

## FINANCIAL HIGHLIGHTS

- ◆ **Normalised FFO<sup>1</sup>** of €11.0 million, or €0.15 per share for the second quarter of 2016 (€0.18 per share pro forma for the recent share repurchase that closed in June) (H1 2016: €21.5 million, or €0.30 per share)<sup>2</sup>.
- ◆ **Adjusted Net Asset Value<sup>3</sup>** of €462.7 million, or €7.70 per share, an increase of €0.35 per share on the quarter (Q1 2016: €532.2 million, or €7.35 per share) reflecting:
  - €0.25 per share NAV accretion following the €75.1 million share repurchase.
  - €0.10 per share of valuation movements net of corporate expenses and Q2 dividend of €0.125 per share.
- ◆ **Second Quarter 2016 Dividend** of €7.5 million, or €0.125 per share paid in July.

	Q2 2016		Q1 2016		H1 2016		H1 2015	
	€ million	€ per share	€ million	€ per share	€ million	€ per share	€ million	€ per share
Normalised FFO <sup>1</sup>	11.0	0.15/0.18 <sup>2</sup>	10.5	0.15	21.5	0.30	6.6	0.14
Legacy Business <sup>4</sup> Cash Flow Received	0.4	0.01	4.7	0.06	5.1	0.07	33.1	0.46
Adjusted NAV <sup>3</sup>	462.7	7.70	532.2	7.35	462.7	7.70	543.3	7.50

## BUSINESS HIGHLIGHTS

- ◆ **Share Tender** – On 23 May 2016, the Board announced a tender offer of up to €75 million to return excess cash that had been received from the sale of the Company’s Legacy assets. The Company repurchased shares to provide existing investors with liquidity and to take advantage of the discount the Company’s shares were trading at relative to the Company’s then existing Adjusted Net Asset Value. On 20 June 2016, Eurocastle repurchased 12.3 million, or 17.0%, of ordinary shares in issue at a price of €6.10 per share for a total cost of €75.1 million. The repurchase has been accretive both to earnings as well as the balance sheet, increasing Normalised FFO by 20%, or €0.03 per share, and NAV by 3%, or €0.25 per share.
- ◆ **New Italian Investments** - On 10 May 2016, Eurocastle invested a further €6.0 million into the real estate Fund Investment IV transaction bringing total equity invested to €7.0 million to acquire substantially all of the units of a newly established unlisted Italian real estate fund set up to restructure and monetise real estate properties owned by an over-levered real estate fund. The portfolio owned by the fund consists of a retail portfolio in Northern Italy and three office assets with a combined value of €132.3 million. Additionally, on 16 and 25 May 2016, the Company invested an aggregate of €5.0 million to acquire an interest in two mezzanine tranches of the fund’s debt at a 20% discount to expected recovery.
- ◆ **Italian RE Fund Asset Sales** - In May 2016, Eurocastle received €6.8 million, or 63% of its original investment, from real estate Fund Investment III. The distribution followed the sale of an asset which represented 26% of the fund’s total assets at a 5% premium to its previously reported market value. The units in this fund were acquired by the Company at a 56% discount to the fund’s reported NAV at acquisition. In addition, in June 2016, one asset comprising approximately 33% of real estate Fund Investment IV was sold at a €7.0 million premium to the fund’s valuation with the proceeds being applied towards amortising the fund’s debt. The sale significantly improves the investment’s anticipated return and profitability once all fund assets are sold.
- ◆ **Italian Investment<sup>5</sup> Performance** – During the second quarter, Italian Investments in aggregate reported strong performance generating €20.4 million of gross cash flow compared to €12.8 million expected at underwriting. This includes €6.8 million from the RE funds, €1.5 million from the non-performing loans (“NPLs”), €3.8 million from the NPLs within doBank and €8.3 million from doBank’s servicing business<sup>6</sup>. Total cash flow generated in the first half of 2016 amounted to €31.3 million of which €19.6 million related to doBank alone<sup>7</sup>.

<sup>1</sup> Normalised FFO (“NFFO”) is a non-IFRS measure used to provide additional information regarding the underlying performance of the Company, as outlined in Note 24 of the H1 2016 consolidated financial statements.

<sup>2</sup> NFFO per share pro forma post share repurchase based on reduced share count of 60.1 million. Actual NFFO per share for Q2 2016 calculated on weighted average share count of 71.8 million shares during the period (72.1 million shares for H1 2016).

<sup>3</sup> Throughout this report Adjusted NAV excludes the net asset value of those Legacy portfolios with negative NAV (Belfry, Truss, Drive and CDO V) whose debt is non-recourse to Eurocastle.

<sup>4</sup> All investments owned by the Group prior to April 2013.

<sup>5</sup> All investments acquired by the Group since the establishment of its new strategy in April 2013, previously labelled as “New Investments”.

<sup>6</sup> Unaudited management data of doBank.

<sup>7</sup> Total cash flow generated in 2016 includes €21.3 million currently held at the level of the investments in addition to €4.3 million generated in the previous year.

