Eurocastle Investment Limited

2020

ANNUAL REPORT

Eurocastle Investment Limited

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.

2020

FINANCIAL HIGHLIGHTS AT A GLANCE[1]

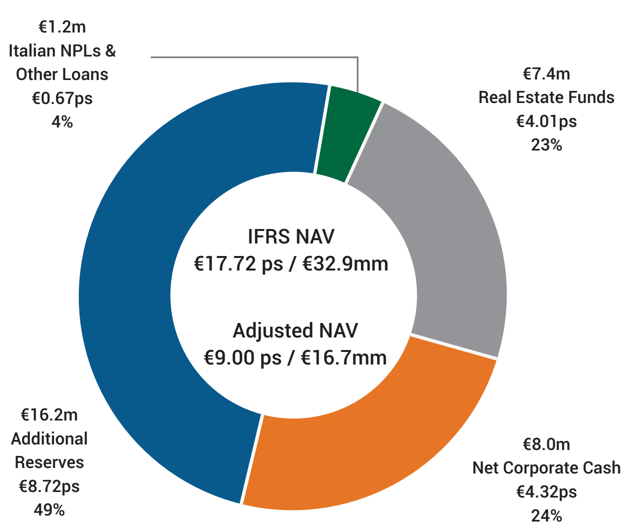
ADJUSTED YE 2020 NAV PER SHARE[2]:	ADJUSTED YE 2020 NAV:	FY 2020 DISTRIBUTION:
€9.00ps	€16.7mm	€0.54ps
(YE 2019: €8.32ps) (Q3 2020: €7.46ps)	(YE 2019: €15.4mm) (Q3 2020: €13.8mm)	(FY 19: €13.3mm / €0.30ps)
YE 2020 IFRS NAV of €17.72ps	YE 2020 IFRS NAV of €32.9mm	FY 2020 DISTRIBUTION of €1.0mm

COMPANY STRATEGY

Eurocastle Investment Limited (the "Company" or "Eurocastle") is a publicly traded closed-ended investment company with investments focused on Italian performing and non-performing loans, Italian loan servicing platforms and other real estate related assets in Italy. On 18 November 2019, the Company announced a plan to realise the majority of its assets with the aim of accelerating the return of value to shareholders. The Company does not currently intend to seek new investments from the proceeds of the realisation but will continue to support its existing investments to the extent required in order to optimise returns and distribute cash to shareholders when available (the "Realisation Plan").

PORTFOLIO OVERVIEW

Following implementation of the Realisation Plan in December 2019, Eurocastle's remaining portfolio of Italian Investments is made up of Real Estate Funds and residual interests in Italian NPLs & Other Loans, with the balance comprising Net Corporate Cash (after taking into account reserves for future costs and potential liabilities considered by the Board in light of the Realisation Plan). The chart below shows a breakdown of Eurocastle's net assets as at **31 December 2020**.



Real Estate Funds: Interests in:

- One publicly listed fund
  - RE Fund I: All assets sold in 2019, €2.2 million received in 2020. Last expected material distribution of €0.4 million to be received on 10 March 2021.
- Two private Italian real estate development funds:
  - RE Fund II: One building complete and fully sold, second building complete with approximately 87% of units sold.
  - RE Fund V: Construction completed on budget, with 67% of units sold.

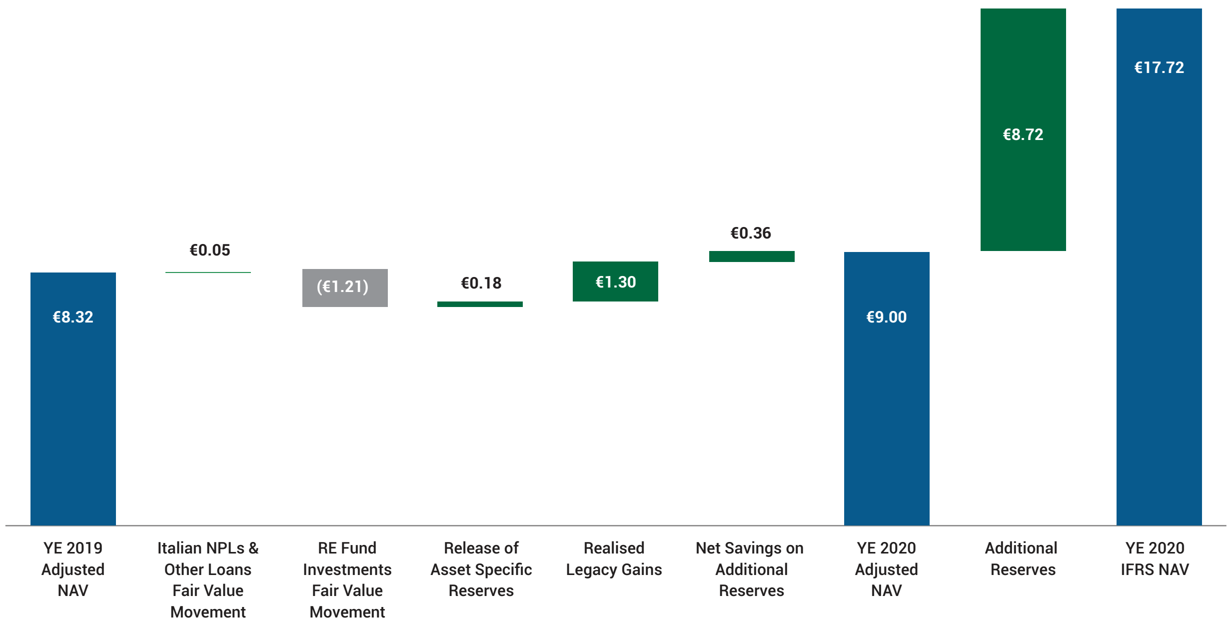
Italian NPLs & Other Loans: Residual minority interest in 3 loan pools

Additional Reserves: Reserves required for the Company to continue in operation and fund its future costs and potential liabilities in light of the Realisation Plan. These reserves are not accounted for under IFRS. No commitments for these future costs and potential liabilities existed as at 31 December 2020.

Net Corporate Cash: Corporate cash net of liabilities and additional reserves.

See page 17 for all end notes.

FY 2020 NAV Bridge
In € per share



2020 BUSINESS HIGHLIGHTS

Overview in light of COVID-19

The Company started 2020 having successfully executed on the first and largest part of its Realisation Plan by selling its NPL portfolio to a Fortress affiliate and tendering its stake in doValue, via a share for share tender. As part of this process the Company set aside Additional Reserves determined by the Board of Directors in order to take into account anticipated future costs and potential liabilities.

These steps left the Company well capitalised and in a strong position to weather the extraordinary circumstances that have followed the outbreak of COVID-19. During the year, the Company reviewed its underlying cash flow models and adjusted them accordingly by applying haircuts and extending out the cash flows of its remaining investments to take into account the anticipated impact of COVID-19, with the resultant impact reflected in the valuation of the Company's assets at the end of YE 2020.

The Company's current assets comprise:

- Interests in two real estate redevelopment funds where construction is fully completed. The units are in the process of being sold but encountering delays due to the COVID-19 outbreak. Both developments offer luxury residential apartments with high specification furnishings in Rome.
- Interest in a public fund which is in the process of being liquidated and which recently declared its last expected material distribution of €0.4 million to be paid to Eurocastle on 10 March 2021.
- Residual minority interests in three predominantly secured NPL & Other Loan pools.
- Net corporate cash of €8.0 million, comprising of corporate cash net of liabilities and Additional Reserves.

