BUSINESS REVIEW

FINANCIAL HIGHLIGHTS

- ***Normalised FFO***[1] of €26.0 million, or €0.43 per share[2], for the first quarter of 2017, including i) a €0.24 per share[2] one-off impact from sales and ii) €0.04 per share[2] from the remaining sales fees collected from the Legacy Business.
- ***Adjusted Net Asset Value***[3] of €548.9 million, or €9.13 per share[2], after the declaration of the regular quarterly dividend of €0.15 per share[2].
- ***First Quarter 2017 Dividend*** of €17.4 million, or €0.29 per share, to be paid on 31 May 2017 reflecting €9.0 million, or €0.15 per share[2], of regular quarterly dividend declared in March 2017 and a supplemental €8.4 million, or €0.14 per share[2], declared in May 2017 in line with the Company's new distribution policy.

	Q1 2017		Q4 2016	
	€ million	*€ per share*[2]	*€ million*	*€ per share*[2]
Normalised FFO [1]	26.0	*0.43*	12.5	*0.21*
Dividends [4]	17.4	*0.29*	9.0	*0.15*
Adjusted NAV [3]	548.9	*9.13*	550.6	*9.16*

BUSINESS HIGHLIGHTS

- **Investment Realisations** - During the first quarter of 2017, Eurocastle sold its interest in the units of Real Estate Fund Investment III. The sale resulted in total proceeds of €20.9 million, or €0.35 per share, realising a total lifetime gross profit of €18.0 million, an IRR of 137% and 2.7x multiple on equity invested. The sale was achieved two years ahead of business plan. In addition, the Company realised a gross profit of €7.2 million from the resolution of a debt claim it had acquired in the period. The two realisations resulted in NFFO of €14.6 million, or €0.24 per share for the first quarter of 2017. NFFO (more particularly explained on page 13) is a measure used by the Company to track income on an expected yield basis and realised gains/losses. Unrealised gains/losses, on the other hand, do not affect NFFO but impact the Company's asset valuations and are taken to its financial statements and therefore its Net Asset Value.
- **doBank** – In March 2017, the board of doBank approved a dividend of €52.3 million (of which Eurocastle's share is €26.2 million) for the year ended 31 December 2016 which is expected to be paid by the end of May 2017. For the first quarter of 2017 the doBank Group reported EBITDA of €9.9 million; 44% higher than the same period last year on a like-for-like basis[5]; a period that is typically the lowest in the year given the seasonality of NPL collections.
- **Legacy Business**[6] – In the first quarter of 2017, the Group received €2.4 million of cash flow upon completion of German real estate sales that were previously under binding contracts. In addition, the Company received €0.6 million from the resolution of a Legacy debt investment. The Company intends to unwind its remaining Legacy levered portfolio (CDO V) during the remainder of 2017.

BUSINESS HIGHLIGHTS SUBSEQUENT TO 31 MARCH 2017

- **Romeo NPL Portfolio Financing** – on the 3rd of May 2017, the Company announced the successful completion of a €75 million financing on the secured portion of its Romeo NPL portfolio. As a result, Eurocastle received approximately €36 million or 50% of the net proceeds after costs and reserves. At the same time, Eurocastle received over €18 million of previously undistributed cash from the portfolio, resulting in total proceeds to the Company of approximately €54 million.
- **Italian Real Estate Fund Investment V–** In April 2017 the Company closed on its previously committed investment in Real Estate Fund V, deploying an additional €4.0 million. This brings the total equity deployed to date to €4.4 million with an expected further €1.4 million to be deployed predominantly over the next 12 months.
- **Italian Real Estate Fund Investment I Realisation** – In May 2017, the Company received a distribution of €4.8 million primarily from sales made by the fund in 2016.

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1 *Normalised FFO ("NFFO") is a non-IFRS measure used to provide additional information regarding the underlying performance of the Company, as outlined on page 13 of the Q1 2017 Interim Report.*

2 *Amounts per share are calculated on the following basis for the relevant period: Q1 2017 and Q4 2016 NFFO – 60.1 million of weighted average shares. Q1 2017 and Q4 2016 dividends and Adjusted Net Asset Value ("Adjusted NAV") - 60.1 million ordinary shares in issue (net of 6.0 million shares held in treasury).*

3 *Adjusted Net Asset Value accounts for the €9.0 million, or €0.15 per share, dividend declared in March 2017 but not the €8.4 million, or €0.14 per share, supplemental dividend declared in May 2017. Adjusted Net Asset Value also excludes the Group's remaining Legacy portfolio with negative NAV (CDO V) whose debt is non-recourse to Eurocastle.*

4 *Q1 2017 dividend represents both the dividend declared in March 2017 of €9.0 million, or €0.15 per share, and a supplemental dividend of €8.4 million, or €0.14 per share, declared in May 2017.*

5 *Like-for-like Q1 2016 EBITDA is pro forma for doBank, Italfondiario and their subsidiaries and adjusted to exclude the net impact of the Romeo NPL portfolio (spun off by the Group in September 2016).*

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

Eurocastle Investment Limited ("Eurocastle" or the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle and its subsidiaries (together with Eurocastle, "the Group") is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". For more information regarding Eurocastle, please visit www.eurocastleinv.com.

STRATEGY

Eurocastle's strategy is to focus primarily on investments in Italian performing and non-performing loans and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy.

Eurocastle's current portfolio of Italian Investments is made up of three key segments: the doBank Group, Italian NPLs and Real Estate Funds with the remainder now comprising Net Corporate Cash:

	Adjusted NAV			Segment Description
	€ million	*€ per share*	% of Total	
doBank Group[1]	270.0	4.49	49%	*50% share of largest 3rd party loan servicer in Italy servicing €82.5 billion GBV of loans.*
Italian NPLs[2]	191.3	3.18	35%	*Interests in Romeo NPLs, 18 other NPL pools and FINO commitment.*
Real Estate Funds[3]	55.8	0.93	10%	*Interests in one publically listed and three private Italian real estate funds.*
Italian Investments[4]	**517.1**	**8.60**	94%	***25 active investments***
Net Corporate Cash[5]	31.8	0.53	6%	*Corporate cash net of estimated commitments & accrued corporate expenses.*
Legacy Business[6,7]	-	-	-	*Legacy Real Estate sold; last remaining unlevered debt investment sold in Jan-17.*
TOTAL	***548.9***	**9.13**	***100%***	

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

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

3 *Real Estate Funds Adjusted NAV includes €5.4 million of equity relating to the outstanding estimated commitment for RE Fund Investment V (as at March 31 2017).*

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

5 *Adjusted NAV of Net Corporate Cash deducts i) €60 million of equity allocated against the FINO transaction (reflecting the midpoint of the expected equity requirement of €50 to €70 million) ii) a €5.4 million expected outstanding commitment allocated against Real Estate Funds (RE Fund Investment V) and iii) the €9.0 million, or €0.15 per share, dividend declared in March but not paid (but not the supplemental dividend of €8.4 million, or €0.14 per share, declared in May 2017)*

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

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

ITALIAN INVESTMENTS

Since May 2013, Eurocastle has invested or committed €419.5 million in its Italian Investments at an average targeted gross yield of approximately 15%. After generating €151.5 million of cash to date, as at 31 March 2017, the portfolio had a remaining Adjusted NAV of €517.1 million comprised of (i) a 50% interest in the doBank Group[1] valued at €270.0 million, (ii) a 50% interest in the Romeo NPL portfolio[2] valued at €103.1 million, (iii) an interest in the recently committed FINO transaction with UniCredit S.p.A. with an estimated equity investment of €50 to €70 million, (iv) investments in 18 other Italian loan pools (of which 17 are NPLs) valued at €28.2 million, (v) an interest of €50.0 million in three Italian real estate funds and (vi) an interest of €5.8 million in Italian RE Fund Investment V which was committed in the fourth quarter of 2016.

