower the conversion price from €0.30 to €0.05 per share in exchange for, inter alia, the right for the Company to require a conversion of all outstanding convertible securities. Conditional upon such conversion, the Company reached agreement with the Manager to rebase the fees under its Management Agreement (refer note 29) which will preserve capital for future investment. The Company also intends to reinstate an annual dividend of €0.0025 per ordinary share, commencing in the third quarter of 2013 subject to the Company having available resources. On 12 April 2013, the Company converted all outstanding convertible securities to ordinary shares and increased the share count by 3,398,474,685 shares resulting in the adjusted fully diluted NAV per share as at 31 December 2012 reducing from €0.46 to €0.09.

In January 2013, the Group secured a restructuring of the senior loan on the Drive portfolio to January 2014. Modified terms include a 1 year extension and interim amortisation targets (refer note 26) to be met through an agreed sales programme. Sales fees of 3.5% of gross sales proceeds (equivalent to amount of €14.1 million) shall be for the benefit of the Group if these targets are met. In addition, the Company will receive asset management fees in relation to the Drive portfolio of €1.7 million per annum. The Group remains in constructive discussions with the lenders of the junior facility which is currently the subject to short-term extensions pending the outcome of negotiations.

In March 2012, the Group concluded the restructuring of the Mars Floating facility which now matures in December 2013. Modified terms include the revision of the amortisation profile in accordance with an agreed sales plan and the removal of all contingent guarantees previously provided by the Company. In addition, the Company received cash distributions totalling €2.5 million to offset asset management costs incurred by the Group in respect of the portfolio since 2011. Going forward, excess cash flow after payment of interest and expenses will continue to be used to amortise the outstanding loan balance.

During the year ended 31 December 2012, the Group signed 262 commercial leases for approximately 196,030 square metres (sqm). Physical occupancy was at 81.2% compared to 85.1% (on a like-for-like basis) at the end of 2011 due to the consolidation of a major tenant's back-office location in Frankfurt. In 2012, the Group sold 41 properties and 1 land parcel for total sales proceeds of €112.5 million versus a carrying value of €101.2 million. This gain is reported in the fair value movement of investment properties. Excluding sales from the Mars Floating portfolio, the Group realised sales of €97.7 million for a carrying value of €86.4 million.

In April 2012, Eurocastle completed the sale of the remaining 25% interest in the Mars Fixed 1 portfolio and terminated asset management services in respect of this portfolio. As a result of this transaction, the Group received net proceeds of €6.8 million.

In the third quarter, Eurocastle realised its remaining economic interest in the Eurocastle CDO II PLC ("CDO II") portfolio which was deconsolidated from the Group last year. €4.7 million of redemption proceeds were realised compared to a previous carrying value of €4.1 million.

In aggregate, the debt business reinvested €18.9 million of principal proceeds in commercial mortgage backed securities with an average rating of BBB. Additionally, the Group repurchased €76.8 million of its own CDO senior debt at an average price of 61% of nominal, realising a net book gain of €30.4 million.

The Group had a corporate cash balance of €38.8 million at the end of 2012 and an outstanding balance on the Convertible Securities of €161.7 million (excluding transaction costs).

The tables below show the summarised performance and development of the Group:

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Income Statement		
Interest income	23,900	56,382
Rental income	139,753	179,572
Service charge income	27,912	38,407
Decrease in fair value of investment properties	(94,658)	(59,399)
Impairment losses	(16,710)	(49,781)
Interest expense	(89,582)	(125,739)
Service charge and property expenses	(62,007)	(72,815)
Other operating expenses	(38,050)	(38,961)
Net loss before taxation	(72,446)	(14,435)
Net loss after taxation	(81,672)	(18,473)
Funds from operations ("FFO")	25,598	(32,023)
Normalised FFO	(4,404)	7,295
Balance Sheet		
Total assets	2,651,698	2,870,807
Total liabilities	(2,359,586)	(2,507,866)
Net assets	**292,112**	**362,941**
Net (liabilities) / assets of Mars Floating Portfolio	(15,241)	5,678
Adjusted net assets[(1)]	**307,353**	**362,941**

[(1)] Excludes the negative net asset value of Mars Floating as this financing is non-recourse to the Company and not callable as a result of any changes in the value of the assets.

	2012	2011
Weighted average number of ordinary shares outstanding, (basic)	96,888,918	74,752,269
Dilutive effect of ordinary share options and convertible securities	550,251,807	403,895,187
Weighted average number of ordinary shares outstanding (diluted)	**647,140,725**	**478,647,456**
Ordinary shares outstanding	127,425,780	86,577,189
Fully diluted ordinary shares outstanding	666,470,133	573,317,648

FFO as defined by Eurocastle as at 31 December 2012, represents the net gain / (loss) 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 2012 €'000	Year ended 31 December 2011 €'000
Key Performance Indicators		
Loss per weighted average basic and diluted share	(0.84)	(0.25)
FFO per weighted average basic share	0.26	(0.43)
FFO per weighted average diluted share	0.04	(0.43)
Normalised FFO per weighted average basic share	(0.05)	0.10
Normalised FFO per weighted average diluted share	(0.05)	0.02
Normalised FFO per fully diluted share	(0.01)	0.01
Net assets per fully diluted share	0.44	0.64
Real estate net assets per fully diluted share	0.29	0.52
Debt investment portfolio net assets per fully diluted share	0.15	0.12
Adjusted net assets per fully diluted share[1]	0.46	0.64
Adjusted real estate net assets per fully diluted share[1]	0.31	0.52
Reconciliation of Funds from Operations and Normalised Funds from Operations		
Net loss after taxation	(81,672)	(18,473)
Decrease in fair values of investment properties	94,658	59,399
Realised gain / (loss) on sale of investment properties	11,238	(72,308)
Unrealised movements on currency swaps (net of translation gains on related assets)	(89)	(926)
Increase in fair value of interest rate swaps	(52)	(1,463)
Deferred tax charge on investment properties	1,515	1,748
Funds from operations (FFO)	**25,598**	**(32,023)**
Net realised (gains) / losses on investment property sales after sales costs and closure of swaps	(6,947)	77,575
Losses / (gains) on foreign currency contracts, translation and swaps	1,796	(517)
Impairment losses	16,710	49,781
Realised gain on disposal of loans and receivables	(592)	(520)
Amortisation of costs of Mars Refinancing [2]	(5,314)	(9,188)
Interest rate swap adjustments	2,404	1,475
Loss on sale of investment	-	711
Gain on repurchase of mezzanine financing	(885)	(2,753)
Realised gain on paydown of impaired asset	-	(24,815)
Gain on deconsolidation of CDO II and CDO III	-	(53,432)
(Gain) / loss on transfer of investment in Mars Fixed 1 Portfolio	(6,793)	9,377
Gain on repurchase of debt financing	(30,381)	(8,376)
Normalised funds from operations	**(4,404)**	**7,295**

(1) Excludes the negative net asset value of Mars Floating as this financing is non-recourse to the Company and not callable as a result of any changes in the value of the assets.

(2) Represents the economic (non-IFRS) impact of transferring 50% of the Group's equity in the Mars Floating Portfolio to the Leander as part of the Mars Floating restructuring.

Property Valuation Data (by Portfolio)

For 2012

	Number of properties	Occupancy %	Lettable space (sqm)	Property valuation [1] €m	Passing Rent €m	Net operating income (NOI) [2] €m	NOI yield on valuation %
Drive	162	66.9%	414,536	710	40.5	30.2	4.3%
Bridge	6	96.5%	191,572	407	27.1	25.0	6.1%
Wave	56	81.4%	149,309	182	13.8	11.1	6.1%
Turret	63	96.9%	141,389	169	14.9	12.7	7.5%
Mars Floating [3]	11	59.3%	155,335	129	9.8	6.3	4.9%
Mars Fixed 2	3	89.8%	38,291	96	6.5	4.7	4.9%
Truss	41	96.5%	81,437	95	8.2	7.0	7.4%
Belfry	27	95.1%	52,900	60	5.1	4.4	7.3%
Tannenberg	27	94.6%	49,569	59	5.0	4.3	7.2%
Superstella	18	100.0%	38,641	56	4.4	4.0	7.2%
Zama	8	94.3%	30,399	45	3.6	3.2	7.1%
Total portfolio	**422**	**81.2%**	**1,343,378**	**2,008**	**138.9**	**112.9**	**5.6%**

For 2011 (on a like-for-like basis):

	Number of properties	Occupancy %	Lettable space (sqm)	Property valuation [1] €m	Passing Rent €m	Net operating income (NOI) [2] €m	NOI yield on valuation %
Drive	162	78.7%	414,536	759	50.0	42.7	5.6%
Bridge	6	96.2%	191,572	424	29.9	28.1	6.6%
Wave	56	81.5%	149,309	176	13.7	11.8	6.7%
Turret	63	97.6%	141,389	173	15.0	13.4	7.8%
Mars Floating [3]	11	59.7%	155,335	152	9.8	6.4	4.2%
Mars Fixed 2	3	86.2%	38,291	96	6.3	5.2	5.4%
Truss	41	98.6%	81,437	97	8.4	7.5	7.7%
Belfry	27	98.2%	52,900	61	5.2	4.6	7.6%
Tannenberg	27	95.5%	49,569	61	5.2	4.4	7.2%
Superstella	18	100.0%	38,641	56	4.4	4.1	7.2%
Zama	8	93.3%	30,399	44	3.5	3.2	7.2%
Total portfolio	**422**	**85.1%**	**1,343,378**	**2,099**	**151.5**	**131.4**	**6.3%**

(1) Property valuation excludes the leasehold gross-ups of €23.2 million (31 December 2011: €22.6 million).