## HIGHLIGHTS SUBSEQUENT TO 30 JUNE 2016

- ◆ On 14 July 2016, the Company announced that doBank, 50% owned by Eurocastle, has agreed to acquire Italfondario, the second largest independent credit management company in Italy specialising in servicing NPLs for approximately €27 million from Fortress-managed funds and a third party. The acquisition is part of doBank's broader plan to expand and streamline operations in Italy and secure a leading position in the integrated credit management sector. On completion of the acquisition (which is subject to Bank of Italy approval), doBank and Italfondario will form the largest independent group in the sector and will benefit from significant synergies and economies of scale, thereby making their operations even more efficient and effective, and further enhancing the profile of the group as the major independent servicer of the banking system.

# BUSINESS REVIEW

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 subsidiaries (together with Eurocastle, “the Group”) have invested primarily in Italian performing and non-performing loans, Italian NPL servicing platforms, Italian real estate funds, German commercial real estate and European real estate debt. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol “ECT”. For more information regarding Eurocastle, please visit [www.eurocastleinv.com](http://www.eurocastleinv.com).

## STRATEGY

Eurocastle’s strategy is to focus on investments in Italian performing and non-performing loans and other credit receivables, Italian NPL servicing platforms, real estate related assets and other related businesses in Italy. In addition, the Company continues to realise value from its Legacy Business comprised of German commercial real estate and other debt investments.

Eurocastle’s current portfolio is divided into three segments (further segmented in the financial statements – refer to note 24); (i) Italian Investments comprising all those investments made since the Company’s new strategy was established in April 2013, (ii) Net Corporate Cash, and (iii) Legacy Business comprising German commercial real estate and European real estate related debt. The table below shows the segmental assets:

	Assets	Adjusted NAV	Adjusted NAV
	€ million	€ million	€ per share
Italian Investments	358.5	358.5	5.97
Net Corporate Cash	95.8	95.8	1.59
Legacy Business <sup>1</sup>	8.5	8.4	0.14
<b>TOTAL</b>	<b>462.8</b>	<b>462.7</b>	<b>7.70</b>

<sup>1</sup> Excludes the assets and net asset value of those Legacy portfolios with negative NAV (Belfry, Truss, Drive and CDO V) whose debt is non-recourse to Eurocastle.

# BUSINESS REVIEW

## ITALIAN INVESTMENTS

In the period up to 30 June 2016 Eurocastle had invested or committed €349.2 million in its Italian Investments at an average targeted gross yield of approximately 15%. After generating €84.7 million of cash to date, as at 30 June 2016 the portfolio had a remaining Adjusted NAV of €358.5 million and comprised (i) investments in 14 pools of Italian NPLs and one performing loan pool valued at €26.9 million, (ii) an interest of €58.8 million in four Italian real estate funds and (iii) a 50% interest in doBank valued at €272.8 million, of which €168.8 million is attributed to the servicing platform and €104.0 million to the NPL portfolio.

The Company generates its returns from these investments through the cash flows they distribute, either in the form of recoveries received on the NPL pools, net servicing revenues within doBank and operating and sales cash flows from its real estate fund investments. With the exception of certain real estate fund investments, the Group values these investments each period at their fair value; discounting projected future cash flows at the relevant prevailing market rate. Cash flow performance compared to underwriting, as well as other factors influencing projected cash flows, therefore play a key part in the Company's earnings each quarter.

	Number of Portfolios	Equity Invested in 2016 € million	Total Equity Invested € million	Total Cash flows Distributed to Eurocastle € million	Adjusted NAV <sup>1,3</sup> € million	Adjusted NAV € per share
doBank Servicer	1	-	246.0	0.3	168.8	2.81
doBank NPL	1	-	-	-	104.0	1.73
NPL / PL <sup>1</sup>	15	-	39.0	30.4	26.9	0.45
Real Estate Funds	4	12.0	60.3	21.3	58.8	0.98
Other Investments <sup>2</sup>	1	-	3.9	7.4	-	-
<b>TOTAL</b>	<b>22</b>	<b>12.0</b>	<b>349.2</b>	<b>59.4</b>	<b>358.5</b>	<b>5.97</b>

In addition to the cash flows distributed as detailed above, a further €25.3 million have been generated and are currently held at the level of the investment, bringing total cash flows generated over the life of the investments to €84.7 million and €31.3 million over the first half of 2016.

	Cash flows Generated In 2016 € million	Total Cash flows Generated € million
doBank Servicer <sup>3</sup>	13.8	16.0
doBank NPL <sup>3</sup>	5.8	7.9
NPL / PL	3.0	32.1
Real Estate Funds	8.7	21.3
Other Investments <sup>2</sup>	-	7.4
<b>TOTAL</b>	<b>31.3</b>	<b>84.7</b>

The investments have reported strong performance. Total cash flows generated to date are €10.4 million ahead of underwriting. Total valuations have increased by €33.6 million over the first half of 2016 (~10%) of which €21.7 million, or €0.36 per share, was recognised over the second quarter. Of this, €11.0 million arose from doBank together with the NPL portfolios, reflecting their run rate appreciation as cash flows are realised and the remaining life over which expected cash flows are discounted reduces. The balance of the increase, €10.7 million, relates to the Italian real estate funds and was primarily driven by the Group's share of the profit arising from the sale of one asset in real estate Fund Investment IV at a significant premium to the underlying fund's last reported market value.

<sup>1</sup> NAV includes €1.7 million relating to cash flows generated to date which are currently held at the level of the investment and therefore also reflected in the Adjusted NAV.

<sup>2</sup> Fully realised in 2015.