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

The table below summarises Eurocastle's share of all fully deployed investments and pending commitments since the establishment of its new strategy in April 2013 up to 31 March 2017:

	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
doBank Investment:	246.0	7.3	373.1	6.20	380.4
- doBank Group[1]		*0.3*	*270.0*	*4.49*	*270.3*
- Romeo NPL portfolio[2]		*7.0*	*103.1*	*1.71*	*110.1*
Other Italian NPLs (*18 portfolios*)[3]	43.4	35.7	28.2	0.47	63.9
Real Estate Funds (*4 funds*)[4]	60.3	44.0	50.0	0.83	94.0
Other Investments[5]	4.0	14.7	-	-	14.7
Fully Deployed Investments	**353.7**	**101.7**	**451.3**	**7.50**	**553.0**
Committed Investments:					
- FINO NPL Transaction[6]	60.0	-	60.0	1.00	60.0
- RE Fund Investment V[7]	5.8	-	5.8	0.10	5.8
Total after Commitments	**419.5**	**101.7**	**517.1**	**8.60**	**618.8**

In addition to the cash flows distributed as detailed above, a further €49.8 million has been generated for Eurocastle and as at 31 March 2017 was held at the level of the investment (and therefore included in the Adjusted NAV of the investment), bringing total cash flows generated to date to Eurocastle to €151.5 million and €35.5 million in the first quarter of 2017.

	Cash flows Generated In Q1 2017 *€ million*	Total Cash flows Generated *€ million* (A)	Total Cash flows Distributed To Eurocastle *€ million* (B)	Cash flows Not Distributed and therefore part of NAV *€ million* (A-B)
doBank Investment:	4.0	53.9	7.3	46.6
- doBank Group[1]	-	*26.2*	*0.3*	*25.9*
- Romeo NPL portfolio[2]	*4.0*	*27.7*	*7.0*	*20.7*
Other Italian NPLs (*18 portfolios*)[3]	2.7	38.9	35.7	3.2
Real Estate Funds (*4 funds*)[4]	21.5	44.0	44.0	-
Other Investments[5]	7.3	14.7	14.7	-
Total	**35.5**	**151.5**	**101.7**	**49.8**

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

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

[3] *Includes one performing loan portfolio.*

[4] *Includes RE Fund Investment III which was fully realised in Feb 2017.*

[5] *Comprises two investments which have both been fully realised.*

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

[7] *Invested €0.4million as at 31 March 2017 and a further €4.0 million in April 2017. Remaining equity commitment of € 1.4 million expected to be deployed predominantly in 2017.*

ITALIAN INVESTMENTS PERFORMANCE

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

Total cash flows generated to date are €25.1 million, or 20% ahead of underwriting. In the first quarter of 2017, the Company had its first full realisation of a real estate fund investment through the sale of Fund Investment III, generating €20.9 million of proceeds; €9.2 million and over 2 years ahead of the Company's expectations at underwriting. Separately, Eurocastle's other investments in aggregate continue to perform well with gross cash flows generated in the first quarter of 2017 of €14.6 million. In addition, doBank's Board approved its first dividend since acquisition of €52.3 million (of which Eurocastle's share is €26.2 million) which is expected to be paid by the end of May 2017.

Total valuations for these investments increased by €6.4 million[1], or €0.11 per share (1.4%), in the first quarter of 2017. Valuations of the real estate funds increased by €3.7 million[1], or €0.06 per share (7.9%), partly driven by the realised gain for the period from the sale of Real Estate Fund Investment III. In relation to the Company's NPL investments, portfolio valuations increased by €2.9 million or €0.05 per share (3.9%), primarily reflecting their run rate appreciation as cash flows are realised and the remaining life over which expected cash flows are discounted declines. The doBank Group's valuation was stable for the quarter following the increase recognised in the fourth quarter of 2016.

[1] *Includes a €0.2 million unrealised valuation increase from the investment in the debt of Real Estate Fund Investment IV which is not recorded in the Group's income statement (only the equity statement).*

doBank Investment

In October 2015, Eurocastle acquired a 50% interest in doBank (formerly UniCredit Credit Management Bank S.p.A) from UniCredit S.p.A. for a net purchase price of approximately €246 million. The transaction included i) a large NPL portfolio of €3.3bn GBV and ii) an NPL servicing business with a banking license. In addition to managing the existing stock of NPLs, at the time of acquisition, doBank entered into a 10 year servicing contract on UniCredit's future sub-performing and non-performing loans with balances below €1 million and selected assets above €1 million, with any remaining stock at the end of the contract managed by doBank until fully resolved.

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

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

I. The doBank Group: The largest independent servicing group in Italy comprising Italfondiario, doBank and a 5% interest in the €3.3 billion GBV Italian NPL pool originally acquired as part of the doBank investment.
II. The Romeo NPL Portfolio: A 95% interest in the €3.3 billion GBV Italian NPL pool originally acquired as part of the doBank investment.

	doBank Group *€ million*	**Romeo NPLs Portfolio**[1] *€ million*	**TOTAL** *€ million*
Investment Date			Oct-15
Invested to Date			246.0
CF Generated in Q1 2017[2]	-	4.0	4.0
CF Generated to Date[2]	26.2	27.7	53.9
CF Distributed to Date[1]	0.3	7.0	7.3
NAV[3]	**270.0**	**103.1**	**373.1**
NAV (€ per share)	*4.49*	*1.71*	*6.20*

doBank Group

Today, doBank and Italfondiario together represent the largest and highest rated independent servicing group specialising in the credit management and collection of non-performing loans in Italy, with over €82 billion GBV of loans under management, approximately 1,200 employees and 1,800 lawyers and external consultants[4] with a wide network of 21 branches throughout Italy.

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

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

3 *doBank Group NAV includes €5.4 million representing the 5% interest in the Romeo NPL pool acquired as part of the doBank investment and spun off in September 2016. Conversely, the Romeo NPL pool NAV reflects the remaining 95% interest in the NPL pool acquired as part of the doBank investment and spun off in September 2016.*

4 *As at 31 December 2016.*

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

	Key Metrics[1]
S&P Servicer Rating	Strong
Fitch Servicer Rating	CSS1-/RSS1-
Claims under management	741k
% of claims secured	31%
Number of Offices	21
Number of Clients	25

	Q1 2017	FY 2016[2]	FY 2016 *Pro forma*[3]
NPLs Under Management (GBV in €bn)	€82.5 bn	€ 80.9 bn	
Gross Collections (~1.9% of GBV) (in €m)	€394	€1.7 bn	
Revenues (~11% of Gross Collections) (in €m)	45.2	204.9	206.2
Expenses (~78% Expense Margin) (in €m)	(35.3)	(143.3)	(141.9)
EBITDA	**9.9**	**61.6**	**64.3**
ECT share (50%)	4.9	30.8	n/a

doBank Group Update[4]

Since its acquisition, doBank has undergone a major transformation following numerous initiatives. Primarily, these included i) building out the senior management team and appointing Mr. Andrea Mangoni as CEO, ii) reducing costs through synergies arising from the integration with Italfondiario, and iii) overhauling the asset management process to improve collection performance. The impact of the initiatives which were implemented over the course of 2016, was already evident in doBank's full year results. Total collections in the year were 32% higher compared to the previous year on a like-for-like basis[5]. Including Italfondiario, the doBank Group's total collections for 2016 were €1.7 billion and ahead of budget.

This encouraging performance resulted in a combined EBITDA for the doBank Group of €61.6 million[2] for 2016. This increases to €64.3 million as a result of including a full year of servicing revenues from the Romeo NPL portfolio as well as excluding certain one-off "non-cash" expenses. In March 2017, and in line with the Company's expectations, the Board of Directors of doBank approved a dividend of €52.3 million, of which Eurocastle's share is €26.2 million. The dividend is expected to be paid in May 2017.