(2) Net operating income is after deducting €2.0 million (31 December 2011: €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.

(3) 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 26 of the consolidated financial statements.

Dividends

No dividends have been declared or paid during 2012 (2011: €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:

Paolo Giorgio Bassi [(1)] (resigned 4 February 2013)
Keith Dorrian [(1)]
Randal A. Nardone
Udo Scheffel [(1)]
Peter Smith
Simon J. Thornton [(1)]

[(1)] Independent Directors

Directors' Interests

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

	As at 31 December 2012	**As at 31 December 2011**
Paolo Giorgio Bassi [(1)]	-	41,800
Keith Dorrian	9,000	8,000
Randal A. Nardone [(2)]	20,000	20,000
Udo Scheffel	6,000	5,000
Peter Smith	-	-
Simon J. Thornton	6,000	5,000

[(1)] As at 31 December 2012, Paolo Bassi held 42,800 shares in the ordinary share capital of the Company. He resigned on 4 February 2013.

[(2)] 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 he 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 at the original conversion price of €0.30.

Substantial Shareholdings

As at 17 April 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 [(1)]	45.98%
Euroclear Nominees Limited	42.31%
Goldman Sachs Securities (Nominees) Limited [(2)]	6.90%

[(1)] Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV is the Dutch central securities depositary (otherwise known as Euroclear Netherlands)

[(2)] 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 have applied the principles of the Guernsey Code of Corporate Governance which came into effect from the 1 January 2012. An independent review was performed on the application of the principles to the Company with no issues identified.

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 26 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 2012 (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: 19 April 2013

STATEMENT OF DIRECTORS' RESPONSIBILIITES IN REPSECT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

EUROCASTLE INVESTMENTS LIMITED AND SUBSIDIARIES

We have audited the financial statements of Eurocastle Investment Limited (the "Company") and its Subsidiaries (the "Group") for the year ended 31 December 2012 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 33. 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 Company'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 Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the 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 2012 Annual Report 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 of financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 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.

Andrew McIntyre
for and on behalf of Ernst & Young LLP
London
Date: 19 April 2013

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Operating income			
Interest income	3	23,900	56,382
Rental income	4	139,753	179,572
Service charge income	4	27,912	38,407
Gain on disposal of loans and receivables		592	520
Decrease in fair value of investment properties	7,16	(94,658)	(59,399)
Gain on repurchase of debt financing	19	30,381	8,376
Increase in fair value of interest rate swaps	15	52	1,463
Gains on foreign currency contracts, translation and swaps	8	-	1,443
Impairment losses	9	(16,710)	(49,781)
Loss on sale of shares in Bastion	13	-	(711)
Gain on repurchase of mezzanine financing	19	885	2,753
Gain / (loss) on transfer of investment in Mars Fixed 1 portfolio	13	6,793	(9,377)
Gain on deconsolidation of CDO II and CDO III	19	-	53,432
Income from associate	13	-	-
Total operating income		118,900	223,080
Operating expenses			
Interest expense	5	89,582	125,739
Service charge expenses	4	27,045	35,532
Property operating expenses	4	34,962	37,283
Losses on foreign currency contracts, translation and swaps	8	1,707	-
Other operating expenses	6	38,050	38,961
Total operating expenses		191,346	237,515
Net operating loss before taxation		(72,446)	(14,435)
Taxation expense - current	7	7,711	2,290
Taxation charge - deferred	7	1,515	1,748
Net loss after taxation		(81,672)	(18,473)
Loss per ordinary share			
Basic and diluted	22	(0.64)	(0.25)

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Net loss after taxation		**(81,672)**	**(18,473)**
Other comprehensive income			
Available for sale securities			
Unrealised gain on asset backed securities, available-for-sale	11	5,213	7,444
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables with movements released to the income statement	12	9,752	27,808
Adjustment to amortisation of unrealised losses reflecting changes in expected cash flows	12	(522)	(1,944)
Unrealised gains reclassified to the income statement on disposal of available-for-sale securities, reclassified as loans and receivables		592	520
Net unrealised (gains) / losses released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9,12	(6,798)	9,494
Unrealised losses reclassified to the income statement on deconsolidation of CDO II and CDO III		-	61,266
Total available-for-sale securities		**8,237**	**104,588**
Cash flow hedges			
Net unrealised gain on hedge instruments	24	4,294	1,421
Realised losses on hedge instruments reclassified to the income statement	24	61	35
Transfer of Mars Fixed 1 hedging reserve to the income statement		-	(7,183)
Amortisation of novated swaps	24	(1,750)	(2,992)
Total cash flow hedges		**2,605**	**(8,719)**
Other comprehensive income		**10,842**	**95,869**
Total comprehensive (loss) / income for the year		**(70,830)**	**77,396**

See notes to the consolidated financial statements.

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2012 €'000	As At 31 December 2011 €'000
Assets			
Cash and cash equivalents	10	141,344	117,669
Investment properties held for sale	16	76,510	53,152
Other assets	14	24,066	22,875
Available-for-sale securities	11	46,098	45,543
Loans and receivables (includes cash to be invested)	12	409,965	448,647
Fixture and fittings	18	55	133
Derivative assets	15	9,792	20,170
Investment property	16	1,943,744	2,162,243
Investment in associate	13	-	-
Intangible assets	17	124	375
Total assets		**2,651,698**	**2,870,807**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	23	1,446,624	1,434,370
Accumulated loss		(1,296,297)	(1,186,680)
Net unrealised loss on available-for-sale securities and loans and receivables	11,12	(30,548)	(38,785)
Hedging reserve	24	(5,507)	(8,112)
Perpetual subordinated convertible securities	25	160,514	144,822
Other reserves	23	17,320	17,320
Total shareholders' equity		**292,106**	**362,935**
Non-controlling interest		6	6
Total equity		**292,112**	**362,941**
Liabilities			
Trade and other payables	21	59,198	56,088
Current taxation payable	7	11,249	5,230
CDO bonds payable	19	352,905	431,700
Bank borrowings	20	1,898,045	1,974,226
Derivative liabilities	15	8,756	13,228
Finance lease payable	16	23,216	22,692
Deferred taxation liability	7	6,217	4,702
Total liabilities		**2,359,586**	**2,507,866**
Total equity and liabilities		**2,651,698**	**2,870,807**

See notes to the consolidated financial statements.

The financial statements were approved by the Board of Directors on 19 April 2013 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Cash flows from operating activities			
Operating loss before taxation		(72,446)	(14,435)
Adjustments for:			
Interest income		(15,691)	(38,058)
Interest expense		86,902	107,855
Unrealised loss / (gain) on foreign exchange contracts		1,707	(1,443)
Amortisation of discount on securities		(8,210)	(18,502)
Amortisation of borrowing costs		2,680	4,437
Amortisation of tenant incentives / leasing commissions		4,549	10,936
Realised loss on disposal of loans and receivables		592	520
Realised gain on repurchase of debt financing	19	(30,381)	(8,376)
Realised gain on repurchase of mezzanine financing	19	(885)	(2,753)
Impairment losses	9	16,710	49,781
(Gain) / loss on investment in Mars Fixed 1 Portfolio	13	(6,793)	9,377
Gain on deconsolidation of CDO II and CDO III		-	(53,432)
Taxation paid		(1,692)	(437)
Amortisation of intangibles	17	251	663
Depreciation of fixture and fittings	18	78	83
Decrease in fair value of investment properties	16	94,658	59,399
Decrease in fair value of interest rate swaps	15	(52)	(1,463)
(Increase) / decrease in other assets		(1,609)	1,795
Interest received		19,640	36,862
Interest paid		(87,977)	(122,452)
Decrease in trade and other payables		(117)	(9,683)
Loss on sale of shares in Bastion		-	711
Shares issued to Directors	23	1	1
Net cash flows from operating activities		1,915	11,386
Cash flows from investing activities			
Capital expenditures / tenant incentives	16	(17,460)	(11,981)
Proceeds from sale of investment properties	16	112,481	142,523
Proceeds from prepayment of available-for-sale securities		3,416	-
Purchase of loans and receivables		(18,983)	(137,106)
Sale / prepayment of loans and receivables		83,677	168,119
Cash impact of deconsolidation of CDO II and CDO III		-	(7,315)
Cash impact of disposal of Mars Fixed 1 Portfolio	13	6,793	(6,328)
Net cash flows from investing activities		169,924	147,912
Cash flows from financing activities			
Repurchase of mezzanine financing	19	(8)	(248)
Payments for the repurchase of bonds issued	19	(46,640)	(18,173)
Repayments of bonds issued		(2,674)	-
Repayments of bank borrowings		(78,419)	(147,234)
Net cashflows from financing activities		(127,741)	(165,655)
Net increase / (decrease) in cash and cash equivalents		**44,098**	**(6,357)**
Cash and cash equivalents, beginning of year		**117,669**	**113,990**
Restricted CDO cash, beginning of year		**473**	**10,509**
Total cash and cash equivalents, beginning of year		**118,142**	**124,499**
Cash and cash equivalents, end of year	10	**141,344**	**117,669**
Restricted CDO cash, end of year	12	**20,896**	**473**
Total cash and cash equivalents, end of year		**162,240**	**118,142**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Group								
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Perpetual subordinated convertible securities €'000	Net unrealised gains/(losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2011	**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
Share issued to Directors (note 23)	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 23 and 25)	20,833,543	6,250	-	(6,250)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (note 25)	-	-	-	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**
Loss for the year	-	-	-	-	-	-	(81,672)	-	(81,672)
Other comprehensive income	-	-	-	-	8,237	2,605	-	-	10,842
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**8,237**	**2,605**	**(81,672)**	**-**	**(70,830)**
Share issued to Directors (note 23)	4,000	1	-	-	-	-	-	-	1
Convertible securities converted into ordinary shares (note 23 and 25)	40,844,591	12,253	-	(12,253)	-	-	-	-	-
Capitalised interest on Convertible Securities issued (note 25)	-	-	-	27,945	-	-	(27,945)	-	-
At 31 December 2012	**127,425,780**	**1,446,624**	**17,320**	**160,514**	**(30,548)**	**(5,507)**	**(1,296,297)**	**6**	**292,112**

