BUSINESS REVIEW

Financial Highlights

- ***Normalised FFO*[1]** of €10.5 million, or €0.15 per share, for the first quarter of 2016 reflecting the first full quarter ownership of doBank and including €0.02 per share one-off impacts from the Legacy Business[2,6] (Q4 2015: €8.1 million, or €0.11 per share).
  - Before costs, Italian Investments[3] alone generated €12.0 million, or €0.17 per share of Normalised FFO, resulting in a return on average net invested capital[4] of 15% (Q4 2015: €9.7 million, or €0.13 per share).
- ***Adjusted Net Asset Value*[5]** of €532.2 million, or €7.35 per share, in line with previous quarter after paying €9.1 million of quarterly dividend (Q4 2015: €532.5 million, or €7.35 per share).
- ***First Quarter 2016 Dividend*** of €9.1 million, or €0.125 per share paid in April.

	Q1 2016		Q4 2015	
	€ million	**€ per share**	**€ million**	**€ per share**
Normalised FFO[1]	10.5	0.15	8.1	0.11
Legacy Business[6] Cash Flow Received	4.7	0.06	17.3	0.24
Adjusted NAV[5]	532.2	*7.35*	532.5	*7.35*

Business Highlights

- **Italian Investments** - On 8 March 2016, Eurocastle entered into a structured transaction (“Fund Investment IV”) investing €1.0 million out of an anticipated €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 3 office assets with a combined value of €132 million.
- **Italian Investment Performance –** During the first quarter, these investments in aggregate generated €10.9 million, or €0.15 per share, of cash flow. This includes €2.0 million from the NPLs within doBank and €5.5 million from doBank’s servicing business.
- **Legacy Business –** The Company continued making progress towards its goal of fully disposing of these assets, collecting €4.7 million over the period including €3.6 million from the sale of the Zama portfolio. As at 31 March 2016, the Legacy Business has a remaining NAV of €13.0 million, or €0.18 per share, representing only 2% of the Group’s Adjusted NAV. Since January 2015 the Legacy Business has generated €82.5 million of cash flows.

Highlights Subsequent To 31 March 2016

- At its Annual General Meeting, amongst other items, the Company received approval to buy back up to 25% of outstanding shares at a price not exceeding 97.5% of its most recently published Adjusted Net Asset Value per share.
- On 10 May 2016, Eurocastle invested an additional €6.0 million into the Fund Investment IV transaction bringing the Company’s total equity investment to €7.0 million. On completion, Eurocastle’s share of the implied net asset value of this fund was €14.2 million indicating an acquisition at approximately a 50% discount to the implied NAV.
- In May 2016, Eurocastle received €6.8 million, or 63% of its original investment in Fund Investment III. The distribution followed the sale of an asset which represented 26% of the fund’s total assets, with the sale price representing a 5% premium to 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 May 2016, the Company invested €5.0 million to acquire an interest in mezzanine tranches of a securitisation of senior Italian real estate fund debt at a significant discount to expected recovery.

1 *Normalised FFO is a non-IFRS measure used to provide additional information regarding the underlying performance of the Company, as outlined in Note 24 of the Q1’16 Interim Report.*
2 *Includes a net €1.4 million provision release from a previously sold portfolio.*
3 *All investments acquired by the Group since the establishment of its new strategy in April 2013, previously labelled as “New Investments”.*
4 *Time weighted average of invested capital (net of any capital returned) over the relevant period.*
5 *Throughout this report Adjusted NAV excludes the net asset value of those Legacy portfolios with negative NAV (Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle, as outlined on page 12.*
6 *All investments owned by the Group prior to April 2013.*

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 consolidated investments (together with Eurocastle, the "Group") have invested primarily in Italian loans and real estate fund units, German commercial real estate and European real estate debt. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". For more information regarding Eurocastle, please visit www.eurocastleinv.com.

STRATEGY

Eurocastle's strategy is to focus on investments in Italian performing and non-performing loans and other credit receivables, 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	340.3	340.3	4.70
Net Corporate Cash	178.9	178.9	2.47
Legacy Business[1]	106.7	13.0	0.18
TOTAL	***625.9***	***532.2***	***7.35***

[1] *Excludes the Assets and net asset value of those Legacy portfolios with negative NAV (Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle, as outlined on page 12.*

Italian Investments

In the period up to 31 March 2016 Eurocastle had invested or committed €344.3 million in its Italian Investments at an average targeted gross yield of approximately 15%. After generating €64.3 million of cash to date, as at 31 March 2016 the portfolio had a remaining Adjusted NAV of €340.3 million and comprised (i) investments in 14 pools of Italian NPLs and one performing loan pool valued at €26.2 million, (ii) an interest of €50.0 million in four Italian real estate funds and (iii) a 50% interest in doBank valued at €264.1 million, of which €162.9 million is attributed to the servicing platform and €101.2 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.

The investments are performing well. Total cash flows generated to date are €64.3 million compared to €59.9 million at underwriting of which €10.9 million were generated in the first quarter. Total valuations have increased by €12.0 million, or €0.17 per share (~4%) over the quarter with €8.7 million arising from doBank and the NPL portfolios reflecting their run rate appreciation as cash flows are realised and the reduction in the remaining life over which expected cash flows are discounted.

	Number of Portfolios	Equity Invested / Committed In 2016 € million	Total Equity Invested / Committed € million	Cash flows Generated In 2016 € million	Total Cash flows Generated € million	Adjusted NAV € million	Adjusted NAV € per share
doBank Servicer[1]	1	-	246.0	7.5	11.8	162.9	2.25
doBank NPL[1]	1	-				101.2	1.40
NPL / PL[2]	15	-	39.0	1.5	30.6	26.2	0.36
Real Estate Funds	4	7.1	55.4	1.9	14.5	50.0	0.69
Other Investments[3]	1	-	3.9	-	7.4	-	-
TOTAL	**22**	**7.1**	**344.3**	**10.9**	**64.3**	**340.3**	**4.70**

[1] *Cash flows generated for doBank represents EBITDA and NPL collections which are currently retained within the bank and therefore also reflected in the Adjusted NAV.*
[2] *NAV includes €2.0 million relating to cash flows realised to date but not yet distributed and therefore also reflected in the Adjusted NAV*
[3] *Fully realised in 2015.*

doBank

In October 2015, Eurocastle acquired doBank (formerly UCCMB) 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 GBV at acquisition of approximately €3.3 billion. The portfolio is 42% secured by real estate, which is on average more secured than portfolios previously acquired. 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 81%.

II. An NPL servicing business with a banking license. Previously the captive servicer for Unicredit, doBank is now the largest third party servicer in Italy with €45 billion GBV of loans under management, 610 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.

	doBank Servicer € 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	7.5		7.5
CF Generated to Date	11.8		11.8
NAV	**162.9**	**101.2**	**264.1**
NAV (€ per share)	***2.25***	***1.40***	***3.65***
Eurocastle Ownership	50%	50%	50%
GBV (€m's)	44,908	3,292	*n/a*
Number of Claims	*n/a*	4,683	*n/a*
% Secured	*n/a*	42%	*n/a*
Avg. Default Year	*n/a*	2003	*n/a*
% North & Central Italy	*n/a*	81%	*n/a*
Ratings	RSS1- / CSS1 -	*n/a*	*n/a*
FTE's	610	*n/a*	*n/a*
Number of Branches	14	*n/a*	*n/a*

Since completing the transaction, the Manager has been working with doBank to restructure and streamline the bank's operations by establishing new processes, implementing new asset management models, renegotiating contracts with vendors and focusing on expanding doBank's ancillary businesses to capitalise on its banking license and other areas of expertise. With the above in mind, the appointment of Mr. Andrea Mangoni as new CEO was finalised in April 2016 and the Company believes he is perfectly positioned to lead the bank in its strategy of further expanding its servicing platform and establishing a niche lending business.

Less than 6 months after completing the acquisition of its interest in doBank, Eurocastle feels that the accomplishments made to date have had a positive impact and as such we continue to expect that the bank's performance will be in line with underwriting. First quarter reported distributable earnings of €11 million were driven by collections which were in line with the same quarter last year; a period that is typically the lowest in the year given the seasonality of NPL collections. Furthermore, the newly established initiatives are also filtering through to collection performance with collections on average growing by 21% month over month up to April 2016 and 8% above that same period for last year.

The performance of doBank's NPL pool has remained significantly above underwriting expectations. The portfolio to date has generated €4.1 million of cash flow for Eurocastle which represents a pace of 164%[1] of the cash flow expected at underwriting with collections on fully resolved loans at 121%[2] of the amount projected at underwriting for those specific claims.

Since acquisition, the total fair value increased by €17.6 million of which €7.9 million, or €0.11 per share (~3%), was in the first quarter of 2016. 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.

[1] *Represents collections received to date versus underwriting projections for the same period.*

[2] *Represents collections received on fully resolved claims only versus underwriting. It does not reflect profitability as recorded under IFRS.*

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.

Portfolio performance has remained strong. The pace of collections received has been 122%[1] of that expected as of underwriting and 245%[2] of the amount expected on fully resolved loans. To date these investments have generated €30.6 million of cash flow or 78% of the amount invested, of which €1.5 million was generated in the first quarter of 2016.

NPL pool valuations in the first quarter of 2016 have increased by €0.8 million, or €0.01 per share (~3%), reflecting the appreciation in the value of the future cash flows expected in these pools as cash flows are realised and the reduction in the remaining life over which the expected cash flows are discounted.

Details of all portfolios acquired up to 31 March 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's)	14.0	2.6	7.4	1.0	8.4	1.1	3.1	1.4	39.0
CF Realised in 2016	0.8	0.1	0.3	0.1	0.1	0.0	0.0	0.1	1.5
CF Realised to Date (€ m's) [3]	20.1	1.9	4.7	0.5	2.9	0.0	0.3	0.2	30.6
NAV (€ million)[1]	**4.1**	**1.8**	**6.1**	**0.9**	**7.7**	**1.1**	**3.1**	**1.4**	**26.2**
NAV (€ per share)	***0.06***	***0.02***	***0.08***	***0.01***	***0.11***	***0.02***	***0.04***	***0.02***	***0.36***
Eurocastle Ownership	81%	50%	25%	25%	25%	25%	25%	25%	61%
GBV at acquisition (€ m's)	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%

ITALIAN REAL ESTATE FUNDS

Since 2014 Eurocastle has made several investments in this asset class, investing or committing to invest €55.4 million in four separate real estate funds:

	Investment Date	**Equity Invested / Committed** € million	**Cash flows Realised In 2016** € million	**Cash flows Realised** € million	**Adjusted NAV** € million	**Adjusted NAV** € per share	**Eurocastle Ownership**
Fund Investment I	Mar-14	22.2	1.5	10.4	13.4	0.19	7%
Fund Investment II	July-14	15.4	-	3.3	10.5	0.15	49%
Fund Investment III	Sep-15	10.8	0.4	0.8	19.1	0.26	27%
Fund Investment IV	Mar-16	7.0	-	-	7.0	0.09	89%
TOTAL		***55.4***	1.9	***14.5***	***50.0***	***0.69***	***33%***

[1] *Represents collections received to date versus underwriting projections for the same period.*
[2] *Represents collections received on fully resolved claims only versus underwriting. It does not reflect profitability as recorded under IFRS.*
[3] *NAV includes €2.0 million relating to cash flows realised to date but not yet distributed.*

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 at cost 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 €3.3 million, or €0.05 per share (~8%) in the first quarter of 2016 primarily driven by a €4.2 million increase relating to the Company's investment in Fund Investment III following an increase in the valuation of the underlying assets reflecting lease extensions that were signed last year.