Results for the first quarter of 2017 were similarly encouraging. The doBank Group reported EBITDA of €9.9 million, 44% higher than the same quarter last year on a like-for-like basis[6], a period that is typically the lowest in the year given the seasonality of NPL collections. This increase was primarily driven by the continued improvement in the servicing platform's collection performance with €394 million of gross collections, 42% higher than the first quarter of 2016.

1 *Metrics as at 31 March 2017.*

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

3 *Consolidated EBITDA for doBank, Italfondiario and their subsidiaries pro forma for the full year 2016 adjusted to include a full year of servicing revenues from the Romeo NPL portfolio and excludes certain "non-cash" one-off expenses.*

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

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

6 *Like-for-like Q1 2016 EBITDA is pro forma for doBank, Italfondiario and their subsidiaries and adjusted to exclude the net impact of the Romeo NPL portfolio (spun off by the Group in September 2016).*

ROMEO NPL UPDATE

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

The performance of the Romeo NPLs has remained above underwriting expectations. The portfolio to date has generated €27.7 million. The pace of collections received has been 130%[1] of that expected as of underwriting and profitability has been 122%[2] of the amount expected on fully resolved loans.

Eurocastle's valuation of its 50% interest in the Romeo NPLs increased by €2.4 million, or €0.04 per share (2.3%), in the first quarter of 2017. As with the Group's other NPL portfolios, the investment is valued using the discounted cash flow approach. The movement for this period therefore reflects the realisations of expected cash flows and a reduction in the life over which the remaining expected cash flows are discounted.

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

	Performance To date[4] € millions
Actual Investor Cash Flows	27.7
Original Underwriting	21.3
Variance	**6.4**
Pace vs. Underwriting[1]	130%
Profitability vs. Underwriting[2]	122%

1 *Represents collections received as at 31 March 2017 versus underwriting projections for the same period.*
2 *Represents collections received on fully resolved claims only versus underwriting, as at 31 March 2017. It does not reflect profitability as recorded under IFRS.*
3 *Metrics as at acquisition date. Reflects 100% of the portfolio.*
4 *Performance reflects 95%of the portfolio and therefore excludes the doBank Group's interest in the portfolio.*

OTHER ITALIAN NPLS

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

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

The table below shows aggregate investment amounts and returns:

	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
Italian NPLs (*18 portfolios*)[1]	43.4	35.7	28.2	0.47	63.9
FINO NPL Transaction[2]	60.0	-	60.0	1.00	60.0
TOTAL	**103.4**	**35.7**	**88.2**	**1.47**	**123.9**

The 18 pools had a combined GBV at acquisition of €6.4 billion, and are, on average, 15% secured by real estate with an average loan size of under €0.3 million per claim.

Details of all portfolios acquired up to 31 March 2017 can be found in the table below:

	Pools 1 to 5	Pool 6	Pool 7	Pools 8,9,11	Pool 10	Pools 12, 13	Pool 14	Pool 15	Pool 16,17	Pool 18	TOTAL
Investment Date	Q2-13	Q3-13	Q2-14	H2-14	Q4-14	Q4-15	Q4-15	Q4-15	H2-16	Q4-16	n/a
Invested to Date (*€ m*)	14.0	2.6	7.4	1.0	8.3	1.1	3.2	1.4	2.1	2.3	43.4
CF Generated in Q1 2017 (*€ m*)	0.8	0.1	0.5	-	0.7	-	-	0.2	0.2	0.2	2.7
CF Generated to date (*€ m*)	22.2	2.3	6.6	0.7	5.0	0.5	0.5	0.7	0.2	0.2	38.9
CF Distributed to date (*€ m*)	21.0	2.1	5.9	0.7	4.5	0.5	0.5	0.5	-	-	35.7
Adjusted NAV (€ million)[1]	**3.4**	**1.6**	**6.3**	**0.9**	**6.5**	**0.7**	**3.0**	**1.2**	**2.2**	**2.4**	**28.2**
Adjusted NAV (€ per share)	***0.06***	***0.03***	***0.10***	***0.02***	***0.11***	***0.00***	***0.05***	***0.02***	***0.04***	***0.04***	***0.47***
Eurocastle Ownership	81%	50%	25%	25%	25%	25%	25%	25%	25%	25%	n/a
GBV (*€ m*)	4,040	14	883	210	1,001	50	46	63	70	16	6,393
Number of Claims	8,159	86	11,763	3,301	3,877	1,963	164	108	170	1	29,592
% Secured	12%	91%	19%	4%	8%	30%	96%	63%	82%	74%	15%
Avg. Default Year	1994	2008	1997	2010	1995	2011	2007	2012	2007	2014	n/a
% North & Central Italy	70%	54%	57%	68%	79%	81%	58%	73%	41%	100%	69%

Portfolio performance has remained strong. The pace of collections has been 117%[3] of that expected as of underwriting and profitability has been 235%[4] of the amount expected on fully resolved loans. To date these investments have generated €38.9 million of cash flow or 90% of the amount invested, of which €2.7 million was generated in the first quarter of 2017.

NPL pool valuations increased by €0.4 million, or €0.01 per share (1.6%), during the first quarter of 2017[5]. This increase reflects the appreciation in the value of the future cash flows expected from these pools given the reduction in the remaining life over which they are discounted.

1 *Adjusted NAV includes €3.2 million relating to cash flows generated to date which are currently held at the level of the investment and therefore also reflected in the Adjusted NAV.*

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

3 *Represents collections received as at 31 March 2017 versus underwriting projections for the same period.*

4 *Represents collections received on fully resolved claims only versus underwriting, as at 31 March 2017. It does not reflect profitability as recorded under IFRS.*

5 *Valuation movements exclude the non-controlling interest share of €20k for the first quarter of 2017.*

Italian Real Estate Funds

Since 2014 Eurocastle has made several investments in this asset class, investing or committing €66.1 million in five separate real estate funds:

RE Fund Investments	Investment Date	Total Equity Invested/ Committed *€ million*	Total Cash flows Distributed to Eurocastle *€ million*	Adjusted NAV[2,3] *€ million*	Adjusted NAV *€ per share*	Total Return (Cash flows Distributed +Adj. NAV) *€ million*
I	Mar-14	22.2	10.4	14.4	0.24	24.8
II	Jul-14	15.4	3.7	10.8	0.18	14.5
III[1]	Sep-15	10.7	28.7	-	-	28.7
IV[2]	Mar-16	12.0	1.2	24.8	0.41	26.0
Total		***60.3***	***44.0***	***50.0***	***0.83***	94.0
V[3]	Dec-16	5.8	-	5.8	0.10	5.8
TOTAL		***66.1***	***44.0***	***55.8***	***0.93***	***99.8***

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

Depending on the type of fund, Eurocastle holds these assets on its balance sheet at either their fair value or on an equity basis with adjustments made based on its share of the profit and loss reported by the underlying fund. In aggregate, the value of these investments increased by €3.7 million[4], or €0.06 per share (7.9%), during the first quarter of 2017 with €1.4 million, or €0.02 per share, arising from the realised gain on the sale of Real Estate Fund Investment III.