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 2011 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 2012:

- IAS 12 *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets* effective 1 January 2012
- IFRS 7 *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* effective 1 July 2011

The adoption of the statements is described below:

IAS 12 *Income Taxes Amendment - Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has had no effect on the Group's financial position, performance or its disclosures.

IFRS 7 *Financial Instruments: Disclosures - Enhanced Derecognition Requirements*

The amendment 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 not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2012. 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 2012, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany (refer to note 31).

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

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 for the year ended 31 December 2011 reflects the share of Mars Fixed 1 results after tax. In 2012, the Group completed the sale of the remaining 25% interest in the Mars Fixed 1 portfolio (refer to note 13).

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 31, 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 Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Except for note (v) Refinancing of bank borrowings and CDO bonds payable, 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 2011.

(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. Refer to note 16.

(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.

(v) Refinancing of bank borrowings and CDO bonds payable

Refinancing of bank loans and CDO bonds payable are reviewed to determine if the terms of the new facility are substantially different to the existing terms. The Group makes this determination using the net present value of the cash flows under the new terms discounted at a the original effective interest rate compared to the discounted present value of the remaining cash flows under the existing terms. If the comparison exceeds a 10% threshold, the refinancing is considered to be substantially different. The Group also reviews the qualitative changes to the financings (e.g. nature and amount of security, counterparties or change in type of financing) to make their assessment. The Group renegotiated the Mars Floating term financing and the Duncannon Revolver note assumed the same terms and conditions of the existing Class A note. Both are considered to be a continuance of existing facilities. Refer to note 19 and 20.

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

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

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

Measurement

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

Subsequent to initial recognition all instruments that are classified as held at fair value through 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 loans and receivables

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets," the Group reclassified all available-for-sale securities within 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)

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.

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.

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

If, in a subsequent period, the fair value of a debt instrument classified 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.

Derecognition of financial assets and liabilities

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

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

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

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

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

Cash and cash equivalents

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

Restricted cash

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

Investment property

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

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

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

Leases

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

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

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

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

Intangible assets

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

Share-based payments

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

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

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.

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

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to the income statement 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 financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012 and will therefore be applied to the Group's first annual report after becoming effective.

The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and will become effective for annual periods beginning on or after 1 January 2014.

The amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the Group's financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. INTEREST INCOME

Included in interest income for the year ended 31 December 2012 is €23.9 million (31 December 2011: €56.4 million) of interest income earned on the available-for-sale securities and loans and receivables. Interest income for the year ended 31 December 2012 includes interest calculated using the EIR method of €23.8 million (31 December 2011: €56.3 million). Coupon interest earned of €14.3 million (31 December 2011: €36.6 million) is split between available-for-sale securities (€1.6 million), loans and receivables (€6.3 million), and real estate related loans (€6.4 million) (31 December 2011: €1.0 million, €26.4 million, and €9.2 million respectively).

Interest earned using the EIR method on impaired assets for the year ended 31 December 2012 of €2.5 million (31 December 2011: €6.2 million) includes €nil interest on available-for-sale securities, interest on loans and receivables of €1.8 million, and interest on real estate related loans of €0.7 million (31 December 2011: €0.01 million, €4.1 million, and €2.1 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €9.2 million (31 December 2011: €25.8 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 2012 of €139.8 million (31 December 2011: €179.6 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 2012 were €35.0 million (31 December 2011: €37.3 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the year of €4.5 million (31 December 2011: €10.9 million) and fund costs relating to the Drive portfolio of €2.0 million (31 December 2011: €2.2 million).

4.3 Service charge income and expense

Service charge income for the year ended 31 December 2012 of €27.9 million (31 December 2011: €38.4 million) represents the service costs recoverable from tenants.

Service charge expense for the year ended 31 December 2012 of €27.0 million (31 December 2011: €35.5 million) represents the costs of operating the properties that are recoverable from tenants.

5. INTEREST EXPENSE

Interest expense for the year ended 31 December 2012 of €89.6 million (31 December 2011: €125.7 million) comprises of interest expense incurred on the CDO bonds payable and bank borrowings amounting to €6.1 million and €83.5 million (31 December 2011: €20.0 million and €105.7 million) respectively. Interest expense is calculated using the EIR method.

Included within the interest expense for the year are losses on the termination of interest rate swaps of €2.4 million (31 December 2011: €1.3 million) and capitalised financing costs written off of €nil (31 December 2011: €0.2 million) relating to the sale of investment property.

Interest expense also includes a €5.3 million credit (31 December 2011: €9.1 million credit) 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 2012 €'000	Year ended 31 December 2011 €'000
Professional fees	944	1,809
Sale related costs	4,233	3,774
Management fees (note 29)	21,819	21,722
Depreciation of fixtures and fittings	78	83
Amortisation of intangible assets	251	663
Other [1]	10,725	10,910
Total other operating expenses	**38,050**	**38,961**

[1] Included within other operating expenses for the year ended 31 December 2012 are reimbursement of property related and asset management services of €7.3 million (31 December 2011: €8.5 million) to FIG LLC (see note 29).

7. TAXATION EXPENSE

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Current tax expense		
Germany	6,104	2,255
Luxembourg	1,607	35
Total current tax	**7,711**	**2,290**
Deferred tax charge		
Germany	1,515	1,748
Luxembourg	-	-
Total deferred tax	**1,515**	**1,748**
Total tax expense	**9,226**	**4,038**

Reconciliation of total tax expense

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

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Net loss before taxation	(72,446)	(14,435)
Tax on ordinary activities based on Guernsey tax of 0% (2011: 0%)	-	-
Overseas taxation expense - Germany	7,619	4,003
Overseas taxation expense - Luxembourg	1,607	35
Total tax expense	**9,226**	**4,038**

Analysis of deferred tax:

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Tax losses carried (utilised) / forward	(544)	1,309
Temporary differences		
Loan expense	(80)	(93)
Tenant improvements and leasing commissions	(95)	(105)
Accelerated capital allowance	660	961
Revaluation of investment properties [1]	5	(906)
Capital expenditure	(5)	110
Disposal of investment properties	1,599	-
Other	(25)	472
Deferred tax charge	**1,515**	**1,748**

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

Deferred tax on revaluation of investment properties

Portfolio	Year ended 31 December 2012 (decrease) / increase in fair values €'000	Year ended 31 December 2012 deferred tax €'000	Year ended 31 December 2011 (decrease) / increase in fair values €'000	Year ended 31 December 2011 deferred tax €'000
Mars [1]	(24,863)	-	(38,468)	(200)
Drive	(51,472)	-	(10,788)	-
Wave	12,227	610	(2,970)	(366)
Zama	286	-	(475)	-
Bridge	(19,389)	-	(1,612)	-
Retail	(11,447)	(605)	(5,086)	(340)
Total	**(94,658)**	**5**	**(59,399)**	**(906)**

(1) 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 2012 €'000	As at 31 December 2011 €'000
Split between:		
Current tax	11,249	5,230
Deferred tax	6,217	4,702
Closing taxation payable	**17,466**	**9,932**

Reconciliation of total tax charge:

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Loss before tax	(72,446)	(14,435)
Tax at domestic tax rates applicable to profits in the respective countries	-	-
Tax effect of revaluation of investment properties	5	55
Tax effect on timing differences	480	270
Tax effect of tax losses	(544)	1,309
Other [1]	9,285	2,404
Total tax expense	9,226	4,038

(1) Includes current taxes relating to Germany and Luxembourg of €5.9 million and €1.5 million (31 December 2011: €2.2 million and €0.1 million) respectively.