See page 17 for all end notes.

Investment Realisations & Highlights

COVID-19 has had an extraordinary impact across all sectors of the economy. The Company's move to realise the majority of its assets in YE 2019 and its prudent management of cash reserves have left the Company well placed to maximize the value of its remaining assets. This has been evidenced in their performance during 2020 where the Company achieved the following milestones:

- During the year, the Company realised €4.7 million from its investments, of which €4.6 million came from its Real Estate Funds (~33% of YE 2019 NAV after asset specific reserves) and €0.1 million from its minority NPL and Other Loan holdings (~8% of YE 2019 NAV).
- Closed or collected offers under contract on 50% of the remaining real estate units available for sale as at 1 January 2020 in Real Estate Fund Investment II and 47% in Real Estate Fund Investment V, with a significant portion of this activity occurring in H2 2020, after the initial lockdown. Assuming that all these offers close, only 13% of units in one building in Real Estate Fund Investment II (with the second building already fully sold) and 33% of the units in Real Estate Fund Investment V will remain to be sold. The renewed interest in the apartments that was evidenced after the end of the first lockdown in Italy in May 2020 has continued, reflecting the pent-up demand in the market for quality, semi-central residential real estate in Rome.
- Following the sale of all of the assets in Real Estate Fund Investment I in 2019, the Company received €2.2 million, or 89% of its YE 2019 NAV, during 2020. The fund is in the process of being liquidated with its last expected material distribution of €0.4 million to be paid to Eurocastle on 10 March 2021, €0.1 million above Eurocastle's YE 2020 carrying value.
- The residual NPL & Other Loan interests, which are predominantly secured, have continued to generate cash proceeds, in spite of the turmoil created by COVID-19. During the year the pools generated and distributed €0.1 million, or ~8% of its YE 2019 NAV.
- The Company successfully negotiated the positive resolution of a claim relating to its legacy debt business. Given the uncertainty ascribed to the outcome of the claim, the Company did not attribute any value in its accounts other than reserving for its share of the associated costs. The Company received approximately €2.2 million and after taking into account costs previously reserved for, the net positive impact to Eurocastle's Adjusted Net Asset Value is €2.3 million.
- The Company reduced its Additional Reserves (excluding asset specific reserves) from €18.7 million to €16.2 million during the financial year. €1.8 million of this reduction relates to reserves being utilised, in line with anticipated costs, along with €0.7 million of net reserve savings having been achieved in 2020.

SUBSEQUENT EVENT TO 31 DECEMBER 2020

- The market turmoil and global distress caused by the COVID-19 pandemic has created a number of potentially attractive investment opportunities. In light of this and the Company's parallel efforts to expedite the resolution of certain key reserves, the Board has decided to undertake a review of the Company's strategic options, including use of available capital.
- The Company's current strategy was approved by shareholders as part of the Realisation Plan announced in November 2019. The Board presently anticipates that the outcome of the current review will be announced to shareholders during the second half of 2021.

See page 17 for all end notes.

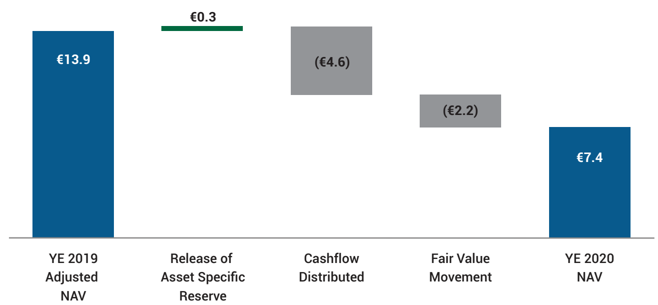
ITALIAN REAL ESTATE FUNDS

Since 2014, Eurocastle has made several investments in this asset class, investing €67.2 million in five separate real estate funds; of which two have been fully realised.

The Company opportunistically targeted either public or private funds that could be acquired at a significant discount to the value of their underlying assets.

Following adoption of the Realisation Plan, the Company plans to continue to hold and realise these assets in accordance with existing business plans. It will support these investments to the extent required to optimise returns and distribute cash to shareholders when available.

Italian RE funds–FY 2020 Adjusted NAV Bridge
(€ million)



RE Fund Investments	Equity Invested € million	Total Cash flows Distributed to Eurocastle € million	*Of which Received in 2020 € million*	Adjusted NAV € million	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) € million
I	22.2	26.4	*2.2*	0.3	0.16	26.7
II	15.4	13.3	*2.0*	2.3	1.27	15.6
V	5.6	0.4	*0.4*	4.8	2.58	5.2
TOTAL	***43.2***	***40.1***	***4.6***	***7.40***	***4.01***	***47.5***

RE Funds Update

These comprise interests in one publicly listed fund and two private Italian real estate redevelopment funds.

- RE Fund I (publicly listed fund)–the fund manager disposed all of the fund's assets in 2019. In 2020, the Company received €2.2 million of distributions. The fund is in the process of being liquidated. On 25 February 2021, the fund declared its last expected material distribution of €5.7 million, to be paid on 10 March 2021, of which Eurocastle's share is €0.4 million, €0.1 million above Eurocastle's YE 2020 carrying value. During 2020, a fair value increase of €18k, or €0.01 per share, was recognised, based on a closing price of €25.01 per unit on 31 December 2020.
- RE Fund II–Redevelopment of both buildings is completed with all units of the first building sold and approximately 87% of units sold or under contract in the second building. The remaining units are in the process of being sold with delays anticipated due to the COVID-19 outbreak. The development offers luxurious residential apartments with high specification furnishings, semi-centrally located in Rome. During 2020, a fair value increase of €0.2 million or €0.10 per share was recognised.
- RE Fund V–Construction completed on budget and 67% of units to date sold or under contract. The remaining units are in the process of being sold with delays anticipated due to the COVID-19 outbreak. The development offers luxury residential apartments with high specification furnishings, semi-centrally located in Rome. During 2020, a fair value decrease of €2.4 million or €1.32 per share was recognised, reflecting the anticipated impact of COVID-19.

See page 17 for all end notes.

Further details of all remaining real estate fund investments as at 31 December 2020 can be found in the table below:

	Fund Investment I	Fund Investment II	Fund Investment V
Investment Date	Mar-14	Jul-14	Q2-17
Eurocastle Ownership	7.5%	49.7%	49.6%
Fund Type	Publicly Listed	Private	Private
Collateral Type	n/a—assets sold	2 luxury residential redevelopments	1 luxury residential redevelopment
Collateral Location	n/a	Rome	Rome
ECT YE 2020 NAV per share	€0.16	€1.27	€2.58
Fund Leverage	0%	0%	35%[3]
Legal Fund Maturity	In liquidation	Q4 2021	Q4 2022

See page 17 for all end notes.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

Following the change in classification to an investment entity as defined under IFRS 10 in July 2017, the Company does not consolidate the entities it controls and therefore fair values all of its investments (whether through subsidiaries or joint ventures).