RE Fund Investment I

In March 2014, Eurocastle made its first investment of this type, acquiring 11,929 units (approximately 7.5% of the total units) in UniCredito Immobiliare Uno – Closed-End Real Estate Investment Fund ("UIU" or “Fund Investment I”)[5] at a 36.5% discount to the fund’s NAV at the date of acquisition. In 2015, two assets, representing 35% of the UIU fund’s NAV, were sold at a slight premium to NAV, resulting in distributions totalling €10.4 million, or approximately 47% of the amount invested. In November 2016 it was announced that a further asset was sold for a net sales price of €52.8 million resulting in a distribution of €4.8 million to Eurocastle in May 2017. The remaining assets comprise 11 mixed use properties with a market value of €187 million[6]. Then, in February 2017 it was announced that the fund has accepted a conditional binding offer to sell a portfolio of supermarkets comprising 6 of those 11 assets for €26.7 million, in line with the fund’s previously reported market value for the assets. In April 2017, the fund announced that the fund life would be extended to December 2020 giving it a three year grace period to complete the divestment of all assets. The fund is managed by Torre SGR, an affiliate of Eurocastle’s manager, FIG LLC.

The fund is publicly listed on the Milan stock exchange with Eurocastle recording the fair value of its investment based on the closing price of the units. As at 31 March 2017 having invested €1,788 per unit and after receiving total distributions of €875 per unit, the Company had a remaining net basis of €913 per unit compared to a share price per unit of €1,210. Following a 1% appreciation in the unit price during Q1 2017, the Company recorded a fair value gain of €0.2 million for the first quarter of 2017. The investment remains held at approximately a 30% discount to the fund’s NAV.

1 *Fully realised in February 2017.*
2 *Equity invested and Adjusted NAV include €5.0 million and €5.7 million respectively from the investment in the debt of RE Fund Investment IV.*
3 *Invested/committed equity and Adjusted NAV includes €5.4million of equity relating to the estimated outstanding commitment for RE Fund Investment V.*
4 *Includes €0.2 million from the investment in the debt of RE Fund Investment IV which is not recorded in the Group’s income statement (only the equity statement).*
5 *Listed on the closed-end funds segment of the Market for Investment Vehicles (“MIV”) of Borsa Italiana S.p.A.*
6 *As at 31 December 2016.*

RE Fund Investment II

In July 2014, Eurocastle made its second investment in Italian real estate funds, co-investing with certain affiliates of FIG LLC and an Italian third party property developer to collectively acquire 100% of a newly established private fund ("Real Estate Fund Investment II"). As at 31 March 2017, the Company had invested €15.4 million into the fund. The fund has purchased two office buildings in Rome that are being redeveloped into high-end residential properties for resale with the expectation that the units will be completed and fully sold by the second quarter of 2018. The project itself continues to progress well with construction work in general on time and budget. The redevelopment work for one building has been completed and work on the second building is expected to be completed in H2 2017.

Profits on the assets will only be accounted for once the residential units have been fully developed and sold. Currently, over 69% of the total cost is committed and offers have been accepted on ~44% of the total expected sales, broadly in line with budget. In April 2015, the fund returned €3.3 million of capital to Eurocastle after raising third party financing to fund a portion of the development costs. In the first quarter of 2017, the Company received its first cash flow from closed sales amounting to €0.4 million. The value attributed to Real Estate Fund Investment II in the Group's accounts increased by €0.5 million, or €0.01 per share, during the first quarter of 2017 primarily reflecting realised gains from completed unit sales net of the funds operating costs that continue to filter through.

RE Fund Investment III – Fully Realised in February 2017

In September 2015, the Company invested €10.7 million to acquire a 27.1% interest in the units of a private Italian real estate fund at a 56% discount to the fund's NAV at acquisition. At acquisition, the fund consisted of 14 office and light industrial real estate assets leased on a long term basis to a prime tenant. Since the original commitment in September 2014, all but one of the underlying leases have been extended and one asset comprising 26% of the fund's market value was sold in February 2016 to the underlying tenant at a 5% premium to its previously reported market value. As a result, the Company received a distribution of €6.8 million representing over 60% of capital invested. In February 2017, Eurocastle sold its entire remaining holding generating, together with additional distributions, €20.9 million of proceeds. Taking into account all distributions received over the life of the investment, this represents a realised profit of €18 million, an IRR of 137% and 2.7x multiple on equity invested.

RE Fund Investment IV

During 2016, Eurocastle invested €12.0 million into Fund Investment IV (i) to acquire substantially all of the units of a newly established private Italian real estate fund set up to restructure and monetise real estate properties previously owned by an over-levered real estate fund, and (ii) to acquire an interest in two mezzanine tranches of the fund's debt at a 20% average discount to the expected recovery value. At acquisition, the portfolio owned by the fund consisted of a retail portfolio in Northern Italy and 3 office assets together valued at €132.3 million.

In the second quarter of 2016, one asset comprising approximately 33% of the fund was sold for a €7 million premium (16%) to the fund's previously reported market value of that asset with the net proceeds used to amortise the fund's debt. The impact of the sale, together with other operating and valuation movements due to the significant embedded value created from the restructuring, resulted in the investment being valued at €24.8 million as at 31 March 2017. This equates to an increase of €13.7 million on the amount invested, of which €1.6 million arose in the first quarter of 2017, and represents a discount of 24% to the fund's NAV[1].

RE Fund Investment V

In December 2016, the Company alongside certain affiliates of FIG LLC and an Italian third party property developer committed to acquire 100% of the units of a newly established private fund ("Fund Investment V") for an estimated total investment for Eurocastle of €5.8 million. The fund has purchased one building in Rome to redevelop into high-end residential apartments. To date the Company has funded €4.4 million with an expected further €1.4 million to be deployed during 2017 and 2018, with the first cash flows anticipated in 2019.

[1] *NAV of respective fund reflecting the impact of any distributions paid after the reporting date.*

Further details of all portfolios acquired up to 31 March 2017 can be found in the table below:

	Fund Investment I	Fund Investment II[2]	Fund Investment III	Fund Investment IV	Fund Investment V[2]
Investment Status	Active	Active	Fully Realised Feb-17	Active	Active
Investment Date	Mar-14	Jul-14	Sep-15	Mar-16	Q2-17
Eurocastle Ownership	7.5%	49.3%	n/a	89.6%	49.6%
Fund Type	Publicly Listed	Private	Private	Private	Private
Collateral Type	11 mixed use properties	2 luxury residential redevelopment	13 mixed use office and light industrial	2 office and a retail Portfolio	1 luxury residential redevelopment
Collateral Location	Northern & Central Italy	Rome	Across Italy	Across Italy	Rome
Eurocastle's Value (Adjusted NAV) as a Discount to Reported Fund NAV[1]	30%	15%	n/a	24%	0%
Fund Leverage[1]	0%	30%	n/a	68%	0%
Fund Expiration[2]	Q4 2020	Q2 2018	n/a	Q1 2019	Q2 2020

Legacy Business (Discontinued Operations)

In 2016, the Company fully disposed of its remaining Legacy German real estate and intends to unwind its interest in its remaining Legacy debt investments within 2017.

In the first quarter of 2017, the Group received €2.4 million of cash flow upon completion of German real estate sales that were previously under binding contracts. In addition, the Company received €0.6 million from the resolution of a Legacy debt investment. As at 31 March 2017, the Group's remaining Legacy investment comprises only the levered debt portfolio ("CDO V") whose assets are valued below its liabilities and are non-recourse to Eurocastle.