<sup>3</sup> Cash flows generated for doBank represent Eurocastle's share of EBITDA and NPL collections which are currently held at the level of the investment and therefore also reflected in the Adjusted NAV.

## doBank

In October 2015, Eurocastle acquired doBank (formerly UniCredit Credit Management Bank S.p.A) from Unicredit for a net purchase price of approximately €246 million, which is a 50% share of the total investment. doBank currently comprises:

- I. A large portfolio of Italian NPLs with a current GBV of approximately €3.2 billion. The portfolio is 45% secured by real estate, which is on average more secured than portfolios previously acquired by the Company. In addition, the portfolio is characterised by a larger average loan size of €0.7 million and a greater exposure to Northern and Central Italy of 78%.
- II. An NPL servicing business with a banking license. Previously the captive servicer for Unicredit, doBank is the largest third party servicer in Italy with €44 billion GBV of loans under management, 620 full time employees and a wide network of branches throughout Italy.

In addition to its current stock of NPLs, doBank has a 10 year servicing contract on UniCredit's future sub-performing and non-performing loans with balances below €1 million and selected assets above €1 million.

Details of both the servicing business and the NPL portfolio as at 30 June 2016 can be found in the table below:

	doBank Servicer <sup>1</sup> € million	doBank NPL Portfolio € million	Total doBank € million
Investment Date	Oct-15	Oct-15	Oct-15
Invested to Date	246.0		246.0
CF Generated in 2016	13.8	5.8	19.6
CF Generated to Date	16.0	7.9	23.9
<b>NAV</b>	<b>168.8</b>	<b>104.0</b>	<b>272.8</b>
NAV (€ per share)	2.81	1.73	4.54
Eurocastle Ownership	50%	50%	50%
Current GBV(€ bn)	€44 bn	€3.2 bn	n/a
Ratings (S&P / Fitch)	Strong / CSS1- RSS1-	n/a	n/a
FTEs	620	n/a	n/a
Number of Branches	15	n/a	n/a

## Italfondario Acquisition<sup>2</sup>

Subsequent to quarter-end doBank announced that, subject to regulatory approval by the Bank of Italy, it will acquire 100% of Italfondario for approximately €27 million. The acquisition is part of doBank's broader plan to expand and streamline operations in Italy and secure a leading position in the integrated credit management sector. On completion of the acquisition, doBank and Italfondario will be the largest independent group specialising in the credit management and collection of non-performing loans in Italy, with over €85 billion GBV of loans under management expected.

Italfondario is the second largest independent credit management company specialising in the servicing of non-performing loans in Italy. It currently manages loans with a GBV of over €41 billion and, along with doBank, is the highest rated Italian servicer by S&P (Strong) and Fitch (CSS1- / RSS1-). Its servicing business manages approximately 223,000 claims across a client base of banks and institutional investors. Outside of its direct servicing business, Italfondario has developed three businesses which provide support services complimenting the credit management process. These include the valuation and management of real estate, the provision of credit sensitive information on businesses and individuals as well as outsourcing solutions related to debt collections for non-specialist institutions. Italfondario has also developed significant proprietary IT as part of its servicing offering.

doBank intends to retain the separate identity and credit management activities of Italfondario, with both companies further developing their complementary skills and expertise, while also benefitting from the opportunity for both companies to achieve significant synergies and economies of scale in ancillary services, supporting the Group's future growth. Through this integration, doBank intends to leverage Italfondario's expertise focusing on market opportunities, relationships with banks and large institutional investors as well as management of large volumes, which will allow doBank to access a broader market.

<sup>1</sup> Portfolio stratifications for doBank servicer reflect assets under management ("AUM")

<sup>2</sup> Data as of 30 June 2016 unless otherwise stated.

## doBank Performance Update<sup>1</sup>

More than six months into 2016, initiatives to restructure and streamline the bank's operations such as the an incentive-based asset management model, building out the auction facilitation platform and broker network as well as improved asset management reporting continue to be implemented. At the same time, doBank is working on rationalising its external network of lawyers and consultants and establishing a new team for large assets.

In light of the above, doBank's performance increasingly supports Eurocastle's underwriting expectations. EBITDA for the first half of 2016 was €27.5 million<sup>2</sup> of which €16.5 million were generated in the second quarter (ECT share was €13.8 million and €8.3 million respectively).

The performance of doBank's NPL pool has remained significantly above underwriting expectations. The portfolio to date has generated €15.7 million (ECT share €7.9 million) of cash flow for Eurocastle which represents a pace of 172%<sup>3</sup> of the cash flow expected at underwriting with collections on fully resolved loans at 122%<sup>4</sup> of the amount projected at underwriting for those specific claims.

Eurocastle's valuation of its 50% interest in the servicer and the NPL pool has increased by €16.6 million over the first half of 2016 (~6%) of which €8.6 million, or €0.12 per share, was in the second quarter. Both investments, as with the Group's other NPL portfolios, are valued using the discounted cash flow approach. The movement for this period therefore reflects the realisations of expected cash flows and a reduction in the life over which the remaining expected cash flows are discounted.

<sup>1</sup> Performance data reflect 100% of doBank of which Eurocastle's share is 50%

<sup>2</sup> Unaudited management data of doBank.

<sup>3</sup> Represents collections received as of 30 June 2016 versus underwriting projections for the same period.

