EUROCASTLE

INVESTMENT LIMITED

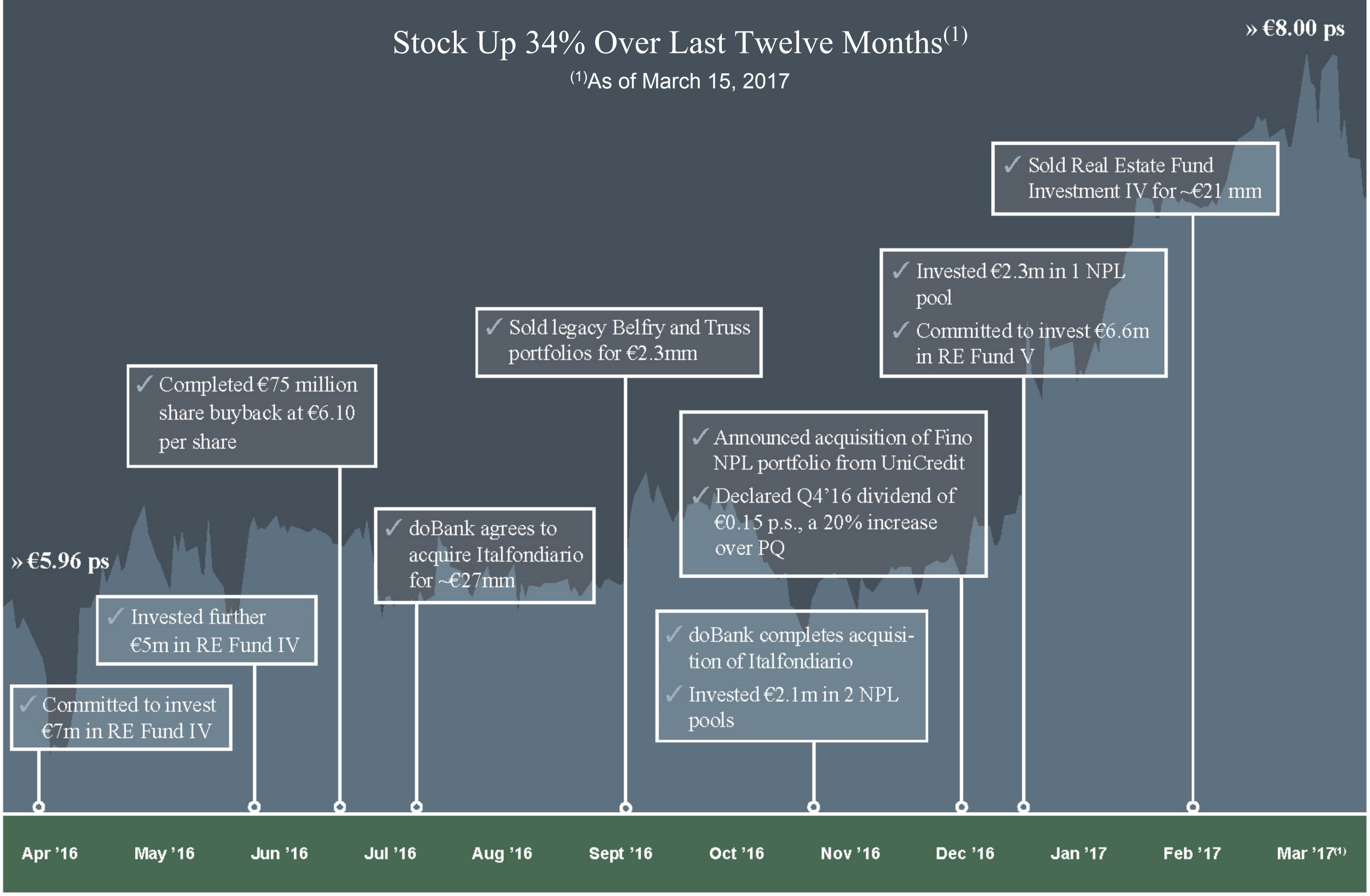
2016 Annual Report

Eurocastle Investment Limited is a publicly traded closed-ended investment company that focuses on investing in Italian performing and non-performing loans, Italian NPL servicing platforms and other real estate related assets primarily in Italy.

The Company is Euro denominated and is listed on Euronext Amsterdam under the symbol “ECT”. Eurocastle is managed by an affiliate of Fortress Investment Group LLC, a leading global investment manager. For more information regarding Eurocastle Investment Limited and to be added to our email distribution list, please visit www.eurocastleinv.com.

Stock Up 34% Over Last Twelve Months[1]

[1]As of March 15, 2017



LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

2016 was another very dynamic and productive year for Eurocastle, during which we generated meaningful earnings growth, committed substantially all of our capital to new investments and significantly cleaned up our legacy business. A highlight for the year was our commitment to acquire an interest in the €17.7 billion gross book value (”GBV”) portfolio from UniCredit S.p.A. (Project “FINO”). FINO is the largest NPL transaction in Italy and combined with our acquisition of doBank, cements our position as a leading investor in the Italian NPL market and one of the largest investors in Italian performing and non-performing loans among other public companies. Our share price has responded positively to this and other initiatives, closing the year at a 35% premium to our lowest price in March 2016 and further increasing in 2017.

In addition to focusing on new investments, we succeeded in unwinding our legacy German business, with the sale of all of our German real estate generating proceeds of €14 million[1] and in line with our guidance of €5 to €15 million. The clean-up of the legacy business is an important milestone for the Company which allows us to focus solely on our Italian strategy.

With strong operating cash flows and excess capital from our legacy liquidations, we have looked for opportunities to support liquidity in the stock and return capital to our shareholders. In June 2016, using surplus cash on our balance sheet arising primarily from our success in disposing of the legacy assets, we repurchased 12.3 million shares at €6.10 per share, returning €75 million to participating shareholders. The share buyback not only provided an additional liquidity option for shareholders, but also enabled the Company to repurchase shares at a meaningful discount to NAV for the benefit of all remaining shareholders. After paying out a steady quarterly dividend of €0.125 per share for 13 consecutive quarters, in Q4 the Board of Directors raised our quarterly dividend by 20% to €0.15 per share. In addition, subsequent to year end, we announced a new policy with the aim of paying out substantially all of our Normalised FFO (”NFFO”) realised in cash and accelerating the return of surplus capital. We believe the new policy balances Eurocastle’s dual goals of taking advantage of compelling new investment opportunities and generating significant distributions to our investors.

doBank Group and Italian Investments Update

2016 was a transformational year for doBank, our largest investment. doBank, which is owned 50% by Eurocastle, heads the largest independent servicing group in Italy with over €81 billion GBV of loans under management, more than 6x larger than its nearest competitor. Led by its new CEO, Andrea Mangoni, doBank set forth an ambitious agenda to strengthen the company’s operations, increase loan collections and develop new revenue sources. In October 2016, doBank completed a strategic acquisition of Italfondiario S.p.A., at the time Italy’s second largest independent NPL servicer. The combined company (the “doBank Group”) is the highest rated 3rd party NPL servicing group in Italy with a wide network of over 3,000 employees, lawyers and external consultants across 24 offices.

The doBank Group has already seen benefits from these initiatives. Loan collections for the year of €1.7 billion exceeded budget, contributing to a combined EBITDA of €61.6 million on a full year basis[2]. Subsequently, in March 2017, the board of doBank approved a €52.3 million dividend, which is expected to be paid in May. doBank is pursuing several projects to further integrate the two platforms, and expects to realise additional cost savings through these initiatives and ongoing enhancements to the asset management process. The combination of the two servicing platforms, along with the new management team and numerous initiatives to streamline the doBank Group’s operations, contributed to a 68% increase in the carrying value of the investment in 2016.

Our other investments also continue to perform ahead of expectations. The NPL portfolios in aggregate have returned cash flow to date 17% ahead of plan in terms of pace and, for those loans that have been resolved in full, 70% above the amount projected. Cash flows from these investments on a running basis also remain strong with €28.7 million, or €0.43 per share, generated in 2016, equivalent to 23% of their carrying value as at the end of the prior year.

In the first quarter of 2017, we sold our interest in Real Estate Fund Investment III for €20.9 million, a 2.7x multiple and 136% IRR on our original investment, two years ahead of our targeted exit date - an excellent result and exactly our goal for this type of investment. In December, we committed approximately €7 million to a second investment in an Italian Redevelopment Fund.

[1] *In 2016 collected €11.6 million of proceeds, expect additional €2.4 million once all assets under binding sale agreements close.*

[2] *Unaudited management data. Consolidated EBITDA for doBank, Italfondiario and their subsidiaries pro forma for the full year 2016. Consolidated 2016 EBITDA in accordance with IFRS for the doBank Group is €58.1 million reflecting the EBITDA generated from Italfondiario and its subsidiaries from the date of acquisition in October 2016.*

FINANCIAL RESULTS

Eurocastle's Adjusted NAV at the end of 2016 was €550.6 million or €9.16 per share. This represents an increase of €1.81 per share, or 25% for the year, primarily driven by the €1.62 per share increase from the valuation of our investment in the doBank Group and €0.25 per share of accretion from the share repurchase.

From an operating perspective, NFFO for the year was €46.0 million, or €0.70 per share, an increase of €0.41 per share from 2015 reflecting the first full year of ownership of the doBank Group. We continued to deliver on our promise to generate strong cash flows from our investments and make distributions to our shareholders. In 2016, our dividends totaled €0.53 per share – €0.38 per share for the first three quarters and €0.15 per share for the fourth quarter. After raising the quarterly dividend, our dividend payout ratio was 72% of NFFO as of Q4 2016 and will increase to up to 100% of NFFO realised in cash following the recent policy change.

OUTLOOK FOR 2017

Although there were a few notable transactions in 2016, the Italian banking sector continues to be weighed down by nearly €360 billion GBV of sub and non-performing loan exposure, as many banks struggle to recognise the losses associated with large scale NPL sales while complying with their Tier 1 capital requirements. During the year, the Italian Government implemented a series of measures to improve the current banking situation and help resolve Italy's NPL problem. While the process has been slower than expected, we believe it sets up 2017 to be a more active year from a transaction perspective. As banks look for feasible alternatives for addressing their NPL overhang, the NPL market is likely to be further bifurcated between (i) smaller, more competitive "plain vanilla" NPL transactions, and (ii) larger, more complex, structured transactions in which banks are seeking a capital partner that can also provide both NPL underwriting capabilities and servicing expertise. To date, Eurocastle has participated in two of the largest structured NPL transactions in Italy. Given our experience and Eurocastle's ownership of doBank and Italfondiario, we should be particularly well positioned to take on future transactions of this kind.

We have an exciting year ahead of us and on behalf of everyone at Eurocastle, we thank you for your continued support and look forward to updating you on our progress as the year continues to unfold.

Financial Highlights

- ***Normalised FFO***[1] of €46.0 million or €0.70 per share[2] for the full year of which €12.5 million, or €0.21 per share[2] for the fourth quarter of 2016.
  - Before costs, Italian Investments[3] alone generated €55.4 million of Normalised FFO in 2016, resulting in a return on average net invested capital[4] of 17.7%.
- ***Adjusted Net Asset Value***[5] of €550.6 million, or €9.16 per share[2], an increase of €1.81 per share (25%) over the year, reflecting:
  - An increase of €0.36 per share for the first three quarters following valuation increases of Italian Investments, the €75 million share repurchase and dividends of €0.375 per share.
  - An increase of €1.45 per share for the fourth quarter after the dividend of €0.15 per share, following revaluation gains on doBank and Real Estate Fund Investment III.
- ***Annual Dividend*** of €33.1 million, or €0.525 per share reflecting the increased fourth quarter dividend of €0.15 per share.

	FY 2016		FY 2015		Q4 2016		Q3 2016	
	€ million	*€ per share[2]*	*€ million*	*€ per share[2]*	*€ million*	*€ per share[2]*	*€ million*	*€ per share[2]*
Normalised FFO[1]	46.0	*0.70*	17.1	*0.29*	12.5	*0.21*	11.9	*0.20*
Legacy Business[6] Cash Flow Received	11.6	*0.17*	77.8	*1.31*	4.7	*0.07*	2.1	*0.04*
Adjusted NAV[5]	550.6	*9.16*	532.5	*7.35*	550.6	*9.16*	463.5	*7.71*

Business Highlights

- **Capital Activity –** In 2016, the Company deployed substantially all of its available capital through:
  1) A €75 million repurchase of 12.3 million, or 17.0%, of ordinary shares at a price of €6.10 per share increasing Normalised FFO per share by 20%, or €0.03 per share, and NAV per share by 3%, or €0.25 per share;
  2) Investments of €17 million and commitments estimated at up to a further €76 million across six transactions through:
     i. A commitment to acquire, alongside other affiliates of FIG LLC, a significant portion of a €17.7 billion portfolio of Italian non-performing loans from UniCredit S.p.A. in a project known as "FINO". The transaction entails an anticipated equity investment for Eurocastle of between €50 million and €70 million.
     ii. A 25% share of three NPL portfolios with a total combined gross book value ("GBV") of approximately €86 million for €4.4 million.
     iii. A €12.1 million investment in the units and senior debt of a newly established unlisted Italian real estate fund ("RE Fund Investment IV"), set up to restructure and monetise real estate properties owned by an over-levered real estate fund.
     iv. A €6.6 million expected commitment in the Company's second investment in an Italian real estate redevelopment fund ("RE Fund Investment V"). In December 2016, an initial €0.3 million was funded with the majority of the remaining commitment expected to be deployed during 2017.
- **doBank** – In October 2016, doBank (50% owned by Eurocastle) completed its strategic acquisition of Italfondiario S.p.A. ("Italfondiario") to form the largest independent servicing group in Italy (the "doBank Group"), specialising in the credit management and collection of performing and non-performing loans with over €81 billion GBV of loans under management as at 31 December 2016, more than six times larger than its nearest competitor. The companies have since reported a combined EBITDA of €61.6 million[7] for the year ended 31 December 2016. In March 2017, the board of doBank approved a dividend of €52.3 million expected to be paid in May 2017 (of which Eurocastle's share is €26.2 million).
- **Legacy Business** – The Company achieved its goal of fully disposing of the legacy real estate assets in Germany with all assets sold or under binding sales agreement by the end of 2016. This resulted in €11.6 million of proceeds in 2016 with a further €2.4 million to be collected upon closing of those assets under binding agreements. The sales have resulted in a write back of all losses on the relevant legacy real estate portfolios which previously were reported with negative net asset values in the Group's accounts as reported under IFRS. As at 31 December 2016, the Legacy Business has a remaining Adjusted NAV of €0.4 million, or €0.01 per share.

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1 *Normalised FFO ("NFFO") is a non-IFRS measure used to provide additional information regarding the underlying performance of the Company, as outlined in note 30 of the Annual Report.*

2 *Amounts per share are calculated on the following basis for the relevant period: FY 2016 NFFO and Legacy cash flow – 66.1 million of weighted average shares. FY 2016, Q4 2016 and Q3 2016 Adjusted Net Asset Value ("Adjusted NAV") - 60.1 million ordinary shares in issue (net of 6.0 million shares held in treasury). FY 2015 NFFO and Legacy cash flow – 59.5 million of weighted average shares. FY 2015 Adjusted NAV - 72.4 million ordinary shares in issue. Q3 2016 NFFO and Legacy cash flow – 60.1 million of weighted average shares.*

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 investments made (net of any capital returned) over the relevant period.*

5 *Adjusted Net Asset Value excludes the net asset value ("NAV") of those Legacy portfolios with negative NAV whose debt is non-recourse to Eurocastle.*

6 *All investments owned by the Group prior to April 2013.*

7 *Unaudited management data. Consolidated EBITDA for doBank, Italfondiario and their subsidiaries pro forma for the full year 2016. Consolidated 2016 EBITDA in accordance with IFRS for the doBank Group is €58.1 million reflecting the EBITDA generated from Italfondiario and its subsidiaries from the date of acquisition in October 2016.*

Business Highlights Subsequent To 31 December 2016

- **Italian Real Estate Fund Investment III sale** - In February 2017, Eurocastle sold its interest in the units of Real Estate Fund Investment III. The transaction, together with other distributions received in Q1 2017, has resulted in total proceeds of €20.9 million, or €0.35 per share. The units were acquired in September 2015 for a total consideration of €10.7 million. Taking into account €7.8 million of prior distributions from the investment, this represents a total profit of €18.0 million and an IRR of 137%. As at 31 December 2016, the investment's fair value was €19.5 million, or €0.33 per share, reflecting an offer received at the time, an increase of €7.4 million or €0.12 per share to the previous quarter.

New Distribution Policy

- The Company is pleased to announce the adoption of a new policy with the goal of generating substantial liquidity to shareholders by accelerating distributions of Normalised FFO ("NFFO") and surplus capital.
- The policy will see the establishment of a new three part program whereby going forward the Company intends to:
  i. continue to pay a regular quarterly dividend, currently set at €0.15 per share;
  ii. supplement this on a quarterly basis with undistributed NFFO realised in cash; and
  iii. supplement this on a semi-annual basis with 50% of the capital held by the Company at the previous half-year end that has not been invested or designated for investment in an opportunity being actively pursued at the time,

  in each case subject to the applicable legal requirements and reserves for working capital, distributions and expenses.
- The supplemental distributions will take the form considered by the Directors to be in the best interests of the Company at the relevant time, and may be made in any manner available to the Board, including, among others, by way of increased dividends, returns of capital or share buybacks.

Eurocastle Investment Limited ("Eurocastle" or the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle and its subsidiaries (together with Eurocastle, "the Group") 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 primarily on investments in Italian performing and non-performing loans and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy. In addition, in 2016, the Company continued 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 30); (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 historically comprising of German commercial real estate and European real estate related debt:

	Adjusted NAV		Segment Description
	€ million	*€ per share*	
doBank Group[1]	270.1	4.49	*50% share of largest 3rd party loan servicer in Italy servicing €81 billion GBV of loans.*
Italian NPLs[2]	191.5	3.19	*Interests in Romeo NPLs, 18 other NPL pools and FINO commitment.*
Real Estate Funds[3]	74.5	1.24	*Interests in one publically listed and four private Italian real estate funds.*
Italian Investments[4]	**536.1**	**8.92**	***26 active investments***
Net Corporate Cash[5]	14.1	0.23	*Corporate cash net of estimated commitments & accrued corporate expenses.*
Legacy Business[6,7]	0.4	0.01	*Legacy Real Estate sold; last remaining unlevered debt investment sold in Jan-17.*
TOTAL	***550.6***	**9.16**	

1 *The doBank Group comprises i) the doBank and Italfondiario servicing platforms together with their ancillary businesses and ii) 5% of the Romeo NPLs (previously labelled as the doBank NPL portfolio).*

2 *Represents Eurocastle's share of i) 17 Italian NPLs and one performing loan pool, ii) 95% of the Romeo NPLs (previously labelled as the doBank NPL portfolio) and iii) a €60 million commitment relating to the recently announced UniCredit transaction (labelled throughout as "FINO"). Commitment reflects the midpoint of the expected equity requirement of €50 to €70 million and is dependent on the level of interim cash collections from the portfolio.*

3 *Real Estate Funds Adjusted NAV includes €6.3 million of equity relating to the outstanding expected commitment for RE Fund Investment V.*

4 *All investments acquired by the Group since the establishment of its new strategy in April 2013, previously labelled as "New Investments".*

5 *Adjusted NAV of Net Corporate Cash excludes €60 million of equity allocated against the FINO transaction (reflecting the midpoint of the expected equity requirement of €50 to €70 million) and a €6.3 million expected commitment allocated against Real Estate Funds (RE Fund Investment V).*

6 *All investments owned by the Group prior to April 2013.*

7 *Excludes the net asset value of levered Legacy portfolio with negative NAV (CDO V) whose debt is non-recourse to Eurocastle.*

ITALIAN INVESTMENTS

Since May 2013, Eurocastle has invested or committed €420.3 million in its Italian Investments at an average targeted gross yield of approximately 15%. After generating €116.0 million of cash to date, as at 31 December 2016 the portfolio had a remaining Adjusted NAV of €536.1 million comprised of (i) a 50% interest in the doBank Group[1] valued at €270.1 million, (ii) a 50% interest in the Romeo NPL portfolio[2] valued at €100.8 million, (iii) an interest in the recently committed FINO transaction with UniCredit S.p.A. with an estimated equity investment of €50 to €70 million, (iv) investments in 17 other pools of Italian NPLs and one performing loan pool valued at €30.7 million, (v) an interest of €67.9 million in four Italian real estate funds and (vi) an interest of €6.6 million in the recently committed Italian RE Fund Investment V.