	German Commercial Real Estate *€ million*	**Debt Investments Levered Portfolio (CDO V)** (Negative NAV) *€ million*
Number of portfolios	-	1
Assets	-	11.6
Liabilities	-	(54.9)
Adjusted NAV[3]	**-**	**-**
Adjusted NAV (€ per share)	-	-
Q1 2017 Cash flows	2.4	0.6

1 *Calculated based on the latest reported NAV of the Fund by the relevant Fund manager*
2 *Represents expected liquidation date for Funds II and V. Maturity dates of these funds are Dec-19 and Dec-23 respectively.*
3 *Adjusted NAV excludes the negative NAV of the levered Legacy portfolio (CDO V) whose debt is non-recourse to Eurocastle as outlined on page 16.*

Income Statement For The Three Months Ended 31 March 2017

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Portfolio Returns			
Fair value movements on joint ventures:			
doBank Group[1]	(93)	-	(93)
Romeo NPLs[1]	2,359	-	2,359
Share of post-tax profit from joint ventures:			
NPLs - Pool 6	8	-	8
Real Estate Fund Investment II	495	-	495
Fair value movements on associates:			
Real Estate Fund Investment III	1,444	-	1,444
Real Estate Fund Investment IV	1,414	-	1,414
Share of post-tax profits from associates:			
NPLs - Pools 7-18	340	-	340
Fair value movements on other investments:			
NPLs/ PL - Pools 1 -5	105	-	105
Real Estate Fund Investment I	155	-	155
Other Income			
Other income	-	2,351	2,351
Gains on foreign currency translations and swaps	7,255	-	7,255
Total operating income	**13,482**	**2,351**	**15,833**
Operating expenses			
Interest expense	42	-	42
Other operating expenses			
Transaction costs	134	-	134
Manager Base and Incentive fees	7,728	-	7,728
Remaining operating expenses	892	-	892
Total operating expenses	**8,796**	**-**	**8,796**
Net operating profit before taxation	**4,686**	**2,351**	**7,037**
Total tax expense	14	-	14
Net profit after taxation from continuing operations	**4,672**	**2,351**	**7,023**
Net Loss after taxation from discontinued operations	-	(153)	(153)
Profit after taxation for the period	**4,672**	**2,198**	**6,870**
Per Share[2]	*0.08*	*0.03*	*0.11*
Attributable to:			
Ordinary equity holders of the Company	4,652	2,198	6,850
Non-controlling interest	20	-	20

For the three months ended 31 March 2017, the total profit after taxation and non-controlling interests as reported under IFRS was €6.9 million, or €0.11 per share. Within the Group's Italian Investments, where the majority of these assets are accounted for at fair value, net income after taxation and non-controlling interest for the period was €4.7 million, or €0.08 per share.

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Net profit attributable to ordinary shareholders after taxation	4,652	2,198	6,850
Reversal of Loss attributed to negative NAV portfolios[3]	-	226	226
Adjusted net profit	**4,652**	**2,424**	**7,076**
Per Share[2]	*0.08*	*0.04*	*0.12*

Excluding losses from CDO V (the Group's remaining Legacy investment with a negative NAV) the Group generated a net profit after taxation of €7.1 million, or €0.12 per share. As at 31 March 2017, the Group had an Adjusted NAV of nil for its remaining Legacy interest (CDO V) and does not expect any further material cash flows from this investment.

[1] *doBank Group fair value movement includes €0.1 million movement from the 5% interest in the Romeo NPL pool acquired as part of the doBank investment and spun off in September 2016. Conversely, the Romeo NPL pool fair value movement reflects the movement on the remaining 95% interest of the NPL pool.*

[2] *Earnings per share based on 60.1 million weighted average ordinary shares for the three months ended 31 March 2017.*

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

NORMALISED FFO

Normalised FFO is a non-IFRS financial measure that, with respect to the Company's Italian Investments[1], recognises i) income on an expected yield basis updated periodically, allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns and ii) any additional gains or losses not previously recognised through NFFO at the point investments are fully realised. Cash flow receipts are therefore allocated by the Company between income and capital in accordance with this expected yield methodology. The income cash flow profile of each of the Groups' investments may not exactly equal the NFFO recognised by the Company each period but will do so over the life of each investment.

Unrealised gains or losses as typically reported in the Group financial statements under IFRS do not affect NFFO but impact the Company's asset valuations and therefore its Net Asset Value in the period in which the relevant valuation movement is recognised. Accordingly, while the quantum of Normalised FFO recognised in any period may differ from the corresponding fair value movements recognised in the Company's financial statements in the same period, over the total life of an investment NFFO will always equal the total profit recorded in the Company's financial statements.

The measure is also used as the basis to determine the Manager's entitlement to receive incentive compensation, with the base upon which such an amount is determined equal to the net invested capital of the Company's Italian Investments and calculated against the Normalised FFO for Italian Investments after allocated corporate costs. It should be noted that, given NFFO is recognised on a level yield basis for investments which are not fully realised, there is a difference between the incentive compensation which is currently accrued on the Company's balance sheet and that which would be due from the Company should all investments immediately be realised at their current reported asset values. As of 31 March 2017, the difference would be an additional €19.9 million.

On Eurocastle's Legacy Business, the measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements and any movements on portfolios with a negative NAV other than sales or asset management fees realised.

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

SEGMENTAL NORMALISED FFO FOR THE THREE MONTHS ENDED 31 MARCH 2017

	Average Net Invested Capital[2] *€ Thousands*	Yield	Italian Investments[1] *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
doBank Investment	246,033	15%	8,975	-	8,975
Italian NPLs[3]	24,432	15%	939	-	939
Real Estate Fund Investments	46,002	130%	15,021	-	15,021
Other[4]	n/a	n/a	7,247	-	7,247
Italian Investments NFFO before expenses	**316,467**	**41%**	**32,182**	**-**	**32,182**
Legacy Portfolios NFFO before expenses			-	2,826	2,826
Manager Base & Incentive Fees [5]			(7,728)	-	(7,728)
Other operating expenses			(1,082)	(219)	(1,301)
Normalised FFO			**23,372**	**2,607**	**25,979**
Per Share[6]			*0.39*	*0.04*	*0.43*

Before corporate costs, Italian Investments generated €32.2 million, or €0.54 per share, of which €20.4 million, or €0.34 per share, arose from the two significant realisations that took place in the quarter and therefore contributed towards the Manager Base and Incentive fees accrued in the period of €7.7 million[5]. Taking into account the additional NFFO of €2.8 million that was realised from the Group's last material remaining Legacy realisations and other operating expenses of €1.3 million, Normalised FFO for the period was €26.0 million, or €0.43 per share, compared to a dividend of €17.4 million, or €0.29 per share.

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

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

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

[4] *Fully realised investment.*

[5] *Manager base fees are equal to the sum of (i) 1.5% of the Company's Net Asset Value excluding Net Corporate Cash and (ii) 0.75% of the Company's Net Corporate Cash calculated and paid monthly in arrears. Incentive fees are equal to 25% of the euro amount by which the Company's NFFO derived from Italian Investments (net of allocable fees and expenses) exceeds the net amount invested in such investments multiplied by a simple interest rate of 8% per annum (calculated on a cumulative but not compounding basis).*

[6] *Normalised FFO per share based on 60.1 million weighted average ordinary shares for Q1 2017.*

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

Net Profit To Normalised FFO Reconciliation

	Italian Investments *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Net profit attributable to ordinary shareholders after taxation	**4,652**	**2,198**	**6,850**
Effective yield adjustments[1]	18,727	-	18,727
Reversal of interest on CDO bonds	-	543	543
Impairment reversal on debt	-	699	699
Reversal of loss on FX	-	78	78
Reversal of realised gains on paydowns and sales	-	(1,088)	(1,088)
Other	(7)	177	170
Normalised FFO	**23,372**	**2,607**	**25,979**
Per Share[2]	*0.39*	*0.04*	*0.43*

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

[2] *Normalised FFO per share based on 60.1 million weighted average ordinary shares for Q1 2017.*

NEW DISTRIBUTION POLICY

In March 2017 the Company announced the adoption of a new policy with the goal of generating substantial liquidity to shareholders by accelerating distributions of Normalised FFO ("NFFO") and surplus capital.

The policy saw the establishment of a new three part program with the intention to:

i. continue to pay a regular quarterly dividend (set at €0.15 per share as of the first quarter of 2017);
ii. supplement this on a quarterly basis with undistributed NFFO realised in cash; and
iii. supplement this on a semi-annual basis with 50% of the capital held by the Company at the previous half-year end that has not been invested or designated for investment in an opportunity being actively pursued at the time,

in each case all distributions being subject to the applicable legal requirements and reserves for working capital, distributions and expenses.