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")[1] 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 €251 million which is largely unchanged since the Company made this investment. 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 the investment based on the closing price of the units. As at 31 March 2016, and after the total distributions of €875 per unit, the price per unit was €1,130 compared to an acquisition price of €1,788. Following a 4.4% appreciation in the unit price net of distributions in the first three months of 2016, the Company recorded a fair value gain of €0.6 million.

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 31 March 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 declined by €1.6 million in the first quarter of 2016 given that, under IFRS, redevelopment assets are accounted for at the cost of the investment less the operating expenses of the project without taking into account unrealised revaluation gains. Profits on the assets can only be accounted for once the units have been fully developed and sold and therefore fully realised. The project itself continues to progress well with construction works in general on time and budget. Offers have been accepted on 19.5% of the total expected sales at an average premium to budget of ~1%.

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[2]. 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. As at 31 March 2016 the investment was valued at €19.2 million, an increase of €4.2 million from the previous quarter reflecting Eurocastle's share of an increase in the underlying valuation of the assets. After taking into account this increase, the investment remains held at a 32% discount to the fund's NAV[3]. In addition, one asset comprising 26% of the fund's market value[3] was sold in February 2016 to the underlying tenant at a 5% premium to its previously reported market value. As a result, subsequent to quarter end, the Company received a distribution of €6.8 million representing over 60% of capital invested.

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

2 *As at 30 June 2015.*

3 *As at 30 December 2015, the most recently reported NAV of the fund.*

Fund Investment IV

On 8 March 2016, Eurocastle entered into a structured transaction ("Fund Investment IV") investing €1.0 million out of an anticipated €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 3 office assets together valued at €132 million. On 10 May 2016, Eurocastle invested a further €6.0 million into the transaction bringing the Company's total equity investment to €7.0 million. On completion, Eurocastle's share of the implied net asset value of this fund was €14.2 million indicating an acquisition at approximately a 50% discount to the implied NAV.

Further details of all portfolios acquired up to 31 March 2016 can be found in the table below:

	Fund Investment I	Fund Investment II	Fund Investment III	Fund Investment IV
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	12 Mixed Use Assets	2 High-end Resi Redevelopments	13 Mixed Use Office and Light Industrial	3 Office and a Retail Portfolio
Collateral Location	Northern & Central Italy	Rome	Across Italy	Across Italy
Eurocastle's Value as a Discount to Fund NAV(%)	42%	8%	32%	51%
Fund Leverage %	-	35%	55%	92%
Fund Expiration	Q4 2017	Q1 2018[1]	Q1 2019	Q1 2019

Legacy Business

In the first quarter of 2016, Eurocastle continued making progress on realising value from its Legacy Business collecting in total €4.7 million mainly from the sale of its Zama portfolio. As at 31 March 2016, the remaining Adjusted NAV was €13.0 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 [2]	97.9	8.8	106.7
Liabilities[2]	(93.6)	(0.1)	(93.7)
Adjusted NAV[2]	**4.3**	**8.7**	**13.0**
Adjusted NAV (€ per share)	*0.06*	*0.12*	*0.18*
Q1 2016 CFs	4.7	0.0	4.7

1 *Represents Expected Liquidation date, Fund expires in Dec 2019*

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

German Commercial Real Estate

During the first quarter of 2016, Eurocastle continued making progress in realising value from these portfolios, receiving €4.7 million in aggregate comprised of €3.6 million from the sale of the Zama portfolio, €0.9 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. Due to revaluations during 2015, the market values of the assets in the Drive and Belfry portfolios now fall below their respective liabilities. Given the non-recourse nature of their financings, the Group does not include the NAV of these portfolios 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 fees received in the first quarter amounted to €0.9 million and a further €1.1 million in fees to the Company are expected given 19 additional assets in Drive are under binding sales contracts or have closed for a total consideration of €32.4 million.

The table below contains a summary of the Company's remaining German real estate portfolio as at 31 March 2016:

	Sold Portfolios € million	**Truss** € million	**Belfry** (Negative NAV) € million	**Drive** (Negative NAV) € million
Assets	-	97.9	43.7	248.4
Liabilities	-	(93.6)	(52.9)	(311.5)
Adjusted NAV[1]	**-**	**4.3**	**-**	**-**
Adjusted NAV (€ per share)	-	*0.06*	-	-
Permitted Distributions[2]	n/a	Sales CAD & Fees	Sales & AM Fees	Sales & AM Fees
Q1 2016 Cash Distributed	3.8	-	-	0.9
Occupancy		91%	83%	59%
WALT		4.6	3.3	2.0
LTV [3]		95%	129%	109%
Debt Maturity		May-16	Oct-16	Jan-17

[1] *Excludes the negative net asset value of Drive and Belfry whose debt is non-recourse to Eurocastle as outlined on page 12.*

[2] *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*

[3] *LTV represents the market value of the assets over the outstanding debt face amount.*

Other Debt Investments

Eurocastle's Debt Investments portfolio consists of one unlevered mezzanine loan with a €8.7 million NAV and a levered portfolio whose assets are now less than its outstanding liabilities. Given the non-recourse nature of its financing, as with Drive and Belfry, the Group no longer includes the NAV of this portfolio within its reported Adjusted NAV.

Other than approximately €10,000 of management fees received in the quarter, cash flows are no longer being received from these two portfolios.

The table below summarises the remaining portfolio as at 31 March 2016:

	Levered [1] (Negative NAV) € million	**Unlevered** € million	**Total** € million
Total Assets	54.1	8.8	62.9
Total Liabilities	(76.8)	(0.1)	(76.9)
Adjusted NAV	**-**	**8.7**	**8.7**
Adjusted NAV (€ per share)	-	*0.12*	*0.12*
Q1 2016 Cash Distributed	0.0	**-**	0.0
WA Credit Rating [2]	CC	Not Rated	CC
% Investment Grade	3%	0%	3%
Total Securities [3]	23	1	23
Debt Maturity	Jun-47	-	-

1 *Adjusted NAV excludes the negative NAV of the Levered portfolio - CDO V whose debt is non-recourse to Eurocastle as outlined on page 12.*
2 *Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.*
3 *Total Securities eliminates positions that are held in two or more portfolios.*

Q1 2016 Income Statement

	Italian Investments € Thousands	Legacy € Thousands	Total € Thousands
Operating income			
Italian Investments			
Fair value movements on Italian Investments			
doBank (Servicer & NPL)	7,933	-	7,933
NPLs[1]	781	-	781
Real estate fund units (Fund Investment I)	632	-	632
Share of post-tax profits from associate investment in RE fund units (Fund Investment III)	4,225	-	4,225
Share of post-tax loss from JV investment in RE fund units (Fund Investment II)	(1,595)	-	(1,595)
Legacy Debt Investments			
Interest income	74	268	342
Losses on foreign currency contracts, translation and swaps	-	(935)	(935)
Impairment losses	-	(798)	(798)
Gain on pay-downs of loans and receivables	-	1,325	1,325
Total operating income	**12,050**	**(140)**	**11,910**
Operating expenses			
Interest expense	-	761	761
Other operating expenses - transaction costs	88	-	88
Other operating expenses - group running costs	3,375	186	3,561
Total operating expenses	**3,463**	**947**	**4,410**
Net operating profit / (loss) before taxation	**8,587**	**(1,087)**	**7,500**
Total tax expense	7	1	8
Net profit / (loss) after taxation from continuing operations	**8,580**	**(1,088)**	**7,492**
Net profit after taxation from discontinued operations	-	710	710
Profit / (loss) after taxation for the year	**8,580**	**(378)**	**8,202**
Per Share[3]	*0.12*	*(0.01)*	*0.11*
Attributable to:			
Ordinary equity holders of the Company	8,552	(378)	8,174
Non-controlling interest	28	-	28

For the first three months of 2016, the total net gain after taxation and non-controlling interests as reported under IFRS was €8.2 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 quarter of 2016 was €8.6 million, or €0.12 per share.

	Italian Investments € Thousands	Legacy € Thousands	Total € Thousands
Net profit / (loss) attributable to ordinary shareholders after taxation	8,552	(378)	8,174
Reversal of Net loss attributed to negative NAV portfolios[2]	-	1,337	1,337
Adjusted net profit	**8,552**	**959**	**9,511**
Per Share[3]	*0.12*	*0.01*	*0.13*

Excluding losses arising within those legacy portfolios that have a negative NAV, the Group generated a net profit after taxation of €9.5 million or €0.13 per share. As at 31 March 2016, the remaining adjusted NAV of the legacy portfolios was €13.0 million, or €0.18 per share which represents just 2.0% of the Company's Adjusted NAV.

[1] *The fair value movements on Italian NPL Investments includes €0.2m from subsidiaries, €0.5m 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.*

[2] *Reverses losses arising from portfolios with a negative net asset value net of any cash distributions or fees received by the Company.*

[3] *Earnings per share based on 72.4 million weighted average ordinary shares for the first quarter.*

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 will further enable investors to understand current and future earnings given annualised returns achieved and the average net invested capital[1] over the relevant period.

Q1 2016 Segmental Normalised FFO

	Italian Investments € Thousands	Legacy € Thousands	Total € Thousands	Average Net Invested Capital[1]	Yield
NPLs	1,409	-	1,409	23,215	24%
RE Fund Units	2,019	-	2,019	40,628	20%
doBank (Servicer & NPL)	8,531	-	8,531	246,031	14%
Italian Investments NFFO before expenses	**11,959**	**-**	**11,959**	**309,874**	**15%**
Legacy Portfolios NFFO before expenses	-	3,507	3,507		
Manager Base & Incentive Fees	(2,553)	(37)	(2,590)		
Other operating expenses	(928)	(1,406)	(2,334)		
Normalised FFO	**8,478**	**2,064**	**10,542**		
Per Share	*0.12*	*0.03*	*0.15*		

In the first quarter of 2016, Eurocastle generated Normalised FFO of €10.5 million, or €0.15 per share compared to a dividend of €9.1 million, or €0.125 per share. Before corporate costs Italian Investments generated €12.0 million, or €0.17 per share. Given the average net invested capital in the period was approximately €310 million, this equates to a yield of 15%.