Deferred tax liabilities are attributed to the following:

	2012			2011		
	Assets €'000	**Liabilities €'000**	**Net €'000**	**Assets €'000**	**Liabilities €'000**	**Net €'000**
Loan expense	30	(161)	(131)	-	(211)	(211)
Tenant improvement and leasing commissions	-	(78)	(78)	-	(173)	(173)
Accelerated capital allowance	-	(7,271)	(7,271)	-	(6,611)	(6,611)
Revaluation of investment properties	3,123	(1,765)	1,358	1,363	-	1,363
Capital expenditure	-	(1,622)	(1,622)	-	(1,627)	(1,627)
Tax value of recognised losses	3,266	-	3,266	2,722	-	2,722
Short-term temporary differences	15	(1,754)	(1,739)	-	(165)	(165)
Net deferred tax asset / (liability)	**6,434**	**(12,651)**	**(6,217)**	**4,085**	**(8,787)**	**(4,702)**

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 €254.9 million (31 December 2011: €201.4 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets of €118.2 million (31 December 2011: €31.9 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 2012 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 2012 includes a provision relating to these subsidiaries.

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

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

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

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

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

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Fair value movements in currency swaps[1]	(10,378)	(9,154)
Foreign currency translation gains on assets subject to currency swaps [1]	8,937	10,098
Sub-total	**(1,441)**	**944**
Other currency (losses) / gains	(266)	499
Total currency (losses) / gains	**(1,707)**	**1,443**

[1] The foreign currency swaps are disclosed in note 15.

9. IMPAIRMENT LOSSES

	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Impairment losses on loans and receivables	11,060	34,881
Impairment losses on real estate related loans	12,448	5,406
Realisation of previously unrealised (gains) / losses on impaired loans and receivables previously held as available for sale	(6,798)	9,494
Total impairment losses	**16,710**	**49,781**

During the year ended 31 December 2012, the Group has recognised impairment losses on 21 securities (31 December 2011: 31 securities). As at 31 December 2012, 25 securities has recognised impairment losses (31 December 2011: 17 securities).

The carrying value of the impaired securities or loans as at 31 December 2012 after the impairment losses was €82.8 million (31 December 2011: €58.2 million).

10. CASH AND CASH EQUIVALENTS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Corporate cash	38,838	28,860
Cash within the real estate operating companies	98,366	80,694
Cash within the CDO vehicles	4,140	8,115
Total cash and cash equivalents	**141,344**	**117,669**

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

The cash within the CDO vehicles is restricted to servicing debt, repurchasing senior debt and 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 2012:

			Gross unrealised			Weighted average			
	Current face amount €'000	**Amortised cost base €'000**	**Gains €'000**	**Losses €'000**	**Carrying value €'000**	**Average rating (1)**	**Coupon %**	**Margin %**	**Maturity (years)**
Portfolio IV									
CMBS	57,940	57,625	-	(12,383)	45,242	BB+	0.75%	0.71%	2.45
Other ABS	1,232	1,232	-	(514)	718	BBB-	2.21%	2.05%	13.01
	59,172	58,857	-	(12,897)	45,960	BB+	0.78%	0.74%	2.66
Other securities									
CMBS	6,930	318	-	(180)	138	D	2.89%	2.70%	3.33
	6,930	318	-	(180)	138	D	2.89%	2.70%	3.33
Total portfolio	**66,102**	**59,175**	**-**	**(13,077)**	**46,098**	**BB**	**1.00%**	**0.95%**	**2.73**

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

			Gross unrealised			Weighted average			
	Current face amount €'000	**Amortised cost base €'000**	**Gains €'000**	**Losses €'000**	**Carrying value €'000**	**Average rating (1)**	**Coupon %**	**Margin %**	**Maturity (years)**
Portfolio IV									
CMBS	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**

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

12. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2012:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating (1)	Coupon %	Margin %	Maturity (years)
Portfolio IV								
Real estate related loans	13,185	13,188	(3,474)	9,714	CC	2.16%	2.30%	1.42
	13,185	13,188	(3,474)	9,714	CC	2.16%	2.30%	1.42
Portfolio V (2)								
CMBS	246,823	204,570	(15,391)	189,179	B	1.10%	4.45%	3.45
Other ABS	41,419	36,731	(4,776)	31,955	B+	1.91%	1.17%	5.60
Real estate related loans	240,573	240,922	(83,987)	156,935	CCC-	2.67%	2.69%	2.11
	528,815	482,223	(104,154)	378,069	B-	1.88%	3.39%	3.01
Other securities								
Real estate related loans	23,413	8,433	(7,147)	1,286	CCC-	1.84%	2.92%	1.24
	23,413	8,433	(7,147)	1,286	CCC-	1.84%	2.92%	1.24
Total portfolio	**565,413**	**503,844**	**(114,775)**	**389,069**	**B-**	**1.88%**	**3.35%**	**2.90**

Restricted cash - cash to be invested	20,896
Total loans and receivables (including cash to be invested)	**409,965**

As at 31 December 2011:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating (1)	Coupon %	Margin %	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 (2)								
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**

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

(2) The securities within Portfolio V are encumbered by CDO securitisations (note 19).

During the year, Eurocastle realised its remaining economic interest in the CDO II portfolio with was deconsolidated by the Group in 2011. €4.7 million of redemption proceeds were realised compared to a carrying value of €4.1 million.

Following the amendments to IAS 39, "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:

	At 01 July 2008 Carrying Value €'000	**At 31 December 2012 Carrying Value €'000**	**At 31 December 2011 Carrying Value €'000**	**At 31 December 2012 Fair Value €'000**	**At 31 December 2011 Fair Value €'000**
Available-for-sale securities, reclassified to loans and receivables	1,077,560	143,401	219,571	82,340	126,602

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 2012 would have included €26.0 million on the reclassified available-for-sale securities of impairment losses, compared with impairment reversals of €7.7 million after the reclassification. During 2012, shareholders' equity (net losses not recognised in the income statement) would have included €13.5 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 2012.

After reclassification, the reclassified financial assets contributed the following amounts to income for the Year ended 31 December 2012:

	As at 31 December 2012 €'000	**As at 31 December 2011 €'000**
Net interest income	4,705	25,856
Impairment losses on securities classified as loans and receivables	(16,710)	(44,375)
Losses on available-for-sale securities reclassified to loans and receivables	**(12,005)**	**(18,519)**

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 2012, €6.8 million of unrealised fair value gains have been released to the income statement for impaired reclassified financial assets available-for-sale (31 December 2011: €9.5 million of losses). Additionally, €9.2 million (31 December 2011: €25.9 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by €0.5 million to reflect changes in the expected cash flows (31 December 2011: €1.9 million).

At 31 December 2012, the net unrealised loss on loans and receivables was €13.1 million (31 December 2011: €20.5 million).

The movement in the impairment losses is shown below:

	2012 €'000	2011 €'000
Balance as at 1 January	(112,652)	(217,484)
Reversals due to paydowns and sales in the year	19,901	55,563
Losses for the year	(46,227)	(48,919)
Reversals for the year	24,203	6,085
Reversal due to deconsolidation of CDO II and CDO III	-	92,103
Balance at 31 December	**(114,775)**	**(112,652)**

13. INVESTMENT IN ASSOCIATE

In the second quarter of 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 retained 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 as well as a 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.

On 4 April 2012, the Group sold its remaining 25% interest in the Mars Fixed 1 portfolio. The gain on sale is calculated as follows:

	As at 4 April 2012 €'000
Non-current assets	972,080
Current assets	11,775
Non-current liabilities	(962,095)
Current liabilities	(50,705)
Net liabilities	**(28,945)**
Share of Associate's net liabilities (carried at €nil cost)	-
Cash proceeds received on sale of investment (net of transaction costs of €0.2 million)	6,793
Gain on disposal of Associate	**6,793**

The net cash inflow from the disposal of the investment in Mars Fixed is €6.8 million made up of the net proceeds received.

The Associate reported an unaudited loss of €21.8 million for the period ending 4 April 2012 of which the Group recognised €nil as the investment was carried at €nil value.

The Associate's summary information for the comparative period is shown below:

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

	Year ended 31 December 2011 €'000
Loss for the period	(89,122)
Share of Associate's loss for the period	**-**

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

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.

14. OTHER ASSETS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Tenant incentives and leasing commissions	10,493	9,056
Service charge receivable	5,509	5,397
Interest receivable	1,720	3,575
Rent receivable	1,839	1,239
Prepaid expenses	699	1,006
Other accounts receivable	3,806	2,602
Total other assets	**24,066**	**22,875**

Service charge and rent receivables are net of a provision for doubtful debts of €7.6 million (31 December 2011: €7.0 million).

15. DERIVATIVE ASSETS AND LIABILITIES

Derivative Assets

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Foreign currency swaps	9,792	20,170
Total derivative assets	**9,792**	**20,170**

Derivative Liabilities

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Interest rate swaps	8,756	13,228
Total derivative liabilities	**8,756**	**13,228**

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 and the fair value hedges are deemed effective for hedge accounting purposes.

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 €10.4 million (31 December 2011: €9.2 million) is recorded in the income statement (refer to note 8).