The supplemental distributions will take the form considered by the Directors to be in the best interests of the Company at the relevant time, and may be made in any manner available to the Board, including, among others, by way of increased dividends, returns of capital or share buybacks.

During the first quarter of 2017, undistributed NFFO realised in cash amounted to €17.5 million reflecting i) €15.1 million of NFFO recognised and realised in cash in the period and ii) €2.4 million of undistributed NFFO recognised in 2016 but received in the first quarter of 2017. As a result, total dividends for the first quarter of 2017 amount to €17.4 million, or €0.29 per share reflecting €9.0 million, or €0.15 per share[1] from the regular dividend declared in March 2017 and a supplemental dividend of €8.4 million, or €0.14 per share[1], declared in May 2017.

The table below reconciles NFFO to total dividends declared for Q1 2017:

NFFO to Dividend Reconciliation	***Q1 2017***	
	€ Thousands	*€ Per Share[1]*
NFFO (reported)	**25,979**	**0.43**
Less: NFFO recognised in period not yet realised in cash	(10,870)	(0.18)
Plus: undistributed NFFO recognised in prior periods realised in cash	2,399	0.04
NFFO Realised in Cash	**17,508**	**0.29**
Rounding to nearest € 0.01 per share	(76)	(0.00)
Total Q1 2017 Dividend	**17,432**	**0.29**
Of which:		
Regular Dividend declared in March 2017	9,017	0.15
Supplemental Dividend declared in May 2017	8,415	0.14

In 2016 the Company recognised NFFO of €46.0 million and declared dividends of €33.1 million leaving €12.9 million of undistributed NFFO as of 31 December 2016. During the first three months of 2017, the Company received €2.4 million in cash relating to NFFO recognised in 2016 while €10.9 million relating to NFFO recognised in Q1 2017 has not yet been received. Taking into account the remaining undistributed NFFO from 2016, together with that of the first quarter of 2017, undistributed NFFO as of 31 March 2017 amounts to €21.5 million and is intended to be distributed in accordance with the Company's policy in the period in which Eurocastle receives it in cash (subject to the applicable legal requirements and reserves for working capital, distributions and expenses).

Undistributed NFFO	*€ Thousands*
NFFO recognised in 2016	45,972
less: Total Dividends declared in 2016	(33,094)
Undistributed NFFO as of year-end 2016	**12,878**
Less: undistributed NFFO recognised in 2016 realised in cash in period	(2,399)
Plus: NFFO recognised in period not yet realised in cash	10,870
Plus: Rounding to nearest € 0.01 per share	76
Q1 2017 Undistributed NFFO movement	**8,547**
Undistributed NFFO as of Q1 2017	**21,425**

[1] *Per share figures calculated based on 60.1 million weighted average ordinary shares for Q1 2017*

Balance Sheet And Adjusted NAV Reconciliation as at 31 March 2017

	Italian Investments *€ Thousands*	Corporate *€ Thousands*	Legacy *€ Thousands*	Total *€ Thousands*
Assets				
Cash and cash equivalents	4,958	119,302	5,082	129,342
Other assets	22	1,145	510	1,677
Available for sale securities	5,653	-	-	5,653
Investments in joint ventures				
doBank Group[1]	269,953	-	-	269,953
Romeo NPLs[1]	103,144	-	-	103,144
NPLs - Pool 6	1,629	-	-	1,629
Real Estate Fund Investment II	10,744	-	-	10,744
Real Estate Fund Investment V	400	-	-	400
Investments in associates				
NPLs - Pools 7 - 18	23,291	-	-	23,291
Real Estate Fund Investment IV	19,028	-	2,208	21,236
Other fair value investments				
NPLs/ PL - Pools 1 - 5	3,736	-	-	3,736
Real Estate Fund Investment I	14,434	-	-	14,434
Loans and receivables held for sale	-	-	5,341	5,341
Derivative assets	-	-	1,190	1,190
Total assets	**456,992**	**120,447**	**14,331**	**591,770**
Liabilities				
Trade and other payables[2]	4,385	21,388	3,044	28,817
Current taxation payable	22	1,975	113	2,110
CDO bonds payable	-	-	54,471	54,471
Total liabilities	**4,407**	**23,363**	**57,628**	**85,398**
Net Asset Value	**452,585**	**97,084**	**(43,297)**	**506,372**
Non-controlling interest	(806)	-	-	(806)
Net Asset Value after Non-controlling interest	**451,779**	**97,084**	**(43,297)**	**505,566**
Negative NAV Addbacks[3]	-	-	43,297	43,297
Committed Investments[4]	65,357	(65,357)	-	-
Adjusted NAV	**517,136**	**31,727**	**-**	**548,863**
Adjusted NAV (€ per Share)[5]	***8.60***	***0.53***	**-**	***9.13***

[1] *doBank Group value includes €5.4 million representing the 5% interest in the Romeo NPL pool acquired as part of the doBank investment and spun off in September 2016. Conversely, the Romeo NPL pool value reflects the remaining 95% interest in the NPL pool acquired as part of the doBank investment and spun off in September 2016.*

[2] *Corporate Trade and Other Payables include amongst other €9.0 million of regular dividend declared in March 2017 (but not the supplemental dividend of €8.4 million declared in May 2017) and €7.7 million of manager base and incentive fees.*

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

[4] *Adjusted NAV of Italian Investments includes €60 million of equity allocated against the FINO transaction (reflecting the midpoint of the expected equity requirement of €50 to €70 million) and a €5.4 million estimated remaining commitment allocated against RE Fund Investment V.*

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

Forward Looking Statements

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

Statement Of Directors’ Responsibility In Respect Of The Interim Financial Statements

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

Independent Auditors Review

These consolidated interim financial statements as at 31 March 2017 have not been reviewed or audited by our auditors, BDO LLP.

Registered Office

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

On behalf of the Board

Simon J. Thornton
Director and Audit Committee Chairman
Date: 17 May 2017

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 31 March 2017 (unaudited) €'000	Three months ended 31 March 2016 (unaudited) €'000
Portfolio returns			
Fair value movements on joint ventures	3	2,266	7,933
Share of post tax profits / (losses) from joint ventures	3	503	(1,534)
Fair value movements on associates	3	2,858	4,225
Share of post tax profits from associates	3	340	534
Fair value movements on other investments	3	260	818
Other income			
Other income	4	2,351	-
Interest income		-	74
Gain / (losses) on foreign currency translation and swaps		7,255	(200)
Total income		**15,833**	**11,850**
Operating expenses			
Interest expense		42	-
Other operating expenses	5	8,754	3,497
Total expenses		**8,796**	**3,497**
Net operating profit before taxation		**7,037**	**8,353**
Taxation expense - current	6	14	8
Total tax expense		**14**	**8**
Profit after taxation from continuing operations		**7,023**	**8,345**
Loss after taxation from discontinued operations	21	**(153)**	**(143)**
Profit after taxation for the period		**6,870**	**8,202**
Attributable to:			
Ordinary equity holders of the Company		6,850	8,174
Non-controlling interest	14	20	28
Net profit after taxation		**6,870**	**8,202**
Earnings per ordinary share[(1)] from continuing operations		cents	cents
Basic and diluted	19	11.7	11.5
Earnings per ordinary share[(1)] from discontinued operations			
Basic and diluted	19	(0.3)	(0.2)
Earnings per ordinary share[(1)]			
Basic and diluted	19	11.4	11.3