The following table provides a reconciliation of net profit and loss as reported in the segmental income statement provided on page 10 above to segmental Normalised FFO:

Q1 2016 Net profit / (loss) to Normalised FFO reconciliation

	New Investments € Thousands	Legacy € Thousands	Total € Thousands
Net profit / (loss) attributable to ordinary shareholders after taxation	**8,552**	**(378)**	**8,174**
Effective yield adjustments	(11)	-	(11)
Revaluation (gains) / losses	-	974	974
Deferred tax	-	69	69
Sales Fees		715	715
Impairment losses	-	798	798
Other	(63)	(114)	(177)
Normalised funds from operations	**8,478**	**2,064**	**10,542**
Per Share	*0.12*	*0.03*	*0.15*

[1] *Time weighted average of invested capital (net of any capital returned) over the relevant period.*

Q1 2016 Balance Sheet and Adjusted NAV Reconciliation

	Italian Investments € Thousands	Corporate € Thousands	Legacy € Thousands	Total € Thousands
Assets				
Cash and cash equivalents	4,605	200,585	30,833	236,023
Investment properties held for sale	-	-	359,758	359,758
Italian investments at Fair Value				
doBank (Servicer)	162,600	-	-	162,600
doBank (NPL)	101,052	-	-	101,052
NPLs	26,211	-	-	26,211
Real estate fund units (Fund Investment I)	13,480	-	-	13,480
Associate investment in real estate fund units (Fund Investment III)	19,194	-	-	19,194
Joint venture investment in real estate fund units (Fund Investment II)	10,565	-	-	10,565
Loans and receivables	-	-	55,498	55,498
Derivative assets	-	-	4,272	4,272
Other assets	1,447	59	17,386	18,892
Intangible assets	-	-	2	2
Total assets	**339,154**	**200,644**	**467,749**	**1,007,547**
Total liabilities				
Trade and other payables	3,896	12,693	80,302	96,891
Current taxation payable	10	-	9,527	9,537
CDO bonds payable	-	-	76,453	76,453
Bank borrowings	-	-	368,747	368,747
Finance lease payable	-	-	16,924	16,924
Deferred taxation liability	-	-	751	751
Total liabilities	**3,906**	**12,693**	**552,704**	**569,303**
Net Asset Value	**335,248**	**187,951**	**(84,955)**	**438,244**
Non-controlling interest	(970)	-	-	(970)
Net Asset Value after Non-controlling interest	**334,278**	**187,951**	**(84,955)**	**437,274**
Negative NAV Addbacks[1]	-	-	94,955	94,955
NAV Reallocation following Committed Investments[2]	6,032	(6,032)	-	-
NAV Reallocation following Legacy Portfolio Sales[3]	-	(2,990)	2,990	-
Adjusted NAV	**340,310**	**178,929**	**12,990**	**532,229**
Adjusted NAV (€ per Share)[4]	***4.70***	***2.47***	***0.18***	***7.35***

1 *Adjusts to exclude those Legacy portfolios with negative NAV (Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle.*
2 *Refers to the unfunded commitment in new RE Funds investment (Fund Investment IV).*
3 *Adjust for the residual net assets and liabilities of the sold Legacy portfolios Mars Fixed 2 and Wave.*
4 *Adjusted NAV per share based in on 72.4 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 31 March 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: 18 May 2016

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

(Unaudited)	Notes	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Continuing operations			
Operating income			
Italian Investments			
Fair value movements on Italian Investments	8.1	8,751	3,024
Share of post tax profits from associate investment in NPLs	8.3	534	627
Share of post tax profits / (loss) from joint venture investment in NPLs	8.3	61	(131)
Share of post tax profits from associate investment in real estate fund units	10	4,225	-
Share of post tax loss from joint venture in real estate fund units	9	(1,595)	-
Gain on repurchase of mezzanine financing	15	-	518
Legacy Debt Investments			
Interest income		342	695
(Losses) / gains on foreign currency contracts, translation and swaps		(935)	702
Impairment (losses) / reversals	5	(798)	292
Gain / (loss) on paydown of loans and receivables		1,325	(104)
Total operating income		**11,910**	**5,623**
Operating expenses			
Interest expense		761	1,104
Other operating expenses	3	3,649	2,323
Total operating expenses		**4,410**	**3,427**
Net operating profit before taxation		**7,500**	**2,196**
Taxation expense - current	4	8	10
Total tax expense		**8**	**10**
Profit after taxation from continuing operations		**7,492**	**2,186**
Profit / (loss) after taxation from discontinued operations	13	**710**	**(547)**
Profit after taxation for the period		**8,202**	**1,639**
Attributable to:			
Ordinary equity holders of the Company		8,174	1,451
Non-controlling interest	8.2	28	188
Net profit after taxation		**8,202**	**1,639**
Earnings per ordinary share from continuing operations		cents	cents
Basic and diluted	18	10.3	6.7
Earnings per ordinary share from discontinued operations			
Basic and diluted	18	1.0	(1.7)
Earnings per ordinary share			
Basic and diluted	18	11.3	5.0

See notes to the consolidated financial statements which form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Net profit after taxation		**8,202**	**1,639**
Items that may or will be reclassified to profit or loss:			
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables with movements released to the income statement	7	184	326
Realised loss on deconsolidation		-	(442)
Amortisation of novated swaps		(3)	(122)
Unrealised loss on asset backed securities, available-for-sale		-	(145)
Total other comprehensive income		**181**	**(383)**
Total comprehensive profit for the period		**8,383**	**1,256**
Attributable to:			
Ordinary equity holders of the Company		8,355	1,068
Non-controlling interest	8.2	28	188
Total comprehensive profit for the period		**8,383**	**1,256**

See notes to the consolidated financial statements which form an integral part of these financial statements.

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	31 March 2016 (Unaudited) €'000	31 December 2015 €'000
Assets			
Cash and cash equivalents	6	236,023	250,154
Investment properties held for sale	14	359,758	393,810
Italian Investments held at fair value through profit or loss	8.1	281,159	275,230
Associate investment in NPLs	8.3	20,421	21,940
Joint venture investment in NPLs	8.3	1,763	1,813
Associate investment in real estate fund units	10	19,194	15,350
Joint venture investment in real estate fund units	9	10,565	12,160
Loans and receivables	7	55,498	70,259
Derivative assets	12	4,272	2,614
Other assets	11	18,892	18,077
Intangible assets		2	4
Total assets		**1,007,547**	**1,061,411**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	19	2,021,745	2,014,845
Accumulated loss		(1,600,685)	(1,599,809)
Net unrealised loss on available-for-sale securities reclassified to loans and receivables	7	(2,910)	(3,094)
Hedging reserve		-	3
Other reserves	21	19,124	26,024
Total shareholders' equity		**437,274**	**437,969**
Non-controlling interest		970	1,335
Total equity		**438,244**	**439,304**
Liabilities			
Trade and other payables	17	96,891	97,338
Current taxation payable	4	9,537	8,925
CDO bonds payable	15	76,453	88,904
Bank borrowings	16	368,747	409,576
Finance lease payable	14	16,924	16,683
Deferred taxation liability		751	681
Total liabilities		**569,303**	**622,107**
Total equity and liabilities		**1,007,547**	**1,061,411**

See notes to the consolidated financial statements which form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 18 May 2016 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Notes	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Cash flows from operating activities			
Operating profit / (loss) before taxation	24	9,006	(1,183)
Adjustments for non-cash items			
Interest income		(340)	(673)
Interest expense		3,993	8,756
Unrealised loss / (gain) on foreign exchange contracts		935	(702)
Amortisation of discount on securities	7	(2)	(22)
Amortisation of borrowing costs		592	1,353
Amortisation of tenant incentives / leasing commissions	14	165	408
Realised gain on repurchase of mezzanine financing	15	-	(518)
Impairment losses / (reversals)	5	798	(292)
(Gain) / loss on paydown		(1,325)	104
Amortisation of intangibles		-	2
Depreciation of fixture and fittings		-	1
Decrease in fair value of investment properties	14	679	5,984
Increase in fair value investments - subsidiaries	8.2	(186)	(972)
Share of post tax (profits) / loss from joint ventures	8.3, 8.4, 9	(6,400)	131
Share of post tax profits from associates	8.3, 10	(5,217)	(627)
Fair value movement on real estate fund units	8.5	(632)	(2,052)
Gain on deconsolidation	13	(2,000)	(4,713)
Capital expenditures / tenant incentives	14	(631)	(1,719)
Proceeds from sale of investment properties	14	34,882	60,565
Proceeds from prepayment of available-for-sale securities		-	11,375
Proceeds from sale of available for sale securities		-	1,034
Proceeds from prepayment of loans and receivables		13,002	17,734
Net cash impact of deconsolidation of portfolios		-	20,135
Net cash impact of acquisition of associates	8.3, 10	-	935
Distributions received from real estate fund units	8.5	1,491	8,947
Cash distributions from fair value subsidiary investments - NPL	8.2	1,642	1
Cash distributions from joint ventures	8.3, 9	412	207
Cash distributions from associates	8.3, 10	2,892	-
Interest received		327	864
Interest paid		(2,175)	(7,062)
Cash flows from operating activities before working capital movements		**51,908**	**118,001**
(Increase) / decrease in other assets		(1,604)	2,360
(Decrease) / increase in trade and other payables		(892)	1,193
Cash generated from operations		**49,412**	**121,554**
Taxation (paid) / received		(123)	85
Net cash flows from operating activities		**49,289**	**121,639**
Cash flows from financing activities			
Dividends paid		(9,050)	(4,079)
Repurchase of mezzanine financing	15	-	(4,537)
Cash distributed to non-controlling interest		(393)	(4)
Repayments of bonds issued		(12,579)	(26,670)
Repayments of bank borrowings		(41,398)	(58,983)
Net cashflows from financing activities		**(63,420)**	**(94,273)**
Net (decrease) / increase in cash and cash equivalents		**(14,131)**	**27,366**
Cash and cash equivalents, beginning of year		**250,154**	**146,535**
Total cash and cash equivalents, end of period	6	**236,023**	**173,901**