16. INVESTMENT PROPERTY

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Investment property held for sale	76,510	53,152
Investment property	1,943,744	2,162,243
Total investment property net of tenant incentives and leasing commissions	2,020,254	2,215,395
Tenant incentives and leasing commissions (included in other assets - note 14)	10,493	9,056
Total investment property	**2,030,747**	**2,224,451**

As at 31 December 2012, the investment property held for sale is financed by approximately €72.8 million of bank borrowings (31 December 2011: approximately €41.6 million). During the Year ended 31 December 2012, the Group has sold 41 (31 December 2011: 19) properties and 1 land parcel (31 December 2011: none) for €112.5 million (31 December: €110.7 million) versus a carrying value of €101.2 million (31 December: €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 included within other assets) as at 31 December 2012:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2012	2,144,403	80,048	2,224,451
Capital expenditures	16,429	-	16,429
Tenant incentives and leasing commissions	(4,541)	(8)	(4,549)
Free rent amortisation	1,031	-	1,031
Disposals	(112,481)	-	(112,481)
Increase in minimum payments under head lease	-	524	524
Decrease in fair value	(91,037)	(3,621)	(94,658)
Balance at 31 December 2012	**1,953,804**	**76,943**	**2,030,747**

As at 31 December 2011

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2011	3,321,712	79,203	3,400,915
Capital expenditures	10,991	-	10,991
Tenant incentives and leasing commissions	(10,936)	-	(10,936)
Free rent amortisation	990	-	990
Disposals	(139,960)	(2,563)	(142,523)
Transfer of investment in Mars Fixed 1 portfolios (refer to note 13)	(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)
Balance at 31 December 2011	**2,144,403**	**80,048**	**2,224,451**

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 2012. 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 2012 €'000	As at 31 December 2011 €'000
Investment property at market value	2,007,531	2,201,759
Minimum payments under head leases separately included in liabilities on the balance sheet	23,216	22,692
Balance sheet carrying value of investment property	**2,030,747**	**2,224,451**

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

Year ending 31 December 2012	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	10.09	8.68	9.64
Market rent per sqm per month (€)	12.79	8.58	11.44
Average net initial yield	5.5%	7.1%	5.8%
Vacancy rate	24.3%	3.1%	18.6%

Year ending 31 December 2011	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	11.84	8.97	11.00
Market rent per sqm per month (€)	11.83	8.50	10.84
Average net initial yield	5.8%	7.1%	6.0%
Vacancy rate	20.4%	2.1%	15.7%

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 23 investment properties are built have unexpired terms ranging from 4 years to 87 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 (2011: €1.2 million).

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2012 €000	Present value 31 December 2012 €000	Total value 31 December 2011 €000	Present value 31 December 2011 €000
Under 1 year	1,068	1,040	1,044	1,017
From 2 to 5 years	4,401	3,858	4,287	3,757
More than 5 years	48,243	18,318	48,090	17,918
Total	**53,712**	**23,216**	**53,421**	**22,692**

The carrying value of investment properties held under finance leases is approximately €53.0 million (2011: €56.4 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.

2012 (€'million)	**Office**	**Retail**	**Total**
Market value	1,569	439	2,008
Increase in yield of 25 bps	1,399	426	1,825
Value sensitivity	**(170)**	**(13)**	**(183)**

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)**

Additional information

The table below provide additional information for various portfolios within the Group at 31 December 2012:

Portfolio	Property valuation [1] €'000	Term financing (face amount) €'000	Other assets/ (liabilities) [2] €'000	Net operating income (NOI) [3] €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures [4] €'000
Drive	709,882	677,813	32,832	30,200	4.3%	66.9%	8,263
Bridge	406,971	372,090	180	25,023	6.1%	96.5%	2,070
Wave	181,778	153,534	(21,654)	11,146	6.1%	81.4%	439
Turret	169,295	147,556	(2,524)	12,673	7.5%	96.9%	1,000
Mars Floating [5]	128,785	147,872	4,237	6,280	4.9%	59.3%	3,116
Mars Fixed 2	96,410	78,303	2,076	4,745	4.9%	89.8%	819
Truss	94,940	85,280	(2,839)	7,044	7.4%	96.5%	102
Belfry	60,210	54,770	(851)	4,390	7.3%	95.1%	383
Tannenberg	59,150	54,500	(3,246)	4,210	7.2%	94.6%	122
Superstella	55,460	52,960	186	3,972	7.2%	100.0%	55
Zama	44,650	39,896	710	3,174	7.1%	94.3%	60
Total	**2,007,531**	**1,864,574**	**9,107**	**112,858**	**5.6%**	**81.2%**	**16,429**

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

Portfolio	Property valuation [1] €'000	Term financing (face amount) €'000	Other assets/ (liabilities) [2] €'000	Net operating income (NOI) [3] €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures [4] €'000
Drive	816,400	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
Turret	172,865	147,556	1,734	13,418	7.8%	97.6%	302
Mars Floating [5]	165,800	159,844	5,036	6,959	4.2%	58.7%	1,799
Mars Fixed 2	96,340	78,384	3,251	5,176	5.4%	86.1%	342
Truss	97,290	85,280	703	7,457	7.7%	98.6%	189
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
Superstella	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	**2,201,759**	**1,933,444**	**27,878**	**136,440**	**6.2%**	**84.3%**	**8,773**

(1) Property valuation excludes the leasehold gross-ups of €23.2 million (31 December 2011: €22.6 million).

(2) Other assets / liabilities do not include unallocated assets and liabilities per note 30 - segmental reporting.

(3) Net operating income is after deducting €2.0 million (31 December 2011: €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.

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

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

Under its 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% 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 2012, this ratio was 49.5% (31 December 2011: 49.4%). Following a repayment of €36.6 million in connection with the extension of the senior loan, the ratio as at 31 January 2013 was 45.9%.

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

As at the end of 2012, there were 19 vacant properties with a carrying value of €46.8 million and annual operating costs of €1.0 million. The corresponding figures as at 31 December 2011 was 22 properties with a carrying value of €45.4 million and annual operating costs of €0.7 million.

17. INTANGIBLE ASSETS

	2012 €'000	2011 €'000
Cost		
Balance at 1 January	4,106	4,106
Balance at 31 December	**4,106**	**4,106**
Amortisation		
Balance at 1 January	(3,731)	(3,068)
Charge in the year	(251)	(663)
Balance at 31 December	**(3,982)**	**(3,731)**
Carrying amount		
Balance at 1 January	375	1,038
Balance at 31 December	**124**	**375**

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

18. FIXTURE AND FITTINGS

	2012 €'000	2011 €'000
Cost		
Balance at 1 January	494	494
Balance at 31 December	**494**	**494**
Depreciation		
Balance at 1 January	(361)	(278)
Charge in the year	(78)	(83)
Balance at 31 December	**(439)**	**(361)**
Carrying amount		
Balance at 1 January	133	216
Balance at 31 December	**55**	**133**

19. CDO BONDS PAYABLE

As at 31 December 2012:

	Class	Rating [1]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years)
Duncannon	X, A, B, C1, C2, D1, D2, D3, E1, E2	BB/B/ CC/C/C/ C/C/C/ C/C	354,867	352,905	1.16%	0.98%	3.9
Total			**354,867**	**352,905**	**1.16%**	**0.98%**	**3.9**

In 2006, Duncannon acquired a number of asset-backed securities that were financed by the issuance of limited recourse notes which were entirely subscribed by external note holders. The obligation to the external note holders has been recorded as a financial liability in the balance sheet as CDO bonds payable. The carrying value of the financial assets and associated note liabilities as at 31 December 2012 was €378.1 million and €352.9 million (31 December 2011: €435.6 million and €431.7 million) respectively, with a net position of €25.2 million (31 December 2011: €3.9 million). Refer to note 12 for the financial asset disclosures.

The fair value of the financial assets and associated note liabilities as at 31 December 2012 was €221.4 million and €191.9 million (31 December 2011: €223.6 million and €167.9 million) respectively, with a net position of €29.5 million (31 December 2011: €55.7 million). Refer to note 26 for the fair value disclosures.

In the third quarter of 2011, the Group sold 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. The net cash outflow from the disposal was €7.3 million made up of the cash and cash equivalents released on consolidation and a gain on deconsolidation of €53.4 million recorded. The Class A notes were paid down in 2012 and recorded in the cashflow in investing activities.

Following a multi-party agreement in the first quarter of 2012, the Duncannon merged the Class A and Revolver notes payable. Under this agreement, the Revolver note assumed the same terms and conditions of the existing class A note.

In the first half of 2012, the Group repurchased €76.8 million of its own CDO senior debt with a carrying value of €46.4 million at an average price of 61% of nominal and realising a net book gain of €30.4 million. For the year ended 31 December 2011, the Group repurchased €26.3 million of its own debt with a carrying value of and recognising a net book gain of €8.4 million in 2011.

In May 2012, the Group repurchased Class E notes with a face of €0.9 million in Duncannon from an investor for €8,000, realising a gain on purchase of mezzanine debt of €0.9 million. In comparison, the Group purchased the Class B Notes in CDO III (previously consolidated subsidiary) from an investor for €0.3 million realising a gain on the purchase of mezzanine debt of €2.7 million in 2011.