	Income Statement 2020 *€ Thousands*	Income Statement 2019 *€ Thousands*
Portfolio Returns		
doValue realised gain	–	47,879
Italian NPLs & Other Loans realised gain	–	2,868
Italian NPLs & Other Loans unrealised fair value movement	99	165
Real Estate Funds unrealised fair value movement	(2,233)	(424)
Fair value movement on Italian investments	**(2,134)**	**50,488**
Fair value movements on residual Legacy entities	2,501	764
Other income	15	–
Gain on foreign currency translation	2	1
Total income	**384**	**51,253**
Operating Expenses		
Interest expense	**43**	**121**
Manager base and incentive fees	111	32,237
Remaining operating expenses	1,749	3,115
Other operating expenses	**1,860**	**35,352**
Total expenses	**1,903**	**35,473**
(Loss) / profit for the year	**(1,519)**	**15,780**
€ per share	***(0.82)***	***0.38***

BALANCE SHEET AND ADJUSTED NAV RECONCILIATION AS AT 31 DECEMBER 2020

	Italian Investments *€ Thousands*	Corporate *€ Thousands*	Total *€ Thousands*
Assets			
Cash and cash equivalents	–	25,341	25,341
Other assets	–	119	119
Investments:			
Italian NPLs & Other Loans	1,248	–	1,248
Real Estate Funds	7,435	–	7,435
Total assets	**8,683**	**25,460**	**34,143**
Liabilities			
Trade and other payables	–	1,170	1,170
Manager base and incentive fees	–	104	104
Total liabilities	**–**	**1,274**	**1,274**
IFRS Net Asset Value	**8,683**	**24,186**	**32,869**
Additional Reserves	–	(16,183)	(16,183)[2]
Adjusted NAV	**8,683**	**8,003**	**16,686**
Adjusted NAV (€ per Share)	***4.68***	***4.32***	***9.00***

See page 17 for all end notes.

ADDITIONAL RESERVES

The table below summarises the movement of Eurocastle's Additional Reserves (excluding asset specific reserves which are reflected in the fair value of the underlying investment), set as part of the realisation plan in 2019. Eurocastle started the year with €18.7m of Additional Reserves to fund future costs and potential liabilities. These reserves currently stand at €16.2m as at 31 December 2020 after having paid/accrued €1.8m of costs and accounting for net reserve savings achieved in the year of €0.7m.

	Dec 2019 Additional Reserves *€ million*	Reserves (paid/ payable) in 2020 *€ million*	Dec 2019 Reserves less (paid/ payable) in 2020 *€ million*	Dec 2020 Reserves *€ million*	2020 Net Savings on Reserves *€ million*
Total	(18.7)	1.8	(16.9)	(16.2)	0.7
Per Share	*(10.07)*	*0.99*	*(9.08)*	*(8.72)*	*0.36*

DISTRIBUTION

On 4 March 2021, the Board declared a distribution of €1.0 million, or €0.54 per share:

				Relating to 2020	
Period	**Type**	**Date Declared**	**Date Payable**	*€ million*	*€ per share*
2020	Capital	04/03/2021	30/03/2021	€ 1.0	€ 0.54
Total				**€ 1.0**	**€ 0.54**

This distribution is being treated as a return of capital because there are no current year or carry-forward profits available at the Company. It will be reflected in the "Share Capital" column in the Statement of Changes in Equity in the Company's financial statements.

See page 17 for all end notes.

DIRECTORS

The Directors who have held office during the year were:

Randal A. Nardone
Claire Whittet[4]
Jason Sherwill[4]
Peter Smith
Simon J. Thornton[4]
Hammad Khan (appointed 15 February 2019 and resigned on 5 March 2020)

Mr. Hammad Khan was officially appointed to the Board of Directors on 15 February 2019 as a representative of Eurocastle's largest shareholder at the time, which is an affiliate of EJF Capital LLC ("EJF"). Mr. Khan is a senior managing director, Europe, of EJF. Mr. Khan resigned from the Board on 5 March 2020.

DIRECTORS INTERESTS

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

	As at 31-Dec-20	As at 31-Dec-19
Randal A. Nardone[5]	7,662	7,662
Claire Whittet	4,324	3,324
Jason Sherwill	12,965	11,965
Peter Smith	–	–
Simon J. Thornton	11,427	10,427
Hammad Khan (resigned on 5 March 2020)	–	–

SUBSTANTIAL SHAREHOLDINGS

Per the shareholder register and as at 4 March 2021, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings[6]
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV	51%
Euroclear Nominees Limited	30%
State Street Nominees Limited	11%
Vidacos Nominees Limited	4%

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 the relevant regulators of certain changes to the percentage of voting rights in Eurocastle held by them.

A number of individual shareholders have made a notification of exceeding the reporting thresholds per the EU transparency rules as implemented in the Netherlands. These notifications are registered in the public register maintained by the Netherlands Authority for Financials Markets (AFM) and can be found at the following website www.afm.nl. The shareholding above has been obtained from the share register, which records legal title to the Company's shares. The shareholdings listed above may therefore not reflect beneficial ownership.

AUDITORS

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

See page 17 for all end notes.

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 Company 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 8. 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 Company's auditors in connection with preparing their report) of which Eurocastle's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that Eurocastle's auditors are aware of that information.

GOING CONCERN

Following the announcement of the Realisation Plan, the Directors have assessed, and continue to have a reasonable expectation, that the Company will be able to continue in operation and meet its liabilities as they fall due. The Directors have reviewed the Company's processes to control those risks to which the Company is exposed, as disclosed in note 3 to the financial statements, as well as reviewing the annual budget, including the additional reserves set aside as part of the Realisation Plan. COVID-19 is not expected to have a significant impact on the Company's liquidity. The Directors have also reviewed forecasts that have been sensitised to reflect plausible downside scenarios. The Directors have determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. As a result of this, the Directors have a reasonable expectation that the Company 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 financial statements.

DIRECTORS' STATEMENTS PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

Each of the Directors as at 31 December 2020 (whose names are listed on page 8) 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 Company; 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 Company, together with a description of the principal risks and uncertainties that they face.

See page 17 for all end notes.

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 Company and of the profit or loss of the Company for that year. 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 Company 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 Company 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 Company 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.

FORWARD LOOKING STATEMENTS

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

Registered Office

Oak House
Hirzel Street
St. Peter Port
Guernsey GY1 2NP

On behalf of the Board

Director and Audit Committee Chairman
Date: 4 March 2021

See page 17 for all end notes.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCASTLE INVESTMENT LIMITED

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's loss for the year then ended;
- the Company financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Eurocastle Investment Limited (the 'Company') for the year ended 31 December 2020 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards as adopted by the European Union.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

INDEPENDENCE

We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

CONCLUSION RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewed the forecasted cash flows that support the Directors' assessment of going concern. We agreed the forecast cash-flows from the Company's investments to our audit of the valuations;
- Assessed the sensitivity of the forecasted cash flows to changes in the future financial performance of the Company and its investments; and
- Discussed the with the Directors the sensitivities applied to the forecasts and the likelihood of the sensitised forecasts occurring.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

See page 17 for all end notes.