See notes to the consolidated financial statements which form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Unaudited)	Ordinary shares Number	Share capital €'000	Other reserves €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holder of the Parent							
At 1 January 2015	**32,635,502**	**1,714,625**	**21,888**	**(5,593)**	**588**	**(1,525,145)**	**2,321**	**208,684**
Profit after taxation for the three months	-	-	-	-	-	1,451	188	1,639
Other comprehensive loss	-	-	-	(383)	(564)	-	-	(947)
Total comprehensive (loss) / income	**-**	**-**	**-**	**(383)**	**(564)**	**1,451**	**188**	**692**
Contributions by and distributions to owners:								
Distributions to non-controlling interest	-	-	-	-	-	-	(4)	(4)
Dividend declared (note 22)	-	-	-	-	-	(4,079)	-	(4,079)
At 31 March 2015	**32,635,502**	**1,714,625**	**21,888**	**(5,976)**	**24**	**(1,527,773)**	**2,505**	**205,293**
(Loss) / profit after taxation for the nine months	-	-	-	-	-	(44,886)	654	(44,232)
Other comprehensive income / (loss)	-	-	-	2,882	(21)	-	-	2,861
Total comprehensive income / (loss)	**-**	**-**	**-**	**2,882**	**(21)**	**(44,886)**	**654**	**(41,371)**
Contributions by and distributions to owners:								
Share issued to Directors (note 19)	3,000	-	-	-	-	-	-	-
Issue of ordinary shares (note 19)	39,762,992	312,139	-	-	-	-	-	312,139
Costs in relation of issue of ordinary shares	-	(7,783)	-	-	-	-	-	(7,783)
Costs in relation to issue of options following share issue	-	(4,756)	4,756	-	-	-	-	-
Distributions to non-controlling interest	-	-	-	-	-	-	(1,824)	(1,824)
Release of option reserve for lapsed options	-	620	(620)	-	-	-	-	-
Dividend declared (note 22)	-	-	-	-	-	(27,150)	-	(27,150)
At 31 December 2015	**72,401,494**	**2,014,845**	**26,024**	**(3,094)**	**3**	**(1,599,809)**	**1,335**	**439,304**
Profit after taxation for the three months	-	-	-	-	-	8,174	28	8,202
Other comprehensive income / (loss)	-	-	-	184	(3)	-	-	181
Total comprehensive income / (loss)	**-**	**-**	**-**	**184**	**(3)**	**8,174**	**28**	**8,383**
Contributions by and distributions to owners:								
Distributions to non-controlling interest	-	-	-	-	-	-	(393)	(393)
Release of option reserve for lapsed options	-	6,900	(6,900)	-	-	-	-	-
Dividend declared (note 22)	-	-	-	-	-	(9,050)	-	(9,050)
At 31 March 2016	**72,401,494**	**2,021,745**	**19,124**	**(2,910)**	**-**	**(1,600,685)**	**970**	**438,244**

See notes to the consolidated financial statements which form an integral part of these financial statements.

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company" or the "Parent") 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). The activities of the Group include the investing in, financing and management of Italian performing and non-performing loans and other credit receivables, real estate related assets and related businesses.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group's Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in note 23. 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, derivative financial investments and loan portfolios 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 for the year ended 31 December 2015.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the three months ended 31 March 2016. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including: (i) the size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights, (ii) substantive potential voting rights held by the company and by other parties, (iii) other contractual arrangements, (iv) historic patterns in voting attendance.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

At 31 March 2016, the Group consisted of a number of subsidiaries in Germany, Italy, Ireland, Luxembourg and the United States of America (refer to note 25).

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

Deconsolidation of Subsidiaries

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

Investment in Associates

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

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

Joint Ventures

Jointly controlled entities are those entities over whose activities the Group has joint control established by the contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group's interest in these entities is consolidated using the equity method in accordance with IFRS 11 - Joint Arrangements, except for those investments which meet the exemption criteria allowed under IAS 28 which are accounted for under the fair value basis.

3. OTHER OPERATING EXPENSES

(Unaudited)	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Professional fees	245	285
Transaction costs	88	-
Management fees (note 23)	2,567	1,284
Manager Recharge (note 23)	462	610
Depreciation of fixtures and fittings	1	1
Amortisation of intangible assets	-	3
General and administrative expenses	286	140
Total other operating expenses	**3,649**	**2,323**

4. TAXATION EXPENSE

Taxation Overview

The taxation expense for the three months ended 31 March 2016 relates to the Group's Luxembourg subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, EFL, CDO IV, CDO V 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 Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries.The tax charge for the three months ended 31 March 2016 was €8,000 (31 March 2015: €10,000).

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

There are currently no tax expenses in Italy.

5. IMPAIRMENT LOSSES / (REVERSALS) - LEGACY DEBT PORTFOLIO

(Unaudited)	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Impairment reversals on real estate loans	-	(206)
Impairment losses / (reversals) on loans and receivables	798	(86)
Total impairment losses / (reversals)	**798**	**(292)**

During the three months ended 31 March 2016, the Group has recognised impairment adjustments on 10 securities (31 March 2015: 10 securities). As at 31 March 2016, 22 securities have recognised impairment losses (31 December 2015: 22 securities). All impairment losses relate to the Group's legacy debt portfolio.

The carrying value of the impaired securities or loans as at 31 March 2016 after the impairment losses was €41.6 million (31 December 2015: €45.9 million).

6. CASH AND CASH EQUIVALENTS

	As at 31 March 2016 €'000	As at 31 December 2015 €'000
Corporate cash	200,585	204,252
Cash within Italian Investments	4,605	7,462
Cash within the real estate operating companies (discontinued operations)	27,858	35,392
Cash within the CDO vehicles	2,975	3,048
Total cash and cash equivalents	**236,023**	**250,154**

Cash within Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €1.0 million which is to be distributed to the non controlling interests (31 December 2015: €1.3 million).

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

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

7. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 March 2016 (unaudited):

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating [(1)]	Coupon % [(2)]	Margin % [(3)]	Maturity (years)
CDO IV								
Real estate related loans	9,135	9,117	(285)	8,832	D	0.00%	2.25%	1.01
	9,135	9,117	(285)	8,832	D	0.00%	2.25%	1.01
CDO V [(4)]								
CMBS	83,744	67,150	(43,687)	23,463	CCC-	0.50%	1.16%	0.90
Other ABS	4,871	4,476	-	4,476	BBB	2.59%	1.81%	1.92
Real estate related loans	64,984	64,952	(46,225)	18,727	D	0.27%	2.17%	0.32
	153,599	136,578	(89,912)	46,666	CC	0.47%	1.61%	0.69
Total portfolio	**162,734**	**145,695**	**(90,197)**	**55,498**	**CC**	**0.44%**	**1.64%**	**0.71**

As at 31 December 2015:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating [(1)]	Coupon % [(2)]	Margin % [(3)]	Maturity (years)
CDO IV								
Real estate related loans	9,826	9,830	(436)	9,394	D	0.00%	2.25%	1.01
	9,826	9,830	(436)	9,394	D	0.00%	2.25%	1.01
CDO V [(4)]								
CMBS	97,396	79,606	(43,275)	36,331	CCC-	0.48%	1.45%	0.88
Other ABS	5,239	4,766	-	4,766	BBB	2.58%	1.81%	1.92
Real estate related loans	90,407	90,351	(70,583)	19,768	D	0.21%	2.20%	0.24
	193,042	174,723	(113,858)	60,865	CC	0.41%	1.81%	0.61
Other securities								
Real estate related loans	8,285	1,944	(1,944)	-	D	0.00%	2.50%	-
	8,285	1,944	(1,944)	-	D	0.00%	2.50%	-
Total portfolio	**211,153**	**186,497**	**(116,238)**	**70,259**	**CC**	**0.38%**	**1.86%**	**0.60**

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

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

(3) Reflects the average spread on the relevant bond class.

(4) The securities within CDO V are encumbered by CDO securitisations (note 15).

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 1 July 2008 Carrying Value €'000	**At 31 March 2016 Carrying Value (unaudited) €'000**	**At 31 December 2015 Carrying Value €'000**	**At 31 March 2016 Fair Value (unaudited) €'000**	**At 31 December 2015 Fair Value €'000**
Available-for-sale securities, reclassified to loans and receivables	1,077,560	18,332	20,928	18,998	17,314

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 the three months ended 31 March 2016 would have included €4.1 million of impairments on the reclassified available-for-sale securities, compared with impairments of €1.1 million after the reclassification. For the three months ended 31 March 2016, shareholders' equity (net losses not recognised in the income statement) would have included €0.1 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 March 2016.

After reclassification, the reclassified financial assets contributed the following amounts to income for the three months ended 31 March 2016:

(Unaudited)	**Three months ended 31 March 2016 €'000**	**Three months ended 31 March 2015 €'000**
Net interest income	313	313
Impairment losses / (reversals) on securities classified as loans and receivables	1,116	(8,225)
Losses / (gains) on available-for-sale securities reclassified to loans and receivables	**1,429**	**(7,912)**

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

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity, relating to the impaired asset, is released to the income statement at the impairment date. For the three months ended 31 March 2016, no unrealised fair value gains have been released to the income statement for impaired reclassified financial assets available-for-sale (three months ended 31 March 2015: €nil). Additionally, €0.2 million (three months ended 31 March 2015: €0.3 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by €nil to reflect changes in the expected cash flows (31 March 2015: €nil).

At 31 March 2016, the net unrealised loss on loans and receivables reclassified from AFS was €2.9 million (31 December 2015: €3.1 million).

The movement in the impairment losses is shown below:

	31 March 2016 (Unaudited) €'000	**31 March 2015 €'000**
Balance as at 1 January	(116,238)	(132,764)
Reversals due to paydowns and sales in the period	25,886	16,654
Losses for the period	(289)	(650)
Reversals for the period	444	942
Balance at 31 March	**(90,197)**	**(115,818)**

8. ITALIAN INVESTMENTS HELD AT FAIR VALUE

The Group holds the following investments, directly or indirectly at fair value:

(i) Non-performing and performing loan portfolios ("NPL/PL") - these investments are held either through subsidiaries, and therefore designated as fair value through profit or loss, or through joint venture and associate vehicles. Those investments held as joint ventures and associates are recognised under the equity accounting method, however the underlying entities hold the portfolios at fair value through profit and loss and therefore the net assets reflect the fair value of the investments.

(ii) Joint ventures held at fair value ("doBank") - during 2015, the Group invested in a joint venture in doBank. This investment is held at fair value through profit or loss under the exemption in IAS 28 due to the strategic intentions and potential exit strategy in future years.

(iii) Real estate fund units ("UIU") - this investment is held at fair value through profit or loss as investments in listed Italian real estate funds.

The holdings in investments have been summarised below.