[(1)] Earnings per share is based on the weighted average number of shares in the period of 60,110,413 (31 March 2016: 72,401,494). Refer to note 20.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	Three months ended 31 March 2017 (unaudited) €'000	Three months ended 31 March 2016 (unaudited) €'000
Net profit after taxation		**6,870**	**8,202**
Items that may or will be reclassified to profit or loss:			
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables with movements released to the income statement		44	184
Amortisation of novated swaps		-	(3)
Unrealised gain on asset backed securities, available-for-sale securities	10	172	-
Total other comprehensive income		**216**	**181**
Total comprehensive profit for the period		**7,086**	**8,383**
Attributable to:			
Ordinary equity holders of the Company		7,066	8,355
Non-controlling interest	14	20	28
Total comprehensive profit for the period		**7,086**	**8,383**

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

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

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Notes	31 March 2017 (unaudited) €'000	31 December 2016 €'000
Assets			
Cash and cash equivalents	7	129,342	109,078
Other assets	8	1,677	4,564
Investment properties held for sale	9	-	1,970
Available-for-sale securities	10	5,653	5,482
Investments in joint ventures	11, 12	385,870	383,482
Investments in associates	11, 13	44,527	63,976
Other fair value investments	11, 14	18,170	18,222
Loans and receivables held for sale	15	5,341	11,207
Derivative assets	16	1,190	2,144
Total assets		**591,770**	**600,125**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	20	1,992,810	1,992,810
Treasury shares	20	(36,935)	(36,935)
Accumulated loss		(1,459,993)	(1,457,826)
Net unrealised loss on available-for-sale securities and reclassified loans and receivables	10, 15	(40)	(256)
Other reserves	23	9,724	9,724
Total shareholders' equity		**505,566**	**507,517**
Non-controlling interest		806	1,058
Total equity		**506,372**	**508,575**
Liabilities			
CDO bonds payable	17	54,471	60,454
Trade and other payables	18	28,817	26,320
Current taxation payable	6	2,110	4,776
Total liabilities		**85,398**	**91,550**
Total equity and liabilities		**591,770**	**600,125**

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

The financial statements were approved by the Board of Directors on 17 May 2017 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Notes	Three months ended 31 March 2017 (unaudited) €'000	Three months ended 31 March 2016 (unaudited) €'000
Cash flows from operating activities			
Profit before tax for the period	26	**6,711**	**9,006**
Adjustments for:			
Interest income		(67)	(340)
Interest expense		813	3,993
Amortisation of discount / (premium) on securities	15	83	(2)
Impairment losses	21	699	798
Gain on paydown		(1,088)	(1,325)
Unrealised (gain) / loss on foreign currency and swaps		(7,177)	935
Amortisation of borrowing costs		10	592
Amortisation of tenant incentives / leasing commissions	21	-	165
Decrease in fair value of investment properties	21	-	679
Gain on deconsolidation	21	-	(2,000)
Increase in fair value on joint ventures	3	(2,266)	(7,933)
Share of post tax (profit) / loss from joint ventures	3	(503)	1,534
Fair value movement on associates	3	(3,007)	(4,225)
Share of post tax profits from associates	3	(340)	(534)
Fair value movements on other investments	3	(260)	(818)
Total adjustments for non cash items		**(13,103)**	**(8,481)**
Decrease / (increase) in other assets		2,319	(1,604)
Increase / (decrease) in trade and other payables		3,504	(1,351)
Movements in working capital		**5,823**	**(2,955)**
Capital expenditures / tenant incentives		-	(631)
Proceeds from sale of investment properties	9	1,970	34,882
Proceeds from prepayment of loans and receivables		6,135	13,002
Proceeds from distressed swap claim		7,247	-
Investment in joint venture	12	(100)	-
Disposal of associate	13	20,990	-
Cash distributions from joint ventures	12	481	412
Cash distributions from associates	13	1,806	2,892
Cash distributions from other fair value investments	14	312	3,133
Interest received		66	327
Interest paid		(1,101)	(2,175)
Cash movements from operating activities		**37,806**	**51,842**
Cash generated from operations		**37,237**	**49,412**
Taxation paid		(2,507)	(123)
Net cash flows from operating activities		**34,730**	**49,289**
Cash flows from financing activities			
Dividends paid	24	(9,017)	(9,050)
Dividends paid to non-controlling interest		(272)	(393)
Repayments of bonds issued		(5,177)	(12,579)
Repayments of bank borrowings		-	(41,398)
Net cash flows from financing activities		**(14,466)**	**(63,420)**
Net increase / (decrease) in cash and cash equivalents		**20,264**	**(14,131)**
Cash and cash equivalents, beginning of year		**109,078**	**250,154**
Total cash and cash equivalents, end of the period	7	**129,342**	**236,023**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holder of the Parent							
	Share capital €'000	Other reserves €'000	Treasury shares reserve €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2016	**2,014,845**	**26,024**	**-**	**(3,094)**	**3**	**(1,599,809)**	**1,335**	**439,304**
Profit after taxation for the three months	-	-	-	-	-	8,174	28	8,202
Other comprehensive income / (loss) for the three months	-	-	-	184	(3)	-	-	181
Total comprehensive income / (loss) for the three months	**-**	**-**	**-**	**184**	**(3)**	**8,174**	**28**	**8,383**
Contributions by and distributions to owners:								
Dividends to non-controlling interest	-	-	-	-	-	-	(393)	(393)
Release of option reserve for lapsed options	6,900	(6,900)	-	-	-	-	-	-
Dividend declared (note 24)	-	-	-	-	-	(9,050)	-	(9,050)
As at 31 March 2016 (unaudited)	**2,021,745**	**19,124**	**-**	**(2,910)**	**-**	**(1,600,685)**	**970**	**438,244**
Profit after taxation for the nine months	-	-	-	-	-	166,903	285	167,188
Other comprehensive income for the nine months	-	-	-	2,654	-	-	-	2,654
Total comprehensive income for the nine months	**-**	**-**	**-**	**2,654**	**-**	**166,903**	**285**	**169,842**
Contributions by and distributions to owners:								
Repurchase of shares (note 20)	-	-	(75,270)	-	-	-	-	(75,270)
Shares cancelled (note 20)	(38,335)	-	38,335	-	-	-	-	-
Dividends to non-controlling interest	-	-	-	-	-	-	(197)	(197)
Release of option reserve for lapsed options (note 23)	9,400	(9,400)	-	-	-	-	-	-
Dividend declared (note 24)	-	-	-	-	-	(24,044)	-	(24,044)
As at 31 December 2016	**1,992,810**	**9,724**	**(36,935)**	**(256)**	**-**	**(1,457,826)**	**1,058**	**508,575**
Profit after taxation for the three months	-	-	-	-	-	6,850	20	6,870
Other comprehensive income for the three months	-	-	-	216	-	-	-	216
Total comprehensive income for the three months	**-**	**-**	**-**	**216**	**-**	**6,850**	**20**	**7,086**
Contributions by and distributions to owners:								
Dividends to non-controlling interest	-	-	-	-	-	-	(272)	(272)
Dividend declared (note 24)	-	-	-	-	-	(9,017)	-	(9,017)
As at 31 March 2017 (unaudited)	**1,992,810**	**9,724**	**(36,935)**	**(40)**	**-**	**(1,459,993)**	**806**	**506,372**

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

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company" or the "Parent") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange). Eurocastle is subject to EU transparency rules as a result of its listing on an EU regulated market and, consequently, shareholders with a holding of 3% or more of the issued share capital in the Company are required to notify Eurocastle and the relevant regulators of certain changes to the percentage of voting rights in Eurocastle held by them.

The activities of the Group include the investing in, financing and management of Italian performing and non-performing loans, Italian NPL servicing platforms, Italian real estate funds, German commercial real estate, European real estate debt and related businesses.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group's Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in note 25. The Group has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost basis except for investment properties, available-for-sale securities, derivative financial investments, real estate funds, the doBank Group and Italian loan portfolios which are measured at fair value. The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements for the year ended 31 December 2016.