<sup>4</sup> Represents collections received on fully resolved claims only versus underwriting, as of 30 June 2016. It does not reflect profitability as recorded under IFRS.

# BUSINESS REVIEW

## ITALIAN NPLs

Excluding the doBank NPL portfolio, since May 2013 the Company has invested approximately €39.0 million in one performing and 14 non-performing Italian loan pools with a combined GBV of €6.3 billion at acquisition.

Portfolio performance has remained strong. The pace of collections received has been 116%<sup>1</sup> of that expected as of underwriting and profitability has been 235%<sup>2</sup> of the amount expected on fully resolved loans. To date these investments have generated €32.1 million of cash flow or 82% of the amount invested, of which €1.5 million was generated in the second quarter of 2016.

NPL pool valuations increased by €3.4 million (~14%) in the first half of 2016 and €2.6 million, or €0.04 per share in the second quarter. This increase reflects the appreciation in the value of the future cash flows expected in these pools given the reduction in the remaining life over which they are discounted together with a one-off positive impact of €2.0 million following the annual reassessment of the projected cash flows.

Details of all portfolios acquired up to 30 June 2016 can be found in the table below:

	Pools 1 to 5	Pool 6	Pool 7	Pools 8,9,11	Pool 10	Pools 12, 13	Pool 14	Pool 15	TOTAL
Investment Date	May-13	Jul-13	Jun-14	H2-14	Dec-14	Q4-15	Dec-15	Dec-15	n/a
Invested to Date (€ m)	14.0	2.6	7.4	1.0	8.4	1.1	3.1	1.4	39.0
CF Generated in 2016	1.1	0.2	0.6	0.2	0.2	0.5	-	0.2	3.0
CF Generated to Date (€ m) <sup>3</sup>	20.4	2.0	5.0	0.6	3.0	0.5	0.3	0.3	32.1
NAV (€ million) <sup>3</sup>	4.2	1.7	7.4	1.0	7.2	1.2	3.0	1.2	26.9
NAV (€ per share)	0.07	0.03	0.12	0.02	0.12	0.02	0.05	0.02	0.45
Eurocastle Ownership	81%	50%	25%	25%	25%	25%	25%	25%	61%
GBV at acquisition (€ m)	4,040	14	883	210	1,001	50	46	63	6,307
Number of Claims	8,159	86	11,763	3,301	3,877	1,963	164	108	29,421
% Secured	12%	91%	19%	4%	8%	0%	96%	63%	14%
Avg. Default Year	1994	2008	1997	2010	1995	2011	2007	2012	n/a
% North & Central Italy	70%	54%	57%	68%	79%	81%	58%	73%	70%

<sup>1</sup> Represents collections received as of 30 June 2016 versus underwriting projections for the same period.

<sup>2</sup> Represents collections received on fully resolved claims only versus underwriting, as of 30 June 2016. It does not reflect profitability as recorded under IFRS.

<sup>3</sup> NAV includes €1.7 million relating to cash flows generated to date which are currently held at the level of the investment and not yet distributed.

## ITALIAN REAL ESTATE FUNDS

Since 2014 Eurocastle has made several investments in this asset class, investing €60.3 million in four separate real estate funds:

	Investment Date	Equity Invested € million	Cash flows Generated In 2016 € million	Cash flows Generated € million	Adjusted NAV € million	Adjusted NAV € per share	Eurocastle Ownership
Fund Investment I	Mar-14	22.2	1.5	10.4	14.1	0.24	7%
Fund Investment II	July-14	15.4	-	3.3	10.5	0.17	49%
Fund Investment III	Sep-15	10.7	7.2	7.6	13.1	0.22	27%
Fund Investment IV	Mar-16	12.0	-	-	21.1	0.35	89%
<b>TOTAL</b>		<b>60.3</b>	<b>8.7</b>	<b>21.3</b>	<b>58.8</b>	<b>0.98</b>	<b>38%</b>

The Company opportunistically targets either public or private funds that can be acquired at a significant discount to the value of their underlying assets. Returns from these investments are therefore generated primarily from asset sales as the funds reach their upcoming maturity dates.

Depending on the type of fund, Eurocastle holds these assets on its balance sheet at either their fair value or accounts for them on an equity basis with adjustments made based on its share of the profit and loss reported by the underlying fund. In aggregate, the value of these investments increased by €13.9 million (~34%) during the first half of 2016 of which €10.7 million, or €0.15 per share related to the second quarter. This was primarily driven by an €9.1 million increase in value of the Company's investment in Fund Investment IV following the sale of one asset during the second quarter at a significant premium to the last reported fund valuation.

### Fund Investment I

In March 2014, Eurocastle made its first investment of this type, acquiring 11,929 units (approximately 7.5% of the total units) in UniCredito Immobiliare Uno – Closed-End Real Estate Investment Fund ("UIU" or "Fund Investment I")<sup>1</sup> at a 36.5% discount to the fund's NAV at the date of acquisition. In 2015 two assets representing 35% of the UIU fund's NAV were sold at a slight premium to NAV, resulting in the Company's first cash flow from this investment of €8.9 million, or approximately 40% of the amount invested. A further €1.5 million representing the remaining proceeds from these sales was distributed in the first quarter of 2016. The remaining assets comprise 12 mixed-use properties with a market value of €246 million<sup>2</sup>. In May 2016 it was announced that a further asset had been agreed to be sold (subject to contract) for a net sales price of €52.8 million. The fund is managed by Torre SGR, an affiliate of Eurocastle's Manager, Fortress Investment Group.