As at 31 December 2011:

	Class	Rating [1]	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	434,033	431,700	2.39%	0.97%	3.9
Total			**434,033**	**431,700**	**2.39%**	**0.97%**	**3.9**

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

20. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 December 2012 €'000	As at 31 December 2011 €'000
Term financing	(note 20.1)	1,898,045	1,968,912
Loans and notes relating to the Mars Portfolios	(note 20.2)	-	5,314
Total		**1,898,045**	**1,974,226**

20.1 Term Financing

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month raised**	**As at 31 December 2012**	**As at 31 December 2011**	**As at 31 December 2012**	**As at 31 December 2011**	**Hedged weighted average funding cost**	**Weighted average funding cash coupon**	**Maturity**
Debt Investments								
CDO IV	Jul 2005	38,518	44,131	38,518	44,131	0.78%	0.75%	Dec 2014
Investment Property								
Drive [1]	Feb 2006	677,813	716,083	677,725	714,745	4.21%	4.10%	Jan 2014
Bridge	Oct 2006	372,090	372,090	371,241	370,437	4.74%	4.67%	Jan 2014
Wave	Apr 2007	153,534	172,081	153,211	171,428	4.94%	4.78%	Apr 2014
Mars Floating	Jan 2007	147,872	159,844	147,680	159,765	2.40%	2.33%	Dec 2013
Turret [2]	May 2006	147,556	147,556	146,563	146,713	4.93%	4.85%	May 2016
Truss [2]	Dec 2005	85,280	85,280	84,903	84,920	4.93%	4.85%	Feb 2016
Mars Fixed 2	Jun 2008	78,303	78,384	77,894	77,114	5.21%	5.07%	Jun 2013
Belfry [2]	Aug 2005	54,770	54,770	54,478	54,383	4.85%	4.66%	Oct 2015
Rapid [2]	Aug 2007	54,500	54,500	53,619	53,440	4.96%	4.91%	Nov 2017
Tannenberg [2]	May 2007	52,960	52,960	52,456	52,176	4.87%	4.66%	Oct 2014
Zama	Feb 2007	39,896	39,896	39,757	39,660	4.99%	4.86%	May 2014
Total investment property		**1,864,574**	**1,933,444**	**1,859,527**	**1,924,781**	**4.44%**	**4.34%**	
Total term financing		**1,903,092**	**1,977,575**	**1,898,045**	**1,968,912**	**4.37%**	**4.26%**	
Adjustment for costs of Mars refinancing [3]				-	-			
Net total term financing				**1,898,045**	**1,968,912**			

(1) Following the restructuring and as per note 26, these loans have been classified as payable in 2013 and 2014.

(2) These portfolios make up the Retail portfolios.

(3) 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 for the year ended 31 December 2012 was €5.3 million (31 December 2011: €9.1 million credit). The cost of refinancing has been fully amortised.

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

Debt Investments

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank and the facility is secured over, inter alia, the collateral making up the portfolio. The facility has been restructured on a number of occasions with the latest agreement completed in December 2011. All excess cashflow after interest and costs are payable to the Group and no amortisation targets are in place. The final maturity date of the facility is December 2014.

Investment Property

In order to finance the investment property portfolios, the Group entered into loan facilities as described in the table in note 20.1. These facilities are secured in the customary manner for German real estate lending granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly.

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.

Following an extension of this facility in 2012 to revise the maturity to 31 December 2013 and a subsequent breach of an amortisation target, the loan underwent an additional restructuring in March 2012. All contingent guarantees previously provided by the Company were removed ensuring the loan is fully non-recourse to the Company. The scheduled amortisation payments were also extended. The first payment to reduce the outstanding balance to below the required €120 million was due in December 2012. The outstanding payment of €27.7 million has been temporarily waived by the lender on 28 February 2013 to 30 April 2013 whilst the Group remains in discussions to further extend the amortisation targets in relation to the sales programme.

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). In 2012, the remaining 25% interest in this facility was sold and terminated asset management services in respect of this portfolio. As a result of this transaction, the Group has received a net benefit of €6.8 million.

20.2 Loans and notes relating to Mars Portfolio

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Within Mars Floating Portfolio		
Loan notes and Shareholder Loans	287,241	265,444
Less: Remeasurement adjustment to amortised cost	(301,991)	(254,816)
Adjusted amortised cost	(14,750)	10,628
Transfer of 50% of the adjusted amortised cost to the lender	**-**	**5,314**

In consideration of the extension of the Mars Floating facility, the Group agreed to transfer to the Mars Floating lender half of its equity investment in the combined Mars portfolios. This transfer was legally effected on 27 May 2009 and comprised the transfer of Loan Notes and Shareholder's Loans relating to the lender's financing of the portfolios. The terms and conditions of the loan notes and shareholder loans provide that the holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying investment properties. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. As at 31 December 2012, no receivable has been recorded for the shortfall of the NAV below zero.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Security deposit	5,538	4,968
Interest payable	14,656	15,780
Due to Manager (note 29)	3,403	3,690
Accrued expenses and other payables	35,601	31,650
Total trade and other payables	**59,198**	**56,088**

Accrued expenses and other payables include provisions relating to capital expenses of €20.8 million (31 December 2011: €18.0 million).

22. 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 2012	As at 31 December 2011
Weighted average number of ordinary shares, outstanding and basic	96,888,918	74,752,269
Potential dilutive effect of ordinary share options and convertible securities	550,251,807	403,895,187

23. SHARE CAPITAL AND RESERVES

As at 31 December 2012, there were 127,425,780 shares (31 December 2011: 86,577,189) issued and outstanding.

The movement in issued share capital is shown as follows:

	Value of convertible securities €'000	Number of shares
Balance at 1 January 2011		65,739,646
Issued to the Directors per their in-place compensation arrangements on 12 July 2011 for nil consideration		4,000
Issued in exchange for convertible securities		
25 July 2011	3,015	10,050,268
29 July 2011	3,169	10,563,550
4 August 2011	66	219,725
Balance at 31 December 2011		**86,577,189**
Issued to the Directors per their in-place compensation arrangements on 13 June 2012 for nil consideration		4,000
Issued in exchange for convertible securities		
5 June 2012	111,133	370,443
19 July 2012	299,627	998,755
6 August 2012	3,164,055	10,546,849
10 August 2012	190,514	635,046
18 September 2012	327,338	1,091,125
27 September 2012	178,390	594,634
3 October 2012	748,200	2,493,999
4 October 2012	178,390	594,634
10 October 2012	2,473,217	8,244,053
29 October 2012	647,747	2,159,156
7 November 2012	588,861	1,962,868
8 November 2012	1,107,419	3,691,397
13 November 2012	181,854	606,180
23 November 2012	2,056,636	6,855,452
Balance at 31 December 2012		**127,425,780**

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

Other reserves
Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in December 2003, June 2004, June 2005, January 2006 and December 2006 (note 27).

24. 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 2012, cumulative unrealised losses on hedge instruments were €2.6 million (31 December 2011: €8.1 million). The cumulative unrealised gains comprise the gain in value of the novated swaps of €1.7 million (31 December 2011: €4.5 million) and the fair value loss of the interest rate swaps of €4.3 million (31 December 2011: €12.6 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 2012 €'000	As at 31 December 2011 €'000
Mars	312	979
Drive	25	478
Bridge	532	1,045
Rapid	751	907
Tannenberg	304	473
Turret	615	371
Zama	65	112
Truss	188	115
Total	**2,792**	**4,480**

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 2012	Wave
Nominal amount (€'000)	142,637
Pay rate	4.03%
Receive rate	3 month Euribor
Remaining life (years)	1.3
Fair value of swaps (€'000)	(8,298)

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 26 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.

Fair value hedges

31 December 2012	Feco GBP B Notes	Feco GBP B Notes (1)
Nominal amount (€'000)	4,901	6,039
Pay rate	5.11%	-
Receive rate	3 month Libor	-
Remaining life (years)	1.6	-
Fair value of swaps (€'000)	(372)	(458)
Fair value of assets attributable to the risk hedged (€'000)	(395)	(486)

31 December 2011	Feco GBP B Notes	Feco GBP B Notes (1)
Nominal amount (€'000)	5,330	6,391
Pay rate	5.11%	-
Receive rate	3 month Libor	-
Remaining life (years)	2.6	-
Fair value of swaps (€'000)	(530)	(636)
Fair value of assets attributable to the risk hedged (€'000)	(527)	(632)

(1) The amount stated is Euro notional, mark-to-market equivalent GBP swaps. The fair value hedge is deemed effective for hedge accounting purposes and the gain €0.2m (2011: €0.1m) is recorded through the consolidated income statement.

25. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Convertible securities issued	99,750	99,750
Accrued interest	75,233	52,107
Capitalised issue costs	(1,200)	(1,200)
Convertible securities converted into ordinary shares	(13,269)	(5,835)
Total	**160,514**	**144,822**

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

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

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.

Further conversions have been completed in 2011 and 2012. Details of these are provided in note 23.