The Company generates its cash returns from these investments through recoveries received on the NPL pools, net servicing revenues of the doBank Group and operating and sales cash flows from its real estate fund investments. With the exception of its two real estate redevelopment fund investments, the Group ultimately values these investments at their fair value. Cash flow performance, as well as other factors influencing projected cash flows, therefore plays a key part in the Company's earnings each quarter.

The table below summarises all fully deployed investments and pending commitments since the establishment of its new strategy in April 2013 up to 31 December 2016:

	Equity Invested/ Committed in 2016 *€ million*	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
doBank Investment:	-	246.0	7.3	370.9	6.17	378.2
- doBank Group[1]			*0.3*	*270.1*	*4.49*	*270.4*
- Romeo NPL portfolio[2]			*7.0*	*100.8*	*1.68*	*107.8*
Other Italian NPLs (*18 portfolios*)[3]	4.4	43.4	33.2	30.7	0.51	63.9
Real Estate Funds (*4 funds*)	12.1	60.4	22.5	67.9	1.13	90.4
Other Investments[4]	-	3.9	7.4	-	-	7.4
Fully Deployed Investments	**16.5**	**353.7**	**70.4**	**469.5**	**7.81**	**539.9**
Committed Investments:						
- FINO NPL Transaction[5]	60.0	60.0	-	60.0	1.00	60.0
- RE Fund Investment V[6]	6.6	6.6	-	6.6	0.11	6.6
Total after Commitments	**83.1**	**420.3**	**70.4**	**536.1**	**8.92**	**606.5**

In addition to the cash flows distributed as detailed above, a further €45.6 million has been generated and is currently held at the level of the investment (and therefore included in the Adjusted NAV of the investment), bringing total cash flows generated to date to Eurocastle to €116.0 million and €64.8 million during 2016.

	Cash flows Generated In 2016 *€ million*	Total Cash flows Generated *€ million* (A)	Total Cash flows Distributed To Eurocastle *€ million* (B)	Cash flows Not Distributed and therefore part of NAV *€ million* (A-B)
doBank Investment:	47.8	49.9	7.3	42.6
- doBank Group[1]	*26.2*	*26.2*	*0.3*	*25.9*
- Romeo NPL portfolio[2]	*21.6*	*23.7*	*7.0*	*16.7*
Other Italian NPLs (*18 portfolios*)[3]	7.1	36.2	33.2	3.0
Real Estate Funds (*4 funds*)	9.9	22.5	22.5	-
Other Investments[4]	-	7.4	7.4	-
TOTAL	**64.8**	**116.0**	**70.4**	**45.6**

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[1] *The doBank Group comprises i) the doBank and Italfondiario servicing platforms together with their ancillary businesses and ii) 5% of the Romeo NPLs (previously labelled as the doBank NPL portfolio).Cash flows generated reflect Eurocastle's 50% share of the 2016 dividend of €52.3 million approved in March 2017 and expected to be paid in May 2017.*

[2] *Previously labelled as the doBank NPL portfolio. Reflects a 95% interest in the €3.3bn GBV NPL pool acquired as part of the doBank investment and spun off in September 2016, with the remaining 5% held by the doBank Group. Cash flow to date is net of a €1.2 million outflow to acquire loan collateral in the Romeo NPL pool to enhance recoveries.*

[3] *Includes one performing loan portfolio.*

[4] *Investment was fully realised in 2015.*

[5] *Commitment reflects the midpoint of the expected equity requirement of €50 to €70 million and is dependent on the level of interim cash collections from the portfolio.*

[6] *As at 31 December 2016, invested €0.3million of the anticipated €6.6 million equity commitments with the remainder expected to be deployed predominantly in 2017.*

Italian Investments Performance

The investments in aggregate have reported strong performance both in terms of cash flows and resultant valuations.

Total cash flows generated to date are €10.7 million ahead of underwriting. doBank's Board approved its first dividend since acquisition and is expected to distribute €26.2 million to Eurocastle in May 2017. Separately, Eurocastle's other investments in aggregate continue to perform well with gross cash flows of €9.9 million and €28.7 million generated in 2016 from Real Estate Fund and NPL investments respectively. Furthermore, in the first quarter of 2017, the Company had its first full realisation of a real estate fund investment through the sale of Fund Investment III, generating €20.9 million of proceeds; €9.2 million and over 2 years ahead of the Company's expectations at underwriting.

Total valuations for these investments have increased by €151.6 million[1], or €2.29 per share, over 2016 (48%), of which €105.6 million, or €1.76 per share, was recognised over the fourth quarter. Of this, €91.1 million or €1.51 per share arose from Eurocastle's investment in the doBank Group alone, following an increase in the valuation of the business reflecting the significant transformation that has taken place since its acquisition. The successful implementation of a new management team and numerous initiatives to streamline the doBank Group's operations and improve collection performance, together with its acquisition of Italfondiario, a leading seasoned and experienced servicing platform, and the resultant synergies and cost savings have greatly enhanced the value of the business and contributed towards the strong results and performance reported for 2016 and future outlook.

Other notable valuation movements in the year have resulted from two of the Group's Real Estate Fund Investments which in aggregate have increased €24.3 million or €0.37 per share (56%). RE Fund Investment III increased by €12.2 million or €0.18 per share, of which €7.4 million or €0.12 per share was in the fourth quarter reflecting an offer received at the time (the investment was subsequently sold in February 2017). In addition, since investing €12.1 million in RE Fund Investment IV in May 2016, the sale of an asset comprising 33% of the fund at a 16% premium to the fund's reported market value for that asset, together with positive market interest on the fund's remaining properties, have led to an increase in value of €12.2 million or €0.19 per share over the year[1].

In relation to the Company's NPL investments, portfolio valuations increased by €20.3 million or €0.31 per share over the year (17%), primarily reflecting their run rate appreciation as cash flows are realised and the remaining life over which expected cash flows are discounted reduces.

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[1] *Includes a €0.5 million unrealised valuation increase from the investment in the debt of Real Estate Fund Investment IV which is not recorded in the Group's income statement (only the equity statement).*

doBank Investment

In October 2015, Eurocastle acquired a 50% interest in doBank (formerly UniCredit Credit Management Bank S.p.A) from UniCredit S.p.A. for a net purchase price of approximately €246 million. The transaction comprised i) a large NPL portfolio of €3.3bn GBV and ii) an NPL servicing business with a banking license. In addition to managing the existing stock of NPLs, at the time of acquisition, doBank entered into 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 with any remaining stock at the end of the contract managed by doBank until fully resolved.

In line with its broader plan to expand and streamline operations in Italy and secure a leading position in the integrated credit management sector, doBank completed the acquisition of Italfondiario for approximately €27 million in the fourth quarter of 2016 to form the largest independent servicing group in Italy (the "doBank Group"). The acquisition was funded from doBank's cash at hand. Italfondiario, the second largest 3rd party NPL servicer by GBV in Italy, is a company which, in addition to its core servicing business, has also developed three businesses which provide ancillary services complimentary to the credit management process.

In parallel, with the goal of creating a clear and distinct operating business, in September 2016 doBank spun off 95% of its interest in the NPL portfolio it owned into a separate vehicle (the "Romeo NPLs"). Eurocastle now views its investment as being in two clear segments (of which it has a 50% share):

I. The doBank Group: The largest independent servicing group in Italy comprising Italfondiario, doBank and a 5% interest in the €3.3 billion GBV Italian NPL pool originally acquired as part of the doBank investment.

II. The Romeo NPL Portfolio: A 95% interest in the €3.3 billion GBV Italian NPL pool originally acquired as part of the doBank investment.

	doBank Group *€ million*	**Romeo NPLs Portfolio**[1] *€ million*	**TOTAL** *€ million*
Investment Date			Oct-15
Invested to Date			246.0
CF Generated in 2016[2]	26.2	21.6	47.8
CF Generated to Date[2]	26.2	23.7	49.9
CF Distributed to Date[1]	0.3	7.0	7.3
NAV	**270.1**	**100.8**	**370.9**
NAV (€ per share)	*4.49*	*1.68*	*6.17*

doBank Group

Today, doBank and Italfondiario together represent the largest and highest rated independent servicing group specialising in the credit management and collection of non-performing loans in Italy, with over €81 billion GBV of loans under management, over 3,000 employees, lawyers and external consultants[3] and a wide network of 24 branches throughout Italy. doBank intends to retain the separate identity and credit management activities of Italfondiario, with both companies further developing their complementary skills and expertise, while also benefitting from the opportunity for both companies to achieve significant synergies and economies of scale in ancillary services, supporting the doBank Group's future growth. Through this integration, doBank intends to leverage Italfondiario's expertise focusing on NPL market opportunities and relationships with banks and large institutional investors.

1 *Previously labelled as the doBank NPL portfolio. Reflects a 95% interest in the €3.3bn GBV NPL pool acquired as part of the doBank investment and spun off in September 2016, with the remaining 5% held by the doBank Group. Cash flow to date is net of a €1.2 million outflow to acquire loan collateral in the Romeo NPL pool to enhance recoveries.*

2 *Cash flows generated for the doBank Group reflect Eurocastle's 50% share of the 2016 dividend of €52.3 million declared in March 2017.*

3 *As at 31 December, 2016.*

Details of the servicing business can be found in the table below:

	doBank Group Key Metrics
S&P Servicer Rating	Strong
Fitch Servicer Rating	CSS1-/RSS1-
Claims under management	742k
% of claims secured	31%
Number of Offices	24
Number of Clients	15

	doBank Group FY'16 EBITDA
NPLs Under Management (GBV in €bn)	€ 81 bn
Gross Collections (~2.1% of GBV) (in €bn)	€1.7bn
Revenues (~12% of Gross Collections) (in €m)	204.9
Expenses (~70% Expense Margin) (in €m)	(143.3)
EBITDA[1]	**61.6**
ECT share (50%)	30.8

doBank Group Update[2]

2016 was a transformative year for the doBank Group during which numerous initiatives were undertaken. Principally, this included i) building out the senior management team and the appointment of Mr. Andrea Mangoni as CEO, ii) reducing costs through synergies arising from the integration with Italfondiario and iii) overhauling the asset management process to improve collection performance. Portfolios were reallocated amongst asset managers and the reporting chain simplified with an incentive system introduced based on periodic collection targets. Further, the network of external judicial and extra-judicial professionals was rationalised and a performance ranking system was implemented. Despite having implemented these initiatives over the course of the year, a significant impact on the doBank Group's performance has already filtered through to its full year results for 2016. Total collections in the year for the doBank servicing platform were 32% higher compared to last year on a like for like basis[3]. Including Italfondiario, the doBank Group's total collections for 2016 were €1.7 billion and ahead of budget.

This encouraging performance has resulted in a combined EBITDA for the doBank Group of €61.6 million[1]. This increases to €64.3 million as a result of including a full year of servicing revenues from the Romeo NPL portfolio as well as excluding certain one-off expenses which have arisen from the combination of the two servicing platforms. In March 2017, and in line with the Company's expectations, the Board of Directors of doBank approved a dividend of €52.3 million[4] representing the doBank Group's reported net income for 2016, of which Eurocastle's share is €26.2 million. The dividend is expected to be paid in May 2017.

Looking beyond 2016, the doBank Group is targeting additional revenue from new business opportunities that it expects from the significant anticipated growth in the Italian NPL servicing market as Italian banks seek to outsource management of their NPLs or sell these portfolios to investors. In addition, the business is focusing on developing its ancillary businesses that primarily provide complementary credit services such as commercial information and real estate and legal services to captive and non-captive clients. Operationally, the doBank Group also expects to further benefit from the cost initiatives it successfully implemented following the combination with Italfondiario with additional savings targeted through investments in its IT infrastructure aimed at improving efficiencies in the NPL management process.

As a result of this substantial activity, Eurocastle's valuation of its 50% interest in the servicer has increased by €107.0 million or €1.62 per share in 2016 (~ 68%) of which €91.1 million, or €1.51 per share, was in the fourth quarter.

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1 *Unaudited management data. Consolidated EBITDA for doBank, Italfondiario and their subsidiaries pro forma for the full year 2016. Consolidated 2016 EBITDA in accordance with IFRS for the doBank Group is €58.1 million reflecting the EBITDA generated from Italfondiario and its subsidiaries from the date of acquisition in October 2016.*

2 *Performance data reflects 100% of doBank of which Eurocastle's share is 50%.*

3 *Excludes Italfondiario collections. Collection performance comparison is calculated on a like for like basis for doBank only and therefore only includes 2015 collections on those portfolios managed in 2016.*

4 *Of which €11.8 million relates to extraordinary gains primarily from the doBank Group's period of ownership of the Romeo NPL pool.*

Romeo NPL Update

The Romeo NPL portfolio (previously labelled as doBank NPL) is a €3.3 billion GBV NPL portfolio in which Eurocastle has a 50% interest (of which 2.5% is owned indirectly through the doBank Group's interest). The pool was acquired as part of the doBank transaction in October 2015. At acquisition the portfolio was 42% secured by real estate assets, which is a greater level of security than portfolios previously acquired by the Company. In addition, the portfolio was characterised by a larger average loan size of €0.7 million and a greater exposure to Northern and Central Italy of 81%.

The performance of the Romeo NPLs has remained above underwriting expectations. The portfolio to date has generated €23.7 million. The pace of collections received has been 124%[1] of that expected as of underwriting and profitability has been 122%[2] of the amount expected on fully resolved loans.

Eurocastle's valuation of its 50% interest in the Romeo NPLs has increased by €14.8 million or €0.22 per share in 2016 (~16%) of which €6.0 million, or €0.10 per share, was in the fourth quarter. As with the Group's other NPL portfolios, the investment is 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.

	Key Metrics
GBV (€m's)	3,292
Number of Claims	4,683
% Secured	42%
Avg. Default Year	2003
% North & Central Italy	81%

	Performance To date € millions
Actual Investor Cash Flows	23.7
Original Underwriting	19.2
Variance	**4.5**
Pace vs. Underwriting[1]	124%
Profitability vs. Underwriting[2]	122%

Other Italian NPLs

Since May 2013, excluding the Romeo NPL portfolio, the Company has invested approximately €43.4 million in 18 smaller Italian loan portfolios with a combined GBV of €6.4 billion at acquisition.

Additionally in December 2016, the Company, together with other affiliates of FIG LLC, agreed to acquire a significant portion of a €17.7 billion portfolio of Italian non-performing loans from UniCredit S.p.A. in a project known as "FINO". The transaction entails an anticipated equity investment for Eurocastle of between €50 million and €70 million, dependent on the level of interim cash collections from the portfolio.

The table below shows aggregate investment amounts, and returns:

	Equity Invested/ Committed in 2016 *€ million*	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
Italian NPLs (*18 portfolios*)[3]	4.4	43.4	33.2	30.7	0.51	63.9
FINO NPL Transaction[4]	60.0	60.0	-	60.0	1.00	60.0
TOTAL	**64.4**	**103.4**	**33.2**	**90.7**	**1.51**	**123.9**

The 18 pools (two of which were acquired during the fourth quarter of 2016) had a combined GBV at acquisition of €6.4 billion, and are, on average, 15% secured by real estate with an average loan size under €0.3 million per claim.

[1] *Represents collections received as at 31 December 2016 versus underwriting projections for the same period.*
[2] *Represents collections received on fully resolved claims only versus underwriting, as at 31 December 2016. It does not reflect profitability as recorded under IFRS.*
[3] *Adjusted NAV includes €3.0 million relating to cash flows generated to date which are currently held at the level of the investment and therefore also reflected in the Adjusted NAV.*
[4] *Commitment reflects the midpoint of the expected equity requirement of €50 to €70 million and is dependent on the level of interim cash collections from the portfolio.*

Details of all portfolios acquired up to 31 December 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	Pool 16,17	Pool 18	TOTAL
Investment Date	Q2-13	Q3-13	Q2-14	H2-14	Q4-14	Q4-15	Q4-15	Q4-15	H2-16	Q4-16	n/a
Invested to Date *(€ m)*	14.0	2.6	7.4	1.0	8.3	1.1	3.2	1.4	2.1	2.3	43.4
CF Generated in 2016 *(€ m)*	2.1	0.4	1.7	0.3	1.5	0.5	0.2	0.4	-	-	7.1
CF Generated to date *(€ m)*	21.4	2.2	6.1	0.7	4.3	0.5	0.5	0.5	-	-	36.2
CF Distributed to date *(€ m)*	20.3	2.0	5.6	0.7	3.4	0.5	0.3	0.4	-	-	33.2
Adjusted NAV (€ million)	**4.4**	**1.7**	**6.8**	**1.0**	**7.1**	**1.0**	**3.1**	**1.2**	**2.1**	**2.4**	**30.7**
Adjusted NAV (€ per share)	***0.07***	***0.03***	***0.11***	***0.02***	***0.12***	***0.01***	***0.05***	***0.02***	***0.04***	***0.04***	***0.51***
Eurocastle Ownership	81%	50%	25%	25%	25%	25%	25%	25%	25%	25%	n/a
GBV *(€ m)*	4,040	14	883	210	1,001	50	46	63	70	16	6,393
Number of Claims	8,159	86	11,763	3,301	3,877	1,963	164	108	170	1	29,592
% Secured	12%	91%	19%	4%	8%	30%	96%	63%	82%	74%	15%
Avg. Default Year	1994	2008	1997	2010	1995	2011	2007	2012	2007	2014	n/a
% North & Central Italy	70%	54%	57%	68%	79%	81%	58%	73%	41%	100%	69%

Portfolio performance has remained strong. The pace of collections received has been 112%[1] of that expected as of underwriting and profitability has been 235%[2] of the amount expected on fully resolved loans. To date these investments have generated €36.2 million of cash flow or 83% of the amount invested, of which €2.3 million was generated in the fourth quarter of 2016.

NPL pool valuations increased by €5.5 million or €0.08 per share (22%) during 2016 and €0.8 million, or €0.01 per share in the fourth quarter[3]. This increase reflects the appreciation in the value of the future cash flows expected in these pools given the reduction in the remaining life over which they are discounted.