OVERVIEW

		2020	2019
Key audit matters	Valuation, existence and ownership of investments—Non Performing Loans and Real Estate Funds	✓	✓
	Completeness and accuracy of incentive fees paid to the investment manager	–	✓
	Completeness and accuracy of incentive fees paid to the investment manager is no longer considered to be a key audit matter because of the change in magnitude and basis of the Incentive Fee.		
Materiality	€1m (2019:€1m) based on 3% (2019: 1.75%) of Net assets (2019: Total assets.)		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Company operates solely through one segment, investments in Europe. The Company audit team performed all the work necessary to issue the Company audit opinions, including undertaking all of the audit work on the key risks of material misstatement.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

See page 17 for all end notes.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation, existence and ownership of investments—Non Performing Loans and Real Estate Funds ***Refer to note 2 accounting policies (financial instruments) and note 8 (investments)*** The valuation of investments, in particular unlisted investments, requires significant judgement and estimates by management in determining future cash flows and discount rates and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The investment portfolio at the year-end comprised of unlisted investments valued at €8.7m. Any input inaccuracies or unreasonable bases used in the valuation judgements could result in a material misstatement of the financial statements. There is also a risk that management may influence the significant judgements and estimates in respect of valuations in order to achieve valuations and other performance targets to meet market expectations.	For all the Non Performing Loan portfolios held, we performed the following procedures: • Reviewed the valuation model used including an assessment of the expected future cash flows; • Reviewed, analytically, the changes in the underlying figures including purchase prices, ownership interests, realised actual cash flows and projected Net Present Value from prior year. We discussed with management any significant variances from the prior year, obtaining corroborating evidence where available; • Reconciled the forecasted future cash flows used in the valuation models to those presented in the Business Plan reports; • Assessed the accuracy of the cash flow forecasts by comparing forecasted cash flows to actual cash flows and performing the sensitivity analysis on forecasted future cash flows; • Analysed the use of the discount rate adopted against internal and external evidence and performed sensitivity analysis around the effect of the discount rate on the fair value adopted; • Re-performed the calculation of the investment valuations; • Utilised our internal valuation experts to review the assumptions used in the valuation model and evaluate the appropriateness of the valuation methodology. • Agreed the investment holdings to independently received third party confirmations from the custodian to confirm existence and completeness. For all the Real Estate Portfolios held, we performed the following procedures: • Reviewed the valuation model produced by management including the assessment of the expected future cash flows; • Analysed the market rates adopted for the Real Estate Portfolios and performed sensitivity analysis around the effect of the discount rate on the fair value adopted; • Re-performed the calculation of the investment valuations; • Obtained a copy of the valuation of the underlying developments performed by an independent valuer. We assessed the valuers competence and capabilities and utilised our internal valuation experts to review the assumptions used in the valuation model and evaluate the appropriateness of the valuation methodology used; • Tested acquisitions and distributions by agreeing them to the relevant documentation and bank statements; and • Agreed the investment holdings to independently received third party confirmations from the custodian to confirm existence and completeness. ***Key observations:*** Based on the procedures we performed we considered the assumptions used by management in the valuation of investments to be reasonable and did not identify any matters relating to existence and ownership of these investments.

See page 17 for all end notes.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2020	**2019**
Materiality	€1m	€1m
Basis for determining materiality	3% of Net assets	1.75% of Total assets
Rationale for the benchmark applied	Following the realisation of the majority of the Company's investments in 2019 we consider net assets to represent the most appropriate basis for setting materiality as it represents the shareholders' interest in the company.	We considered that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.
Performance materiality	750	750
Basis for determining performance materiality	75% of total materiality	75% of total materiality

REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of €20,000 (2019: €20,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OTHER COMPANIES (GUERNSEY) LAW 2008 REPORTING

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 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.

See page 17 for all end notes.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements within the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and industry in which the Company operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies (Guernsey) Law, 2008, Euronext Rule Book and International Financial Reporting Standards as adopted by the European Union.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiries with Management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

See page 17 for all end notes.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Young
For and on behalf of BDO LLP
Chartered Accountants, London, UK
4 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

See page 17 for all end notes.

ENDNOTES

[1]Per share calculations for Eurocastle throughout this document are based on the weighted average or outstanding voting shares and therefore exclude shares held in treasury. As at 31 December 2020, a total of 1.9 million shares were in issue of which 1.9 million were voting shares and no shares were held in treasury. Amounts per share are therefore calculated on the following basis: FY 2020 Net Asset Value per share ("NAV per share")—1.9 million voting shares in issue; FY 2019 NAV per share based on 1.9 million voting shares; FY 2020 NAV per share based on 1.9 million voting shares.

[2]In light of the Realisation Plan, the Adjusted NAV reflects the additional reserves for future costs and potential liabilities, which have not been accounted for under the IFRS NAV.

[3]Fund leverage as of Q4 2020.

[4]Independent directors.

[5]Randal A. Nardone is a member of Fortress Operating Entity I LP (registered holder of 38 shares) and Principal Holdings I LP (registered holder of 750 shares) and as a result of these relationships he is interested in the shares owned by these entities.

[6]Percentages calculated on 1.9 million voting shares in issue.

INCOME STATEMENT

	Notes	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Portfolio Returns			
Realised fair value gain on Italian investments	4	—	50,747
Unrealised fair value loss on Italian investments	4	(2,134)	(259)
Realised fair value movements on other investments	4	2,501	764
Other income			
Other income		15	—
Gains on foreign currency translation		2	1
Total income		**384**	**51,253**
Operating expenses			
Interest expense		43	121
Other operating expenses	5	1,860	35,352
Total expenses		**1,903**	**35,473**
Net operating (loss) / profit before taxation		**(1,519)**	**15,780**
Taxation expense—current		**—**	**—**
Total tax expense		**—**	**—**
(Loss) / profit after taxation for the year		**(1,519)**	**15,780**
Attributable to:			
Ordinary equity holders of the Company		(1,519)	15,780
Net (loss) / profit after taxation		**(1,519)**	**15,780**
Earnings per ordinary share[(1)]			
Basic and diluted	11	€ (0.82)	€ 0.38

The Company had no other comprehensive income in the year ended 31 December 2020 and the year ended 31 December 2019.

[(1)] Earnings per share is based on the weighted average number of shares in the year of 1,852,740 (31 December 2019: 41,059,499). Refer to note 11.

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

BALANCE SHEET

	Notes	As at 31 December 2020 €'000	As at 31 December 2019 €'000
Assets			
Cash and cash equivalents	6	25,341	41,681
Other assets	7	119	98
Investments	8	8,683	15,507
Total assets		**34,143**	**57,286**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised		1,625,741	1,625,727
Treasury shares	12	—	—
Accumulated loss	12	(1,592,872)	(1,591,339)
Total equity		**32,869**	**34,388**
Liabilities			
Trade and other payables	10	1,274	22,898
Total liabilities		**1,274**	**22,898**
Total equity and liabilities		**34,143**	**57,286**

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

The financial statements were approved by the Board of Directors on 4 March 2021 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CASH FLOW STATEMENT

	Notes	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Cash flows from operating activities			
Net operating (loss) / profit before taxation for the year		**(1,519)**	**15,780**
Adjustments for:			
Realised fair value gain on Italian investments	4	–	(50,747)
Unrealised fair value loss on Italian investments	4	2,134	259
Realised fair value movement on other investments	4	(2,501)	(764)
Interest expense		43	121
Gain on foreign currency and other derivatives		(2)	(1)
Total adjustments to (loss) / profit for the year		**(326)**	**(51,132)**
Increase / (decrease) in other assets		21	(34)
(Decrease) / increase in trade and other payables		(21,864)	17,172
Movements in working capital		**(21,843)**	**17,138**
Acquisition of Italian investments	8	–	(46,817)
Disposal of Italian investments	8	–	173,275
Cash distribution from Italian investments	8	4,690	46,279
Cash distribution from other investments		2,714	1,353
Interest paid		(56)	(126)
Cash movements from operating activities		**7,348**	**173,964**
Cash generated from operations		**(16,340)**	**155,750**
Taxation paid		–	–
Net cash flows from operating activities		**(16,340)**	**155,750**
Cash flows from financing activities			
Repurchase of share capital net of costs		–	(181,779)
Dividends paid	13	–	(20,058)
Net decrease in cash flows from financing activities		**–**	**(201,837)**
Net decrease in cash and cash equivalents		**(16,340)**	**(46,087)**
Cash and cash equivalents, beginning of the year	6	**41,681**	**87,768**
Total cash and cash equivalents, end of the year	6	**25,341**	**41,681**