Upon a full conversion of all convertible securities, the Group's number of shares outstanding would increase by 542,625,721, which includes 206,546,667 of shares related to deferred interest capitalised in December 2012.

Following the year-end, the Company obtained approval from the holders of its convertible securities to lower the conversion price from €0.30 to €0.05 per share in exchange for, inter alia, the right for the Company to require a conversion of all outstanding convertible securities. Conditional upon such conversion, the Company reached agreement with the Manager to rebase the fees under its Management Agreement (refer note 29) which will preserve capital for future investment. On 12 April 2013, the Company converted all outstanding convertible securities to ordinary shares with the effect that the share count was increased by 3,398,474,685 shares on 19 April 2013 resulting in the adjusted fully diluted NAV per share reducing from €0.46 to €0.09.

26. FINANCIAL INSTRUMENTS

Risk Management

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

Capital Risk Management

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

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

In order to maintain an adequate capital structure in current uncertain market conditions, the Group considers strategies such as refinancing existing loan facilities, raising capital and asset sales to reduce outstanding loan balances. Capital management is under constant scrutiny of the Board. Please refer to note 32 for the changes to the capital structure subsequent to the year-end.

At 31 December 2012, the Group had net equity of €292.1 million (31 December 2011: €362.9 million) and a leverage ratio of 88.5% (31 December 2011: 86.8%). The ratio increase from 2011 is primarily as a result of repurchase of Duncannon bonds and settlement of real-estate loans from sales, net of the reduction in fair values of the investments properties and impairments of the debt investment securities.

Market Risk

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

The Group recognises that the significant deterioration in economic conditions on the back of the global credit crisis continues to have adversely impacted the property valuations. This has affected and may continue to affect the Group’s ability to dispose of assets or the level of proceeds received in relation to any such disposals. Due to the current market conditions and the nature of the assets in which the Group invests, sale of assets by the Group could result in significantly lower proceeds than the carrying value of those assets in the consolidated financial statements included herein. Also, due to the nature of the Group’s assets, asset sales may not be effected swiftly enough to avoid default of the Group’s existing financings. The Group also recognises that the economic situation may result in a lower leasing or renewals volume or in a reduction in rents as a result of tenant defaults. In addition, the Group’s top five tenants accounted for 46.3% of its passing rental income for the Year ended 31 December 2012 (31 December 2011: 50.4%). Loss of any one of these tenants could have a significant impact on the Group’s performance.

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, affecting the Group's ability to repay any allocated debt should it choose to sell assets prior to maturity.

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 2012, a 100 basis point increase / decrease in credit spreads would increase / (decrease) net equity by €1.8 million (31 December 2011: €2.9 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 financings.

Interest Rate Risk

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

The Group has financed its core real estate portfolios with fixed rate loans except for the Wave portfolio where an interest rate swap has been entered into to (refer note 24). Changes in interest rates affect the break costs incurred to unwind the financing arrangements and thus affect the gain or loss on disposal of the group's real estate assets and also may affect the Group's ability to sell assets should the net proceeds be insufficient to repay their allocated liability.

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 31 December 2012, including the effect of hedging instruments, a 100 basis point increase / decrease in interest rates would increase / (decrease) earnings by approximately €0.9 million per annum (31 December 2011: €0.8 million per annum). The impact on equity due to the cash flow hedging would be an increase / (decrease) of approximately €2.0 million (31 December 2011: €4.0 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 2012, a 100 basis point change in interest rates would impact the net equity by €0.1 million (31 December 2011: €0.1 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 Group's securities portfolio is diversified by asset type, industry, location and issuer. At 31 December 2012, the Group's securities, which serve as collateral for its CDO financing and other borrowings, had an overall weighted average credit rating of approximately B- (31 December 2011: B).

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

The maximum credit risk exposure in respect of debt investments as at 31 December 2012 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 2011: €0.5 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 2012			31 December 2011		
	Number of securities / loans	Face value €'000	Location split %	Number of securities / loans	Face value €'000	Location split %
United Kingdom	23	190,314	34.2%	28	235,426	32.1%
Italy	6	83,563	9.0%	6	86,542	11.8%
Germany	20	176,165	29.9%	20	190,307	25.9%
Pan-European	10	115,392	14.9%	8	135,875	18.5%
France	5	37,289	7.5%	7	37,337	5.1%
Other	3	28,792	4.5%	5	48,664	6.6%
Total	**67**	**631,515**	**100.0%**	**74**	**734,151**	**100.0%**

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

Liquidity risk

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

Eurocastle's liquidity is primarily generated by cash flows (from 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. All portfolio-level financing is non-recourse to Eurocastle. Cash received at the Eurocastle level is therefore for Eurocastle's corporate purposes. Following the full conversion of the Convertible Securities in 2013, no interest or principal remains outstanding.

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

The Group's debt investments are generally financed long-term, with 87.5% 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 2012, were financed with a floating and fixed rate facility of €147.7 million. During 2012, this facility was re-negotiated with the lender and now matures on 31 December 2013. The scheduled amortisation payments were also extended. The first payment to reduce the outstanding balance to below the required €120.0 million was due at the end of 2012. The outstanding €27.7 million in relation to the 2012 payment remains unsettled and is temporarily waived by the lender pending a restructuring due to be completed in the second quarter of 2012.

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 2012:

Type	Total outstanding at 31 December 2012 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	141,344	141,344	-	-
Interest receivable [(1)]	1,720	11,318	18,362	696
Asset backed securities, available-for-sale	46,098	-	37,710	8,388
Loans and receivables (includes cash to be invested)	409,965	28,014	303,110	78,841
Derivative assets [(2)]	9,792	396	5,952	3,444
Total assets	**608,919**	**181,072**	**365,134**	**91,369**
Liabilities				
Interest payable [(1)]	14,656	85,282	55,044	-
Derivative liabilities [(2)]	8,756	5,823	2,933	-
CDO bonds payable	352,905	-	-	352,905
Bank borrowings	1,898,045	581,564	1,316,481	-
Finance leases payable [(3)]	23,216	1,040	3,858	18,318
Total liabilities	**2,297,578**	**673,709**	**1,378,316**	**371,223**

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

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

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

Gross settled derivatives	Total outstanding at 31 December 2012 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Contractual amounts payable	(80,631)	(2,151)	(61,376)	(17,104)
Contractual amounts receivable	90,423	2,547	67,328	20,548
Total undiscounted gross settled derivatives outflow	**9,792**	**396**	**5,952**	**3,444**

Maturities and mandatory amortisation

Portfolio (€m)	2013	2014	2015	2016	2017	Total
Non recourse						
Drive [(1)]	345.1	332.7	-	-	-	677.8
Bridge	-	372.1	-	-	-	372.1
Wave	10.9	142.6	-	-	-	153.5
Mars Floating	147.9	-	-	-	-	147.9
Turret	-	-	-	147.6	-	147.6
Truss	0.9	0.9	0.7	82.7	-	85.2
Mars Fixed 2	78.3	-	-	-	-	78.3
Belfry	0.5	0.5	53.8	-	-	54.8
Tannenberg	-	53.0	-	-	-	53.0
Superstella	-	-	-	-	54.5	54.5
Zama	-	39.9	-	-	-	39.9
Real estate portfolio	**583.6**	**941.6**	**54.5**	**230.3**	**54.5**	**1,864.6**
CDO IV	-	38.5	-	-	-	38.5
Debt Total	**-**	**38.5**	**-**	**-**	**-**	**38.5**
Grand total	**583.6**	**980.1**	**54.5**	**230.3**	**54.5**	**1,903.1**

(1) The Drive loan reflects the extension of the senior loan that was agreed in January 2013.

As at 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 [(1)]	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 [(2)]	20,170	1,771	10,175	8,224
Total assets	**635,604**	**366,828**	**289,901**	**34,362**
Liabilities				
Interest payable [(1)]	15,780	98,363	129,742	8,224
Derivative liabilities [(2)]	13,228	6,520	6,708	-
CDO bonds payable	431,700	-	-	431,700
Bank borrowings [(3)]	1,974,226	874,511	1,046,276	53,439
Finance leases payable [(4)]	22,692	1,044	4,287	48,090
Total liabilities	**2,457,626**	**980,438**	**1,187,013**	**541,453**

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

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

(3) As at 31 December 2011, the Group was in default of the Mars Floating and Drive Junior loans. Therefore, the loans were reclassified as payable within one year.

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

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	8965	105,986	39,672
Total undiscounted gross settled derivatives inflow	**20,170**	**1,769**	**10,174**	**8,227**

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 2012 Carrying value €'000	As at 31 December 2011 Carrying value €'000	As at 31 December 2012 Fair value €'000	As at 31 December 2011 Fair value €'000
Financial assets				
Cash and cash equivalents	141,344	117,669	141,344	117,669
Asset backed securities, available-for-sale	46,098	45,543	46,098	45,543
Loans and receivables (includes cash to be invested)	409,965	448,647	227,826	291,677
Derivative assets	9,792	20,170	9,792	20,170
Financial liabilities				
CDO bonds payable	352,905	431,700	191,867	167,914
Bank borrowings	1,898,045	1,974,226	2,000,902	2,091,289
Finance lease payable	23,216	22,692	23,216	22,692
Derivative liabilities	8,756	13,228	8,756	13,228

Fair value hierarchy

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

31 December 2012:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	-	-	46,098	46,098
Derivative assets	-	9,792	-	9,792
Financial liabilities				
Derivative liabilities	-	8,756	-	8,756

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

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

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

	As at 31 December 2012 €'000	**As at 31 December 2011 €'000**
As at 1 January	49,656	41,711
Total (losses) / gains recognised in the income statement	(8,771)	500
Total gains recognised in other comprehensive income	5,213	7,445
As at 31 December	**46,098**	**49,656**

During the Year ended 31 December 2012, 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.