[1] *Represents collections received as at 31 December 2016 versus underwriting projections for the same period.*

[2] *Represents collections received on fully resolved claims only versus underwriting, as at 31 December 2016. It does not reflect profitability as recorded under IFRS.*

[3] *Valuation movements exclude the non-controlling interest share of €0.3 million for the 2016 and €0.1 million for the fourth quarter.*

Italian Real Estate Funds

Since 2014 Eurocastle has made several investments in this asset class, investing €67.0 million in five separate real estate funds:

RE Fund Investments	Investment Date	Equity Invested/ Committed in 2016 *€ million*	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV[2,3] *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
I	Mar-14	-	22.2	10.4	14.3	0.24	24.7
II	Jul-14	-	15.4	3.3	10.7	0.18	14.0
III	Sep-15	-	10.7	7.8	19.7	0.32	27.5
IV[1]	Mar-16	12.1	12.1	1.0	23.2	0.39	24.2
TOTAL		***12.1***	***60.4***	***22.5***	***67.9***	***1.13***	***90.4***
V[2]	Dec-16	6.6	6.6	-	6.6	0.11	6.6
TOTAL		***18.7***	***67.0***	***22.5***	***74.5***	***1.24***	***97.0***

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

Depending on the type of fund, Eurocastle holds these assets on its balance sheet at either their fair value or accounts for them on an equity basis with adjustments made based on its share of the profit and loss reported by the underlying fund. In aggregate, the value of these investments increased by €24.3 million or €0.37 per share (56%) during 2016 with €24.4[3] million, or €0.37 per share, of valuation increases arising from Real Estate Fund Investments III & IV given the deep discounts at which these portfolios were acquired and the subsequent sales activity of the underlying assets or the units themselves.

RE 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")[4] at a 36.5% discount to the fund's NAV at the date of acquisition. In 2015, two assets, representing 35% of the UIU fund's NAV, were sold at a slight premium to NAV, resulting in the Company's first cash flow from this investment of €8.9 million, or approximately 40% of the amount invested. A further €1.5 million representing the remaining proceeds from these sales was distributed in the first quarter of 2016. The remaining assets comprise 12 mixed-use properties with a market value of €246 million[5]. In November 2016 it was announced that a further asset was sold for a net sales price of €52.8 million with the sale proceeds expected to be distributed at the next dividend payment date. In addition, in February 2017 it was announced that the fund has accepted a conditional binding offer to sell a portfolio comprising of six supermarkets for €26.7 million, in line with the fund's previously reported market value for the assets. The fund is managed by Torre SGR, an affiliate of Eurocastle's manager, FIG LLC.

The fund is publicly listed on the Milan stock exchange with Eurocastle recording the fair value of its investment based on the closing price of the units. As at 31 December 2016, and after total distributions of €875 per unit, the price per unit was €1,197 compared to an acquisition price of €1,788. Following a 10% appreciation in the unit price net of distributions during 2016, the Company recorded a fair value gain of €1.4 million for 2016. The investment remains held at approximately a 33% discount to the fund's NAV.

[1] *Equity invested and Adjusted NAV include €5.0 million and €5.5 million respectively from the investment in the debt of RE Fund Investment IV.*

[2] *Invested/committed equity and Adjusted NAV includes €6.3million of equity relating to the estimated outstanding commitment for RE Fund Investment V.*

[3] *Includes €0.5 million from the investment in the debt of RE Fund Investment IV which is not recorded in the Group's income statement (only the equity statement).*

[4] *Listed on the closed-end funds segment of the Market for Investment Vehicles ("MIV") of Borsa Italiana S.p.A.*

[5] *As at 30 June 2016.*

RE Fund Investment II

In July 2014, Eurocastle made its second investment in Italian real estate funds, co-investing with certain affiliates of FIG LLC and an Italian third party property developer to collectively acquire 100% of a newly established private fund ("Real Estate Fund Investment II"). As at 31 December 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 first quarter of 2018. The project itself continues to progress well with construction work in general on time and budget. To date the redevelopment works for one building have been completed and work on the second building is expected to be completed in Q3 2017.

Profits on the assets will only be accounted for once the residential units have been fully developed and sold and therefore realised. Currently, over 67% of the total cost is committed and offers have been accepted on ~33% of the total expected sales, in line with budget. 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. Subsequent to year-end, the Company received its first cash flow from sales amounting to €0.4 million. The value attributed to Real Estate Fund Investment II in the Group's accounts has decreased by €1.5 million or €0.02 per share during 2016 primarily reflecting operating costs of the fund since its inception. This movement is however net of an increase of €0.3 million or €0.01 per share in the fourth quarter following realised gains on the first fully completed unit sales.

RE Fund Investment III

In September 2015, the Company invested €10.7 million to acquire a 27.1% interest in the units of a private Italian real estate fund at a discount of 56% to the fund's NAV at acquisition. At acquisition, the fund consisted of 14 office and light industrial real estate assets leased on a long term basis to a prime tenant. Since the original commitment in September 2014, all but one of the underlying leases have been extended and one asset comprising 26% of the fund's market value was sold in February 2016 to the underlying tenant at a 5% premium to its previously reported market value. As a result, the Company received a distribution of €6.8 million representing over 60% of capital invested. In 2016, the Company received an offer for its full interest in the fund equivalent to €19.5 million which was reflected in the value of the investment as at 31 December 2016 resulting in a gain of €12.2 million for 2016 (€7.4 million for the fourth quarter). In February 2017, Eurocastle sold its entire holding generating, together with additional distributions, €20.9 million of proceeds. Taking into account all distributions received over the life of the investment, this represents a realised profit of €18 million and an IRR of 137%.

RE Fund Investment IV

During 2016, Eurocastle invested in aggregate €12.1 million into Fund Investment IV to acquire (i) substantially all of the units of a newly established private Italian real estate fund set up to restructure and monetise real estate properties previously owned by an over-levered real estate fund, and (ii) to acquire an interest in two mezzanine tranches of the fund's debt at a 20% average discount to the expected recovery value. At acquisition, the portfolio owned by the fund consisted of a retail portfolio in Northern Italy and 3 office assets together valued at €132.3 million.

In the second quarter of 2016, one asset comprising approximately 33% of the fund was sold for a €7 million premium (16%) to the fund's previously reported market value of that asset, resulting in an immediate gain for Eurocastle. The impact of the sale, together with other operating and valuation movements due to the significant embedded value created from the restructuring, resulted in the investment being valued at €23.2 million as at 31 December 2016. This equates to an increase of €11.1 million on the amount invested and represents a discount of 29% to the fund's NAV[1].

[1] *NAV and stratifications of the respective fund reflecting the impact of any sale completed together with any distributions paid after the reporting date.*

RE Fund Investment V

In December 2016, the Company alongside certain affiliates of FIG LLC and an Italian third party property developer committed to acquire 100% of the units of a newly established private fund ("Fund Investment V") for an estimated total investment for Eurocastle of €6.6 million. The fund has purchased one building in Rome to redevelop it into high-end residential apartments. In December 2016, the first €0.3 million of anticipated equity was funded with a further €0.1 million invested in January 2017. The remainder of the committed equity is expected to be deployed during 2017 and 2018, with the first cash flows returned in 2019.

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

	Fund Investment I	Fund Investment II[2]	Fund Investment III[2]	Fund Investment IV	Fund Investment V[2]
Investment Date	Mar-14	Jul-14	Sep-15	Mar-16	Q2-17
Eurocastle Ownership	7%	49%	27%	89%	49%
Fund Type	Publicly Listed	Private	Private	Private	Private
Collateral Type	11 mixed use properties	2 luxury residential redevelopment	13 mixed use office and light industrial	2 office and a retail Portfolio	1 luxury residential redevelopment
Collateral Location	Northern & Central Italy	Rome	Across Italy	Across Italy	Rome
Eurocastle's Value (Adjusted NAV) as a Discount to Reported Fund NAV[1]	33%	13%	12%	29%	0%
Fund Leverage[1]	0%	32%	52%	68%	0%
Fund Expiration[2]	Q4 2017	Q2 2018	Q1 2017	Q1 2019	Q2 2020

[1] *Calculated based on the latest reported NAV of the Fund by the relevant Fund manager*
[2] *Represents expected liquidation date for Funds II, III and V. Funds expire in Dec-19, Dec-23 and Dec-23 respectively.*

Legacy Business

In 2016, the Company made significant progress towards its goal of fully disposing of the remaining Legacy assets with all German real estate owned by the Group sold or under binding sales agreements by the end of the year. Total 2016 realisations amounted to €11.6 million with a further €2.4 million expected from sales under contract and due to complete in 2017 compared to an NAV as at 31 December 2015 of €13.5 million. As at 31 December 2016, the remaining Adjusted NAV was €0.4 million, or less than 0.1% of Eurocastle's total Adjusted NAV.

The Company regards the German commercial real estate portfolio as a discontinued operation. 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	-	2	2
Assets	-	0.6	0.6
Liabilities	-	(0.2)	(0.2)
***Adjusted NAV*[1]**	**-**	**0.4**	**0.4**
Adjusted NAV (€ per share)	-	*0.01*	*0.01*
FY 2016 Cash flows	11.6	0.0	11.6

German Commercial Real Estate

During 2016, Eurocastle completed its plan to dispose of the remaining interest in its Legacy German real estate assets. The Company collected €11.6 million over the year with the sales of the Zama, Belfry and Truss portfolios generating €5.9 million of net proceeds and a further €4.4 million of sales fees generated from individual asset sales in Drive. The Company also received an additional €1.3 million of net proceeds from collecting historical receivables on the residual balance sheets of portfolios previously sold. Further sales fees of €2.4 million are expected in 2017 upon completion of the remaining asset sales in the Drive portfolio which are under binding sales contracts as at 31 December 2016.

With effect from 30 September 2016, the Group deconsolidated its investment in the Drive real estate portfolio as the Group no longer had control of this investment (as defined under IFRS10) following the accelerated sales strategy adopted by the lender ahead of the January 2017 loan maturity. The deconsolidation of Drive, together with the effective waiver of the residual loan balances related to the sold portfolios, resulted in a write back of all losses on the relevant legacy real estate portfolios which previously were reported with negative net asset values in the Group's accounts as reported under IFRS.

The Group no longer directly owns any portfolios in Germany and, as of 31 January 2017, had closed the German asset management platform.

Other Debt Investments

Eurocastle's Debt Investments portfolio consists of one distressed mezzanine loan with an Adjusted NAV of €0.4 million held on balance sheet and a levered portfolio ("CDO V") whose assets are valued below its outstanding liabilities. Given the non-recourse nature of its financing, the Group does not include the NAV of this levered portfolio within its reported Adjusted NAV. In January 2017 the Company resolved the remaining distressed mezzanine loan position for total proceeds of €0.6 million. The Group is currently actively exploring opportunities to exit from its remaining legacy debt investment in the levered portfolio.

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

	Levered (Negative NAV) *€ million*	Balance Sheet *€ million*
Assets	17.7	0.6
Non-recourse financing and other liabilities	(60.8)	(0.2)
Adjusted NAV[1]	**-**	**0.4**
Adjusted NAV (€ per share)	-	*0.01*
WA Credit Rating[2]	CCC-	D
Total Securities/Loans[3]	15	1
Debt Maturity	Jun-47	-

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[1] *Adjusted NAV excludes the negative NAV of the levered Legacy portfolio (CDO V) whose debt is non-recourse to Eurocastle as outlined on page 18.*

[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.*

Income Statement For The Year Ended 31 December 2016

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Portfolio Returns			
Fair value movements on joint ventures:			
doBank Group	107,008	-	107,008
Romeo NPLs	14,832	-	14,832
Share of post-tax profit / (loss) from joint ventures:			
NPLs - Pool 6	235	-	235
Real Estate Fund Investment II	(1,520)	-	(1,520)
Fair value movements on associates:			
Real Estate Fund Investment III	12,206	-	12,206
Real Estate Fund Investment IV	11,664	2,111	13,775
Share of post-tax profits from associates:			
NPLs - Pools 7-18	3,574	-	3,574
Fair value movements on other investments:			
NPLs/ PL - Pools 1 -5	1,660	-	1,660
Real Estate Fund Investment I	1,431	-	1,431
Other Income			
Other income	-	542	542
Interest income	22	778	800
Gains on foreign currency contracts, translation and swaps	-	(2,092)	(2,092)
Gain on paydown of loans and receivables	-	1,046	1,046
Total operating income	**151,112**	**2,385**	**153,497**
Operating expenses			
Interest expense	188	2,364	2,552
Other operating expenses - transaction costs	992	247	1,239
Other operating expenses	15,009	488	15,497
Other expenses			
Impairment losses	-	30,960	30,960
Total operating expenses	**16,189**	**34,059**	**50,248**
Net operating profit / (loss) before taxation	**134,923**	**(31,674)**	**103,249**
Total tax expense	273	3	276
Net profit / (loss) after taxation from continuing operations	**134,650**	**(31,677)**	**102,973**
Net Profit after taxation from discontinued operations	-	72,417	72,417
Profit after taxation for the year	**134,650**	**40,740**	**175,390**
Per Share[1]	*2.04*	*0.61*	*2.65*
Attributable to:			
Ordinary equity holders of the Company	134,337	40,740	175,077
Non-controlling interest	313	-	313

For the year ended 31 December 2016, the total profit after taxation and non-controlling interests as reported under IFRS was €175.1 million, or €2.65 per share. Within the Group's Italian Investments, where the majority of these assets are accounted for at fair value, net income after taxation and non-controlling interest for 2016 was €134.3 million, or €2.03 per share.

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Net profit attributable to ordinary shareholders after taxation	134,337	40,740	175,077
Reversal of Net profit attributed to negative NAV portfolios[2]	-	(43,634)	(43,634)
Adjusted net profit / (loss)	**134,337**	**(2,894)**	**131,443**
Per Share[1]	*2.03*	*(0.04)*	*1.99*

Excluding i) the net gains that have resulted from the resolution of those legacy portfolios that previously had a negative NAV and ii) losses from CDO V, the Groups remaining legacy investment with a negative NAV, the Group generated a net profit after taxation of €131.4 million or €1.99 per share. As at 31 December 2016, the remaining Adjusted NAV of the legacy portfolios was €0.4 million, or €0.01 per share which represents less than 0.1% of the Company's Adjusted NAV.

[1] *Earnings per share based on 66.1 million weighted average ordinary shares for the year ended 31 December 2016.*

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

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 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.

Eurocastle believes that, given the strategy of seeking to monetise the residual value of the Legacy Business, focusing on the Normalised FFO of the Company's Italian Investments[1] will enhance investors understanding of current and future earnings given annualised returns achieved and the average net invested capital[2] over the relevant period.

Segmental Normalised FFO For The Year Ended 31 December 2016

	Average Net Invested Capital[2] *€ Thousands*	Yield	Italian Investments[1] *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
doBank Investment	246,031	14%	34,483	-	34,483
Italian NPLs[3]	22,608	21%	4,714	-	4,714
Real Estate Fund Investments	44,839	36%	16,173	-	16,173
Italian Investments NFFO before expenses	**313,478**	**18%**	**55,370**	**-**	**55,370**
Legacy Portfolios NFFO before expenses			-	10,290	10,290
Manager Base & Incentive Fees			(11,970)	(100)	(12,070)
Other operating expenses			(4,386)	(3,231)	(7,617)
Normalised FFO			**39,014**	**6,959**	**45,973**
Per Share[4]			*0.59*	*0.11*	*0.70*

During 2016, Eurocastle generated Normalised FFO of €46.0 million, or €0.70 per share compared to a dividend of €33.1 million, or €0.525 per share. Before corporate costs, Italian Investments generated €55.4 million, or €0.84 per share. Given the average net invested capital in the period was approximately €313 million, this equates to a yield of 18%.

In the fourth quarter of 2016, Eurocastle generated Normalised FFO of €12.5 million, or €0.21 per share. Before corporate costs, Italian Investments generated €15.0 million, or €0.25 per share. Given the average net invested capital in the period was approximately €317 million, this equates to a yield of 19%.

The following table provides a reconciliation of net profit and loss as reported in the segmental income statement provided on page 16 to segmental Normalised FFO:

Net Profit To Normalised FFO Reconciliation

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Net profit attributable to ordinary shareholders after taxation	**134,337**	**40,740**	**175,077**
Effective yield adjustments[5]	(95,407)	-	(95,407)
Reversal of gain on deconsolidation, loan redemptions and transaction costs	-	(144,222)	(144,222)
Reversal of revaluation losses	-	74,610	74,610
Reversal of Impairments on debt portfolio	-	30,960	30,960
Sales fees	(542)	5,077	4,535
Reversal of loss on FX	-	2,092	2,092
Reversal of realised gains on pay-downs and sales	-	(1,046)	(1,046)
Reversal of deferred tax credit	-	(682)	(682)
Other	626	(570)	56
Normalised FFO	**39,014**	**6,959**	**45,973**
Per Share[3]	*0.59*	*0.11*	*0.70*

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

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

3 *Excludes the Romeo NPL pool which is included under the doBank investment.*

4 *Normalised FFO per share based on 66.1 million weighted average ordinary shares for 2016.*

5 *Adjusts all profit and loss movements recognised on the Italian investments under IFRS to that which is derived from an effective yield methodology where income is calculated on an expected yield basis given actual and projected cash flows of each investment.*

Balance Sheet And Adjusted NAV Reconciliation as at 31 December 2016

	Italian Investments *€ Thousands*	Corporate *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Assets				
Cash and cash equivalents	4,553	99,440	5,085	109,078
Other assets	20	1,009	3,535	4,564
Investment properties held for sale	-	-	1,970	1,970
Available for sale	5,482	-	-	5,482
Investments in joint ventures				
doBank Group	264,741	-	-	264,741
Romeo NPLs	106,090	-	-	106,090
NPLs - Pool 6	1,711	-	-	1,711
Real Estate Fund Investment II	10,640	-	-	10,640
Real Estate Fund Investment V	300	-	-	300
Investments in associates				
NPLs - Pools 7 - 18	24,624	-	-	24,624
Real Estate Fund Investment III	19,546	-	-	19,546
Real Estate Fund Investment IV	17,747	-	2,059	19,806
Other fair value investments				
NPLs/ PL - Pools 1 - 5	3,943	-	-	3,943
Real Estate Fund Investment I	14,279	-	-	14,279
Loans and receivables	-	-	11,207	11,207
Derivative assets	-	-	2,144	2,144
Total assets	**473,676**	**100,449**	**26,000**	**600,125**
Liabilities				
Trade and other payables	2,796	15,476	8,048	26,320
Current taxation payable	17	4,649	110	4,776
CDO bonds payable	-	-	60,454	60,454
Total liabilities	**2,813**	**20,125**	**68,612**	**91,550**
Net Asset Value	**470,863**	**80,324**	**(42,612)**	**508,575**
Non-controlling interest	(1,058)	-	-	(1,058)
Net Asset Value after Non-controlling interest	**469,805**	**80,324**	**(42,612)**	**507,517**
Negative NAV Addbacks[1]	-	-	43,080	43,080
Committed Investments[2]	66,250	(66,250)	-	-
Adjusted NAV	**536,055**	**14,074**	**468**	**550,597**
Adjusted NAV (€ per Share)[3]	***8.92***	***0.23***	***0.01***	***9.16***

[1] *Adjusts to exclude the Group's remaining Legacy portfolio with negative NAV (CDO V) whose debt is non-recourse to Eurocastle.*

[2] *Adjusted NAV of Italian Investments includes €60 million of equity allocated against the FINO transaction (reflecting the midpoint of the expected equity requirement of €50 to €70 million) and a €6.3 million expected commitment allocated against RE Fund Investment V.*

[3] *Adjusted NAV per share based on 60.1 million ordinary shares in issue.*

Capital Structure

On 23 May 2016, the Board announced a tender offer of up to €75 million to return excess cash that had been received from the sale of the Company's Legacy assets. The Company repurchased shares to provide existing investors with liquidity and to take advantage of the discount the Company's shares were trading at relative to the Company's then Adjusted Net Asset Value. On 20 June 2016, Eurocastle repurchased 12.3 million, or 17.0%, of ordinary shares in issue at a price of €6.10 per share for a total cost of €75.3 million. The repurchase has been accretive both to earnings as well as the balance sheet, increasing Normalised FFO per share by 20%, or €0.03 per share, and Adjusted NAV per share by 3%, or €0.25 per share.