The fund is publicly listed on the Milan stock exchange with Eurocastle recording the fair value of its investment based on the closing price of the units. As at 30 June 2016, and after total distributions of €875 per unit, the price per unit was €1,190 compared to an acquisition price of €1,788. Following a 9% appreciation in the unit price net of distributions in the first six months of 2016 (5% in the second quarter), the Company recorded a fair value gain of €1.3 million for the first half of 2016 (€0.7 million for the second quarter). The investment remains held at approximately a 34% discount to the fund's NAV.

### Fund Investment II

In July 2014, Eurocastle made its second investment in Italian real estate funds, co-investing with certain affiliates of Fortress and an Italian third party property developer to acquire 100% of the units of a newly established private fund ("Fund Investment II"). As at 30 June 2016, the Company had invested €15.4 million into the fund. The fund has purchased two office buildings in Rome that are being redeveloped into high-end residential properties for resale with the expectation that the units will be completed and fully sold by the end of 2017. In April 2015, the fund returned €3.3 million of capital to Eurocastle after raising third party financing to fund a portion of the development costs.

The value attributed to Fund Investment II in the Group's accounts has remained stable in the second quarter of 2016. Profits on the assets will only be accounted for once the units have been fully developed and sold and therefore realised. The project itself continues to progress well with construction works in general on time and budget. Offers have been accepted on 25% of the total expected sales at an average premium to budget of ~0.5%.

<sup>1</sup> Listed on the closed-end funds segment of the MIV organised and managed by Borsa Italiana S.p.A.

<sup>2</sup> As at 30 June 2016.



## Fund Investment III

In September 2015, the Company successfully funded a €10.7 million commitment to acquire a 27.1% interest in the units of an unlisted Italian real estate fund at a discount of 56% to the fund's NAV at acquisition. At acquisition, the fund consisted of 14 office and light industrial real estate assets leased on a long term basis to a prime tenant. Since the original commitment in September 2014, all but one of the underlying leases have been extended and one asset comprising 26% of the fund's market value was sold in February 2016 to the underlying tenant at a 5% premium to its previously reported market value. As a result, the Company received a distribution of €6.8 million representing over 60% of capital invested. As at 30 June 2016 the investment was valued at €13.1 million, an increase of €9.2 million since acquisition after taking into account the cash flows received to date. The investment remains held at a 39% discount to the fund's NAV<sup>1</sup>.

## Fund Investment IV

During the second quarter, Eurocastle made an €11.0 million follow-on investment into Fund Investment IV (bringing the Company's total investment to €12.0 million). The total investment is broken down in the following way - (i) €7.0 million to acquire substantially all of the units of the fund, a newly established unlisted Italian real estate fund set up to restructure and monetise real estate properties previously owned by an over-levered real estate fund, and (ii) €5.0 million to acquire an interest in two mezzanine tranches of the fund's debt at a 20% discount to the expected recovery value. At acquisition, the portfolio owned by the fund consisted of a retail portfolio in Northern Italy and 3 office assets together valued at €132.3 million.

In June 2016, one asset comprising approximately 33% of the fund was agreed to be sold at a €7.0 million, or 16%, premium to the fund's reported market value of that asset, resulting in an immediate gain for Eurocastle. The impact of the sale together with an increase of the fair value at acquisition due to the significant embedded value created from the restructuring, resulted in the investment being valued at €21.1 million as at 30 June 2016. This equates to an increase of €9.1 million on the amount invested and represents a discount of 23% to the fund's NAV<sup>2</sup>.

Further details of all portfolios acquired up to 30 June 2016 can be found in the table below:

	Fund Investment I	Fund Investment II	Fund Investment III <sup>2</sup>	Fund Investment IV <sup>2</sup>
Investment Date	Mar-14	Jul-14	Sep-15	Mar-16
Eurocastle Ownership	7%	49%	27%	89%
Fund Type	Publicly Listed	Private – Unlisted	Private – Unlisted	Private – Unlisted
Collateral Type	13 Mixed Use Assets	2 High-end Resi Redevelopments	13 Mixed Use Office and Light Industrial	2 Office and a Retail Portfolio
Collateral Location	Northern & Central Italy	Rome	Across Italy	Across Italy
Eurocastle's Value as a Discount to Fund NAV	34%	8%	39%	23%
Fund Leverage	-	35%	54%	84%
Fund Expiration	Q4 2017	Q1 2018 <sup>3</sup>	Q1 2019	Q1 2019

<sup>1</sup> March 2016 NAV but reflecting the distribution paid in May

<sup>2</sup> Most recently reported NAV and stratifications of the respective fund reflecting the impact of any sale announced or completed together with any distributions paid after the reporting date

<sup>3</sup> Represents the expected liquidation date, Fund expires in Dec 2019

## LEGACY BUSINESS

In the second quarter of 2016, Eurocastle continued making progress on realising value from its Legacy Business. Total 2016 realisations now amount to €5.1 million. As at 30 June 2016, the remaining Adjusted NAV was €8.4 million, or 2% of Eurocastle's total Adjusted NAV.