8.1. Italian investments held at fair value through profit or loss

The following is a summary of the Group's fair value investments as at 31 March 2016:

	doBank (see note 8.4)	NPL/PL (see note 8.2)	Real Estate Fund Units (see note 8.5)	Total
	€'000	€'000	€'000	€'000
Balance as at 1 January	256,019	4,872	14,339	275,230
Cash/distributions received	(300)	(1,031)	(1,491)	(2,822)
Increase in fair value	7,933	186	632	8,751
Balance as at 31 March	**263,652**	**4,027**	**13,480**	**281,159**

As at 31 March 2015:

	NPL/PL	Real Estate Fund Units	Total
	€'000	€'000	€'000
Balance as at 1 January	6,325	21,890	28,215
Cash/distributions received	(1,160)	(8,947)	(10,107)
Increase in fair value	972	2,052	3,024
Balance as at 31 March	**6,137**	**14,995**	**21,132**

8.2. NPL/PL held at fair value by subsidiaries

As a result of the Group's investment in the performing and non-performing loan pools 1 to 5, it has acquired subsidiaries in Italy, Luxembourg and the United States of America. The Group holds 80.66% of pools 1-3 and 5, and 100% of the outstanding notes in pool 4. The investments in the underlying loan portfolios are held through Law 130 securitisation notes.

The movement in fair value investments is as follows:

	2016		
	NPL/PL Pools 1-5	Non controlling interest	Total Portfolio
	€'000	€'000	€'000
Balance as at 1 January	3,932	940	4,872
Cash distributions from portfolios	(832)	(199)	(1,031)
Increase in fair value	158	28	186
Balance as at 31 March	**3,258**	**769**	**4,027**

	2015		
	NPL/PL Pools 1-5	Non controlling interest	Total Portfolio
	€'000	€'000	€'000
Balance as at 1 January	5,110	1,215	6,325
Cash distributions from portfolios	(935)	(225)	(1,160)
Increase in fair value	784	188	972
Balance as at 31 March	**4,959**	**1,178**	**6,137**

Distributions from pools 1 to 5 as at 31 March 2016 were €1.0 million (31 March 2015: €1.2 million) of which €0.2 million is payable to non controlling interests (31 March 2015: €0.2 million).

The non-performing loan portfolios are partly secured by residential and commercial properties, judicial mortgages and personal guarantees in Italy. The performing loan portfolio (pool 5), with a carrying value of €0.5 million (31 March 2015: €1.0 million), is fully secured against commercial and residential properties in Italy.

All portfolios are serviced by Italfondiario S.p.A. a related party to the Manager (refer note 23).

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to gains of €0.2 million (31 March 2015: €1.0 million) and are presented in the Group income statement in the line item "Fair value movements on Italian investments".

The non controlling interest in the fair value of the portfolios is €0.8 million (31 March 2015: €1.2 million) which excludes distributions payable of €0.2 million (31 March 2015: €1.3 million).

8.3. NPLs held as associates and joint ventures

The Group's interest in non-performing loan pools 6-15 is through an associate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC and is accounted for using the equity method. The underlying entities hold the portfolios at fair value through profit and loss and therefore the net assets reflect the fair value of the investments.

The Group holds a 50% interest in pool 6 and a 25% interest in pools 7-15 through associate entities which are managed by a fund manager. The Group exercises significant influence as a result of the ability to vote on the appointment and termination of the fund manager.

The Group's investment in pool 6 of non-performing Italian loans is through a joint investment entity in Italy called Quintino Securitisation S.r.l. The membership interest of 50% is held in the third series of the associate entity - Series 3 (the "Series 3 Fund") which holds the notes in Quintino Securitisation S.r.l. The financial and operating decisions of this entity require joint agreement and hence is subject to joint control. The joint venture partner is a fund managed by an affiliate of the Manager. For the three months ended 31 March 2016 cash distributions of €0.1 million were received (31 March 2015: €nil).

On 9 June 2014, the Group acquired 25% of the membership interest in the first series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series 1 Fund") for a total consideration of €7.4 million (pool 7). The Series 1 Fund acquired securitisation notes relating to pool 7 on 27 June 2014. The Series 1 Fund made a second investment of €8.5 million on 23 December 2014 in a second non-performing loan portfolio from the same counterparty (Pool 10). For the three months ended 31 March 2016 cash distributions of €1.9 million were received (31 March 2015: €0.9 million).

On 14 July 2014, the Group acquired 25% of the membership in the second series of the Fortress Italian NPL Opportunities Series Fund LLC - Series 2 (the "Series 2 Fund") for a total consideration of €0.3m (Pool 8). The Series 2 Fund acquired the non-performing portfolio of loans from three Italian local co-operative banks affiliated with ICCREA Group ("BCC") on 29 July 2014. The Series 2 Fund made a second investment of €0.2 million in a non-performing loan portfolio (Pool 9) on 29 October 2015 and a third investment of €0.5 million on 23 December 2014 in a further non-performing loan portfolio (Pool 11). The Series 2 Fund made an additional investment of €1.0 million in an additional non-performing loan portfolio (Pool 12) in November 2015. For the three months ended 31 March 2016 distributions of €0.1 million were received (31 March 2015: €nil).

In December 2015, the Group acquired 25% of the membership in the fourth series of the Fortress Italian NPL Opportunities Series Fund LLC - Series 4 (the "Series 4 Fund") for a total consideration of €4.5 million. The Series 4 Fund holds notes relating to three non-performing loan portfolios (Pools 13, 14 and 15). For the three months ended 31 March 2016 cash distributions of €nil were received (31 March 2015: €nil).

The following table summarises the financial information of the Associates as at 31 March 2016:

	Associates Series 1,2 & 4 NPLs (pools 7-15) €'000	Joint Venture Series 3 NPLs (Pool 6) €'000	Total €'000
Non-current assets	81,699	3,526	85,225
Current assets	206	798	1,004
Current liabilities	(222)	(798)	(1,020)
Net assets	**81,683**	**3,526**	**85,209**
Group's share of net assets	**20,421**	**1,763**	**22,184**

	Series 1,2 & 4 NPLs (pools 7-15) €'000	Series 3 NPLs (Pool 6) €'000	Total €'000
Share of profit for the three months	2,136	122	2,258
Group's share of profit	**534**	**61**	**595**

8.4. Investments in joint ventures held at fair value

On 30 October 2015, the Group acquired a 50% equity interest in doBank (formerly Unicredit Credit Management Bank S.p.A ("UCCMB")), comprising an NPL servicing business, and an NPL pool for a consideration of approximately €246 million, subject to certain post-closing adjustments. The investment is made through a Luxembourg subsidiary called Verona Holdco S.ár.l. ("Verona"). Verona holds the investment in doBank through a joint venture in a Luxembourg company, Avio S.ár.l. The investment in doBank is not accounted for using the equity method as the exemption criteria has been satisfied under IAS 28, in particular the fact that management will actively monitor a potential exit strategy in future years. Accordingly, the Group's interest is carried at fair value in the consolidated balance sheet, with movements in fair value recognised in the consolidated income statement.

The following table summarises the financial information of the Joint Venture as at 31 March 2016:

	doBank €'000
Non-current assets	527,214
Current assets	623
Cash	6,906
Current liabilities	(6,724)
Net assets	**528,019**
Group's share of net assets	**264,010**

	doBank €'000
Interest income	-
Revaluation gains	15,879
Interest expense	-
Other expenses	(12)
Post tax profit for the three months	**15,867**
Group's share of post tax profit	**7,933**

The Group's share of net assets and post tax profit for the period relates to Avio S.ár.l and is combined with the Group's share of the net assets and post tax profit of Verona to reflect the total recorded in the Group's financial statements. For the three months ended 31 March 2016, Avio S.ár.l made a payment of €0.3 million to the Group.

The fair value of the investments is derived from internal valuation models. The assumptions used in the models are based on cash flows (actual and projected) per the latest business plan and reviewed by senior management. The servicer uses market knowledge and historical performance as a basis for the projections. These projections are reviewed and updated on a quarterly basis.

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

	Italian Loan Pools (1-15)	**doBank**	**Total**
Expected profit multiple [(1)]	1.7	2.1	2.0
Remaining weighted average life	3.3	5.8	5.6
Discount rate	12%	14%	14%

For the year ended 31 December 2015:

	Italian Loan Pools (1-15)	**doBank**	**Total**
Expected profit multiple [(1)]	1.7	2.1	2.0
Remaining weighted average life	3.4	6.0	5.8
Discount rate	12%	14%	13%

[(1)] The expected profit multiple is the multiple that drives the underlying cash flows on which the relevant valuation model is built.

Sensitivity analysis

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

	Italian Loan Pools (1-15) €'000	**doBank €'000**	**Total €'000**
Fair value	25,445	263,607	289,052
Increase in discount rate by 25bps	25,289	260,937	286,226
Value sensitivity	**(156)**	**(2,670)**	**(2,826)**

For the year ended 31 December 2015:

	Italian Loan Pools (1-15) €'000	**doBank €'000**	**Total €'000**
Fair value	27,621	255,668	283,289
Increase in discount rate by 25bps	27,450	252,976	280,426
Value sensitivity	**(171)**	**(2,692)**	**(2,863)**

The investments in joint ventures and associates have been included in the sensitivity analysis above as the net assets are equal to the fair value of the underlying loan portfolios.

8.5. Real estate units held at fair value through profit or loss

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("UIU" / "Fund Investment I") for a total consideration of €21.3 million. The acquisition price per unit was €1,787.50. The holding represents 7.46% of the total units issued by UIU with the purchase settled in cash. The units are listed on the Italian Stock Exchange. Fund Investment I has a maturity of 31 December 2017. These units are held at fair value though profit and loss.

In March 2016, the Group received a distribution of €125 per unit for a total amount of €1.5 million (March 2015: €750 per unit for a total amount of €8.9 million), which was made to distribute the remaining sales proceeds from completion of asset sales in 2015.

The fair value of the investment is determined by the share price of UIU at the reporting date. As at 31 March 2016, the share price was €1,130 (31 March 2015: €1,257) . The movement in the investment is as follows:

	Fund Investment I 2016 €'000	Fund Investment I 2015 €'000
Balance as at 1 January	14,339	21,890
Distributions received	(1,491)	(8,947)
Increase in fair value (unrealised)	632	2,052
Balance as at 31 March	**13,480**	**14,995**

9. JOINT VENTURE INVESTMENT IN ITALIAN REAL ESTATE FUND UNITS

On 22 July 2014, the Group entered into a limited partnership called CF Aula SCS. The Group acquired a 50% equity interest in the partnership and the other partner is an affiliate of the Manager who also has a 50% equity interest. The partnership has acquired 100% of the units in Torre Real Estate Fund III Value Added – Sub fund A ("Fund Investment II") which is managed by Torre SGR, an affiliate of the Manager. The fund has invested in two office buildings in Rome that are being redeveloped into high end residential properties for resale with the expectation the units will be completed and fully sold by the end of 2017. The first property (Via Bertoloni) is currently under construction and will comprise of both new residential and retail units. The units will be sold on an individual basis. The second office building (Via Bolzano) is being converted into residential units which will be sold on an individual basis.