Dividends

	€ million
First quarter at €0.125 per share	9.1
Second quarter at €0.125 per share	7.5
Third quarter at €0.125 per share	7.5
Fourth quarter at €0.15 per share	9.0
Total 2016 Dividends	**33.1**

Directors

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

Keith Dorrian[1] (resigned on 18 May 2016)
Randal A. Nardone
Claire Whittet[1] (appointed 29 January 2016)
Jason Sherwill[1]
Peter Smith
Simon J. Thornton[1]

Directors Interests

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

	As at 31 December 2016	As at 31 December 2015
Randal A. Nardone[2]	1,026,859	1,026,859
Claire Whittet	1,000	-
Jason Sherwill	11,400	10,400
Peter Smith	-	-
Simon J. Thornton	9,547	8,547

[1] *Independent Directors*

[2] *Randal A. Nardone is a member of Fortress Operating Entity II LP which is the registered holder of 5,025 shares and as a result of this relationship he is interested in the shares owned by this entity or in some of such shares.*

Substantial Shareholdings

Per the shareholder register and as at 13 March 2017, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings[1]
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV	53%
Euroclear Nominees Limited	37%
The Bank of New York (Nominees) Limited	6%

Eurocastle is subject to EU transparency rules as a result of its listing on an EU regulated market and, consequently, shareholders are required to notify Eurocastle and the relevant regulators of certain changes to the percentage of voting rights in Eurocastle held by them.

The shareholding above has been obtained from the share register. A number of individual shareholders have made a notification of exceeding the reporting thresholds per the Netherlands Authority for Financial Markets (AFM). These notifications can be found at the following website www.afm.nl.

Auditors

BDO LLP were re-appointed during the period and have expressed a willingness to continue in office.

Corporate Governance

The Directors have applied the principles of the Guernsey Code of Corporate Governance which came into effect from the 1 January 2012.

As a Guernsey incorporated company which is managed and controlled in Guernsey, Eurocastle Investment Limited is subject to the provisions of the UK City Code on Takeovers and Mergers.

Management Agreement

The Independent Directors have reviewed the continued appointment of the Manager. In carrying out the review, the Independent Directors considered the past performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance and have concluded that the continued appointment of the Manager is in the best interest of the shareholders.

Directors' Statements As To Disclosure Of Information To Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 19. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

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

[1] *Percentages calculated on 60.1 million ordinary shares in issue (net of 6.0 million shares held in treasury).*

Going Concern

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

The Directors have reviewed the Group's processes to control those risks to which the Group is exposed, as disclosed in note 3 to the consolidated financial statements, as well as reviewing the annual budget.

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

Directors' Statements Pursuant To The Disclosure And Transparency Rules

Each of the Directors as at 31 December 2016 (whose names are listed on page 19) confirms that, to the best of each person's knowledge and belief:

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

Registered Office

Regency Court
Glategny Esplanade
St. Peter Port
Guernsey
GY1 1WW

On behalf of the Board

Simon J. Thornton
Director and Audit Committee Chairman
Date: 15 March 2017

Statement Of Directors' Responsibilities In Respect Of The Financial Statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue its business.

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

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

Independent Auditors Report To The Members Of Eurocastle Investment Limited

We have audited the consolidated financial statements of Eurocastle Investment Limited for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board.

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

Respective Responsibilities Of Directors And Auditors

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

Scope Of The Audit Of The Financial Statements

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

Opinion Of Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Opinion On Other Matters

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters On Which We Are Required To Report By Exception

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

- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Dan Taylor
For and on behalf of BDO LLP
London
15 March 2017
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Portfolio returns			
Fair value movements on joint ventures	4	121,840	9,667
Share of post tax (losses) / profits from joint ventures	4	(1,285)	150
Fair value movements on associates	4	25,981	5,125
Share of post tax profits from associates	4	3,574	4,569
Fair value movements on other investments	4	3,091	5,717
Other income			
Other income	5	542	-
Interest income	6	800	2,232
(Losses) / gains on foreign currency contracts, translation and swaps		(2,092)	47
Realised gain on repurchase of mezzanine financing		-	1,503
Realised gain on paydown of loans and receivables		1,046	3,969
Total income		**153,497**	**32,979**
Operating expenses			
Interest expense	7	2,552	3,840
Other operating expenses	8	16,736	11,308
Other expenses			
Impairment losses	9	30,960	30,711
Total expenses		**50,248**	**45,859**
Net operating profit / (loss) before taxation		**103,249**	**(12,880)**
Taxation expense - current	10	276	28
Total tax expense		**276**	**28**
Profit / (loss) after taxation from continuing operations		**102,973**	**(12,908)**
Profit/ (loss) after taxation from discontinued operations	25	**72,417**	**(29,685)**
Profit / (loss) after taxation for the year		**175,390**	**(42,593)**
Attributable to:			
Ordinary equity holders of the Company		175,077	(43,435)
Non-controlling interest	18	313	842
Net profit / (loss) after taxation		**175,390**	**(42,593)**
Earnings per ordinary share[(1)] from continuing operations		cents	cents
Basic and diluted	23	155.8	(21.7)
Earnings per ordinary share[(1)] from discontinued operations			
Basic and diluted	23	109.6	(49.9)
Earnings per ordinary share[(1)]			
Basic and diluted	23	265.4	(71.5)

(1) Earnings per share is based on the weighted average number of shares in the year of 66,087,627 (31 December 2015: 59,578,081). Refer to note 23.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Net profit / (loss) after taxation		**175,390**	**(42,593)**
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		2,313	1,752
Net unrealised loss released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	9	-	(70)
Realised loss on deconsolidation		-	(442)
Amortisation of novated swaps		(3)	(143)
Unrealised gain on asset backed securities, available-for-sale securities	14	525	817
Total other comprehensive income		**2,835**	**1,914**
Total comprehensive profit / (loss) for the year		**178,225**	**(40,679)**
Attributable to:			
Ordinary equity holders of the Company		177,912	(41,521)
Non-controlling interest	18	313	842
Total comprehensive profit / (loss) for the year		**178,225**	**(40,679)**

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

	Notes	31 December 2016 €'000	31 December 2015 €'000
Assets			
Cash and cash equivalents	11	109,078	250,154
Other assets	12	4,564	18,077
Investment properties held for sale	13	1,970	393,810
Available-for-sale securities	14	5,482	-
Investments in joint ventures	15, 16	383,482	269,992
Investments in associates	15, 17	63,976	37,290
Other fair value investments	15, 18	18,222	19,211
Loans and receivables	19	11,207	70,259
Derivative assets	20	2,144	2,614
Intangible assets		-	4
Total assets		**600,125**	**1,061,411**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	24	1,992,810	2,014,845
Treasury shares	24	(36,935)	-
Accumulated loss		(1,457,826)	(1,599,809)
Net unrealised loss on available-for-sale securities reclassified to loans and receivables	19	(256)	(3,094)
Hedging reserve		-	3
Other reserves	27	9,724	26,024
Total shareholders' equity		**507,517**	**437,969**
Non-controlling interest		1,058	1,335
Total equity		**508,575**	**439,304**
Liabilities			
CDO bonds payable	21	60,454	88,904
Trade and other payables	22	26,320	97,338
Current taxation payable	10	4,776	8,925
Bank borrowings	13	-	409,576
Finance lease payable	13	-	16,683
Deferred taxation liability	10	-	681
Total liabilities		**91,550**	**622,107**
Total equity and liabilities		**600,125**	**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 15 March 2017 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Cash flows from operating activities			
Profit/ (loss) before tax for the year		**175,099**	**(45,435)**
Adjustments for:			
Interest income		(702)	(785)
Interest expense		11,372	26,369
Amortisation of intangibles		-	8
Amortisation of discount on securities	19	(98)	(1,448)
Realised gain on repurchase of mezzanine financing		-	(1,503)
Impairment losses	9	30,960	30,711
Gain on paydown		(1,046)	(3,969)
Unrealised loss / (gain) on foreign exchange contracts		2,092	(47)
Amortisation of borrowing costs		2,057	4,044
Amortisation of tenant incentives / leasing commissions	13	438	1,621
Decrease in fair value of investment properties	13	74,610	82,860
Gain on deconsolidation and gains on loan redemptions	25	(149,939)	(54,979)
Increase in fair value on joint ventures	4	(121,840)	(9,667)
Share of post tax loss / (profit) from joint ventures	4	1,285	(150)
Fair value movement on associates	4	(25,981)	(5,125)
Share of post tax profits from associates	4	(3,574)	(4,569)
Fair value movements on other investments	4	(3,091)	(5,717)
Total adjustments for non cash items		**(183,457)**	**57,654**
Decrease / (increase) in other assets		4,106	(3,288)
Increase in trade and other payables		1,961	18,688
Movements in working capital		**6,067**	**15,400**
Capital expenditures / tenant incentives	13	(2,226)	(12,774)
Proceeds from sale of investment properties	13	211,415	305,716
Purchase of intangible assets		-	4
Net cash received from sales of subsidiaries - discontinued operations		-	19,912
Cash impact of deconsolidation of property portfolios		(16,825)	-
Proceeds from available-for-sale securities		-	64,408
Investments in available-for-sale securities	14	(4,957)	-
Proceeds from prepayment of loans and receivables		30,311	42,667
Acquisition of joint ventures	16	(300)	(248,711)
Acquisition of associates	17	(11,508)	(16,300)
Cash distributions from joint ventures	16	7,365	4,019
Cash distributions from associates	17	13,967	4,385
Cash distributions from other fair value investments	18	4,003	16,525
Interest received		866	1,177
Interest paid		(6,299)	(13,837)
Cash movements from operating activities		**225,812**	**167,191**
Cash generated from operations		**223,521**	**194,810**
Taxation paid		(3,669)	(2,954)
Net cash flows from operating activities		**219,852**	**191,856**
Cash flows from financing activities			
Issue of share capital net of costs		-	304,356
Repurchase of share capital net of costs	24	(75,270)	-
Dividends paid	28	(33,127)	(26,259)
Repurchase of mezzanine financing		-	(18,715)
Dividends paid to non-controlling interest		(590)	(1,828)
Repayments of bonds issued		(28,888)	(91,309)
Repayments of bank borrowings		(223,053)	(254,482)
Net cash flows from financing activities		**(360,928)**	**(88,237)**
Net (decrease) / increase in cash and cash equivalents		**(141,076)**	**103,619**
Cash and cash equivalents, beginning of year		**250,154**	**146,535**
Total cash and cash equivalents, end of year	11	**109,078**	**250,154**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Parent							
	Share capital €'000	Other reserves €'000	Treasury shares reserve €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2015	**1,714,625**	**21,888**	**-**	**(5,593)**	**588**	**(1,525,145)**	**2,321**	**208,684**
(Loss) / profit after taxation for the period	-	-	-	-	-	(43,435)	842	(42,593)
Other comprehensive income / (loss) for the year	-	-	-	2,499	(585)	-	-	1,914
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**2,499**	**(585)**	**(43,435)**	**842**	**(40,679)**
Contributions by and distributions to owners:								
Issue of ordinary shares (note 24)	312,139	-	-	-	-	-	-	312,139
Costs in relation to issue of ordinary shares	(7,783)	-	-	-	-	-	-	(7,783)
Costs in relation to issue of options following share issue	(4,756)	4,756	-	-	-	-	-	-
Dividends to non-controlling interest	-	-	-	-	-	-	(1,828)	(1,828)
Release of option reserve for lapsed options	620	(620)	-	-	-	-	-	-
Dividend declared (Note 28)	-	-	-	-	-	(31,229)	-	(31,229)
At 31 December 2015	**2,014,845**	**26,024**	**-**	**(3,094)**	**3**	**(1,599,809)**	**1,335**	**439,304**
Profit after taxation for the year	-	-	-	-	-	175,077	313	175,390
Other comprehensive income / (loss) for the year	-	-	-	2,838	(3)	-	-	2,835
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**2,838**	**(3)**	**175,077**	**313**	**178,225**
Contributions by and distributions to owners:								
Repurchase of shares (note 24)	-	-	(75,270)	-	-	-	-	(75,270)
Shares cancelled (note 24)	(38,335)	-	38,335	-	-	-	-	-
Dividends to non-controlling interest	-	-	-	-	-	-	(590)	(590)
Release of option reserve for lapsed options (note 27)	16,300	(16,300)	-	-	-	-	-	-
Dividend declared (note 28)	-	-	-	-	-	(33,094)	-	(33,094)
At 31 December 2016	**1,992,810**	**9,724**	**(36,935)**	**(256)**	**-**	**(1,457,826)**	**1,058**	**508,575**

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, Italian NPL servicing platforms, Italian real estate funds, German commercial real estate, European real estate debt 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 29. 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, real estate funds, the doBank Group and Italian 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

(i)Business Combinations
The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group (see (ii) below). In the balance sheet, the acquiree's identifiable assets and 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.

(ii) Subsidiaries
Where the Group has control over an investee, it is classified as a subsidiary. As per IFRS 10, the Group 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 Group 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 Group considers all relevant facts and circumstances, including: (i) the size of the Group'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 Group 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.

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

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

(iii) Joint Ventures
Jointly venture 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 are accounted for 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.

(iv) 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 20% or more of the voting power of another entity.

Investments that are accounted for using the equity method and are initially recognised at cost, except for those investments which meet the exemption criteria allowed under IAS 28 which are accounted for under the fair value basis. 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 for investments which are accounted for under the equity method or fair value movements for investments which meet the exemption criteria under IAS 28.

(v) Non controlling interests

Non controlling interests represent interests held by outside parties in the Group's consolidated subsidiaries. Non controlling interests are measured as the non controlling interest's proportionate share of net assets of the subsidiary.

Portfolio returns

Portfolio returns includes both fair value movements, being the unrealised revaluation gains and losses at each reporting date, on underlying investments and share of post tax profit/ loss on investments accounted for under the equity method. The Group's investments comprise of NPLs/PL, the doBank Group and real estate fund units (refer to note 4).

Revenue
Revenue from discontinued operations comprises rental income (refer to leases policy) and service charge income (refer to the next page). Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service charges

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

Service income

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

Service costs

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

Property expenses

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

Other income

Other income relates to sales fees recognised in relation to the sale of assets from a legacy real estate portfolio (Drive) following the Group's deconsolidation of this portfolio effective as of 30 September 2016. Prior to the deconsolidation of the Drive portfolio these sales fees were eliminated within the Group's results.

Interest income and expense

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

Interest expense on Euro corporate cash deposits are recognised in the income statement on an accrual basis.

Cash and cash equivalents

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

Restricted cash

Restricted cash represents cash within CDO V (legacy debt portfolio) which is directed towards the repayment of CDO interest and other obligations within the portfolio.

Investment property

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

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

Properties that meet the definition of investment property held under operating leases are accounted for as investment property. In such cases, the operating leases are accounted for as if they were finance leases and capitalised at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments.

Leases

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Recognition

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

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

Classification

Financial Assets

The Group classifies its financial assets into one of the categories listed below:

(i) **At fair value through profit or loss**
Financial assets held at fair value through profit or loss are investments that are initially recognised at fair value and any subsequent movements in fair value are recognised in the income statement.

(ii) **Available-for-sale assets**
Available-for-sale investments are carried at fair value and unrealised gains and losses are recognised into the other comprehensive income which forms part of other reserves.

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

Financial liabilities

Financial liabilities are composed of CDO bonds payable, bank borrowings and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Groups financial liabilities are a reasonable approximation to their fair value.

Financial derivatives

Derivatives are initially recognised at fair value on a date on which the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. They are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The gain or loss on measurement of the fair value of the foreign currency swaps is recognised in the income statement.

The fair value of financial derivatives is calculated as the difference between the present value of the expected euro cash flows and the present value of the sterling cash flows, converted at the swap rate.

Measurement

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

Subsequent to initial recognition all instruments that are classified as held at fair value through profit and loss and available-for-sale assets are carried at fair value.

All financial assets, other than those classified as fair value through profit and loss and available-for-sale assets, are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Impairment

Impairment on loans and receivables

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

Impairment on available-for-sales assets

If there is evidence of impairment, the cumulative unrealised gain / (loss) previously recognised in equity is reclassified from equity and recognised in the income statement for the period. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of asset backed securities from available-for-sale to loans and receivables

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement. Where the loan terms are not considered substantially different the original liability is not derecognised and any additional costs are amortised over the remaining term of the loan.

Deferred taxation

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

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

- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

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

Share-based payments

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

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

Capital and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity via the reserves as a deduction from the issue proceeds.

Where the Company purchases the Company's own equity shares (treasury shares - see note 24), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Dividends

Dividends are recognised when they become legally payable. In the case of interim and final dividends to equity shareholders, this is when declared and approved by the board of directors.

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

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of standards and interpretations with an effective date after the date of these financial statements. The Directors have set out below only those which may have a material impact on the financial statements in future periods. The impact of these standards has not yet been fully assessed.

IFRS 15 *Revenue from Contracts with Customers* is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. The core principle is that an entity should recognise revenue from contracts with customers to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These amendments are not expected to impact the Group’s current financial position or performance. The mandatory effective date is 1 January 2018.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments : Recognition and Measurement* in its entirety. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value and is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The new hedge accounting model is more principles-based, less complex and provides a better link to risk management and treasury operations than the model in IAS 39. The new model also allows entities to apply hedge accounting more broadly to manage profit or loss mismatches, and as a result, reduce artificial hedge ineffectiveness that can arise under IAS 39. The new standard also adds new impairment requirements for all financial assets not measured at fair value and amendments to the classification and measurement requirements. The impact of these amendments on the Group’s financial position or performance will be reviewed. The standard will become effective for annual periods beginning on or after 1 January 2018.

IFRS 16 *Leases* was issued on 13 January 2016. It sets out the new principles for the recognition, measurement and disclosure of leases. The standard is effective from 1 January 2019. The directors do not expect this standard to have a significant impact on the Group as it has disposed of the majority of its legacy real estate business and does not have any other significant leasing obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting estimates and judgements

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

(i) Significant Judgements and estimates on carrying amounts of assets and liabilities

The estimates and judgements, which have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements for the year ended 31 December 2016, are as follows:

(a) Fair value measurement principles

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

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

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

The underlying investments in Italian loan portfolios and the doBank Group are held at fair value through profit and loss on initial recognition. The fair value and changes therein are derived from either: (i) future expected cash flows based on the assumptions of the latest business plan discounted at an appropriate discount rate or (ii) an enterprise value for the servicing business of doBank based on an earnings multiple valuation methodology and adjusted for factors including, amongst others, liquidity risk by applying a set percentage discount.

The key assumptions for determining the fair value of the NPLs include the timing, expected profit multiple and discount rate. As at 31 December 2016, the key assumptions for the doBank Group are the earnings multiple and the relevant discount applied. Refer to note 26.

(b) Joint ventures and associates held at fair value

Certain joint ventures (the doBank Group and the Romeo NPLs) and associates (Real Estate Fund Investment III and Real Estate Fund Investment IV) are held at fair value through profit and loss, in accordance with the exemption under IAS 28. The key judgements that the Directors exercise in applying the fair value exemption under IAS 28 for Joint Ventures and Associates are the strategic intentions and short to medium term nature of these investments.