The Company now regards the German commercial real estate portfolio as a discontinued operation given it expects to fully monetise these assets in 2016. At the same time, the Group is actively exploring opportunities to exit from its legacy debt investments.

	German Commercial Real Estate € million	Other Debt Investments € million	TOTAL € million
Number of portfolios	3	2	5
Assets	-	8.5	8.5
Liabilities	-	(0.1)	(0.1)
<b>Adjusted NAV<sup>1</sup></b>	-	<b>8.4</b>	<b>8.4</b>
<i>Adjusted NAV (€ per share)</i>	-	<i>0.14</i>	<i>0.14</i>
<b>H1 2016 CFs</b>	<b>5.1</b>	<b>0.0</b>	<b>5.1</b>

## GERMAN COMMERCIAL REAL ESTATE

During the first half of 2016, Eurocastle continued making progress in realising value from these portfolios, receiving €5.1 million in aggregate comprised of €3.6 million from the sale of the Zama portfolio, €1.2 million of sales and asset management fees from Drive and €0.2 million of deferred purchase price proceeds from Mars Fixed 2 which was sold in November 2015.

The Group now has three remaining portfolios in Germany; Drive, Belfry and Truss. Following the revaluation of its properties as at 30 June 2016, the market value of the assets in the Truss portfolio now falls below its liabilities. Given the non-recourse nature of its financing, and as with Drive and Belfry, the Group no longer includes the NAV of Truss within its reported Adjusted NAV. The Group does, however, have agreements in place with the lenders to each of these portfolios whereby it receives running asset management and sales fees. Any such fees received by Eurocastle would therefore benefit the Group's Adjusted NAV.

Total sales fees received in the first half of 2016 amounted to €1.3 million, a further €2.1 million in fees to the Company are expected given 31 additional assets in Drive are under binding sales contracts or have closed for a total consideration of €60.7 million. In addition to selling the remaining assets in the Drive portfolio, the Group is actively pursuing a sale of the Belfry and Truss portfolios in a single transaction which, if successful, would generate fees upon its completion.

The table below contains a summary of the Company's remaining German real estate portfolio as at 30 June 2016:

	Sold Portfolios € million	Negative NAV Portfolios		
		Truss € million	Belfry € million	Drive € million
Assets	-	84.1	44.1	180.3
Liabilities	-	(87.2)	(53.0)	(274.6)
<b>Adjusted NAV<sup>1</sup></b>	-	-	-	-
<i>Adjusted NAV (€ per share)</i>	-	-	-	-
Permitted Distributions <sup>2</sup>	-	Sales CAD & Fees	Sales & AM Fees	Sales & AM Fees
H1 2016 Cash Distributed	3.8	(0.0)	0.1	1.2
Occupancy	-	91%	83%	59%
WALT	-	4.6	3.3	2.0
LTV <sup>3</sup>	-	106%	129%	133%
Debt Maturity <sup>4</sup>	-	Aug-16	Jun-16	Jan-17

<sup>1</sup> Excludes the Assets and Liabilities of those legacy portfolios with negative NAV (Belfry, Truss, Drive and CDO V) whose debt is non-recourse to Eurocastle, as outlined on page 12.

<sup>2</sup> Sales CAD represents the net cash flow (after debt service and transaction costs) available to be distributed to the Group following the sale of an asset

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

<sup>4</sup> The Belfry facility was subject to a deferral agreement that expired in June 2016. The Company is in constructive discussions with the lender regarding an extension to permit a consensual sale.

## OTHER DEBT INVESTMENTS

Eurocastle's Debt Investments portfolio consists of one mezzanine loan with an NAV of €8.4 million and a levered portfolio whose assets are valued below its outstanding liabilities. Given the non-recourse nature of its financing, as with Truss, Drive and Belfry, the Group does not include the NAV of this levered portfolio within its reported Adjusted NAV.

Other than approximately €17,000 of management fees received in the first half of 2016, cash flows are no longer being received from these two portfolios. The Group is however actively exploring opportunities to exit from its legacy debt investments.

The table below summarises the remaining portfolio as at 30 June 2016:

	Levered <sup>1</sup> (Negative NAV) € million	Balance Sheet € million
Total Assets	56.7	8.5
Total Liabilities	(74.7)	(0.1)
<b>Adjusted NAV<sup>1</sup></b>	<b>-</b>	<b>8.4</b>
<i>Adjusted NAV (€ per share)</i>	<i>-</i>	<i>0.14</i>
<b>H1 2016 Cash Distributed</b>	<b>0.0</b>	<b>-</b>
WA Credit Rating <sup>2</sup>	CC	Not Rated
% Investment Grade	3%	0%
Total Securities <sup>3</sup>	20	1
Debt Maturity	Jun-47	-

<sup>1</sup> Adjusted NAV excludes the negative NAV of the Levered portfolio - CDO V whose debt is non-recourse to Eurocastle as outlined on page 12.

<sup>2</sup> Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.

<sup>3</sup> Total Securities eliminates positions that are held in two or more portfolios.