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

STATEMENT OF CHANGES IN EQUITY

	Share capital €'000	Treasury shares €'000	Accumulated loss €'000	Total equity €'000
As at 1 January 2019	**1,977,731**	**(156,833)**	**(1,427,875)**	**393,023**
Profit after taxation for the year	–	–	15,780	15,780
Total comprehensive profit for the year	**–**	**–**	**15,780**	**15,780**
Contributions by and distributions to owners:				
Shares issued to Directors from treasury shares (note 12)	–	18	(18)	–
Shares repurchased and cancelled (note 12)	(352,004)	–	–	(352,004)
Repurchase of shares (note 12)	–	(2,353)	–	(2,353)
Dividends declared (note 13)	–	–	(20,058)	(20,058)
Cancellation of treasury shares (note 12)	–	159,168	(159,168)	–
As at 31 December 2019	**1,625,727**	**–**	**(1,591,339)**	**34,388**
Loss after taxation for the year	–	–	(1,519)	(1,519)
Total comprehensive loss for the year	**–**	**–**	**(1,519)**	**(1,519)**
Contributions by and distributions to owners:				
Shares issued to Directors (note 12)	14	–	(14)	–
As at 31 December 2020	**1,625,741**	**–**	**(1,592,872)**	**32,869**

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company") 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) regulated by the Nederlands Authority for Financial Markets ("AFM"), which is also now its home state regulator as a result of Brexit. 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 when their holding of the issued share capital and/or of the voting rights in Eurocastle reaches, exceeds or falls below certain thresholds, whereby the lowest threshold is 5%.

The activities of the Company included investing indirectly in Italian performing and non-performing loans ("PLs" / "NPLs"), distressed loan assets and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy. On 18 November 2019 the Board of Directors ("Board") announced a plan to realise the majority of the Company's assets in order to accelerate the return of value to the Company's shareholders (the "Realisation Plan").

As a result of the Realisation Plan, the Board does not currently intend to make any material new investments with the proceeds realised from the Company's existing holdings. With respect to the remaining assets, which predominantly comprise Eurocastle's investments in Italian real estate funds, the Company plans to continue to hold and realise these assets in accordance with existing business plans. It will support these investments to the extent required to optimise returns and distribute cash to shareholders when available.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). The Manager was acquired by Softbank Group Corp (9984: Tokyo) ("Softbank") on December 27, 2017 and operates as an independent business within Softbank under the continuing leadership of Pete Briger, Wes Edens and Randal Nardone. Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company'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 asset management and finance services), as described in note 14. The Company has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Following the announcement of the Realisation Plan in 2019, the Directors have assessed, and continue to have a reasonable expectation, that the Company will be able to continue in operation and meet its liabilities as they fall due. The Directors have reviewed the Company's processes to control those risks to which the Company is exposed, as disclosed in note 3, as well as reviewing the annual budget, including the additional reserves set aside as part of the Realisation Plan. As a result of the Realisation Plan, no contractual commitments have become onerous and no commitments for further realisation costs have been made. Therefore, no provisions have been recorded in the financial statements for the future costs of the business. COVID-19 is not expected to have a significant impact on the Company's liquidity. The Directors have also reviewed forecasts that have been sensitised to reflect plausible downside scenarios. The Directors have determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. As a result of this, the Directors have a reasonable expectation that the Company 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 financial statements.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis and under the historical cost basis of accounting, except for investments at fair value through profit and loss, which are measured at fair value.

Following the classification of the Company as an investment entity under IFRS 10 in July 2017, the Company does not consolidate the entities it controls and therefore fair values all of its investments (whether through subsidiarie or joint ventures). These separate financial statements of the Company are its only financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Refer to note 8 for further details on investment valuations.

Fair value movements on investments

Fair value movements on un-quoted investments includes revaluation gains and losses from the underlying investments. The Company's investments during the period comprised Italian NPLs & other loans, distressed loans, real estate fund units and intermediate holding companies (refer to note 8).

Interest expense

Negative interest charges on Euro corporate cash deposits are recognised in the income statement on an accrual basis.

Taxation

The Company falls under the Collective Investment Schemes exemption for Guernsey tax purposes and is charged €1,400 per annum (2019: €1,400). The Company is granted this exemption status on an annual basis and therefore the Company is treated as not being resident in Guernsey for tax purposes and is not liable for Guernsey tax on non-Guernsey source income (which for these purposes includes Guernsey bank deposit interest).

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash on deposit and in hand with an original maturity of three months or less.

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 12), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders. 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. If shares are cancelled once bought back, or after a period of time, the shares are released from the treasury shares reserve.

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.

Financial Instruments

Recognition

A financial asset or liability is recognised on the date the Company 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 Company 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification

Financial Assets

Financial assets held at fair value through profit or loss are investments that are initially recognised at fair value with any subsequent movements in fair value recognised in the income statement.

Financial liabilities

Financial liabilities are composed of trade and other payables.

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

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 Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company 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 Company 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 Company'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 Company could be required to repay.

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 recognised in the income statement.

Foreign currency translation

The presentation currency and the 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 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.

Segment Reporting

The company operates in one geographical segment, being Europe. The Board of Directors assesses its business through one primary segment, Italian investments. The Company's Italian investments are predominantly made up of Italian Real Estate Funds and its residual interests in NPLs & Other Loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards, interpretations and amendments effective from 1 January 2020

New amendments were enacted during the year which had no impact on the financial statements of the Company. New standards issued after 31 December 2020 have been considered and it has been determined that these new standards will not have a material impact on the financial statements of the Company.

3. FINANCIAL RISK MANAGEMENT

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 Company 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. For the purposes of AIFMD reporting, leverage is the ratio between the fair value of the assets under management and the net asset value of the Company. The ratio is required to be calculated on a gross basis and a commitment basis, under the European Commission's Delegated Regulation (commonly known as the Level 2 Regulation). The gross basis does not take into account any netting or hedging, whereas the commitment basis takes into account both netting and hedging. As at 31 December 2020, the leverage (as defined by this measure) under the gross and commitment basis was 26.78% and 26.78% respectively (31 December 2019: 46.33% and 46.33%).

Risk Management

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

Capital Risk Management

The Company's capital is represented by ordinary shares with no par value and which carry one vote each. The shares are entitled to dividends when declared. The Company has no additional restrictions or specific capital requirements on the issuance and re-purchase of ordinary shares. The movements of capital are shown in the statement of changes in equity.