In 2015, Real Estate Fund Investment III was accounted for under the equity method. In 2016 the Group has applied the exemption available under IAS 28 to account for the investment at fair value through profit or loss. This has resulted in a change in accounting policy, however the Group does not deem it necessary to adjust the brought forward carrying value of the investment as it considers it to be a close approximation to the fair value as at 31 December 2015 (refer to note 17.2).

The Group owns 100% of the equity in Real Estate Fund Investment IV. The Group considered the relevant facts and the control provisions under IFRS 10 and has deemed that it does not control the fund as it cannot, through its advisory board representatives, make decisions relating to relevant activities from an asset management perspective (e.g. as and when to sell assets, re-gearing of leases, etc) and as such is not accounted for as a subsidiary investment. The Group is able to influence the fund through its advisory committee role and thus the Group does have significant influence over Real Estate Fund Investment IV and has deemed this to be an associate investment (as per IAS 28).

The Group's investment in Real Estate Fund Investment IV is deemed to be an associate (IAS 28) given its significant influence over the investee through its advisory committee role.

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

The Group assesses on a regular basis whether there is any objective evidence of impairment in respect of the available-for-sale investments and loans and receivables portfolios. In determining whether objective evidence of impairment exists, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable significant financial difficulty of the issuer or obligor, defaults or breaches of contract, the probability of the borrower entering bankruptcy or other financial reorganisation, adverse changes in the payment status of the borrowers in a group or external events that would imply a high probability of default and loss (refer to note 19). The impairment is booked when the losses are considered to be other than temporary diminutions in value.

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

Refer to note 9 for details of impairment losses on loans and receivables investments.

(ii) Deconsolidation of the Drive legacy real estate portfolio

During the year ended 31 December 2016, the Group pursued a lender driven accelerated divestment strategy to sell the remaining assets within the portfolio. Following this, the Group could no longer direct the divestment approach of the remaining assets as it was simply carrying out the sales program approved by the lender. The Group was deemed to have lost control (as defined under IFRS 10) over the Drive portfolio from the end of September 2016. Accordingly, the Group's investment in the Drive portfolio was deconsolidated with effect from 30 September 2016 (refer to note 25).

(iii) Legacy real estate loan waivers on residual debt (Belfry and Truss)

In September 2016, the Group agreed the property portfolio sales of Belfry and Truss. As part of consensual sales arrangements with lender, the respective lenders agreed effectively to waive the residual loans on these portfolios over and above the sales proceeds used to amortise debt (referred to as a gain on discounted loan redemptions - see note 25).

(iv) Control of legacy debt entities

Eurocastle Funding Designated Activity Company (formerly Eurocastle Funding Limited) - “EFL” and Duncannon CRE CDO 1 PLC ("CDO V") are limited liability 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 and CDO V as it retains control over these entities and retains the residual risks of ownership of these entities through the investments in various debt tranches of these entities. Refer to note 31.

3. FINANCIAL RISK MANAGEMENT

Risk Management

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

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to execute its business strategy and, in particular, to grow its investment portfolio.

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

Should the Group identify additional suitable investment opportunities that require further capital, the Company expects to fund such opportunities either through additional offerings of the Company's shares or moderate leverage on its Italian Investments which are currently unencumbered by financing.

At 31 December 2016, the Group had net equity of €508.6 million (31 December 2015: €439.3 million) and a leverage ratio of 10.6% (31 December 2015: 53.2%).

Alternative Investment Fund Managers Directive ("AIFMD") Leverage

The AIFMD prescribes two methods of measuring and expressing leverage and requires disclosure of the maximum amount of leverage the Group might be subject to. The definition of leverage is wider than that of gearing and includes those assets on balance sheet that are subject to market based valuation changes.

The Group has no maximum level of permitted leverage. As at 31 December 2016, the Group's leverage calculated on a gross basis and commitment basis, under the European Commission's Delegated Regulation (commonly known as the Level 2 Regulation), was 98.3% and 96.3% respectively.

Credit Risk

The Group is subject to credit risk with respect of its investments in Italian loans and the doBank Group (and also its legacy debt investments) by virtue of the risk of delinquency, foreclosure, speed of foreclosure proceedings and loss on the loans underpinning the securities in which the Group invests and manages.

Italian bankruptcy laws and other laws and regulations governing creditors' rights in Italy may offer significantly less protection for creditors than the bankruptcy regime in other jurisdictions, thus affecting the recoveries the Group would anticipate to receive on its Italian loan investments. The Group has taken steps to mitigate this exposure putting in place a structure to bid on certain assets which are auctioned by the Italian courts, following recovery orders, to preserve NPL recoveries.

Furthermore, the Group also seeks to maximise recoveries with respect to its Italian loan investments by agreeing collection strategies with the servicer of the claims.

The Group has a 50% interest in the doBank Group, an NPL servicing business (see note 16.1). The current and future performance of doBank relies primarily on UniCredit S.p.A. (long term credit rating: BBB+ by Fitch; Baa1 by Moody's; and BBB- by S&P) in relation to existing revenues generated on collections in respect of portfolios managed on their behalf together with the provision of a certain amount of future flow of NPLs under a servicing agreement.

The maximum credit risk exposure in respect of Italian loan investments (including doBank) as at 31 December 2016 is the full carrying value of these financial assets on the Balance Sheet, €0.4 billion (31 December 2015: €0.3 billion).

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

Banking arrangements

The Group's banking arrangements are with major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case. As at 31 December 2016, the Group has placed €66.0 million of its corporate cash with a financial institution rated long term stable: A+ by Fitch; Baa1 by Moody's; and BBB+ by S&P (31 December 2015: €nil). As at 31 December 2016, the majority of the Group's remaining corporate cash was held with a financial institution rated long term stable: A by Fitch; A1- by Moody's; and A- by S&P (31 December 2015: €204.3 million - rated long term stable: A by Fitch; A2 by Moody's; and A- by S&P). The Group monitors on a regular basis the credit worthiness of the various financial institutions to mitigate credit risk exposure with respect to its banking arrangements.

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

The Group seeks to minimise credit risk on its legacy debt securities by assessing the creditworthiness of its portfolio and the underlying credit quality of its holdings and where appropriate, repositioning such investments to upgrade the credit quality and yield on the investments.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

The value of the Group's investments in its Italian loan portfolio, servicing businesses and real estate is dependent on macroeconomic and political conditions prevailing in Italy. A decline in the Italian economy may have an adverse impact on the Group's returns on such investments.

In December 2016, Italian voters rejected a referendum put forward by the Democratic Party to reform the Constitution, leading to the resignation of the Prime Minister. This has led to a period of political uncertainty in Italy coupled with the emergence of political parties pursuing an agenda to exit the European Union and the Eurozone.

The Italian referendum followed a vote by the United Kingdom in June 2016 to leave the European Union. The result of this referendum created significant uncertainty with regard to the short- and long-term political and economic prospects of the European Union. The process by which the United Kingdom will leave the European Union and the prospect of other countries in the European Union holding a similar referendum to leave the EU or the Eurozone could have a significant negative impact on international markets including falls in stock market indices, fluctuations in currency markets and volatility in asset values.

The instability in the geopolitical environment could therefore have a material impact on financial activities both at market and retail level. A deterioration of the Italian economy may affect the recoveries the Group expects on its loan investments. At the same time, it could affect investor demand in general for these types of investments. While the expected yield on these portfolios is sensitive to the performance of the underlying assets, the value at which these investments are held by the Group is sensitive to the market yields at which they trade. Refer to note 26 for details of sensitivity analysis on the Italian investments.

Interest rate risk

The Group's interest rate risk is not considered to be significant.

The Group's interest rate exposures relate to its asset backed securities, loans and floating rate debt obligations within legacy debt portfolios (CDO V). In the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and result in credit losses. Interest rates are highly sensitive to many factors, including governmental monetary and political conditions, and other factors beyond the Group’s control.

The Group may sustain losses from adverse movements in interest rates, either through a mismatch of interest bearing assets and liabilities, or through the effect such movements have on the value of interest-bearing instruments. The Group is exposed to interest rates on banking deposits held in the ordinary course of business. Management monitors this risk on a continuous basis.

Within the Group’s legacy debt investments, the Loans and Receivables (refer note 19) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financings.

Foreign Currency Risk

The Group’s primary foreign currency exchange rate exposure relates to its non-Euro denominated portfolio of securities and loans. Changes in the currency exchange rates can adversely impact the fair values and earnings streams of the Group’s non-Euro denominated assets. The Group has significantly mitigated the impact of foreign currency risk of non-Euro denominated assets through the use of balance guaranteed hedging.

No sensitivity analysis is presented for foreign exchange risk, as the impact of reasonably possible market movements on the Group’s revenue and equity are not significant.

Liquidity Risk

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

Eurocastle’s liquidity is primarily generated by distributions from its Italian Investments. The Company expects that its cash in hand and cash flow provided by operations will satisfy its liquidity needs over the next twelve months. For further details on the Group's contractual maturities of financial liabilities, refer to note 26.

Operational Risk

The Group has a 50% interest in doBank comprising of an servicing business (see note 16.1). doBank employs an experienced management team and loan servicing teams to carry out the daily operational tasks associated with the business. Loss of one or more key members of staff may have an adverse operational impact on the business of doBank. The loan servicing business is reliant upon IT and other operational and reporting systems. Any system disruptions and failures may interrupt or delay doBank's ability to service loans. The management team of doBank regularly reviews its operational risks and has appropriate compensation and contingency plans in place to mitigate these risks.

4. PORTFOLIO RETURNS

The Group's portfolio returns are derived from its Italian investments held directly or indirectly at fair value, with the exception of Real Estate Fund Investment II and Real Estate Fund Investment V.

Where the Group holds interests in NPLs through associates and joint ventures accounted for under the equity method, the underlying NPLs are measured at fair value and therefore the principal share of profit / (loss) for the Group is the share of fair value in the NPL portfolios.

Portfolio returns for the year ended 31 December 2016 are summarised below:

	Fair value movements on joint ventures	**Share of post tax losses from joint ventures**	**Fair value movements on associates**	**Share of post tax profit from associates**	**Fair value movements on other investments**	**Total**
	(Note 16)	(Note 16)	(Note 17)	(Note 17)	(Note 18)	
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
doBank Group	107,008	-	-	-	-	**107,008**
Romeo - NPLs	14,832	-	-	-	-	14,832
NPLs / PL (Pools 1 -5)	-	-	-	-	1,660	1,660
NPLs (Pool 6)	-	235	-	-	-	235
NPLs (Pools 7 -18)	-	-	-	3,574	-	3,574
Total post tax profit from NPLs	**14,832**	**235**	**-**	**3,574**	**1,660**	**20,301**
Real Estate Fund Investment I	-	-	-	-	1,431	1,431
Real Estate Fund Investment II	-	(1,520)	-	-	-	(1,520)
Real Estate Fund Investment III	-	-	12,206	-	-	12,206
Real Estate Fund Investment IV	-	-	13,775	-	-	13,775
Total post tax profit from Real Estate Funds	**-**	**(1,520)**	**25,981**	**-**	**1,431**	**25,892**
Total portfolio returns for year ended 31 December 2016	**121,840**	**(1,285)**	**25,981**	**3,574**	**3,091**	**153,201**

Portfolio returns for the year ended 31 December 2015 are summarised below:

	Fair value movements on joint ventures	**Share of post tax profit from joint ventures**	**Fair value movements on associates**	**Share of post tax profit from associates**	**Fair value movements on other investments**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
doBank Group	3,161	-	-	-	-	**3,161**
Romeo - NPLs	6,506	-	-	-	-	6,506
NPLs / PL (Pools 1 -5)	-	-	-	-	4,321	4,321
NPLs (Pool 6)	-	150	-	-	-	150
NPLs (Pools 7 -15)	-	-	-	4,569	-	4,569
Total post tax profit from NPLs	**6,506**	**150**	**-**	**4,569**	**4,321**	**15,546**
Real Estate Fund Investment I	-	-	-	-	1,396	1,396
Real Estate Fund Investment II	-	-	-	-	-	-
Real Estate Fund Investment III	-	-	5,125	-	-	5,125
Total post tax profit from Real Estate Funds	**-**	**-**	**5,125**	**-**	**1,396**	**6,521**
Total portfolio returns for year ended 31 December 2015	**9,667**	**150**	**5,125**	**4,569**	**5,717**	**25,228**

5. OTHER INCOME

Other income of €0.5 million relates to sales fees recognised in relation to the sales of assets that completed within Drive (legacy real estate portfolio) in Q4 2016 after the effective deconsolidation date of the portfolio of 30 September 2016. During the nine months to 30 September 2016, Eurocastle Investment Limited received additional sales fees of €2.8 million from the Drive portfolio, which was previously eliminated on consolidation.

The sales fees receivable by the Group relate to an arrangement secured with the lender of the portfolio whereby the Group benefits from 3.5% of gross sales proceeds. Refer to note 32 for further details on sales fees subsequent to 31 December 2016.

6. INTEREST INCOME - LEGACY DEBT PORTFOLIO

Interest income for the year ended 31 December 2016 represents €0.8 million (31 December 2015: €2.2 million) of interest income earned primarily on loans and receivables within the legacy CDO V portfolio.

7. INTEREST EXPENSE

Interest expense for the year ended 31 December 2016 comprises interest expense incurred on the CDO bonds payable within the legacy CDO V portfolio of €2.4 million (31 December 2015: €3.5 million).

Other interest expense of €0.2 million (31 December 2015: €nil) related to charges on Euro denominated corporate cash deposits.

8. OTHER OPERATING EXPENSES

	Year ended 31 December 2016	**Year ended 31 December 2015**
	€'000	**€'000**
Professional fees	983	695
Transaction costs	1,205	1,702
Management fees (note 29)	12,093	6,679
Manager Recharge (note 29)	1,426	1,562
Depreciation of fixtures and fittings	3	3
Amortisation of intangible assets	-	8
General and administrative expenses	1,026	659
Total other operating expenses	**16,736**	**11,308**

9. IMPAIRMENT LOSSES - LEGACY DEBT PORTFOLIO

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Impairment losses on loans and receivables (refer to note 19)	27,567	30,781
Fair value losses on derivative asset	3,393	-
Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale	-	(70)
Total impairment losses	**30,960**	**30,711**

During the year ended 31 December 2016, the Group has recognised impairment adjustments on 14 securities (31 December 2015: 13 securities). As at 31 December 2016, 15 securities have recognised impairment losses (31 December 2015: 22 securities). All impairment losses relate to the Group's legacy debt portfolio.

As at 31 December 2016, the carrying value of loans and receivables was €11.2 million (31 December 2015: €70.3 million), which includes impaired loans and receivables of €5.4 million (31 December 2015: €45.9 million).

10. TAXATION EXPENSE

Taxation Overview

The Company is a Guernsey, Channel Islands limited company and is not subject to taxation.

The Company's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries. The Group's taxation expense mainly relates to the Luxembourg subsidiary companies. The tax charge for the year ended 31 December 2016 was €276,000 (31 December 2015: €28,000).

The Group's Italian subsidiaries (i.e. the Italian vehicles incorporated and operating according to the Italian Securitization Law holding the portfolio of receivables) are de facto not subject to Italian corporate and local income taxation because of a specific off-balance sheet accounting treatment applicable to the portfolio. Interest, premium, capital gains and other proceeds in relation to the Group's investment in the Law 130 notes (i.e. notes issued by Italian subsidiaries as described above) are not currently subject to Italian taxes as the holder and recipient of such proceeds meets certain subjective conditions. There are currently no significant tax expenses in Italy.

The Company's subsidiaries within its legacy debt investment business (EFL and CDO V), 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.

Breakdown of taxation liability:

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Split between:		
Current tax	4,776	8,925
Deferred tax	-	681
Closing taxation payable	**4,776**	**9,606**

11. CASH AND CASH EQUIVALENTS

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Corporate cash	94,925	204,252
Cash within subsidiaries under Italian Investments	4,553	7,462
Cash within the real estate operating companies (discontinued operations)	6,704	35,392
Cash within the legacy debt business	2,896	3,048
Total cash and cash equivalents	**109,078**	**250,154**

Corporate cash represents cash deposits held by Eurocastle Investment Limited.

Cash within subsidiaries under Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €1.1 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. As at 31 December 2015, cash and cash equivalents also includes any proceeds from the disposal of investment property that have not been distributed or used to repay bank borrowings.

Cash within the legacy debt business includes €2.9 million (31 December 2015: €3.0 million) held in CDO V. The cash within CDO V 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.

12. OTHER ASSETS

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Tenant incentives and leasing commissions	-	2,917
Service charge receivable	481	2,684
Proceeds receivable from the disposal of investment properties	150	5,358
Interest receivable	21	185
Rent receivable	143	877
Prepaid expenses	89	617
Other accounts receivable	3,680	5,439
Total other assets	**4,564**	**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.

13. INVESTMENT PROPERTY

As at 31 December 2016, the Group has largely completed its plan to dispose of the remaining interest in its legacy German real estate assets.

During the year ended 31 December 2016, the Group sold 109 (31 December 2015: 86) properties for €211.4 million (31 December 2015: €356.3 million) versus a carrying value, at date of sale, of €211.7 million (31 December 2015: €358.3 million). As at 31 December 2016, the Group has one remaining asset with a carrying value of €2.0 million which is under binding contract and completed subsequent to year end (refer to note 32).

	As at 31 December 2016 €'000	**As at 31 December 2015 €'000**
Investment property held for sale	1,970	393,810
Total investment property net of tenant incentives and leasing commissions	1,970	393,810
Tenant incentives and leasing commissions (included in other assets - note 12)	-	2,917
Total investment property	**1,970**	**396,727**

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 December 2016. The table also includes the deconsolidation of the Drive portfolio:

	Freehold land and buildings €'000	**Leasehold property €'000**	**Total €'000**
Balance at 1 January 2016	364,752	31,975	396,727
Capital expenditures	2,281	-	2,281
Tenant incentives and leasing commissions	(438)	-	(438)
Free rent	(55)	-	(55)
Disposals	(206,510)	(4,905)	(211,415)
Deconsolidation of Drive (refer to note 25)	(84,880)	(19,549)	(104,429)
Decrease in minimum payments under head lease as a result of asset sale	-	(6,091)	(6,091)
Decrease in fair value - realised[1]	(73,180)	(1,430)	(74,610)
Balance at 31 December 2016	**1,970**	**-**	**1,970**

[1] The realised fair value movement mainly relates to the Drive portfolio (€63.3 million) up to its effective deconsolidation date of 30 September 2016, which reflects the accelerated sales strategy adopted during the year.

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**

The investment properties held for sale are stated at their fair values. Under IFRS 13 the investment properties have been classified as Level 3 in the fair value hierarchy. As at 31 December 2016, the Group had one remaining asset within its Real Estate portfolio which is held at the agreed sales price and therefore sensitivity analysis is not required.

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

	As at 31 December 2016 €'000	**As at 31 December 2015 €'000**
Investment property valuations	1,970	380,044
Minimum payments under head leases separately included in liabilities on the balance sheet	-	16,683
Balance sheet carrying value of investment property	**1,970**	**396,727**

13. INVESTMENT PROPERTY (CONTINUED)

The Group had certain leasehold property that it classifies as investment property. As at 31 December 2016, the Group held no finance leases following the Truss portfolio sale and deconsolidation of Drive during the year. The table below represents the minimum lease payments of the finance leases.

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2016 €'000	Present value 31 December 2016 €'000	Total value 31 December 2015 €'000	Present value 31 December 2015 €'000
Under 1 year	-	-	746	732
From 2 to 5 years	-	-	3,017	2,732
More than 5 years	-	-	24,710	13,219
Total	**-**	**-**	**28,473**	**16,683**

Additional information

Following the sale of the property portfolios during the year, the Group has one remaining asset held within the Truss portfolio as at 31 December 2016.