# FINANCIAL REVIEW

## H1 2016 INCOME STATEMENT

	Italian Investments € Thousands	Legacy € Thousands	Total € Thousands
<b>Operating income</b>			
<i>Italian Investments</i>			
Fair value movements on Italian Investments			
doBank (Servicer & NPL)	16,561	-	16,561
NPLs <sup>1</sup>	3,659	-	3,659
Real estate fund units (Fund Investment I)	1,348	-	1,348
Share of post-tax profits from associate investment in RE fund units (Fund Investments III,IV)	13,973	1,777	15,750
Share of post-tax loss from JV investment in RE fund units (Fund Investment II)	(1,595)	-	(1,595)
<i>Legacy Debt Investments</i>			
Interest income	126	648	774
Losses on foreign currency contracts, translation and swaps	-	(1,296)	(1,296)
Impairment losses	-	107	107
Gain on pay-downs of loans and receivables	-	3,710	3,710
<b>Total operating income</b>	<b>34,072</b>	<b>4,946</b>	<b>39,018</b>
<b>Operating expenses</b>			
Interest expense	-	1,493	1,493
Other operating expenses - transaction costs	203	-	203
Other operating expenses - group running costs	7,116	258	7,374
<b>Total operating expenses</b>	<b>7,319</b>	<b>1,751</b>	<b>9,070</b>
<b>Net operating profit before taxation</b>	<b>26,753</b>	<b>3,195</b>	<b>29,948</b>
Total tax expense	18	-	18
<b>Net profit after taxation from continuing operations</b>	<b>26,735</b>	<b>3,195</b>	<b>29,930</b>
Net loss after taxation from discontinued operations	-	(37,820)	(37,820)
<b>Profit / (loss) after taxation for the year</b>	<b>26,735</b>	<b>(34,625)</b>	<b>(7,890)</b>
<i>Per Share<sup>3</sup></i>	<i>0.37</i>	<i>(0.48)</i>	<i>(0.11)</i>
Attributable to:			
Ordinary equity holders of the Company	26,484	(34,625)	(8,141)
Non-controlling interest	251	-	251

For the first six months of 2016, the total net loss after taxation and non-controlling interests as reported under IFRS was €8.1 million. Within the Group's Italian Investments, where the majority of these assets are accounted for at fair value under a discounted cash flow approach, net income after taxation and non-controlling interest for the first half of 2016 was €26.5 million, or €0.37 per share.

	Italian Investments € Thousands	Legacy € Thousands	Total € Thousands
<b>Net profit / ( loss) attributable to ordinary shareholders after taxation</b>	<b>26,484</b>	<b>(34,625)</b>	<b>(8,141)</b>
Reversal of Net loss attributed to negative NAV portfolios <sup>2</sup>	-	30,946	30,946
<b>Adjusted net profit / (loss)</b>	<b>26,484</b>	<b>(3,679)</b>	<b>22,805</b>
<i>Per Share<sup>3</sup></i>	<i>0.37</i>	<i>(0.05)</i>	<i>0.32</i>

Excluding losses arising within those legacy portfolios that have a negative NAV, the Group generated a net profit after taxation of €22.8 million or €0.32 per share. As at 30 June 2016, the remaining adjusted NAV of the legacy portfolios was €8.4 million, or €0.14 per share which represents under 2% of the Company's Adjusted NAV.

<sup>1</sup> The fair value movements on Italian NPL Investments includes €1.3m from subsidiaries, €2.2m from the share of post-tax profits from associates and €0.1m from the share of post-tax profits from joint venture investments which are disclosed separately in the Company's financial statements. These investments are accounted for under the equity method but the underlying investments are fair valued.

<sup>2</sup> Reverses losses arising from portfolios with a negative net asset value net of any cash distributions or fees received by the Company.

<sup>3</sup> Earnings per share based on 72.1 million weighted average ordinary shares for the first half of 2016.

## NORMALISED FFO

Normalised FFO is a non-IFRS financial measure that, with respect to the Company's Italian Investments, recognises income on an expected yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their projected annualised returns. On Eurocastle's Legacy Business the measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements and any movements on portfolios with a negative NAV other than sales or asset management fees realised.

Eurocastle believes that, given the strategy of seeking to monetise the existing value of the Legacy Business, focusing on the Normalised FFO of the Company's Italian Investments<sup>1</sup> will further enable investors to understand current and future earnings given annualised returns achieved and the average net invested capital<sup>2</sup> over the relevant period.

H1 2016 Segmental Normalised FFO	Average Net Invested Capital <sup>2</sup>		Italian Investments	Legacy	Total
	Yield	€ Thousands	€ Thousands	€ Thousands	€ Thousands
NPLs	21%	22,741	2,345	-	2,345
RE Fund Units	28%	41,941	5,924	-	5,924
doBank (Servicer & NPL)	14%	246,031	17,070	-	17,070
<b>Italian Investments NFFO before expenses</b>	<b>16%</b>	<b>310,712</b>	<b>25,339</b>	<b>-</b>	<b>25,339</b>
Legacy Portfolios NFFO before expenses			-	6,148	6,148
Manager Base & Incentive Fees			(5,541)	(68)	(5,609)
Other operating expenses			(1,730)	(2,592)	(4,322)
<b>Normalised FFO</b>			<b>18,068</b>	<b>3,488</b>	<b>21,556</b>
<i>Per Share</i>			<i>0.25</i>	<i>0.05</i>	<i>0.30</i>

In the first half of 2016, Eurocastle generated Normalised FFO of €21.6 million, or €0.30 per share compared to a dividend of €16.6 million, or €0.25 per share. Before corporate costs Italian Investments generated €25.3 million, or €0.35 per share. Given the average net invested capital in the period was approximately €311 million, this equates to a yield of 16%.