In order to meet the Company's capital management objectives, the Manager and the Board monitor and review the broad structure of the Company's capital on an ongoing basis. This review includes:

- Working capital requirements and follow-on investment capital for portfolio investments;
- The possible timing and extent of returning capital to shareholders in line with the Company's asset realisation strategy

The Company's objectives when managing capital are to safeguard the Company's ability to meet its obligations as they fall due and to achieve positive returns in all market environments. In order to maintain or adjust the capital structure, the Company may raise or return capital from or to shareholders through the issue and repurchase of voting shares and/or capital distribution. Up until 5 June 2020 Liberum Capital Limited acted as the Company's nominated adviser and broker. Subsequent to this, the Company had no nominated broker. At 31 December 2020, the Company had net equity of €32.9 million (31 December 2019: €34.4 million) and no direct leverage (31 December 2019: no direct leverage).

The Company's objectives, policies and processes for managing capital reflect the change in strategy from November 2019.

Credit Risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents. As at 31 December 2020, the Company's cash and cash equivalents was €25.3 million (31 December 2019: €41.7 million).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Banking arrangements

The Company's banking arrangements are with major financial institutions with investment grade credit ratings with which the Company 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 2020, the Company has placed €21.7 million of its corporate cash in a 35 day notice money market account, with a financial institution rated long term: A negative by Fitch; Baa1 positive by Moody's; and A negative by S&P (31 December 2019: €16.3 million—rated long term negative: A+ by Fitch; Aa3 by Moody's; and A+ by S&P). As at 31 December 2020, the remaining corporate cash was held with a financial institution rated long term: A+ negative by Fitch; A1 Stable by Moody's; and A Negative by S&P (31 December 2019: rated long term stable: A+ Stable by Fitch; A1 Stable by Moody's; and A Stable by S&P). The Company monitors on a regular basis the credit worthiness of the various financial institutions to mitigate credit risk exposure with respect to its banking arrangements.

Market Risk

Market risk encompasses the following macro-economic and political risks:

Macro-economic and political risks

The value of the Company's investments in its Italian loan portfolio 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 Company's returns on such investments.

2020 saw the world react to the spread of the coronavirus with Italy being the first country in Europe to have instituted lockdown measures in March 2020 to curb the spread of the virus. These measures included restrictions and reduced activity in the legal systems, resulting in delays in cash flow in these markets based on our underwriting models on both our Italian loan portfolio and real estate. In May 2020 Italy slowly started to come out of lockdown with businesses reopening and the country opening up its borders again to tourism. Real estate transactions, which were on hold during the first lockdown started to complete. This activity was dampened when Italy announced a tiered lockdown system towards the end of the year, however, this did not stop transactions which had been agreed prior to the tiered system being introduced from closing. As a result of the lockdown, Italy's economy contracted by 8% in 2020.

On the political front, Guiseppe Conte was forced to resign in January 2021. As a result of this, Italian President Sergio Mattarella attempted, unsuccessfully, to negotiate a viable governing coalition amongst various political parties. This led him to meet with Mario Draghi, the former European Central Bank chief, to discuss forming a non-political government to steer Italy through the coronavirus pandemic. Mr. Draghi was given the mandate to try to replace caretaker premier Giuseppe Conte's coalition and must now put forward an administration which attracts support.

The current instability in the geopolitical environment, exacerbated by the coronavirus, could have a material impact on financial activities both at a market and retail level. These risks could have an impact on the Company's ability to realise its assets at its target prices and in the timeline envisaged. A deterioration of the Italian economy may affect real estate values as well as the recoveries the Company expects on its 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 Company is sensitive to the market yields at which they trade. Refer to note 8 for details of sensitivity analysis on the Italian investments.

The Company's move to realise the majority of its assets in Q4 2019 and its prudent management of cash reserves have left the Company well placed to manage the risks associated with COVID. The majority of the Company's remaining investment comprise interests in two real estate redevelopment funds where construction is fully completed. The units are in the process of being sold, with activity during 2020 being encouraging, considering the delays due to the coronavirus outbreak. Both developments offer brand new, luxury residential apartments with high specification furnishings in Rome. These factors combined with the robust financial position of the Company allow it to maximize its returns from a position of strength.

Interest rate risk

The Company's interest rate risk is not considered to be significant. The Company is exposed to interest rates on banking deposits held in the ordinary course of business. Management monitors this risk on a continuous basis.

Foreign Currency Risk

The majority of the Company's assets and liabilities are denominated in Euros. The Company's foreign currency risk is not considered to be significant.

Liquidity Risk

The Company's objectives when managing capital are to safeguard the Company's ability to meet its financial obligations as they fall due 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 and from realisations of investments will satisfy its liquidity needs over the next twelve months.

The Board have assessed future costs and potential liabilities in conjunction with the Realisation Plan and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due.

4. PORTFOLIO RETURNS

Movements on investments are summarised below:

	Year ended 31 December 2020			Year ended 31 December 2019		
	Realised fair value movements €'000	Unrealised fair value movements €'000	Total fair value movements €'000	Realised fair value movements €'000	Unrealised fair value movements €'000	Total fair value movements €'000
doValue (note 8)	–	–	–	47,879	–	47,879
Italian NPLs & Other Loans (note 8)	–	99	99	2,868	165	3,033
Real Estate Funds (note 8)	–	(2,233)	(2,233)	–	(424)	(424)
Portfolio returns on Italian investments	**–**	**(2,134)**	**(2,134)**	**50,747**	**(259)**	**50,488**
Fair value movements on other investments	2,501	–	2,501	764	–	764
Total portfolio returns	**2,501**	**(2,134)**	**367**	**51,511**	**(259)**	**51,252**

5. OTHER OPERATING EXPENSES

	Year ended 31 December 2020 €'000	Year ended 31 December 2019 €'000
Professional fees	348	951
Transaction costs	8	47
Manager base and incentive fees (related party, note 14)	111	32,237
Manager recharge (related party, note 14)	922	1,511
General and administrative expenses	471	606
Total other operating expenses	**1,860**	**35,352**

6. CASH AND CASH EQUIVALENTS

	As at 31 December 2020 €'000	As at 31 December 2019 €'000
Cash at bank	3,600	41,681
Cash on deposit	21,741	—
Total cash and cash equivalents	**25,341**	**41,681**

7. OTHER ASSETS

	As at 31 December 2020 €'000	As at 31 December 2019 €'000
Prepaid expenses	119	98
Total other assets	**119**	**98**

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

8. INVESTMENTS

The Company directly or indirectly holds the following investments:

	As at 31 December 2020 €'000	As at 31 December 2019 €'000
Italian investment portfolio	8,683	15,507
Total investments	**8,683**	**15,507**

As at 31 December 2020, the movements in the Italian investment portfolio were as follows:

	Italian NPLs & Other Loans	Real Estate Funds	
	Fair value accounted €'000	Fair value accounted €'000	Total Investments €'000
Balance as at 1 January 2020	**1,246**	**14,261**	**15,507**
Distributions received	**(97)**	**(4,593)**	**(4,690)**
Unrealised fair value movement	**99**	**(2,233)**	**(2,134)**
Balance as at 31 December 2020	**1,248**	**7,435**	**8,683**

As at 31 December 2019, the movements in the Italian investment portfolio were as follows:

	doValue	Italian NPLs & Other Loans	Real Estate Funds	
	Fair value accounted €'000	Fair value accounted €'000	Fair value accounted €'000	Total Investments €'000
Balance as at 1 January 2019	**185,518**	**97,422**	**26,876**	**309,816**
Additions	**–**	**46,569**	**248**	**46,817**
Disposals	**(223,767)**	**(121,568)**	**–**	**(345,335)**
Distributions received	**(9,630)**	**(24,210)**	**(12,439)**	**(46,279)**
Realised fair value gain	**47,879**	**2,868**	**–**	**50,747)**
Unrealised fair value movement	**–**	**165**	**(424)**	**(259)**
Balance as at 31 December 2019	**–**	**1,246**	**14,261**	**15,507**

Refer to the portfolio summary for further details on investments on page 29.