The table below provides additional information for the portfolio within the Group at 31 December 2016:

Portfolio	Property valuation €'000	Term financing (face amount) €'000	Term financing (carrying amount) €'000	Other assets / (liabilities) €'000	Net liabilities €'000	Maturity of term financing
Truss [(1)]	1,970	-	-	(1,970)	-	n/a
Total portfolio (held for sale)	**1,970**	**-**	**-**	**(1,970)**	**-**	n/a

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

Portfolio	Property valuation [(5)] €'000	Term financing (face amount) €'000	Term financing (carrying amount)	Other (liabilities)/ assets [(6)] €'000	Net (liabilities) / assets [(6)] €'000	Maturity of term financing
Wave	549	-	-	(5,022)	(4,473)	
Truss [(1)]	87,490	82,730	82,720	(546)	4,214	Mar 2016
Belfry [(2)]	40,300	51,969	51,969	2,077	(9,592)	Apr 2016
Drive [(3)]	224,805	261,219	249,976	(25,975)	(62,389)	Jan 2017
Zama [(4)]	26,900	24,911	24,911	2,011	4,000	May 2016
Total portfolio (held for sale)	**380,044**	**420,829**	**409,576**	**(27,455)**	**(68,240)**	

(1) As at 31 December 2016, the final property within the Truss portfolio is under binding contract and completed in January 2017. As part of the terms of the agreed sale of the assets in September 2016, the lender effectively waived the residual loan balance. The proceeds from the last asset are payable to the lender.

(2) As part of the terms of the agreed sale of assets in September 2016, the lender effectively waived the residual loan balance.

(3) The portfolio was deconsolidated at the end of September 2016 as the Group was deemed to have no control of the portfolio at that point (refer to note 25).

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

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

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

14. AVAILABLE-FOR-SALE SECURITIES

In May 2016, the Group invested an aggregate of €5.0 million to acquire an interest in two mezzanine tranches of debt in Real Estate Fund Investment IV.

Available-for-sale securities are carried at fair value with unrealised gains credited to equity. Fair value represents the market value of the bonds derived from listed prices at the reporting date. An unrealised gain of €0.5 million has been credited to equity as at 31 December 2016.

							Weighted Average	
	Current face	Cost	Unrealised gains	Carrying value	Cost as a % of current face	Carrying value as a % of current face	Average rating	Maturity (years)[(1)]
	€'000	€'000	€'000	€'000				
CMBS	6,781	4,957	525	5,482	73.1%	80.8%	D	0.4
As at 31 December 2016	**6,781**	**4,957**	**525**	**5,482**	**73.1%**	**80.8%**	**D**	**0.4**

(1) The weighted average maturity of the securities is based on expected underlying cash flows of the securities. The legal maturity of the assets is 15 May 2019.

15. ITALIAN INVESTMENTS

The Group holds the following investments, directly or indirectly at fair value (with the exception of Real Estate Fund Investment II and Real Estate Fund Investment V):

(i) the doBank Group - In October 2015, the Group invested in a joint venture which 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.

(ii) Non-performing and performing loan portfolios ("NPLs/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.

(iii) Real estate funds:

(a) Real Estate Fund Investment I (fund units in UniCredito Immobiliare Uno) is held at fair value through profit or loss as an investment in a listed Italian real estate fund.

(b) Real Estate Fund Investment II is a joint venture in a real estate development fund and is accounted for under the equity method.

(c) Real Estate Fund Investment III and Real Estate Fund Investment IV are associate investments and are held at fair value through profit or loss under the exemption in IAS 28 due to the strategic intentions and potential exit strategy in the short to medium term.

(d) Real Estate Fund Investment V is a joint venture in a real estate development fund. The carrying value represents the initial equity committed. The investment is accounted for under the equity method.

The holdings in investments have been summarised below.

As at 31 December 2016	Ownership %	Investments in joint ventures (Note 16) €'000	Investments in associates (Note 17) €'000	Other fair value investments (Note 18) €'000	Total €'000
doBank Group	50.0%	**264,741**	**-**	**-**	**264,741**
Romeo- NPLs	50.0%	106,090	-	-	106,090
NPLs / PL (Pools 1 -5)	80.7%	-	-	3,943	3,943
NPLs (Pool 6)	50.0%	1,711	-	-	1,711
NPLs (Pools 7 -18)	25.0%	-	24,624	-	24,624
Total NPLs		**107,801**	**24,624**	**3,943**	**136,368**
Real Estate Fund Investment I	7.5%	-	-	14,279	14,279
Real Estate Fund Investment II	50.0%	10,640	-	-	10,640
Real Estate Fund Investment III	27.1%	-	19,546	-	19,546
Real Estate Fund Investment IV	100.0%	-	19,806	-	19,806
Real Estate Fund Investment V	50.0%	300	-	-	300
Total Real Estate Funds		**10,940**	**39,352**	**14,279**	**64,571**
Total Investments as at 31 December 2016		**383,482**	**63,976**	**18,222**	**465,680**

As at 31 December 2015	Ownership %	Investments in joint ventures €'000	Investments in associates €'000	Other fair value investments €'000	Total €'000
doBank Group	50.0%	**157,733**	**-**	**-**	**157,733**
Romeo - NPLs	50.0%	98,286	-	-	98,286
NPLs / PL (Pools 1 -5)	80.7%	-	-	4,872	4,872
NPLs (Pool 6)	50.0%	1,813	-	-	1,813
NPLs (Pools 7 -15)	25.0%	-	21,940	-	21,940
Total NPLs		**100,099**	**21,940**	**4,872**	**126,911**
Real Estate Fund Investment I	7.5%	-	-	14,339	14,339
Real Estate Fund Investment II	50.0%	12,160	-	-	12,160
Real Estate Fund Investment III	27.1%	-	15,350	-	15,350
Total Real Estate Funds		**12,160**	**15,350**	**14,339**	**41,849**
Total Investments as at 31 December 2015		**269,992**	**37,290**	**19,211**	**326,493**

16. INVESTMENTS IN JOINT VENTURES

The following is a summary of the Group's joint venture investments held at fair value and equity accounted for as at 31 December 2016:

	Accounted for at fair value		Accounted for under the equity method			
	doBank Group (Note 16.1)	Romeo - NPLs (Note 16.2)	Real Estate Fund Investment II (Note 16.3)	Real Estate Fund Investment V	Series 3 NPLs (Pool 6) (Note 16.4)	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Balance as at 1 January	157,733	98,286	12,160	-	1,813	269,992
Acquisitions	-	-	-	300	-	300
Cash/distributions received	-	(7,028)	-	-	(337)	(7,365)
Unrealised increase in fair value	107,008	14,832	-	-	-	121,840
Share of post tax (loss) / profit	-	-	(1,520)	-	235	(1,285)
Balance as at 31 December 2016	**264,741**	**106,090**	**10,640**	**300**	**1,711**	**383,482**

The following is a summary of the Group's joint venture investments as at 31 December 2015:

	Accounted for at fair value		Accounted for under the equity method		
	doBank Group	Romeo - NPLs	Real Estate Fund Investment II	Series 3 NPLs (Pool 6)	Total
	€'000	€'000	€'000	€'000	€'000
Balance as at 1 January	-	-	13,225	2,258	15,483
Acquisitions	154,572	91,780	2,200	-	248,552
Cash/distributions received	-	-	(3,265)	(595)	(3,860)
Unrealised increase in fair value	3,161	6,506	-	-	9,667
Share of post tax profit	-	-	-	150	150
Balance as at 31 December 2015	**157,733**	**98,286**	**12,160**	**1,813**	**269,992**

16.1. Investment in the doBank Group

On 30 October 2015, the Group acquired a 50% equity interest in the doBank Group (formerly Unicredit Credit Management Bank S.p.A ("UCCMB")), comprising an NPL servicing business, and an NPL pool (refer to note 16.2) for a consideration of approximately €246 million, subject to certain post-closing adjustments. The investment in the doBank Group is held through a joint venture in a Luxembourg company, Avio S.ár.l. The Group accounts for the investment in the doBank Group at fair value through profit or loss as it has taken the exemption under IAS 28.

On 30 September 2016 the doBank Group's NPL pool was transferred to Romeo SPV Srl. The Group holds a 47.5% economic interest in this entity, while the doBank Group holds a 5% economic interest (of which the Group has a 2.5% interest). This NPL pool is now referred to "Romeo NPLs" (see note 16.2).

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

	doBank Group 2016	doBank Group(1) 2015
	€'000	€'000
Non-current assets	530,000	511,192
Current assets	50	3
Cash	1,670	8,984
Current liabilities	(2,238)	(8,142)
Net assets	**529,482**	**512,037**
Group's share of net assets (50%)	**264,741**	**256,019**

	doBank Group 2016	doBank Group 2015
	€'000	€'000
Interest income	-	68
Revaluation gains	215,178	36,278
Interest expense	-	-
Other expenses	(1,162)	(17,013)
Post tax profit	**214,016**	**19,333**
Group's share of post tax profit (50%)	**107,008**	**9,667**

The Group's share of net assets and post tax profit for the year relates to Avio S.ár.l which includes the investment of the doBank Group carried at fair value. The profit and loss statement excludes the revaluation gains on the Romeo NPLs (refer to note 16.2).

(1) As at 31 December 2015, the disclosure includes the Romeo NPLs as this was held on the balance sheet of the doBank Group.

16.2. Investment in Romeo - NPLs

On 30 September 2016, the Romeo NPLs held on the doBank Group's balance sheet was transferred to a securitisation company, Romeo SPV Srl. The Group's investment in the Romeo NPLs is held through a joint venture and accounted for at fair value through profit or loss as it has taken the exemption under IAS 28.

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

	Romeo - NPLs €'000
Non-current assets	212,170
Current assets	40
Cash	-
Current liabilities	(30)
Net assets	**212,180**
Group's share of net assets (50%)	**106,090**

	Romeo - NPLs €'000
Other income	33
Revaluation gains	12,064
Interest expense	-
Other expenses	(33)
Post tax profit for the three months to 31 December 2016	**12,064**
Revaluation gains for nine months ended 30 September 2016 [(1)]	17,600
Post tax profit for the year ended 31 December 2016	**29,664**
Group's share of post tax profit for the year ended 31 December 2016 (50%)	**14,832**

The Group's share of net assets and post tax profit for the three months ended 31 December 2016 relates to Romeo Securitisation Srl which includes the investment of the Romeo NPLs carried at fair value.

[(1)] The revaluation gains of the Romeo NPLs for the nine months to 30 September 2016 of €17.6 million have been excluded from the financial information disclosed for the doBank Group (refer to note 16.1) and are presented above.

16.3. Investment in Real Estate Fund Investment II

On 22 July 2014, the Group invested in a newly established real estate development fund (Real Estate Fund Investment II) which purchased two office buildings in Rome for redevelopment into high-end residential properties for resale. The Group's investment is held through a joint venture in Torre Real Estate Fund III Value Added – Sub fund A ("RE Torre Fund") and is accounted for under the equity method. Real Estate Fund Investment II is managed by Torre SGR, an affiliate of the Manager.

To date the Group has invested €15.4 million and received a repayment of capital of €3.3 million in 2015, after raising third party financing to fund a portion of the development costs.

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

	Fund Investment II [(2)] 2016 €'000	**Fund Investment II [(2)] 2015 €'000**
Cash	2,711	2,070
Current assets	680	-
Inventories [(1)]	34,151	28,750
Current liabilities	(4,503)	-
Non-current liabilities	(11,759)	(6,500)
Net assets	**21,280**	**24,320**
Group's share of net assets (50%)	**10,640**	**12,160**

[(1)] Under IFRS, unrealised gains on property revaluations are excluded in relation to redevelopment properties (shown as inventories).

[(2)] The 2016 financial information includes the balance sheet of Torre RE Fund as at 30 September 2016, being the latest available information at the reporting date. The 2015 financial information represents the total cost of investment and third party financing into the RE Torre Fund.

As at 31 December 2016, the Group's share of the fund's net asset value of €10.6 million (31 December 2015: €12.2 million) compared to a fair value assessment of €17.0 million (31 December 2015: €15.2 million). An independent valuer has deemed the fair value to be reasonable.

16.3. Investment in Real Estate Fund Investment II (Continued)

The following table summarises the income statement of the joint venture:

	Fund Investment II [1] 2016 €'000	Fund Investment II [1] 2015 €'000
Revenue	2,232	-
Cost of sales	(1,513)	-
Other expenses	(962)	(1,826)
Interest expense and financing costs	(392)	(577)
Post tax profit for the year / period ended 31 December	**(635)**	**(2,403)**
Group's share of post tax profit (50%)	**(318)**	**(1,202)**

During the year ended 31 December 2016, the Group has recognised post tax losses of €1.5 million of which €1.2 million relates to prior period running and set up costs of Torre RE Fund for the period from inception to 31 December 2015.

Under IFRS, the Group is not permitted to recognise revaluation gains on the development properties as they are 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.

[1] The 2016 financial information includes the results of Torre RE Fund for the nine months ended 30 September 2016, being the latest available information at the reporting date. The 2015 financial information includes the results of Torre RE Fund from the date of inception to 31 December 2015.

16.4. Investments in NPL - Series 3 (Pool 6)

The Group's 50% interest in non-performing loan pool 6 is through an affiliate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC, which in turn holds the investment via a securitisation in Italy called Quintino Securitisation S.r.l.

The joint venture investment holds the portfolio at fair value through profit and loss and therefore the net assets reflect the fair value of the investments.

The portfolio is serviced by Italfondiario S.p.A. (refer to note 29).

For further details of the NPL portfolio (Pool 6), refer to 'Italian NPLs' table under the business review section on page 11.

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

	Series 3 NPLs (Pool 6) 2016 €'000	Series 3 NPLs (Pool 6) 2015 €'000
Non-current assets	3,421	3,626
Current assets	626	758
Current liabilities	(626)	(758)
Net assets	**3,421**	**3,626**
Group's share of net assets (50%)	**1,711**	**1,813**

	Series 3 NPLs (Pool 6) 2016 €'000	Series 3 NPLs (Pool 6) 2015 €'000
Share of profit for the year	470	300
Group's share of profit (50%)	**235**	**150**

17. INVESTMENT IN ASSOCIATES

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

	Accounted for under the equity method	Accounted for at fair value		
	NPL/PL Series 1,2,4 & 5 (Pools 7-18)	Real Estate Fund Investment III	Real Estate Fund Investment IV	Total
	(Note 17.1)	(Note 17.2)	(Note 17.3)	
	€'000	**€'000**	**€'000**	**€'000**
Balance as at 1 January 2016	21,940	15,350	-	37,290
Adjustment to cost	-	(410)	-	(410)
Acquisitions	4,440	-	7,068	11,508
Cash/distributions received	(5,330)	(7,600)	(1,037)	(13,967)
Unrealised increase in fair value	-	12,206	13,775	25,981
Share of post tax profit	3,574	-	-	3,574
Balance as at 31 December 2016	**24,624**	**19,546**	**19,806**	**63,976**

	Accounted for under the equity method	Accounted for at fair value		
	NPL/PL Series 1,2,4 & 5 (Pools 7-18)	Real Estate Fund Investment III	Real Estate Fund Investment IV	Total
	€'000	**€'000**	**€'000**	**€'000**
Balance as at 1 January 2015	15,681	-	-	15,681
Acquisitions	5,510	10,742	-	16,252
Cash/distributions received	(3,820)	(517)	-	(4,337)
Unrealised increase in fair value	-	5,125	-	5,125
Share of post tax profit	4,569	-	-	4,569
Balance as at 31 December 2015	**21,940**	**15,350**	**-**	**37,290**

17.1 Investments in associates - NPL Series 1, 2, 4 & 5

The Group acquired its NPL investments through a series of acquisitions from 2014. The Group's 25% interest in non-performing loan pools 7-18 is held through an affiliate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC which in turn holds the investments via securitisation entities in Italy. The associate entities hold their respective portfolios at fair value through profit and loss and therefore the Group indirectly holds these investments at fair value.

During 2016, the Group acquired a 25% interest in series 5 (pools 16 -18) for €4.4 million (year ended 31 December 2015: €5.5 million - pools 12 -15).

All portfolios are serviced by Italfondiario S.p.A. (refer to note 29).

For further details of all NPL portfolios (Pool 7 -18), refer to 'Italian NPLs' table under the business review section on page 11.

The following table summarises the financial information of the associates as at 31 December 2016:

	Series 1,2,4 & 5 NPLs (pools 7-18) 2016	Series 1,2,4 & 5 NPLs (pools 7-18) 2015
	€'000	**€'000**
Non-current assets	98,539	87,499
Current assets	379	410
Current liabilities	(424)	(151)
Net assets	**98,494**	**87,758**
Group's share of net assets (25%)	**24,624**	**21,940**

	Series 1,2,4 & 5 NPLs (pools 7-18) 2016	Series 1,2,4 & 5 NPLs (pools 7-18) 2015
	€'000	**€'000**
Share of profit for the year	14,296	18,277
Group's share of profit (25%)	**3,574**	**4,569**

17.2. Associate Investment in Real Estate Fund Investment III

On 16 September 2015 the Group acquired 27.1% of the units in an unlisted Italian mixed-use real estate fund ("Real Estate Fund Investment III") for a total cost of €10.7 million. The fund is a close-ended real estate fund made up of 13 mixed use office and light industrial assets, located in Italy and leased on a long term basis to a prime tenant.

This investment is held at fair value through profit or loss, as the investment meets the exemption criteria under IAS 28.

As at 31 December 2016, the carrying value of the investment was €19.5 million (31 December 2015: €15.4 million) representing a third party offer to acquire the investment. In February 2017 the Group successfully agreed and completed the sale of Real Estate Fund Investment III.

During the year, the Group recognised a revaluation gain of €12.2 million (31 December 2015: €5.1 million) and received distributions of €7.6 million (31 December 2015: €0.5 million).

The following table summarises the financial information of the fund as at 30 September 2016 under Italian GAAP, being the latest available financial information:

	Real Estate Fund Investment III	**Real Estate Fund Investment III**
	2016	**2015**
	€'000	**€'000**
Non-current assets	169,750	228,040
Current assets	4,871	6,045
Non-current liabilities	(90,932)	(126,720)
Current liabilities	(2,670)	(3,387)
Net assets	**81,019**	**103,978**

	Real Estate Fund Investment III	**Real Estate Fund Investment III**
	2016	**2015**
	€'000	**€'000**
Revenue	9,058	11,506
Revaluation gains	1,790	12,000
Interest expense	(3,683)	(4,411)
Other expenses	(2,337)	(1,500)
Post tax profit for the nine months	**4,828**	**17,595**

17.3. Associate Investment in Real Estate Fund Investment IV

Following the restructuring of an existing legacy debt position, on 10 May 2016 the Group acquired a 99.6% interest in an unlisted Italian real estate fund ("Real Estate Fund Investment IV") for a total cost of €7.0 million. In December 2016, the remaining 0.4% interest was acquired resulting in the Group holding 100%.

Of the Group's 100% interest in the fund, 89.6% is held through an associate entity in Delaware called the Fortress Italian Real Estate Opportunities Series Fund LLC, which is managed by an affiliate of the Manager and the remaining 10.4% is held by legacy CDO V[(1)] portfolio.

Real Estate Fund Investment IV is a close-ended real estate fund made up of a mix of office assets and a number of retail assets let to a supermarket chain, located in Italy.

This investment is held at fair value through profit or loss, as the investment meets the exemption criteria under IAS 28.