The Group's investment in Fund Investment II is accounted for as a joint venture using the equity method. The Group owns 50% of the partnership interest and the operating and financing decisions require joint agreement; hence it is subject to joint control.

To date the Group has invested €15.4 million and received a repayment of capital of €3.3 million in 2015.

During the period, the Group has recognised post tax losses of €1.6 million in relation to the running and set up costs of Fund Investment II from inception to date. Under IFRS, the Group is not permitted to recognise revalution gains on the development properties as they are to be carried at the lower of cost and net realisable value. The Group expects the majority of the properties to be sold towards the end of the project and the corresponding realised gains to be recognised at that time.

The Group's fair value assessment of its share in Fund Investment II is €15.2 million at 31 December 2015. An independent valuer has deemed this valuation to be reasonable.

The following table summarises the financial information of the Joint Venture as at 31 March 2016:

	Fund Investment II 2016 €'000
Non-current assets	21,362
Current assets	4
Cash	144
Current liabilities	(380)
Net assets	**21,130**
Group's share of net assets	**10,565**

	Fund Investment II €'000
Post tax loss for period	(305)
Group's share of post tax loss	**(153)**

For the three months ended 31 March 2016, the total loss of €1.6 million recognised (refer above) includes the Group's share of post tax losses of €0.2 million for the period.

10. ASSOCIATE INVESTMENT IN ITALIAN REAL ESTATE FUND UNITS

On 16 September 2015 the Group acquired 27.1% of the membership interests in an unlisted Italian mixed-use real estate fund ("Fund Investment III") for a total cost of €10.7 million. The fund is a close-ended real estate fund made up of 14 mixed use office and light industrial assets, located in Italy and leased on a long term basis to a prime tenant.

The Group's investment in Fund Investment III is accounted for as an "Investment in Associate" due to its 27.1% shareholding and its ability to appoint 1 of the 5 directors to the advisory board.

The investment into the associate was made in two tranches. In 2015, the value of the investment was recorded in the accounts based on the higher market value paid on the second tranche of shares. As a result of the revalution of the first tranche of shares, a gain of €4.8 million was recognised against associate income and the investment in the associate was valued at €15.4 million.

During the period, the Group recognised a revaluation gain of €3.8 million representing its share of an increase in the valuation of the underlying assets as a result of lease extensions that were signed last year. As at 31 March 2016, the investment in the associate is valued at €19.2 million.

The Group received a distribution of €0.4m from the fund in February 2016.

The following table summarises the financial information of the associate as at 31 December 2015, being the latest available financial information:

	Fund Investment III €'000
Non-current assets	227,960
Current assets	6,251
Non-current liabilities	(126,720)
Current liabilities	(3,134)
Net assets	104,357
Adjustment to net assets to reflect the company's estimate of fair value	(33,583)
Adjusted net assets	**70,774**
Group's share of adjusted net assets	**19,194**
Revenue	15,301
Revaluation gains	11,920
Interest Expense	(5,897)
Other expenses	(1,882)
Post tax profit for the year	**19,442**
Group's share of post tax profit	**5,273**

The fund's post tax profits disclosed above relates to the year ended 31 December 2015 and therefore does not equate to that recorded in the Group's financial statements. For the three months ended 31 March 2016, the Group's share of the post tax profit of €4.2 million includes a fair value gain of €3.8 million (refer above) and the distribution of €0.4 million.

11. OTHER ASSETS

	As at 31 March 2016 (Unaudited) €'000	**As at 31 December 2015 €'000**
Tenant incentives and leasing commissions	2,115	2,917
Service charge receivable	2,918	2,684
Proceeds receivable from the disposal of investment properties	5,034	5,358
Interest receivable	198	185
Rent receivable	962	877
Prepaid expenses	660	617
Other accounts receivable	6,033	5,439
Other assets	972	-
Total other assets	**18,892**	**18,077**

Service charge and rent receivables are net of a provision for doubtful debts of €2.8 million (31 December 2015: €3.1 million).

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

12. DERIVATIVE ASSETS

Derivative assets represent the fair value of foreign currency swaps.

During 2007, a subsidiary (CDO V) 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 denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling 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 gain of €1.7 million (31 December 2015: loss of €5.7 million) is recorded in the income statement.

	As at 31 March 2016 (Unaudited) €'000	**As at 31 December 2015 €'000**
Foreign currency swaps (1) - Pound Sterling	4,272	2,614
Total derivative assets	**4,272**	**2,614**

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

13. DISCONTINUED OPERATIONS

The Group is committed to a plan to dispose of its remaining interest in its Legacy German real estate assets by the end of 2016. Accordingly the results of the Legacy property business have been classified as discontinued operations and are presented as follows:

	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Operating income		
Rental income	8,168	16,632
Service charge income	1,595	2,677
Decrease in fair value of investment properties	(679)	(5,984)
Gain on deconsolidation of subsidiary undertakings	2,000	4,713
Total operating income	**11,084**	**18,038**
Operating expenses		
Interest expense	3,824	9,005
Service charge expenses	1,595	3,031
Property operating expenses	2,946	5,752
Other operating expenses	1,213	3,629
Total operating expenses	**9,578**	**21,417**
Net operating profit / (loss) before taxation	**1,506**	**(3,379)**
Taxation expense / (credit) - current	727	(2,274)
Taxation expense / (credit) - deferred	69	(558)
Total tax expense / (credit)	**796**	**(2,832)**
Profit / (loss) after taxation for the year	**710**	**(547)**

Cash flows from discontinued operations:

Discontinued operations	Three months ended 31 March 2016 €'000	Three months ended 31 March 2015 €'000
Operating activities	33,535	81,745
Financing activities	(41,398)	(58,983)
Net cash flow generated (used in) / from discontinued operations	**(7,863)**	**22,762**

14. INVESTMENT PROPERTY

	As at 31 March 2016 (Unaudited) €'000	As at 31 December 2015 €'000
Investment property held for sale	359,758	393,810
Tenant incentives and leasing commissions (included in other assets - note 11)	2,115	2,917
Total investment property	**361,873**	**396,727**

As at 31 March 2016, the investment property held for sale is financed by approximately €368.7 million of bank borrowings (31 December 2015: approximately €409.6 million). During the three months ended 31 March 2016, the Group has sold 12 (31 December 2015: 86) properties for €35.1 million (31 December 2015: €356.3 million) versus a carrying value, at date of sale, of €35.1 million (31 December 2015: €358.3 million).

The table below shows the items classified under investment property held for sale in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions included within other assets) as at 31 March 2016:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2016	364,752	31,975	396,727
Capital expenditures	685	-	685
Tenant incentives and leasing commissions	(165)	-	(165)
Free rent	(54)	-	(54)
Disposals	(34,135)	(747)	(34,882)
Increase in minimum payments under head lease	-	241	241
Decrease in fair value - realised	(412)	-	(412)
Decrease in fair value - unrealised	(267)	-	(267)
Balance at 31 March 2016	**330,404**	**31,469**	**361,873**

As at 31 December 2015:	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2015	1,038,659	65,256	1,103,915
Capital expenditures	12,033	-	12,033
Tenant incentives and leasing commissions	(1,621)	-	(1,621)
Free rent	740	-	740
Disposals	(355,404)	(859)	(356,263)
Disposal of the Retail Portfolios	(244,841)	(33,974)	(278,815)
Decrease in minimum payments under head lease	-	(402)	(402)
Increase in fair value - realised	20,617	-	20,617
(Decrease) / increase in fair value - unrealised	(105,431)	1,954	(103,477)
Balance at 31 December 2015	**364,752**	**31,975**	**396,727**

Investment properties held for sale are stated at fair value which has been determined based on 31 December 2015 valuations performed by external valuers adjusted for asset sales under binding contracts. The external valuers hold a recognised and relevant professional qualification and have recent experience in the location and category of investment being valued. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgment and not only rely on historical transactional comparisons. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, yield, relettability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

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

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 March 2016 (Unaudited) €'000	As at 31 December 2015 €'000
Investment property valuations	344,949	380,044
Minimum payments under head leases separately included in liabilities on the balance sheet	16,924	16,683
Balance sheet carrying value of investment property	**361,873**	**396,727**

31 March 2016 (unaudited)	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	14.56	8.53	11.45
Market rent per sqm per month (€)	16.78	8.80	12.67
Average net initial yield	8.1%	7.8%	8.0%
Vacancy rate	41.4%	11.8%	30.5%

31 December 2015	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	13.45	8.39	11.17
Market rent per sqm per month (€)	12.17	8.80	10.65
Average net initial yield	8.0%	7.7%	7.9%
Vacancy rate	26.1%	10.9%	21.0%

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumption, being the yield.

31 March 2016 (€'million and unaudited)	**Office**	**Retail**	**Total**
Market value	217	128	345
Increase in yield of 25 bps	211	124	335
Value sensitivity	**(6)**	**(4)**	**(10)**

31 December 2015 (€'million)	**Office**	**Retail**	**Total**
Market value	252	128	380
Increase in yield of 25 bps	245	124	369
Value sensitivity	**(7)**	**(4)**	**(11)**

Additional information

The table below provides additional information for various portfolios within the Group at 31 March 2016:

Portfolio	Property valuation (3) €'000	Term financing (face amount) €'000	Other (liabilities)/ assets (4) €'000	Net assets / (liabilities) (4) €'000	Net operating income (NOI) (5) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures (6) €'000
Wave	549	-	(5,952)	(5,403)	22	4.0%	55.7%	2
Truss	87,490	82,730	(189)	4,571	6,236	7.1%	90.5%	(17)
Total portfolio excluding Drive and Belfry	**88,039**	**82,730**	**(6,141)**	**(832)**	**6,258**	**7.1%**	**90.3%**	**(15)**
Drive (1)	216,610	236,459	(43,186)	(63,035)	14,692	6.8%	58.6%	1,819
Belfry (1)	40,300	51,969	2,456	(9,213)	3,467	8.6%	83.1%	49
Total portfolio (held for sale)	**344,949**	**371,158**	**(46,871)**	**(73,080)**	**24,417**	**7.8%**	**77.5%**	**1,853**

The table below provides additional information for various portfolios within the Group at 31 December 2015:

Portfolio	Property valuation (3) €'000	Term financing (face amount) €'000	Other (liabilities)/ assets (4) €'000	Net assets / (liabilities) (4) €'000	Net operating income (NOI) (5) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures (6) €'000
Wave	549	-	(5,022)	(4,473)	22	4.0%	55.7%	2,394
Truss	87,490	82,730	(546)	4,214	6,486	7.4%	91.6%	194
Total portfolio excluding Drive, Belfry and Zama	**88,039**	**82,730**	**(5,568)**	**(259)**	**6,508**	**7.4%**	**91.4%**	**2,588**
Drive (1)	224,805	261,219	(25,975)	(62,389)	17,148	7.6%	67.6%	3,999
Belfry (1)	40,300	51,969	2,077	(9,592)	3,601	8.9%	82.9%	15
Zama (2)	26,900	24,911	2,011	4,000	2,364	8.8%	94.6%	348
Total portfolio (held for sale)	**380,044**	**420,829**	**(27,455)**	**(68,240)**	**29,621**	**7.8%**	**77.5%**	**6,950**

(1) Drive and Belfry portfolios have negative net asset value and have been separated, as the financing is non-recourse to the Company and not callable as a result of any changes in the fair value of the assets.