8. INVESTMENTS (CONTINUED)

Portfolio summary

During the year, the Company's investments were categorised as follows:

i. Italian NPLs & Other Loans

ii. Real Estate Funds

I. Italian NPLs & Other Loans

Following the Realisation Plan in 2019, the Company retained a residual minority interest in three Italian NPL & Other Loan pools which are held in 2 portfolio structures. The two portfolios are serviced by doValue (refer to note 14).

II. Real Estate Funds

The Company has the following Real Estate Fund investments:

Real Estate Fund Investment I:

On 28 March 2014, the Company indirectly purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("Real Estate Fund Investment I"). 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 is managed by Torre SGR S.p.A. ("Torre"), an affiliate of the Manager.

In 2019, the fund sold all of its assets. During the year the Company received €2.2 million with a further last expected material distribution of €0.4 million to be received in March 2021.

Real Estate Fund Investment II:

On 22 July 2014, the Company indirectly 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. As at 31 December 2020 both projects have been completed, with one project fully sold and approximately 87% of units sold or under contract in the second project.

The Company's investment is held through an Italian joint venture (ownership percentage: 49.7%) in Torre Real Estate Fund III Value Added—Sub fund A ("RE Torre Fund"). Real Estate Fund Investment II is managed by Torre, an affiliate of the Manager.

Real Estate Fund Investment V:

In April 2017, building on Real Estate Fund Investment II, the Company closed on the purchase of an office to residential conversion development site in Rome ("Real Estate Fund Investment V") through an Italian joint venture (ownership percentage: 49.6%) in Torre Real Estate Fund III Value Added – Sub fund B. To date, the work has been completed on time and in line with budget with 67% of the units sold or under contract.

Real Estate Fund Investment V is managed by Torre, an affiliate of the Manager.

8. INVESTMENTS (CONTINUED)

Fair value hierarchy

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

As at 31 December 2020:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Italian NPLs & Other Loans	—	—	1,248	1,248
Real Estate Funds	298	—	7,137	7,435
Total	**298**	—	**8,385**	**8,683**

As at 31 December 2019:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Italian NPLs & Other Loans	—	—	1,246	1,246
Real Estate Funds	2,517	—	11,744	14,261
Total	**2,517**	—	**12,990**	**15,507**

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.

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 Company 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.

Transfers between levels

There were no transfers between levels for the year ended 31 December 2020 (31 December 2019: no transfers).

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2020:

	Italian NPLs & Other Loans €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2020	1,246	11,744	12,990
Distributions received	(97)	(2,356)	(2,453)
Unrealised fair value movement in the year	99	(2,251)	(2,152)
As at 31 December 2020	**1,248**	**7,137**	**8,385**

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2019:

	Italian NPLs & Other Loans €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2019	97,422	19,241	116,663
Distributions received	(24,210)	(5,281)	(29,491)
Unrealised fair value movement in the year	165	(2,464)	(2,299)
Realised fair value movement in the year	2,868	–	2,868
Disposals in the year	(121,568)	–	(121,568)
Investments acquired in the year	46,569	248	46,817
As at 31 December 2019	**1,246**	**11,744**	**12,990**

Expected recoveries of investments

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

	2020		2019	
	Within one year[1] €'000	More than one year €'000	Within one year[2] €'000	More than one year €'000
Italian NPLs & Other Loans	218	1,030	445	801
Real Estate Funds	4,419	3,016	9,295	4,966

(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 methodology and sensitivity analysis

Italian NPLs & Other Loans

Following implementation of the Realisation Plan in 2019, the Company held residual interests in three pools. All pools 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 2020:

	Italian NPLs	Total Unlevered	Total Levered
Expected profit multiple[1]	1.5	1.5	1.7
Remaining weighted average life	2.7	2.7	3.0
Discount rate	12%	12%	14%

For the year ended 31 December 2019:

	Italian NPLs	Total Unlevered	Total Levered
Expected profit multiple[1]	1.5	1.5	1.6
Remaining weighted average life	2.5	2.5	2.8
Discount rate	12%	12%	16%

The key assumptions reported above for Total Unlevered are before taking into account any embedded leverage within the respective vehicle. The key assumptions are also shown on a Total Levered basis so as to report them net of any embedded leverage within the respective vehicle so as to be consistent with the relevant investment carrying value.

(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:

For the year ended 31 December 2020:

	Italian NPLs €'000	Total Unlevered €'000	Total Levered €'000
Fair value	1,906	1,906	1,248
Increase in discount rate by 25bps	1,896	1,896	1,238
Value sensitivity	**(10)**	**(10)**	**(10)**

For the year ended 31 December 2019:

	Italian NPLs €'000	Total Unlevered €'000	Total Levered €'000
Fair value	2,167	2,167	1,246
Increase in discount rate by 25bps	2,157	2,157	1,234
Value sensitivity	**(10)**	**(10)**	**(12)**

The prior year comparative disclosure has been restated to reflect the assumptions on both a levered and unlevered basis.

Real Estate Funds

The Company's investment in Real Estate Fund Investment II and Real Estate Fund Investment V were classified as level 3 in the fair value hierarchy.

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

For the year ended 31 December 2020	Real Estate Funds	Total
Expected profit multiple	1.1	1.1
Remaining weighted average life	1.0	1.0
Discount rate	16%	16%

For the year ended 31 December 2019	Real Estate Funds	Total
Expected profit multiple	1.2	1.2
Remaining weighted average life	1.3	1.3
Discount rate	17%	17%

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

For the year ended 31 December 2020	Real Estate Funds €'000	Total €'000
Fair value	7,137	7,137
Increase in discount rate by 25bps	7,123	7,123
Value sensitivity	**(14)**	**(14)**

For the year ended 31 December 2019	Real Estate Funds €'000	Total €'000
Fair value	11,744	11,744
Increase in discount rate by 25bps	11,720	11,720
Value sensitivity	**(24)**	**(24)**

9. CONTRACTUAL MATURITIES

Contractual maturities

The Company's Italian investments have been funded through equity.

As at 31 December 2020, the Company had no contractual maturities on financial liabilities, outside of trade and other payables which are all due within one year.

Fair values of financial assets and financial liabilities

The Company's financial assets consist of investments, other debtors and cash and cash equivalents. The Company's financial liabilities consist of trade and other payables. All financial assets and liabilities are held at fair value.

10. TRADE AND OTHER PAYABLES

	As at 31 December 2020 €'000	As at 31 December 2019 €'000
Due to Manager (related party, refer note 14)	283	20,658
Accrued expenses and other payables	991	2,240
Total trade and other payables	**1,274**	**22,898**

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

11. 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.

There are currently no instruments that would give rise to a dilutive effect on the Company's shares.