The Groups investment in Real Estate Fund Investment IV is summarised below:

	Fund Investment IV *Italian Investments* €'000	**Fund Investment IV *Legacy* €'000**	**Total €'000**
Balance as at 1 January 2016	-	-	-
Investment	7,068	-	7,068
Distributions	(985)	(52)	(1,037)
Unrealised fair value movement	11,664	2,111	13,775
As at 31 December 2016	**17,747**	**2,059**	**19,806**

During the year, the Group recognised a fair value gain of €11.7 million in respect of its 89.6% interest in the fund. This reflects current third party bids on the underlying real estate assets within the fund and the significant embedded value created as a result of restructuring the investment.

The following table summarises the financial information of the associate as at 30 June 2016 under Italian GAAP, being the latest available financial information:

	Real Estate Fund Investment IV €'000
Non-current assets	140,432
Current assets	9,285
Non-current liabilities	(128,967)
Current liabilities	(3,260)
Net assets	17,490

	Real Estate Fund Investment IV €'000
Revenue	5,175
Revaluation gains	8,016
Interest expense and financing costs	(991)
Other expenses	(1,789)
Post tax profit for the period 8 February 2016 to 30 June 2016	**10,411**

(1) Legacy debt investments - represents CDO V's interest of 10.4% in Real Estate Fund Investment IV. CDO V is a negative net asset value entity with financing which is non-recourse to the Group.

18. OTHER FAIR VALUE INVESTMENTS

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

	2016 €'000	2015 €'000
NPLs/PL - pools 1 to 5 - (refer to note 18.1)	3,943	4,872
Real Estate Fund Investment I (refer to note 18.2)	14,279	14,339
Balance as at 31 December	**18,222**	**19,211**

18.1. Other fair value investments - NPLs/PL (pools 1 to 5)

In 2013, the Group acquired its first NPLs/PL portfolios (pools 1 to 5) which are held through subsidiaries in Italy, Luxembourg and the United States of America.

The Group holds 80.7% of pools 1-3 and 5, and 100% of the outstanding interests in pool 4. The investments in the underlying loan portfolios are held through Law 130 securitisation notes. The remaining interest is accounted for as a non controlling interest, which is shown in the summary below.

The movement in the Group's NPLs/PL subsidiary investments is as follows:

	2016			2015		
	Group's share €'000	Non controlling interest €'000	NPLs / PL Pools 1-5 Total Portfolio €'000	Group's share €'000	Non controlling interest €'000	NPLs / PL Pools 1-5 Total Portfolio €'000
Balance as at 1 January	3,932	940	4,872	5,110	1,215	6,325
Cash distributions from portfolios	(2,097)	(492)	(2,589)	(4,657)	(1,117)	(5,774)
Unrealised increase in fair value	1,347	313	1,660	3,479	842	4,321
Balance as at 31 December	**3,182**	**761**	**3,943**	**3,932**	**940**	**4,872**

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 €0.4 million (31 December 2015: €0.6 million), is fully secured against commercial and residential properties in Italy.

All portfolios are serviced by Italfondiario S.p.A. (refer note 29).

18.2. Other fair value investments - Real Estate Fund Investment I

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("Real Estate 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 Real Estate Fund Investment I. The units are listed on the Italian Stock Exchange. Real Estate Fund Investment I has a maturity of 31 December 2017. These units are held at fair value though profit or loss.

During the year ended 31 December 2016, the Group received a distribution of €125 per unit for a total amount of €1.5 million (31 December 2015: €750 per unit for a total amount of €8.9 million), which was primarily a distribution of the remaining sales proceeds from asset sales completed in 2015.

The fair value of the investment is determined by the share price of Real Estate Fund Investment I at the reporting date. As at 31 December 2016, the share price was €1,197 (31 December 2015: €1,202) . 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)
Unrealised increase in fair value	1,431	1,396
Balance as at 31 December	**14,279**	**14,339**

19. LOANS AND RECEIVABLES - LEGACY DEBT PORTFOLIO

The following is a summary of the Group's loans and receivables as at 31 December 2016:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating [(1)]	Weighted average: Maturity (years)
EFL						
Real estate related loan[(2)]	8,492	8,475	(7,837)	638	D	0.09
	8,492	8,475	(7,837)	638	D	0.09
CDO V [(3)]						
CMBS	42,030	34,252	(29,297)	4,955	CCC	0.52
Other ABS	4,528	4,293	-	4,293	BBB	5.01
Real estate related loans	40,508	40,508	(39,187)	1,321	D	0.22
	87,066	79,053	(68,484)	10,569	CCC-	0.62
Total portfolio	**95,558**	**87,528**	**(76,321)**	**11,207**	**CCC-**	**0.57**

As at 31 December 2015:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating [(1)]	Weighted average: Maturity (years)
CDO IV						
Real estate related loans	9,826	9,830	(436)	9,394	D	1.01
	9,826	9,830	(436)	9,394	D	1.01
CDO V [(3)]						
CMBS	97,396	79,606	(43,275)	36,331	CCC-	0.88
Other ABS	5,239	4,766	-	4,766	BBB	1.92
Real estate related loans	90,407	90,351	(70,583)	19,768	D	0.24
	193,042	174,723	(113,858)	60,865	CC	0.61
Other securities						
Real estate related loans	8,285	1,944	(1,944)	-	D	-
	8,285	1,944	(1,944)	-	D	-
Total portfolio	**211,153**	**186,497**	**(116,238)**	**70,259**	**CC**	**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) As at 31 December 2016, the real estate related loan in EFL (legacy debt portfolio) was sold subsequent to year end (refer to note 32).

(3) The securities within CDO V are encumbered by CDO securitisations (note 21)

The movement in the impairment losses is shown below:

	2016 €'000	2015 €'000
Balance as at 1 January	(116,238)	(132,764)
Reversals due to paydowns and sales in the year	65,441	32,691
Impairment losses for the year (refer to note 9)	(27,567)	(24,404)
Foreign exchange movement on impairments reserve	2,043	8,239
Balance at 31 December	**(76,321)**	**(116,238)**

20. DERIVATIVE ASSETS - LEGACY DEBT PORTFOLIO

Derivative assets represent the fair value of foreign currency swaps.

During 2007, a subsidiary within the Group's legacy debt investment portfolio (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 loss for the year ended 31 December 2016 of €0.5 million (31 December 2015: loss of €5.7 million) is recorded in the income statement.

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Foreign currency swaps - Pound Sterling	2,144	2,614
Total derivative assets	**2,144**	**2,614**

21. CDO BONDS PAYABLE - LEGACY DEBT PORTFOLIO

As at 31 December 2016:

	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	CC/C/C/ C/C	60,463	60,454	1.90%	2.21%	0.9
Total			**60,463**	**60,454**	**1.90%**	**2.21%**	**0.9**

(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.

CDO bonds payable financed the remaining portfolio of real estate backed loans and securities within the legacy CDO V portfolio.

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 year ended 31 December 2015, Eurocastle Funding Limited purchased €5.1 million of CDO V Class C1 notes at a price of 90% of nominal resulting in a gain to the Group of €0.5 million; and a further tranche of €15.2 million at a price of 94% resulting in a gain to the Group of €1.0 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.

22. TRADE AND OTHER PAYABLES

	As at 31 December 2016 €'000	As at 31 December 2015 €'000
Interest payable	592	35,765
Due to Manager (refer note 29)	2,136	3,387
Capital expenditure accruals	615	17,080
Dividends payable	9,017	9,050
Accrued expenses and other payables	13,960	32,056
Total trade and other payables	**26,320**	**97,338**

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

23. EARNINGS 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 year.

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 year. A dilutive effect arises if the exercise price of the share option is lower than the average share price for the option 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 27).

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

	As at 31 December 2016	**As at 31 December 2015**
Weighted average number of ordinary shares*	66,087,627	59,544,817
Dilutive effect of ordinary share options	-	33,264
Weighted average number of ordinary shares - dilutive	**66,087,627**	**59,578,081**

*****weighted average shares for the year

24. SHARE CAPITAL AND RESERVES

As at 31 December 2016, there were 66,121,054 shares (31 December 2015: 72,401,494) issued and outstanding of which 6,010,641 are held in treasury. 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	**72,401,494**
Shares repurchased and cancelled - 27 June 2016	(6,284,440)
Issued to the Directors as part of their in-place compensation arrangements for €nil consideration	4,000
Balance at 31 December 2016	66,121,054
Shares repurchased and held in treasury - 27 June 2016	(6,010,641)
Balance as at 31 December 2016 excluding shares held in treasury	**60,110,413**

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 27).

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 19).

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

Treasury shares reserve
On 27 June 2016, the Company purchased 6,010,641 of its own equity shares. The treasury share reserve amount is based on the price of €6.10 paid per share and includes costs directly attributable to the share repurchase.

25. DISCONTINUED OPERATIONS

As at 31 December 2016, the Group has largely completed its plan to dispose of the remaining interest in its Legacy German real estate assets. The results of the Legacy property business are classified as discontinued operations and are presented as follows:

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Operating income		
Interest income	-	1
Rental income	22,811	50,278
Service charge income	4,816	11,394
Decrease in fair value of investment properties	(74,610)	(82,860)
Gain on discounted loan redemptions	15,867	31,513
Gain on deconsolidation of subsidiary undertakings	134,072	23,466
Total operating income	**102,956**	**33,792**
Operating expenses		
Interest expense	10,877	26,081
Service charge expenses	4,817	11,408
Property operating expenses	6,542	19,116
Transaction costs	5,717	5,698
Other operating expenses	3,153	4,044
Total operating expenses	**31,106**	**66,347**
Net operating profit / (loss) before taxation	**71,850**	**(32,555)**
Taxation expense - current	115	1,027
Taxation credit - deferred	(682)	(3,897)
Total tax credit	**(567)**	**(2,870)**
Profit / (loss) after taxation for the period	**72,417**	**(29,685)**

With effect from 30 September 2016, the Group deconsolidated its investment in the Drive real estate portfolio as the Group no longer had control of this investment (as defined under IFRS 10) following the accelerated sales strategy adopted by the lender. The deconsolidation of Drive contributed to a deconsolidation gain of €131.4 million.

Cash flows from discontinued operations:

Discontinued operations	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
Operating activities	213,360	347,503
Financing activities	(223,053)	(254,482)
Net cash flow (used in) / generated from discontinued operations	**(9,693)**	**93,021**

26. FINANCIAL INSTRUMENTS

Contractual maturities

The Group's Italian Investments have been funded through equity.

The Group's legacy debt investments within the CDO V portfolio are financed long-term through CDO bonds maturing beyond the maturity date of the underlying debt investments. The value of the debt investments are less than the CDO bonds payable and as such the proceeds from asset realisations within CDO V are not expected to exceed the amounts payable to bond holders. Upon realisation of the remaining CDO V debt investments, any outstanding amounts due to CDO V bond holders are non-recourse to the Group.

As at 31 December 2016, the Group had no contractual liabilities in relation to its legacy real estate portfolio. As at 31 December 2015, the Group's legacy real estate portfolio had a number of non-recourse financing facilities which were due to reach maturity within the a year.

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

Type	Total outstanding at 31 December 2016 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Liabilities				
Interest payable [(1)]	1,044	1,044	-	-
CDO bonds payable	60,454	-	-	60,454
Derivative liabilities[(2)]	7,987	-	7,987	-
Total liabilities	**69,485**	**1,044**	**7,987**	**60,454**

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

(2) Derivative liabilities are shown gross, the net position as at 31 December 2016 is a derivative asset of €2.1 million.

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
Liabilities				
Interest payable [(1)]	37,374	35,765	1,609	-
CDO bonds payable	88,904	-	-	88,904
Bank borrowings	409,576	409,576	-	-
Finance leases payable [(2)]	28,473	746	3,017	24,710
Derivative liabilities [(3)]	24,244	-	24,244	-
Total liabilities	**588,571**	**446,087**	**28,870**	**113,614**

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

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

(3) Derivative liabilities are shown gross, the net position as at 31 December 2015 is a derivative asset of €2.6 million.

Fair values of financial assets and financial liabilities

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

	As at 31 December 2016 Carrying value €'000	As at 31 December 2015 Carrying value €'000	As at 31 December 2016 Fair value €'000	As at 31 December 2015 Fair value €'000
Financial assets				
Cash and cash equivalents	109,078	250,154	109,078	250,154
Loans and receivables	11,207	70,259	10,994	35,493
Available for sale securities	5,482	-	5,482	-
Italian Investments held at fair value through profit or loss	454,740	314,333	454,740	314,333
Derivative assets	2,144	2,614	2,144	2,614
Financial liabilities				
CDO bonds payable	60,454	88,904	10,602	20,666
Bank borrowings	-	409,576	-	409,576
Finance lease payable	-	16,683	-	16,683

The fair value of loans and receivables is based on market prices obtained from financial institutions of the underlying positions at the balance sheet date (level 2). The Group does not consider any further impairment necessary.

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

26. FINANCIAL INSTRUMENTS (CONTINUED)

Expected recoveries of investments

The following table summarises the expected recoveries for the Italian investments held by the Group:

	2016		2015	
	Within one year [(1)] €'000	More than one year €'000	Within one year [(2)] €'000	More than one year €'000
doBank Group	26,165	238,576	-	157,733
Romeo - NPLs	-	106,090	7,028	91,258
NPLs / PL (Pools 1 -5)	-	3,943	2,589	2,283
NPLs (Pool 6)	-	1,711	337	1,476
NPLs (Pools 7 -18)	1,673	22,951	5,330	16,610
Real Estate Fund Investment I	-	14,279	1,491	12,848
Real Estate Fund Investment II	-	10,640	-	12,160
Real Estate Fund Investment III	19,546	-	7,600	7,750
Real Estate Fund Investment IV	19,806	-		-
Real Estate Fund Investment V	-	300		-

(1) Amounts recoverable within one year represent actual and known cash flows as at the reporting date with the residual balance shown as amounts due to mature in over one year.

(2) Amounts recoverable within one year represent actual cash flows received on investments.

Fair value hierarchy

The following table shows an analysis of the fair value assets in the balance sheet by level of hierarchy:

31 December 2016:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Available-for-sale securities (refer to note 14)	-	5,482	-	5,482
Investments in joint ventures (refer to note 16)	-	-	370,831	370,831
Investments in associates (refer to note 17)	-	-	39,352	39,352
Other fair value investments (refer to note 18)	14,279	-	3,943	18,222
Derivative assets (refer note 20)	-	2,144	-	2,144
Total	**14,279**	**7,626**	**414,126**	**436,031**

31 December 2015:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Investments in joint ventures (refer to note 16)	-		256,019	256,019
Investments in associates (refer to note 17)	-	-	15,350	15,350
Other fair value investments (refer to note 18)	14,339	-	4,872	19,211
Derivative assets (refer to note 20)	-	2,614	-	2,614
Total	**14,339**	**2,614**	**276,241**	**293,194**

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

The following table shows reconciliation for the Level 3 fair value measurements as at 31 December 2016:

	Investments in joint ventures €'000	Investments in associates €'000	Other fair value investments €'000	Total €'000
As at 1 January 2016	256,019	15,350	4,872	276,241
Distributions received from fair value investments	(7,028)	(8,637)	(2,589)	(18,254)
Unrealised fair value movement in the year	121,840	25,981	1,660	149,481
Investments acquired in the year	-	7,068	-	7,068
Adjustment to cost	-	(410)	-	(410)
As at 31 December 2016	**370,831**	**39,352**	**3,943**	**414,126**

The following table shows reconciliation for the Level 3 fair value measurements as at 31 December 2015:

	Investments in joint ventures €'000	Investments in associates €'000	Other fair value investments €'000	Total €'000
As at 1 January 2015	-	-	6,325	6,325
Distributions received from fair value investments	-	(517)	(5,774)	(6,291)
Unrealised fair value movement in the year	9,667	5,125	4,321	19,113
Investments acquired in the year	246,352	10,742	-	257,094
As at 31 December 2015	**256,019**	**15,350**	**4,872**	**276,241**

Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

There were no transfers between level 1, 2 and 3 of the fair value hierarchy during the current or previous year.

26. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value methodology and sensitivity analysis

Available-for-sale securities

Available-for-sale securities are categorised as level 2 assets on the fair value hierarchy. These securities relate to the Group's investments in two mezzanine tranches of debt in Real Estate Fund Investment IV. The fair value of these assets is derived from the average of observable market prices available directly from the counter party and other external sources.

As at 31 December 2016, average price (which is a percentage of current face) of the two tranches of debt were 95.0% and 77.5%.

doBank Group

The Group's investment in the doBank Group is categorised as level 3 on the fair value hierarchy. As at 31 December 2016, the Group's valuation methodology of its joint venture investment in the doBank Group is based on an earnings multiple which is derived from an average of a pool of comparable listed companies and adjusted for factors, amongst others, including liquidity risk by applying a set percentage discount.

The Group previously valued its investment in the doBank Group under a discounted cash flow approach based on in-place contracts only. In light of the significant transition of the business in 2016 the Group has considered it more appropriate to adopt the earnings multiple to value the business.

The key assumptions relating to the valuation as at 31 December 2016 are set out below:

	Total
Discount applied	41%
Earnings multiple (net of discount)	7.4

The table below presents the sensitivity of the valuation to a change in the most significant assumption as at 31 December 2016:

	Total
Fair value	264,741
Decrease of earnings multiple (net of discount applied) by 1x	234,047
Value sensitivity	**(30,694)**

An increase of 8% in the discount applied to the earnings multiple would lead to a decrease in the value of €30.7 million.

Fair value methodology and sensitivity analysis

doBank Group

The key assumptions relating to the valuation as at 31 December 2015 are set out below:

	Total
Expected profit multiple [(1)]	2.18
Remaining weighted average life	6.2
Discount rate	14%

(1) The expected profit multiple is derived from the underlying cash flows on which the valuation model is built.

The table below presents the sensitivity of the valuation to a change in the most significant assumption as at 31 December 2015:

	Total
Fair value	157,499
Increase in discount rate by 25bps	155,785
Value sensitivity	**(1,714)**

26. FINANCIAL INSTRUMENTS (CONTINUED)

NPLs/ PL

The Group's investment in its NPLs / PL (pools 1 - 18) are classified as level 3 on the fair value hierarchy. 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 key assumptions made relating to the valuations are set out below:

For the year ended 31 December 2016:

	Italian Loan Pools (1-18)	**Romeo - NPLs**	**Total**
Expected profit multiple [1]	1.74	1.93	1.87
Remaining weighted average life	2.9	4.8	4.4
Discount rate	12%	12%	12%

For the year ended 31 December 2015:

	Italian Loan Pools (1-15)	**Romeo - NPLs**	**Total**
Expected profit multiple [1]	1.70	1.90	1.85
Remaining weighted average life	3.4	5.6	5.2
Discount rate	12%	12%	12%

[1] The expected profit multiple is derived from the underlying cash flows on which the relevant valuation model is built.

An increase in the remaining weighted average life will decrease the fair value and a decrease in the remaining weighted average life will increase the fair value. An increase in the expected profit multiple will increase the fair value and a decrease in the expected profit multiple will decrease the fair value.

The table below presents the sensitivity of the valuation to a change in the most significant assumption:

	Italian Loan Pools (1-18) €'000	**Romeo - NPLs €'000**	**Total €'000**
Fair value	29,524	106,090	135,614
Increase in discount rate by 25bps	29,365	105,243	134,608
Value sensitivity	**(159)**	**(847)**	**(1,006)**

For the year ended 31 December 2015:

	Italian Loan Pools (1-16) €'000	**Romeo - NPLs €'000**	**Total €'000**
Fair value	27,621	98,169	125,790
Increase in discount rate by 25bps	27,450	97,190	124,640
Value sensitivity	**(171)**	**(979)**	**(1,150)**

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.