(2) The sale of the Zama portfolio was completed at the end of March 2016.

(3) Property valuation excludes the leasehold gross-ups of €16.9 million (31 December 2015: €16.7 million).

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

(5) Net operating income is calculated after deducting €0.1 million (31 December 2015: €0.3 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.

(6) Capitalised expenditures represent actual expenditure for the period.

15. CDO BONDS PAYABLE

As at 31 March 2016 (unaudited):

	Class	Rating [(1)]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years) [(2)]
CDO V	D1, D2, D3, E1, E2	C/C/C/ C/C	76,473	76,453	2.14%	2.08%	1.7
Total			**76,473**	**76,453**	**2.14%**	**2.08%**	**1.7**

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

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

As at 31 December 2015:

	Class	Rating [(1)]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years) [(2)]
CDO V	C2, D1, D2, D3, E1, E2	CCC/ C/C/C/ C/C	88,950	88,904	2.10%	1.98%	1.9
Total			**88,950**	**88,904**	**2.10%**	**1.98%**	**1.9**

In the three months ending 31 March 2015, Eurocastle Funding Limited purchased €5.1 million of Duncannon Class C1 notes at a price of 90% of nominal resulting in a gain to the Group of €0.5 million.

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

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

16. BANK BORROWINGS

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month raised**	**As at 31 March 2016 (Unaudited)**	**As at 31 December 2015**	**As at 31 March 2016 (Unaudited)**	**As at 31 December 2015**	**Weighted average effective interest rate**	**Weighted average funding cash coupon**	**Maturity**
Investment Property								
Truss [(1)]	Dec 2005	82,730	82,730	82,730	82,720	4.85%	4.85%	May 2016
Zama [(2)]	Feb 2007	-	24,911	-	24,911	0.53%	0.53%	May 2016
Total investment property excluding Drive and Belfry		**82,730**	**107,641**	**82,730**	**107,631**	**4.85%**	**4.85%**	
Drive - Junior [(3)]	Feb 2006	236,459	261,219	234,048	249,976	4.20%	3.00%	Jan 2017
Belfry [(4)]	Aug 2005	51,969	51,969	51,969	51,969	3.25%	3.25%	Oct 2016
Total term financing		**371,158**	**420,829**	**368,747**	**409,576**	**4.21%**	**3.45%**	

(1) The Truss facility matured in February 2016 and remains the subject of rolling short term standstills pending documentation of a short term extension.

(2) The Zama facility was repaid following the sale of the portfolio in March 2016.

(3) The Junior loan maturity of January 2016 was recently extended to January 2017 with an interim amortisation target in July 2016 of €180 million.

(4) As part of the terms of the deferral agreement signed in 2015, the facility is subject to certain interim targets being met.

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.

17. TRADE AND OTHER PAYABLES

	As at 31 March 2016 (Unaudited) €'000	As at 31 December 2015 €'000
Security deposit	245	385
Interest payable	37,481	35,765
Due to Manager (refer note 23)	3,510	3,387
Capital expenditure accruals	16,369	17,080
Accrued expenses and other payables	39,286	40,721
Total trade and other payables	**96,891**	**97,338**

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

18. PROFIT PER SHARE

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

Diluted earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period.

The Group's potential ordinary shares during the period were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements (refer note 21).

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

	As at 31 March 2016 (Unaudited)*	As at 31 December 2015
Weighted average number of ordinary shares	72,401,494	59,544,817
Dilutive effect of ordinary share options	15,319	33,264
Weighted average number of ordinary shares - dilutive	**72,416,813**	**59,578,081**

*****weighted average shares for the three months ended 31 March 2016

19. SHARE CAPITAL AND RESERVES

As at 31 March 2016, there were 72,401,494 shares (31 December 2015: 72,401,494) issued and outstanding. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares
Balance at 1 January 2015	32,635,502
Issued on 29 April 2015 at a price of €7.85 per share	39,762,992
Issued to the Directors as part of their in-place compensation arrangements for €nil consideration	3,000
Balance at 31 December 2015 and 31 March 2016	**72,401,494**

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 2006, May 2013 and April 2015 (refer note 21).

Hedging reserves
Hedging reserves represent cumulative unrealised losses on hedge instruments with respect to the investment property finance.

Net unrealised loss on reclassified loans and receivables
The reserve represents the remaining unrealised losses on reclassified loans and receivables (refer note 7).

Accumulated loss
The reserve represents the cumulative gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

20. FINANCIAL INSTRUMENTS

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

The Group's legacy debt investments are generally financed long-term, with 84.1% 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 Italian investments have been funded through equity without any third party debt.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables that are due within one year as at 31 March 2016:

Type	Total outstanding at 31 March 2016 (Unaudited) €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	236,023	236,023	-	-
Interest receivable [(1)]	198	559	116	-
Loans and receivables	55,498	5,292	50,206	-
Italian Investments held at fair value through profit or loss [(2)]	303,343	50,102	148,817	104,424
Derivative assets	26,813	-	26,813	-
Total assets	**621,875**	**291,976**	**225,952**	**104,424**
Liabilities				
Interest payable [(1)]	37,481	37,481	1,052	-
CDO bonds payable	76,453	-	-	76,453
Bank borrowings	368,747	368,747	-	-
Finance leases payable [(3)]	27,879	722	2,928	24,229
Derivative liabilities	22,541	-	22,541	-
Total liabilities	**533,101**	**406,950**	**26,521**	**100,682**

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

(2) The investments in NPLs/PLs held by associates and joint ventures have been included within Italian investments to reflect the underlying fair value of the instruments held by these entities.

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

As at 31 December 2015:

Type	Total outstanding at 31 December 2015 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	250,154	250,154	-	-
Interest receivable [(1)]	185	595	124	-
Loans and receivables	70,259	17,684	52,575	-
Italian Investments held at fair value through profit or loss [(2)]	298,983	26,848	156,827	115,308
Derivative assets	26,858	-	26,858	-
Total assets	**646,439**	**295,281**	**236,384**	**115,308**
Liabilities				
Interest payable [(1)]	35,765	35,765	1,609	-
CDO bonds payable	88,904	-	-	88,904
Bank borrowings	409,576	409,576	-	-
Finance leases payable [(3)]	28,473	746	3,017	24,710
Derivative liabilities	24,244	-	24,244	-
Total liabilities	**586,962**	**446,087**	**28,870**	**113,614**

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

(2) The investments in NPLs/PLs held by associates and joint ventures have been included within Italian investments to reflect the underlying fair value of the instruments held by these entities.

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

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.

	Unaudited as at 31 March 2016 Carrying value €'000	As at 31 December 2015 Carrying value €'000	Unaudited as at 31 March 2016 Fair value €'000	As at 31 December 2015 Fair value €'000
Financial assets				
Cash and cash equivalents	236,023	250,154	236,023	250,154
Loans and receivables	55,498	70,259	29,148	35,493
Italian Investments held at fair value through profit or loss	281,159	275,230	281,159	275,230
Derivative assets	4,272	2,614	4,272	2,614
Financial liabilities				
CDO bonds payable	76,453	88,904	24,450	20,666
Bank borrowings	368,747	409,576	368,747	409,576
Finance lease payable	16,924	16,683	16,924	16,683

The fair value of loans and receivables is based on market prices of the underlying positions at the balance sheet date (level 2).

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

21. SHARE OPTIONS

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 2016	Options issued	Options lapsed	Options remaining at 31 March 2016	Fair value at grant date €'000	Exercise price €	Date of expiration
27 Jan 2006	3,956	-	(3,956)	-	-	3,600.00	27 Jan 2016
27 Jan 2006	6,101	-	(6,101)	-	-	6,000.00	27 Jan 2016
1 Dec 2006	8,829	-	-	8,829	9,400	7,400.00	1 Dec 2016
30 May 2013	1,500,000	-	-	1,500,000	4,968	7.25	15 May 2023
29 April 2015	3,976,299	-	-	3,976,299	4,756	7.85	30 April 2025
Total	**5,495,185**	**-**	**(10,057)**	**5,485,128**	**19,124**		

22. DIVIDENDS PAID AND DECLARED

The following dividends were declared and paid for the three months ended 31 March 2016 (31 March 2015: €4.1 million):

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
10 March 2016	17 March 2016	18 March 2016	29 April 2016	€ 0.125	9,050
Total					**9,050**

23. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003. Pursuant to the Management Agreement, the Manager, under the supervision of the 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. Since 1 January 2015 the management fee paid to the Manager equal to (i) 1.5% of the Group's Adjusted NAV reported quarterly, and (ii) 0.75% of the share of Adjusted NAV relating to net corporate cash. Furthermore, the Manager's entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in its New Investments and calculated against the Normalised FFO for New Investments after allocated corporate costs. Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative.

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.

The Manager is deemed to be the key employee for reporting purposes. The total compensation recharged in the period to the Company is €1.1 million (31 December 2015: €5.6 million).

When it was signed in 2003 the Management Agreement provided for an initial term of ten years with automatic three year extensions, subject to certain termination rights. On 25 April 2016, the Company and the Manager entered into an amendment to the Management Agreement to include a one-off interim renewal in August 2017 for a period of two years, following which it will revert back to three year extensions. 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 above) will continue to be payable to the Manager post-termination.

At 31 March 2016, management fees, incentive fees and expense reimbursements of approximately €3.5 million (31 December 2015: €3.5 million) were due to the Manager. For the three months ended 31 March 2016 management fees of €1.6 million, €nil million of which relates to discontinued operations (31 December 2015: €4.6 million, of which €0.5million relates to discontinued operations), €1.0 million of incentive fees (31 December 2015: €2.6 million), and expense reimbursements of €0.9 million, €0.5 million of which relates to discontinued operations (31 December 2015: €6.0 million, of which €4.4 million relates to discontinued operations) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.1 million (31 December 2015: €0.1 million) payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondiario S.p.A. (“Italfondiario”) which is majority owned by an affiliate of the Manager. The terms of the agreements have been approved by the Independent Directors. Italfondiario provides portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the three months ended 31 March 2016 was €0.5 million (three months ended 31 March 2015: €0.3 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 March 2016.