27. 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. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

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.

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

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

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.

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

Date of grant	Options outstanding at 1 January 2012	Exercised in the year ended 31 December 2012	Options remaining at 31 December 2012	Fair value at grant date €'000	Exercise price €	Date of expiration
31 Dec 2003	984,783	-	984,783	200	10.00	31 Dec 2013
23 Jun 2004	600,600	-	600,600	200	12.00	23 Jun 2014
24 Jun 2005	504,356	-	504,356	620	17.25	24 Jun 2015
27 Jan 2006	791,286	-	791,286	4,800	18.00	27 Jan 2016
27 Jan 2006	1,220,325	-	1,220,325	2,100	30.00	27 Jan 2016
1 Dec 2006	1,765,945	-	1,765,945	9,400	37.00	1 Dec 2016
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.

28. DIVIDENDS PAID AND DECLARED

No dividends were declared or paid during the Year ended 31 December 2012 (31 December 2011: €nil).

29. 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 2012, gross equity was €1.46 billion.

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

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 2012, management fees, incentive fees and expense reimbursements of approximately €3.4 million (refer note 21) (31 December 2011: €3.7 million) were due to the Manager. For the year ended 31 December 2012 management fees of €21.8 million (refer note 6) (31 December 2011: €21.7 million), no incentive fees (31 December 2011: €nil), and expense reimbursements of €7.3 million (31 December 2011: €8.5 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.2 million (2011: €0.2 million) payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

30. 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 2012	Debt Investment €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue [1]	23,772	167,665	129	191,566
Impairment losses	(16,710)	-	-	(16,710)
Other operating income / (loss)	31,858	(87,814)	-	(55,956)
Total operating income	**38,920**	**79,851**	**129**	**118,900**
Interest expense	(8,041)	(81,541)	-	(89,582)
Other operating expense	(2,421)	(69,895)	(29,448)	(101,764)
Total operating expenses	**(10,462)**	**(151,436)**	**(29,448)**	**(191,346)**
Net operating profit / (loss)	**28,458**	**(71,585)**	**(29,319)**	**(72,446)**
Taxation expense	-	(9,226)	-	(9,226)
Net income / (loss)	**28,458**	**(80,811)**	**(29,319)**	**(81,672)**
Decrease in fair values	-	94,658	-	94,658
Realised losses on sale	-	11,097	-	11,097
Deferred tax	-	1,515	-	1,515
Funds from operations	**28,458**	**26,459**	**(29,319)**	**25,598**

(1) Included within revenue income is interest income of €23.8 million within the debt investment segment and €0.1 million within the investment properties segment.

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 / (loss)	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 income / (loss)	**47,745**	**(40,405)**	**(25,813)**	**(18,473)**
Decrease in fair values	-	57,010	-	57,010
Realised gains on sale	-	(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

Segmental Balance Sheet:

As at 31 December 2012	Debt Investment €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	493,297	2,157,965	437	2,651,699
Total liabilities	(392,490)	(1,942,937)	(6,694)	(2,342,121)
Segment net assets / (liabilities)	**100,807**	**215,028**	**(6,257)**	**309,578**
Tax liabilities	-	(17,466)	-	(17,466)
Non-controlling interest	(2)	(4)	-	(6)
Net assets / (liabilities)	**100,805**	**197,558**	**(6,257)**	**292,106**

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 liabilities	-	(9,932)	-	(9,932)
Non-controlling interest	(2)	(4)	-	(6)
Net assets / (liabilities)	**66,089**	**299,570**	**(2,724)**	**362,935**

Segmental Cashflows:

As at 31 December 2012	Debt Investment €'000	Investment Properties €'000	Unallocated €'000	Total Eurocastle €'000
Cashflows from operating activities	12,659	18,574	(29,318)	1,915
Cashflows from investing activities	68,110	101,814	-	169,924
Cashflows from financing activities	(49,322)	(78,419)	-	(127,741)
Net increase / (decrease) in cash and cash equivalents	**31,447**	**41,969**	**(29,318)**	**44,098**

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)**

31. INVESTMENT IN SUBIDIARIES

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

The significant operating subsidiaries, in which the Group owns directly or indirectly a 100% equity interest, 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
Italy Investment 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, CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB 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 Floating portfolio. The Mars Fixed 1 portfolio was restructured and deconsolidated in the second quarter of 2011. The remaining equity interest was sold in 2012.

32. SUBSEQUENT EVENTS

With effect from 28 February 2013, the Company entered into an agreement to amend the Management Agreement. The amendments became effective on 12 April 2013. The terms of this amendment are disclosed in note 29.

Following the year-end, the Company obtained approval from the holders of its convertible securities (refer note 25) to lower the conversion price from €0.30 to €0.05 per share in exchange for, inter alia, the right for the Company to require a conversion of all outstanding convertible securities. Conditional upon such conversion, the Company reached agreement with the Manager to rebase the fees under its Management Agreement (refer note 29) which will preserve capital for future investment. On 12 April 2013, the Company converted all outstanding convertible securities to ordinary shares with the effect that the share count was increased by 3,398,474,685 shares on 19 April 2013 resulting in the adjusted fully diluted NAV per share reducing from €0.46 to €0.09.

The Group has sold a further 7 properties subsequent to year-end of €55.9 million generating €0.1 million of cash after repayment of asset level financings, and has entered into binding agreements to sell a further 11 properties for estimated total sale proceeds of €71.9 million. Once completed, these properties are expected to generate up to €2.4 million of cash, after repayment of asset level financings.

Following the year-end, the Group has completed approximately 2,570 sqm of new leases and 11,319 sqm of renewals. A further 20,596 sqm of new leases and 35,066 sqm of renewals are currently under negotiation.

On 28 February 2012, the Group entered into a standstill agreement to defer mandatory prepayment due on 31 December 2012 with respect to the Mars Floating facility. The outstanding payment of €27.7 million has been temporarily waived by the lender on 28 February 2013 to 30 April 2013 whilst the Group remains in discussions to further extend the amortisation targets in relation to the sales programme.

In January 2013, the Group secured a restructuring of the senior loan on the Drive portfolio to January 2014 . Modified terms include a 1 year extension and interim amortisation targets (refer note 26) to be met through an agreed sales programme. Sales fees of 3.5% of gross sales proceeds (equivalent to an amount of €14.1 million) shall be for the benefit of the Group if these targets are met. In addition, the Company will receive asset management fees in relation to the Drive portfolio of €1.7 million per annum. The Group remains in constructive discussions with the lenders of the junior facility which is currently the subject to a short term extension pending the outcome of negotiations.

In light of the upcoming maturity of the Mars Fixed 2 portfolio in June 2013, the Group is engaged in positive discussions with the facility lender with regards to a medium term extension.

33. COMMITMENTS

As at 31 December 2012, the Group has no material commitments that were not disclosed in these financial statements (31 December 2011: none).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Keith Dorrian

Randal A. Nardone

Dr. Udo Scheffel

Peter M. Smith

Dr. Simon J. Thornton

Investment Manager
FIG LLC
(an affiliate of Fortress Investment
Group LLC)
1345 Avenue of the Americas
46th Floor
New York, NY 10105
(212) 798-6100
www.fortress.com

Registrar and Transfer Agent
Anson Registrars Limited
Anson Place
Mill Court
La Charroterie
St. Peter Port
Guernsey GY1 1EJ

Registered Office of the Company
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 1WW

Administrator and Secretary of the Company
International Administration Group
(Guernsey) Limited
P.O. Box 282
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 3RH

Stock Listing
Euronext Amsterdam, ECT

Independent Auditors
Ernst & Young
1 More London Place
London SE1 2AF

LEGAL COUNSEL

English and Dutch Legal Advisers
Linklaters LLP
One Silk Street
London EC2Y 8HQ

U.S. Legal Advisers
SNR Denton
1221 Avenue of the Americas
New York, NY 10020

Guernsey Legal Advisers
Carey Olsen
P.O. Box 98
Carey House
Les Banques
St. Peter Port
Guernsey
GY1 4BZ

Investor Relations Contact
Eurocastle Investment Limited
c/o Fortress Investment Group
1345 Avenue of the Americas, 46th Floor
New York, New York 10105
Tel: +44 (0) 20 7290 5678
Fax: +44 (0) 20 7290 5602
Email: investorrelations@eurocastle.com

Eurocastle Investment Limited Website
www.eurocastleinv.com

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.

Annual Report Printed by Clientel Systems Ltd, www.clientel.co.uk

www.eurocastleinv.com