At 31 December 2016, cumulative realised gains from NPL portfolios (pools 1,2,3 and 5) were €7.5 million, being distributed funds greater than the original €13.8million purchase price for those pools. At 31 December 2015, cumulative realised gains from NPL portfolios (pools 1,2 and 5) were €6.1 million compared to the €9.2 million purchase price for those pools. During the year ended 31 December 2016, realised gains were €1.5 million (31 December 2015: €3.2m realised gains). Refer note 18.1 for fair value movements on pools 1-5.

Real Estate Fund Investment III

The Group's associate investment in Real Estate Fund Investment III is classified as level 3 in the fair value hierarchy. In February 2017, the Group sold its entire investment in Real Estate Fund Investment III for a net consideration of €19.5 million. The carrying value of the investment represents the agreed sales price, therefore the Group does not deem it necessary to disclose sensitivity analysis for this investment (see note 17.2).

Real Estate Fund Investment IV

As at 31 December 2016, the fair value of Real Estate Fund Investment IV, reflects current third party bids on the fund's real estate assets which is considered to be the significant assumption.

The table below shows the sensitivity analysis for the investment:

	€'000
Fair value	19,806
Decrease in real estate asset bids by 1%	18,973
Value sensitivity	**(833)**

27. SHARE OPTIONS

Following the share capital issue in April 2015 of 39,762,992 shares at an issue price €7.85 per share, the Manager received an additional 3,976,299 options. The options granted in April 2015 are fully vested on date of grant and expire 10 years from date of issuance.

The weighted average fair value of the 2015 options at date of grant was determined using a binomial model. The significant inputs into the model were the share price at the grant date (€8.00), the exercise price (€7.85), volatility (27.5%), expected option life (10 years), projected dividend yield (6.8%) and a risk free rate (0.5%). The volatility is measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share price since May 2013, being the period following the last share consolidation.

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

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 December 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)	-	-	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**	**-**	**(18,886)**	**5,476,299**	**9,724**		

Movements in the number of share options as at 31 December 2015 is shown below:

Date of grant	Options outstanding at 1 January 2015	Options issued	Options lapsed	Options remaining at 31 December 2015	Fair value at grant date €'000	Exercise price €	Date of expiration
24 Jun 2005	2,521	-	(2,521)	-	-	3,450.00	24 Jun 2015
27 Jan 2006	3,956	-	-	3,956	4,800	3,600.00	27 Jan 2016
27 Jan 2006	6,101	-	-	6,101	2,100	6,000.00	27 Jan 2016
1 Dec 2006	8,829	-	-	8,829	9,400	7,400.00	1 Dec 2016
30 May 2013	1,500,000	-	-	1,500,000	4,968	7.25	15 May 2023
29 April 2015	-	3,976,299	-	3,976,299	4,756	7.85	30 April 2025
Total	**1,521,407**	**3,976,299**	**(2,521)**	**5,495,185**	**26,024**		

28. DIVIDENDS PAID AND DECLARED

The following dividends were declared for the year ended 31 December 2016:

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
23 June 2016	30 June 2016	01 July 2016	29 July 2016	€ 0.125	7,513
23 September 2016	28 September 2016	29 September 2016	28 October 2016	€ 0.125	7,514
15 December 2016	21 December 2016	22 December 2016	31 January 2017	€ 0.150	9,017
Total					**33,094**

The following dividends were declared for the year ended 31 December 2015:

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
25 March 2015	1 April 2015	2 April 2015	30 April 2015	€ 0.125	4,079
26 June 2015	1 July 2015	2 July 2015	30 July 2015	€ 0.125	9,050
24 September 2015	29 September 2015	30 September 2015	29 October 2015	€ 0.125	9,050
17 December 2015	29 December 2015	30 December 2015	28 January 2016	€ 0.125	9,050
Total					**31,229**

29. 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 is 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 the Group's Italian Investments and calculated against the Normalised FFO for Italian 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 €4.0 million (31 December 2015: €4.6 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 December 2016, management fees, incentive fees and expense reimbursements of €2.1 million (31 December 2015: €3.5 million) were due to the Manager. For the year ended 31 December 2016 management fees of €6.8 million, €5 thousand of which relates to discontinued operations (31 December 2015: €4.6 million, of which €0.5 million relates to discontinued operations), €5.3 million of incentive fees (31 December 2015: €2.6 million), and expense reimbursements of €5.0 million, €3.5 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 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.

During the year ended 31 December 2016, the doBank Group (in which the Group has a joint venture interest) acquired 11.25% of Italfondiario from a third party with the remaining 88.75% subsequently acquired from affiliates of the Manager, resulting in a 100% ownership of Italfondiario. The aggregate price paid by the doBank Group for 100% of Italfondiario was approximately €27m. The transaction was approved by the Independent Directors of both Eurocastle and the doBank Group following receipt of an opinion on the valuation from an Italian advisory firm.

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"). 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 year ended 31 December 2016 was €1.8 million (31 December 2015: €2.0 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 December 2016.

29. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS (CONTINUED)

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. The due diligence fees paid by the Group to Italfondiario for deals closed in 2016 was €nil. During the year ended 31 December 2016 the Group incurred due diligence fees of €0.3 million (31 December 2015: €0.5 million) on unsuccessful deals that related to work undertaken by Italfondiario.

The Fortress Italian NPL Opportunities Fund LLC (which owns pools 6-18) and the Fortress Italian Real Estate Opportunities Series Fund LLC (which the majority of the Group's interest in Real Estate Fund Investments are held through) are managed by an affiliate of the Manager. The total management fee expense for the year ended 31 December 2016 is €0.1million (31 December 2015: €0.1 million) and offsets fully against the Group's Management Fee payable to the Manager.

The Group's non- controlling interest in Real Estate Fund Investment I (refer to note 18.2) along with its joint venture investment in Real Estate Fund Investment II (refer to note 16.3) are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total management fee expense, across both these funds, for the year ended 31 December 2016 was €0.4 million (31 December 2015: €0.4 million).

30. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group conducts its business through five primary segments: the doBank Group, NPLs/PL, Real Estate Fund Investments, Legacy Debt Investments (relating to the Irish entities that it consolidates under IFRS 10) and the discontinued operations related to the German investment properties. The Group's Italian Investments currently made up of an NPL servicing business ("doBank Servicer"), non-performing loans ("NPLs") and a performing loan ("PL") portfolio along with real estate fund units. The legacy debt investments consist of investments in European real estate related debt. The discontinued operations segment represents the Group's legacy German Real Estate portfolio.

The doBank segment derives its income from dividends. The NPLs/PL and Real Estate Fund Investments segments derive their income from loan collections and distributions respectively.

The European real estate debt investment segment derives its income primarily from interest on loans and receivables.

The discontinued operations segment relates to investment properties and derives its income primarily from rental income, service charge income, sales fees and fees on disposals of assets.

The corporate segment relates to the overall parent Company and includes costs associated with running the Group.

Segment assets for the doBank Group represents the servicing business. Segment assets for the NPLs/PL segment comprises of performing and non-performing loan pools. Segment assets for Real Estate Fund Investments segment comprises real estate fund units. Segment assets for the legacy debt investments include loans and receivables. Segment assets for the discontinued operations segment include investment properties (including investment properties held-for-sale). Segment assets for the unallocated segment relates predominantly to cash.

Segment liabilities for the debt investment portfolio include CDO bonds payable. As at 31 December 2015, bank borrowings are included as segment liabilities within the investment properties segment.

30. SEGMENTAL REPORTING (CONTINUED)

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

	Italian Investments								
Year ended 31 December 2016	**doBank Group €'000**	**NPLs/PL €'000**	**Real Estate €'000**	**Italian Investments €'000**	**Corporate €'000**	**Total Eurocastle €'000**	**Legacy Debt Portfolio €'000**	**Discontinued Operations €'000**	**Total Eurocastle €'000**
Portfolio returns	107,008	20,301	23,781	151,090	-	151,090	2,111	-	153,201
Revenue [1]	-	-	-	-	(28)	(28)	828	27,627	28,427
Other operating income	-	-	-	-	542	542	(1,046)	75,329	74,825
Total operating income [2]	**107,008**	**20,301**	**23,781**	**151,090**	**514**	**151,604**	**1,893**	**102,956**	**256,453**
Interest expense	-	-	-	-	(188)	(188)	(2,364)	(10,877)	(13,429)
Other operating expense	(18)	(192)	(128)	(338)	(15,761)	(16,099)	(637)	(20,229)	(36,965)
Impairment losses	-	-	-	-	-	-	(30,960)	-	(30,960)
Total operating expenses	**(18)**	**(192)**	**(128)**	**(338)**	**(15,949)**	**(16,287)**	**(33,961)**	**(31,106)**	**(81,354)**
Net operating profit / (loss)	**106,990**	**20,109**	**23,653**	**150,752**	**(15,435)**	**135,317**	**(32,068)**	**71,850**	**175,099**
Taxation expense	(2)	(4)	(266)	(272)	-	(272)	(4)	567	291
Net income / (loss) after taxation	**106,988**	**20,105**	**23,387**	**150,480**	**(15,435)**	**135,045**	**(32,072)**	**72,417**	**175,390**
Non controlling interest	-	(313)	-	(313)	-	(313)	-	-	(313)
Net income / (loss) after non controlling interest	**106,988**	**19,792**	**23,387**	**150,167**	**(15,435)**	**134,732**	**(32,072)**	**72,417**	**175,077**
Effective yield adjustments [3]	(84,341)	(3,458)	(7,608)	(95,407)	-	(95,407)	-	-	(95,407)
Gain on deconsolidation, loan redemptions and transaction costs	-	-	-	-	-	-	-	(144,222)	(144,222)
Reversal of revaluation (gains) / losses	-	-	-	-	-	-	-	74,610	74,610
Impairment reversal on debt	-	-	-	-	-	-	30,960	-	30,960
Sales fee	-	-	-	-	(542)	(542)	-	5,077	4,535
Reversal of loss on FX	-	-	-	-	-	-	2,092	-	2,092
Reversal of realised gains on paydowns and sales	-	-	-	-	-	-	(1,046)	-	(1,046)
Reversal of deferred tax credit	-	-	-	-	-	-	-	(682)	(682)
Other	20	196	394	610	(379)	231	(92)	(83)	56
Normalised funds from operations	**22,667**	**16,530**	**16,173**	**55,370**	**(16,356)**	**39,014**	**(158)**	**7,117**	**45,973**

(1) Included within revenue income is interest income of €1.1 million within the debt investment segment and €22.8 million of rental income and €4.8 million of service charge income within the discontinued operations segment.

(2) The total operating income arising within the key business segments are mainly attributable to countries as follows: Italian Investments (Italy); Legacy Debt Portfolio (Ireland); and Discontinued Operations (Germany).

(3) Adjusts all profit and loss movements recognised on the Italian investments under IFRS to that which is derived from an effective yield methodology where income is calculated on an expected yield basis given actual and projected cash flows of each investment.

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 Italian 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.

30. SEGMENTAL REPORTING (CONTINUED)

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

	Italian Investments								
Year ended 31 December 2015	**doBank Group €'000**	**NPLs/PL €'000**	**Real Estate €'000**	**Italian Investments €'000**	**Corporate €'000**	**Total Eurocastle €'000**	**Legacy Debt Portfolio €'000**	**Discontinued Operations €'000**	**Total Eurocastle €'000**
Portfolio returns	3,161	15,546	6,521	25,228	-	25,228	-	-	25,228
Revenue [(1)]	-	-		-	-	-	2,232	61,673	63,905
Other operating income / (loss) [(2)]	-	-	1,503	1,503	-	1,503	4,016	(27,881)	(22,362)
Total operating income [(3)]	**3,161**	**15,546**	**8,024**	**26,731**	**-**	**26,731**	**6,248**	**33,792**	**66,771**
Interest expense				-	-	-	(3,840)	(26,081)	(29,921)
Other operating expense	(2)	(208)	(492)	(702)	(10,248)	(10,950)	(358)	(40,266)	(51,574)
Impairment losses				-	-	-	(30,711)	-	(30,711)
Total operating expenses	**(2)**	**(208)**	**(492)**	**(702)**	**(10,248)**	**(10,950)**	**(34,909)**	**(66,347)**	**(112,206)**
Net operating profit / (loss)	**3,159**	**15,338**	**7,532**	**26,029**	**(10,248)**	**15,781**	**(28,661)**	**(32,555)**	**(45,435)**
Taxation (expense) / credit	(1)	(5)	(20)	(26)	-	(26)	(2)	2,870	2,842
Net profit / (loss) after taxation	**3,158**	**15,333**	**7,512**	**26,003**	**(10,248)**	**15,755**	**(28,663)**	**(29,685)**	**(42,593)**
Non controlling interest	-	(842)	-	(842)	-	(842)	-	-	(842)
Net profit / (loss) after non controlling interest	**3,158**	**14,491**	**7,512**	**25,161**	**(10,248)**	**14,913**	**(28,663)**	**(29,685)**	**(43,435)**
Effective yield adjustments	583	(7,379)	4,527	(2,269)	-	(2,269)	-	-	(2,269)
Gains on deconsolidation				-	-	-	-	(54,979)	(54,979)
Reversal of revaluation losses	-	-	-	-	(175)	(175)	3,109	90,253	93,187
Impairment losses on debt	-	-	-	-	-	-	34,556	-	34,556
Reversal of gain on FX	-	-	-	-	-	-	(47)	-	(47)
Reversal of realised gain on paydowns and sales	-	-	(1,503)	(1,503)	-	(1,503)	(4,826)	-	(6,329)
Reversal of deferred tax credit	-	-	-	-	-	-	-	(3,897)	(3,897)
Other [(4)]	-	-	-	-	90	90	(3,854)	4,066	302
Normalised funds from operations	**3,741**	**7,112**	**10,536**	**21,389**	**(10,333)**	**11,056**	**275**	**5,758**	**17,089**

(1) Included within revenue income is interest income of €2.2 million within the debt investment segment and €50.3 million of rental income and €11.4 million of service charge income within the discontinued operations segment.

(2) Included within the Real Estate segment is the Group's gain of €1.5 million relating to its investment in CDO V notes which was previously allocated as part of the Italian Investments and Non-controlling Interest segment in the 2015 financial statements.

(3) The total operating income arising within the key business segments are mainly attributable to countries as follows: Italian Investments (Italy); Legacy Debt Portfolio (Ireland); and Discontinued Operations (Germany).

(4) Included within the Discontinued Operations segment is €5.7 million of transaction costs.

30. SEGMENTAL REPORTING (CONTINUED)

Segmental Balance Sheet:

As at 31 December 2016	doBank Group €'000	NPLs/PL €'000	Real Estate €'000	Italian Investments €'000	Corporate €'000	Total Eurocastle €'000	Legacy Debt Portfolio €'000	Discontinued Operations €'000	Total Eurocastle €'000
Total assets (1)	264,802	140,615	68,258	473,675	100,447	574,122	18,334	7,669	600,125
Total liabilities	(6)	(2,780)	(10)	(2,796)	(15,475)	(18,271)	(60,949)	(7,554)	(86,774)
Segment net assets / (liabilities)	**264,796**	**137,835**	**68,248**	**470,879**	**84,972**	**555,851**	**(42,615)**	**115**	**513,351**
Tax liabilities	(1)	(13)	(3)	(17)	(4,649)	(4,666)	(2)	(108)	(4,776)
Non-controlling interest	-	(1,058)		(1,058)	-	(1,058)	-	-	(1,058)
Net assets / (liabilities)	**264,795**	**136,764**	**68,245**	**469,804**	**80,323**	**550,127**	**(42,617)**	**7**	**507,517**

As at 31 December 2015	doBank Group €'000	NPLs/PL €'000	Real Estate €'000	Italian Investments €'000	Corporate €'000	Total Eurocastle €'000	Legacy Debt Portfolio €'000	Discontinued Operations €'000	Total Eurocastle €'000
Total assets (1)	157,733	134,354	41,849	333,936	204,350	538,286	76,114	446,868	1,061,411
Total liabilities	(1)	(5,754)	-	(5,755)	(14,534)	(20,289)	(89,336)	(503,557)	(613,182)
Segment net assets / (liabilities	**157,732**	**128,600**	**41,849**	**328,181**	**189,816**	**504,918**	**(13,222)**	**(56,689)**	**448,229**
Tax liabilities	(1)	(6)	-	(7)	-	(7)	-	(8,918)	(8,925)
Non-controlling interest	-	(1,335)	-	(1,335)	-	(1,335)	-	-	(1,335)
Net assets / (liabilities)	**157,731**	**127,259**	**41,849**	**326,839**	**189,816**	**503,576**	**(13,222)**	**(65,607)**	**437,969**

(1) The significant non-current assets within the key business segments are attributable to countries as follows: Italian Investments (Italy); Legacy Debt Portfolio (Ireland); and Discontinued Operations (Germany).

31. INVESTMENT IN SUBSIDIARIES

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 an interest of 100% (unless otherwise stated), are listed by jurisdiction below:

Luxembourg:
Italy Investment S.à r.l
Verona Holdco S.à r.l
Virgilio Unitco 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%)

United States of America:
Fortress Italian Real Estate Opportunities Series Fund LLC

Additionally the Group has investments in Eurocastle Funding Designated Activity Company and Duncannon CRE CDO I PLC ("CDO V").

32. SUBSEQUENT EVENTS

In January 2017, Eurocastle invested in a distressed swap claim which was a senior part of the capital structure in which Eurocastle had its last remaining legacy debt business investment. Eurocastle was able to acquire the swap claim, aggregate this position with its incumbent legacy debt investment position and sell them to a buyer looking for exposure across the capital structure. Eurocastle sold its incumbent investment for €0.6 million and realised a gain of €7.2 million on the sale of the swap claim. This transaction represented the final expected realisation from Eurocastle's legacy debt investments.

In February 2017, Eurocastle agreed the sale of its 27% interest in Real Estate Investment Fund Investment III. The transaction, together with other distributions, has resulted in total proceeds of €20.9 million to the Group.

In January 2017, the Group's remaining property asset in its legacy real estate portfolio successfully closed and the proceeds were repaid to the former lender. The Group received fees of €34,000 as part of the terms of the sale as agreed with the former lender.

As at 31 December 2016, 39 properties within the Drive portfolio were under binding contracts for total sales proceeds of €68.1 million which is expected to generate sales fees of €2.4 million to Eurocastle.

Subsequent to 31 December 2016, Eurocastle recognised €2.2 million of sales fees on Drive portfolio which related to 17 properties with total sales proceeds of €63.4 million.

33. COMMITMENTS

In December 2016, Eurocastle together with other affiliates of the Manager agreed to acquire a significant portion of a €17.7 billion portfolio of Italian non-performing loans from UniCredit S.p.A.. The transaction entails an anticipated equity investment for Eurocastle of between €50 million and €70 million.

As at 31 December 2016, Eurocastle had entered into a formal commitment of €5.0 million as part of the expected total commitment of €6.6 million in a second Italian Real Estate Redevelopment Fund. The undrawn formal commitment is €4.7 million with €0.3 million drawn as at 31 December 2016. The Group expects to fully fund its commitment during 2017. The formal commitment endures for a further 48 months as at 31 December 2016.

34. CONTINGENT LIABILITIES

As at 31 December 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 3 months from 31 December 2016 (15 months from 31 December 2015) and has maximum exposure at the reporting date of €3.6 million (31 December 2015: €3.6 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 further 3 months as at 31 December 2016 (15 months from 31 December 2015).

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FORWARD-LOOKING STATEMENTS

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

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