In the second quarter of 2016, Eurocastle generated Normalised FFO of €11.0 million, or €0.15 per share (or €0.18 per share calculated on the lower share count of 60.1 million following the share repurchase completed in June 2016). Before corporate costs Italian Investments generated €13.4 million, or €0.19 per share. Given the average net invested capital in the period was approximately €312 million, this equates to a yield of 17%.

The following table provides a reconciliation of net profit and loss as reported in the segmental income statement provided on page 12 to segmental Normalised FFO:

H1 2016 Net profit / (loss) to Normalised FFO reconciliation	Italian Investments	Legacy	Total
	€ Thousands	€ Thousands	€ Thousands
<b>Net profit / (loss) attributable to ordinary shareholders after taxation</b>	<b>26,484</b>	<b>(34,625)</b>	<b>(8,141)</b>
Effective yield adjustments	(8,308)	-	(8,308)
Revaluation (gains) / losses, impairments and gains on paydown	-	31,300	31,300
Deferred tax	-	(682)	(682)
Sales fee	-	2,158	2,158
Gain/loss of FX	-	1,360	1,360
Other	(108)	3,977	3,869
<b>Normalised FFO</b>	<b>18,068</b>	<b>3,488</b>	<b>21,556</b>
<i>Per Share</i>	<i>0.25</i>	<i>0.05</i>	<i>0.30</i>

<sup>1</sup> All investments acquired by the Group since the establishment of its new strategy in April 2013, previously labelled as "New Investments".

<sup>2</sup> Time weighted average of invested capital (net of any capital returned) over the relevant period.

# FINANCIAL REVIEW

## BALANCE SHEET AND ADJUSTED NAV RECONCILIATION

	Italian Investments € Thousands	Corporate € Thousands	Legacy € Thousands	Total € Thousands
<b>Assets</b>				
Cash and cash equivalents	3,037	121,549	23,789	148,375
Investment properties held for sale	-	-	281,806	281,806
Italian investments at Fair Value				
doBank (Servicer)	168,446	-	-	168,446
doBank (NPL)	103,833	-	-	103,833
NPLs	27,690	-	-	27,690
Real estate fund units (Fund Investment I)	14,196	-	-	14,196
Associate investment in real estate fund units (Fund Investments III,IV)	29,174	-	1,777	30,951
Joint venture investment in real estate fund units (Fund Investment II)	10,565	-	-	10,565
Loans and receivables	-	-	54,978	54,978
Assets available for sale	5,184	-	-	5,184
Derivative assets	-	-	5,409	5,409
Other assets	529	5,275	7,243	13,047
Intangible assets	-	-	2	2
<b>Total assets</b>	<b>362,654</b>	<b>126,824</b>	<b>375,004</b>	<b>864,482</b>
<b>Total liabilities</b>				
Trade and other payables	3,098	21,870	68,425	93,393
Current taxation payable	13	9,204	(37)	9,180
CDO bonds payable	-	-	74,332	74,332
Bank borrowings	-	-	331,500	331,500
Finance lease payable	-	-	16,643	16,643
<b>Total liabilities</b>	<b>3,111</b>	<b>31,074</b>	<b>490,863</b>	<b>525,048</b>
<b>Net Asset Value</b>	<b>359,543</b>	<b>95,750</b>	<b>(115,859)</b>	<b>339,434</b>
Non-controlling interest	(996)	-	-	(996)
<b>Net Asset Value after Non-controlling interest</b>	<b>358,547</b>	<b>95,750</b>	<b>(115,859)</b>	<b>338,438</b>
Negative NAV Addbacks <sup>1</sup>	-	-	124,268	124,268
<b>Adjusted NAV</b>	<b>358,547</b>	<b>95,750</b>	<b>8,409</b>	<b>462,706</b>
<i>Adjusted NAV (€ per Share)<sup>2</sup></i>	<i>5.97</i>	<i>1.59</i>	<i>0.14</i>	<i>7.70</i>

<sup>1</sup> Adjusts to exclude those Legacy portfolios with negative NAV (Truss, Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle.

<sup>2</sup> Adjusted NAV per share based in on 60.1 million ordinary shares in issue.

## FORWARD LOOKING STATEMENTS

This release contains statements that constitute forward-looking statements. Such forward-looking statements may relate to, among other things, future commitments to sell real estate and achievement of disposal targets, availability of investment and divestment opportunities, timing or certainty of completion of acquisitions and disposals, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “project”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. The Group’s ability to predict results or the actual effect of future plans or strategies is limited. Although the Group believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, its actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause the Group’s actual results in future periods to differ materially from forecasted results or stated expectations including the risks regarding Eurocastle’s ability to declare dividends, amortise the Group’s debts, renegotiate the Group’s credit facilities, make new investments, or achieve its targets regarding asset disposals or asset performance.

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

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

## INDEPENDENT AUDITORS’ REVIEW

These consolidated interim financial statements as at 30 June 2016 have not been reviewed or audited by our auditors, BDO LLP.

*On behalf of the Board*



Simon J. Thornton  
Director and Audit Committee Chairman  
Date: 2 August 2016