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

	As at 31 December 2020	As at 31 December 2019
Weighted average number of ordinary shares excluding treasury shares*	1,852,740	41,059,499
Weighted average number of ordinary shares–dilutive	**1,852,740**	**41,059,499**

*weighted average shares for the year

12. SHARE CAPITAL AND RESERVES

As at 31 December 2020, there were 1,854,535 shares (31 December 2019: 1,851,535) issued of which no shares (31 December 2019: no shares) were held in treasury. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares		
	Voting shares	Treasury shares	Total
As at 1 January 2019	**45,158,302**	**18,655,060**	**63,813,362**
Shares issued from treasury to the Directors as part of their in-place compensation arrangements for €nil consideration–20 June 2019	3,000	(3,000)	–
Share buyback programme	(325,136)	325,136	–
Shares repurchased and cancelled–20 June 2019	(1,333,333)	–	(1,333,333)
Shares repurchased and cancelled–16 September 2019	(7,100,591)	–	(7,100,591)
Shares repurchased and cancelled–20 December 2019	(34,550,707)	–	(34,550,707)
Cancellation of treasury shares	–	(18,977,196)	(18,977,196)
As at 31 December 2019	**1,851,535**	**–**	**1,851,535**
Shares issued to the Directors as part of their in-place compensation arrangements for €nil consideration–7 August 2020	3,000		3,000
As at 31 December 2020	**1,854,535**	**–**	**1,854,535**

No shares were bought back by the Company in 2020.

Shares bought back by the Company in 2019 are shown as follows:

Date	Description	Number of shares	Price Per share	Value of Share repurchase (€'000)	Directly attributable costs (€'000)
20 June 2019	Share tender–shares repurchased and cancelled	1,333,333	€ 7.50	10,000	57
16 September 2019	Share tender–shares repurchased and cancelled	7,100,591	€ 8.45	60,000	65
20 December 2019	Share tender–shares repurchased and cancelled	34,550,707	€ 8.14	281,238	645
20 December 2019	Treasury shares cancelled	18,977,196	€ 8.35[(2)]	159,168	n/a
Full year 2019	Share buyback programme–shares repurchased, held in treasury and cancelled on 20 December 2019	325,136	€ 7.22[(1)]	2,343	10

[(1)] Average price of shares for the period

[(2)] Average price of shares which were previously held in the treasury shares reserve

As at 31 December 2020, the Company held no shares in treasury (31 December 2019: no shares in treasury).

Accumulated loss

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

13. DIVIDENDS PAID AND DECLARED

As a result of the Realisation Plan, the Company's distribution policy, including the regular quarterly dividend, did not apply with effect from Q3 2019. During the year no dividends were declared or paid.

The following dividends were declared for the year ended 31 December 2019:

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
06 March 2019	13 March 2019	14 March 2019	28 March 2019	€ 0.150	6,763
16 May 2019	22 May 2019	23 May 2019	30 May 2019	€ 0.150	6,751
08 August 2019	15 August 2019	16 August 2019	29 August 2019	€ 0.150	6,544
Total				**€ 0.450**	**20,058**

14. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Company 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 Company's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Company. Since 1 January 2015 the management fee paid to the Manager is equal to (i) 1.5% of the Company's Adjusted NAV reported quarterly, excluding net corporate cash, and (ii) 0.75% of the share of Adjusted NAV relating to net corporate cash. Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative (following the disposal of the legacy assets in 2017, this is no longer applicable) and includes certain reserves set aside as part of the Realisation Plan.

Incentive compensation was equal to 25% of the euro amount by which the Company's Normalised FFO derived from Italian Investments, after allocated corporate costs, exceeded the net invested capital in the Company's Italian Investments multiplied by the hurdle rate of 8% per annum (calculated on a cumulative but not compounding basis). In light of the Realisation Plan, the Manager agreed to amend the calculation of its incentive fee to treat the Company's other remaining investments, which predominantly comprise investments in Italian real estate funds, as fully realised at an agreed value in 2019 to better reflect the price per ordinary share represented in the initial Exchange Ratio. These amendments reduced the fee payable by the Company to the Manager in the fourth quarter of 2019 by €2.4 million to €19.5 million and no further fees will be due in relation to the Company's remaining investments. The Manager will be entitled to earn back a portion of this discount if excess amounts are released from certain reserves put in place by the Board to fund future costs and potential liabilities.

The Management Agreement provides that the Company will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Company's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Company 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 income statement.

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. The Management Agreement may be terminated by the Company 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 Company and the Manager, incentive compensation (as outlined above) will continue to be payable to the Manager post-termination.

The Manager is deemed to be the key employee for reporting purposes. As at 31 December 2020, management fees, incentive fees and expense reimbursements of €0.3 million (31 December 2019: €20.7 million) were due to the Manager. During the year ended 31 December 2020, management fees of €0.1 million (31 December 2019: €5.0 million), €0.0 million of incentive fees (31 December 2019: €27.2 million), and expense reimbursements of €0.9 million (31 December 2019: €1.5 million) were charged to the income statement.

Total annual remuneration for the Eurocastle directors as at 31 December 2020 was €0.1 million (31 December 2019: €0.2 million), payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Company. As of 16 May 2020, the annual remuneration reduced from €0.2 million to €0.1 million.

Fortress Italian NPL Opportunities Series Fund LLC (which owns the NPL pools) and Fortress Italian Real Estate Opportunities Series Fund LLC (being the entity where the majority of the Company'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 2020 is €0.1 million (31 December 2019: €0.5 million) and offsets fully against the Company's Management Fee payable to the Manager.

The Company's non-controlling interest in Real Estate Fund Investment I (refer to note 8) along with its joint venture investment in Real Estate Fund Investment II and Real Estate Fund Investment V (refer to note 8) 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 these funds, for the year ended 31 December 2020 was €0.1 million (31 December 2019: €0.3 million).

15. INVESTMENT IN SUBSIDIARIES

The Company has investments in the following subsidiaries (unless otherwise stated the Company has a 100% interest in the entity):

Luxembourg:
Luxgate S.à r.l
Truss Lux Participation S.à r.l

Italy:
FMIL S.r.l

United States of America:
Fortress Italian Real Estate Opportunities Series Fund LLC—Series 1
Fortress Italian Real Estate Opportunities Series Fund LLC—Series 2

As at 31 December 2020, the unconsolidated subsidiaries do not have any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability to transfer funds to the Company in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the Company.

16. SUBSEQUENT EVENTS

On 4 March 2021, the Board declared a distribution of €1.0 million, or €0.54 per share. This distribution is being treated as a return of capital because there are no current year or carry-forward profits available at the Company. It will be reflected in the “Share Capital” column in the Statement of Changes in Equity in the Company’s financial statements.

17. CONTINGENT LIABILITIES

The Company is exposed to a potential tax risk associated with the disposal of a legacy property subsidiary in prior years. This risk has not been provided for in the Company’s accounts as no tax assessment has been raised and the Company having taken independent advice, considers that it is unlikely that any significant liability will arise. The Company has not provided the disclosures required by IAS 37 so as not to prejudice their position.

18. COMMITMENTS

As at 31 December 2020, the Company had no formal commitments.

Corporate Information

BOARD OF DIRECTORS

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Jason Sherwill

Peter M. Smith

Dr. Simon J. Thornton

Claire Whittet

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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 sell real estate and achievement of disposal targets, availability of investment and divestment opportunities, timing or certainty of completion of acquisitions and disposals, the operating performance of the 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. The Company’s 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 the Company’s 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 asset performance.

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