The Group's investments in Italian loans are originated and underwritten on behalf of the Group by the Manager, with the assistance of external consultants and Italfondiario. During the three months ended 31 March 2016 the Group incurred due diligence fees of €nil million on unsuccessful deals that related to work undertaken by Italfondiario.

The Fortress Italian NPL Opportunities Fund LLC, which manages pools 6 - 15 is managed by an affiliate of the Manager. The total fee expense for the three months ended 31 March 2016 is €nil million which is set-off against the Group Management Fee payable to the Manager.

The Group's non controlling interest in the UIU real-estate fund (refer note 8.5) along with its joint venture investment in Fund Investment II are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total fee expense, across both these funds, for the three months ended 31 March 2016 was €0.4 million.

24. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group is organised into three business units and conducts business through four primary segments: debt investments (relating to the Irish entities that it consolidates under IFRS 10), Italian investments, doBank and the discontinued operations related to the German investment properties. The debt investments consist of investments in European real estate related debt. The Italian Investments are currently made up of non-performing and performing loan portfolios along with real estate fund units. doBank is made up of a non-performing loan portfolio and a servicing business while the discontinued operations segment includes the Group's German property portfolio.

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

The discontinued operations segment relates to investment properties which mainly derives its income primarily from rental income and service charge income. The prior period has been restated to provide comparatives for this segment.

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

The doBank segment derives its income from dividends.

The unallocated segment relates to the overall parent company and covers all costs associated with running that entity.

Segment assets for the Italian investments represent the loan portfolios and real estate fund units. Segment assets for doBank represents the servicing business and its loan portfolio. Segment assets for the debt investment segment include available-for-sale securities and loans and receivables. Segment assets for the discountinued operations segment include investment properties (including investment properties available-for-sale). Segment assets for the unallocated segment relates

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:

Three months ended 31 March 2016 (unaudited)	**European Real Estate Debt €'000**	**Italian Investments and Non-controlling Interest €'000**	**doBank €'000**	**Unallocated €'000**	**Total Eurocastle €'000**	**Discontinued Operations €'000**	**Total Eurocastle €'000**
Revenue [1]	268	-	52	22	342	9,763	10,105
Impairment losses	(798)	-	-	-	(798)	-	(798)
Other operating income	390	4,043	7,933	-	12,366	1,321	13,687
Total operating (loss) / income	**(140)**	**4,043**	**7,985**	**22**	**11,910**	**11,084**	**22,994**
Interest expense	(761)	-	-	-	(761)	(3,824)	(4,585)
Other operating expense	(186)	(42)	(9)	(3,412)	(3,649)	(5,754)	(9,403)
Total operating expenses	**(947)**	**(42)**	**(9)**	**(3,412)**	**(4,410)**	**(9,578)**	**(13,988)**
Net operating (loss) / profit	**(1,087)**	**4,001**	**7,976**	**(3,390)**	**7,500**	**1,506**	**9,006**
Taxation expense	(1)	(7)	-	-	(8)	(796)	(804)
Net (loss) / income after taxation	**(1,088)**	**3,994**	**7,976**	**(3,390)**	**7,492**	**710**	**8,202**
Non controlling interest	-	(28)	-	-	(28)	-	(28)
Net (loss) / income after non controlling interest	**(1,088)**	**3,966**	**7,976**	**(3,390)**	**7,464**	**710**	**8,174**
Revaluation (gains) / losses	-	(609)	598	-	(11)	974	963
Deferred tax	-	-	-	-	-	69	69
Sales fee	-	-	-	-	-	715	715
Impairment reversal on debt	(122)	-	-		(122)	-	(122)
Other	1,175	23	(43)	(43)	1,112	(369)	743
Normalised funds from operations	**(35)**	**3,380**	**8,531**	**(3,433)**	**8,443**	**2,099**	**10,542**

(1) Included within revenue income is interest income of €0.3 million within the debt investment segment and €8.2 million of rental income and €1.6 million of service charge income within the discontinued operations segment.

Normalised funds from operations ("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 and foreign exchange movements. On the Company's New Investments, income is recognised on an effective yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns. 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.

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

Three months ended 31 March 2015 (unaudited)	**European Real Estate Debt €'000**	**Italian Investments and Non-controlling Interest €'000**	**Unallocated €'000**	**Total Eurocastle €'000**	**Discontinued Operations €'000**	**Total Eurocastle €'000**
Revenue [(1)]	590	105	-	695	19,309	20,004
Impairment losses	292	-	-	292	-	292
Other operating income	2,030	3,519	(913)	4,636	(1,271)	3,365
Total operating income / (loss)	**2,912**	**3,624**	**(913)**	**5,623**	**18,038**	**23,661**
Interest expense	(1,104)	-	-	(1,104)	(9,005)	(10,109)
Other operating expense	(66)	(66)	(2,191)	(2,323)	(12,412)	(14,735)
Total operating expenses	**(1,170)**	**(66)**	**(2,191)**	**(3,427)**	**(21,417)**	**(24,844)**
Net operating profit / (loss)	**1,742**	**3,558**	**(3,104)**	**2,196**	**(3,379)**	**(1,183)**
Taxation (expense) / credit	(1)	(9)	-	(10)	2,832	2,822
Net profit / (loss) after taxation	**1,741**	**3,549**	**(3,104)**	**2,186**	**(547)**	**1,639**
Non controlling interest	-	(188)	-	(188)	-	(188)
Net profit / (loss) after non controlling interest	**1,741**	**3,361**	**(3,104)**	**1,998**	**(547)**	**1,451**
Revaluation (gains) / losses	618	(276)	-	342	24,811	25,153
Realised gains on paydowns and sales	(413)	-	-	(413)	(16,353)	(16,766)
Gain on deconsolidation	-	-	-	-	(4,713)	(4,713)
Impairment losses on debt	(292)	-	-	(292)	-	(292)
Other	(1,613)	-	912	(701)	(560)	(1,261)
Normalised funds from operations	**41**	**3,085**	**(2,192)**	**934**	**2,638**	**3,572**

(1) Included within revenue income is interest income of €0.6 million within the debt investment segment and €16.6 million of rental income and €2.7 million of service charge income within the discontinued operations segment.

Segmental Balance Sheet:

As at 31 March 2016	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Total assets	62,949	75,012	264,142	200,644	602,747	404,800	1,007,547
Total liabilities	(76,948)	(3,892)	(4)	(12,693)	(93,537)	(466,229)	(559,766)
Segment net (liabilities) / assets	**(13,999)**	**71,120**	**264,138**	**187,951**	**509,210**	**(61,429)**	**447,781**
Tax liabilities	-	(9)	(1)	-	(10)	(9,527)	(9,537)
Non-controlling interest	-	(970)	-	-	(970)	-	(970)
Net (liabilities) / assets	**(13,999)**	**70,141**	**264,137**	**187,951**	**508,230**	**(70,956)**	**437,274**

As at 31 December 2015	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Total assets	76,114	77,917	256,162	204,350	614,543	446,868	1,061,411
Total liabilities	(89,336)	(5,754)	(1)	(14,534)	(109,625)	(503,557)	(613,182)
Segment net (liabilities) / assets	**(13,222)**	**72,163**	**256,161**	**189,816**	**504,918**	**(56,689)**	**448,229**
Tax liabilities	-	(6)	(1)	-	(7)	(8,918)	(8,925)
Non-controlling interest	-	(1,335)	-	-	(1,335)	-	(1,335)
Net (liabilities) / assets	**(13,222)**	**70,822**	**256,160**	**189,816**	**503,576**	**(65,607)**	**437,969**

Segmental Cashflows:

As at 31 March 2016	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Cashflows from operating activities	13,165	5,936	43	(3,390)	15,754	33,535	49,289
Cashflows from financing activities	(12,579)	(393)	-	(9,050)	(22,022)	(41,398)	(63,420)
Net increase / (decrease) in cash and cash equivalents	**586**	**5,543**	**43**	**(12,440)**	**(6,268)**	**(7,863)**	**(14,131)**

As at 31 December 2015	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Cashflows from operating activities	114,100	8,069	(246,528)	(11,070)	(135,429)	347,503	212,074
Cashflows from financing activities	(130,242)	(1,828)	-	278,097	146,027	(254,482)	(108,455)
Net (decrease) / increase in cash and cash equivalents	**(16,142)**	**6,241**	**(246,528)**	**267,027**	**10,598**	**93,021**	**103,619**

25. INVESTMENT IN SUBIDIARIES

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

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

Luxembourg:
Zama (Windhoek) S.à r.l
Drive S.à r.l
Italy Investment S.à r.l
Verona Holdco S.à r.l

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

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

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

26. SUBSEQUENT EVENTS

On the 10 May 2016, Eurocastle invested a further €6.0 million into an unlisted real estate fund ("Fund Investment IV") transaction bringing the Company's total equity investment to €7.0 million. On completion, Eurocastle's share of the implied net asset value of this fund was €14.2 million indicating an acquisition at approximately 50% discount to implied NAV.

In May 2016, the Company invested €5.0 million to acquire an interest mezzanine tranches of a securitisation of senior Italian real estate fund debt at a significant discount to expected recovery.

In May 2016, Eurocastle received €6.8 million, or 60% of its original investment in Fund Investment III. The distribution followed the sale of an asset which represented 26% of the fund's total assets, with the sale price representing a 5% premium to 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.

Subsequent to 31 March 2016, a further 4 properties are under binding contracts for total sales proceeds of €10.1 million, generating no cash after repayment of asset level financing. All 4 properties are within the Drive portfolio and will generate a sales fee of €0.4 million.

The Group also closed on 15 properties within the Drive portfolio and the last remaining property within the Wave portfolio, which were signed prior to 31 March 2016, generating total sales proceeds of €29.0 million. The sale of the properties within the Drive portfolio did not generate any cash after repayment of asset level financing, but will generate sales fees of €1.0 million to Eurocastle. The sale of the property in Wave realised cash to the Group of €0.5 million.

27. COMMITMENTS

As at 31 March 2016, the Company had entered into a letter of comfort in relation to the disposal of an asset in the Mars Fixed II portfolio. This endures 12 months as at 31 March 2016 and has maximum exposure at the reporting date of €3.6 million.

As at 31 March 2016, the Company had entered into a letter of comfort as part of the terms of the Wave portfolio disposal. This endures 11 months as at 31 March 2016 and the maximum exposure at the reporting date is €10.4 million.

In March 2015, as part of the terms of the sale of the Superstella, Tannenberg and Turret portfolios as is customary for such transactions in Germany, the Company agreed to provide certain warranties to the buyer. With the exception of those related to tax and title, these warranties are capped at €21.9 million and endure for a remaining 12 months as at 31 March 2016.