Basis of consolidation

(i) Business Combinations

The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group (see (ii) below). In the balance sheet, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

(ii) Subsidiaries

Where the Group has control over an investee, it is classified as a subsidiary. As per IFRS 10, the Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

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

At 31 March 2017, the Group consisted of a number of subsidiaries in Germany, Italy, Ireland, Luxembourg and the United States of America (refer to note 27).

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

(iii) Joint Ventures

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

(iv) Investment in Associates

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

Investments that are accounted for using the equity method and are initially recognised at cost, except for those investments which meet the exemption criteria allowed under IAS 28 which are accounted for under the fair value basis. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income for investments which are accounted for under the equity method or fair value movements for investments which meet the exemption criteria under IAS 28.

(v) Non controlling interests

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Portfolio returns

Portfolio returns includes both fair value movements, being the unrealised revaluation gains and losses at each reporting date, on underlying investments and share of post tax profit/ loss on investments accounted for under the equity method. The Group's investments comprise of NPLs/PL, the doBank Group and real estate fund units (refer to note 3).

Other income

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

Interest income and expense

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

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

Cash and cash equivalents

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

Restricted cash

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

Foreign currency translation

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

Share-based payments

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

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

Capital and reserves

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

Where the Company purchases the Company's own equity shares (treasury shares - see note 20), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Dividends

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

Discontinued operations

As at 31 March 2017, the Group has completed its plan to dispose of the remaining interest in its Legacy German real estate assets. In addition, the Group has initiated a plan to sell the remaining assets in its legacy debt portfolio business (CDO V) and expects the sale to be completed within twelve months. Accordingly, the results of the legacy property business and the legacy debt business are classified as discontinued operations (under IFRS 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

Recognition

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

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

Classification

Financial Assets

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

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

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

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

Financial liabilities

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

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

Financial derivatives

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

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

Measurement

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

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

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

Impairment

Impairment on loans and receivables

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

Impairment on available-for-sales assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

3. PORTFOLIO RETURNS

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

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

Portfolio returns for the three months ended 31 March 2017 (unaudited) are summarised below:

(Unaudited)	Fair value movements on joint ventures (Note 12) €'000	Share of post tax losses from joint ventures (Note 12) €'000	Fair value movements on associates (Note 13) €'000	Share of post tax profit from associates (Note 13) €'000	Fair value movements on other investments (Note 14) €'000	Total €'000
doBank Group	**(217)**	**-**	**-**	**-**	**-**	**(217)**
Romeo - NPLs	2,483	-	-	-	-	2,483
NPLs / PL (Pools 1 -5)	-	-	-	-	105	105
NPLs (Pool 6)	-	8	-	-	-	8
NPLs (Pools 7 -18)	-	-	-	340	-	340
Total portfolio returns from NPLs	**2,483**	**8**	**-**	**340**	**105**	**2,936**
Real Estate Fund Investment I	-	-	-	-	155	155
Real Estate Fund Investment II	-	495	-	-	-	495
Real Estate Fund Investment III	-	-	1,444	-	-	1,444
Real Estate Fund Investment IV	-	-	1,414	-	-	1,414
Total portfolio returns from Real Estate Funds	**-**	**495**	**2,858**	**-**	**155**	**3,508**
Total portfolio returns for the three months ended 31 March 2017 (unaudited)	**2,266**	**503**	**2,858**	**340**	**260**	**6,227**

Portfolio returns for the three months ended 31 March 2016 (unaudited) are summarised below:

(Unaudited)	Fair value movements on joint ventures €'000	Share of post tax profit from joint ventures €'000	Fair value movements on associates €'000	Share of post tax profit from associates €'000	Fair value movements on other investments €'000	Total €'000
doBank Group	**5,051**	**-**	**-**	**-**	**-**	**5,051**
Romeo - NPLs	2,882	-	-	-	-	2,882
NPLs / PL (Pools 1 -5)	-	-	-	-	186	186
NPLs (Pool 6)	-	61	-	-	-	61
NPLs (Pools 7 -15)	-	-	-	534	-	534
Total portfolio returns from NPLs	**2,882**	**61**	**-**	**534**	**186**	**3,663**
Real Estate Fund Investment I	-	-	-	-	632	632
Real Estate Fund Investment II	-	(1,595)	-	-	-	(1,595)
Real Estate Fund Investment III	-	-	4,225	-	-	4,225
Total portfolio returns from Real Estate Funds	**-**	**(1,595)**	**4,225**	**-**	**632**	**3,262**
Total portfolio returns for the three months ended 31 March 2016 (unaudited)	**7,933**	**(1,534)**	**4,225**	**534**	**818**	**11,976**

4. OTHER INCOME

Other income of €2.4 million relates to sales fees recognised in relation to the sales of assets that completed within Drive (legacy real estate portfolio) in Q1 2017 (after the effective deconsolidation date of the portfolio on 30 September 2016). During the three months ended 31 March 2016, the Group received sales fees of €0.7 million from the Drive portfolio (which was previously eliminated on consolidation).

The sales fees receivable by the Group relate to an arrangement secured with the lender of the portfolio whereby the Group benefits from 3.5% of gross sales proceeds.

5. OTHER OPERATING EXPENSES

	Three months ended 31 March 2017 (unaudited) €'000	Three months ended 31 March 2016 (unaudited) €'000
Professional fees	195	189
Transaction costs	134	88
Management fees (note 25)	7,728	2,507
Manager Recharge (note 25)	444	462
Depreciation of fixtures and fittings	-	1
General and administrative expenses	253	250
Total other operating expenses	**8,754**	**3,497**

6. TAXATION EXPENSE

Taxation Overview

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

The Company's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries. The Group's taxation expense mainly relates to the Luxembourg subsidiary companies. The tax charge for the three months ended 31 March 2017 was €14,000 (31 March 2016: €8,000).

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

The Company's subsidiaries within its legacy debt investment business (EFL and CDO V), are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

Taxation liability:

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Current tax payable	**2,110**	**4,776**

7. CASH AND CASH EQUIVALENTS

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Corporate cash	116,173	94,925
Cash within subsidiaries under Italian Investments	4,958	4,553
Cash within the real estate operating companies (discontinued operation)	5,388	6,704
Cash within the legacy debt business (discontinued operation)	2,823	2,896
Total cash and cash equivalents	**129,342**	**109,078**

Corporate cash represents cash deposits held by Eurocastle Investment Limited.

Cash within subsidiaries under Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €0.8 million which is to be distributed to the non controlling interests (31 December 2016: €1.1 million).

Cash within the real estate operating companies is held to cover historic operating costs, tax liabilities, liquidation costs and other working capital.

Cash within the legacy debt business includes €2.8 million (31 December 2016: €2.9 million) held in CDO V. The cash within CDO V is restricted to repaying CDO interest as it falls due or for repayment of debt within the CDO. The reinvestment period for CDO V ended on 20 June 2013 and, as a consequence, principal cash flows received on its assets are now diverted to repay senior debt.

8. OTHER ASSETS

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Service charge receivable	735	481
Proceeds receivable from the disposal of investment properties	-	150
Interest receivable	22	21
Rent receivable	23	143
Prepaid expenses	60	89
Other accounts receivable[(1)]	837	3,680
Total other assets	**1,677**	**4,564**

[(1)] The movement mainly relates to a collection of €2.5 million relating to the closing reserve set aside to cover working capital, transaction costs and winding up costs following the sale of a legacy real estate portfolio.

Service charge and rent receivables are net of a provision for doubtful debts of €1.7 million (31 December 2016: €2.3 million).

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

9. INVESTMENT PROPERTY

During the three months ended 31 March 2017, the Group disposed of its final real estate asset for €2.0 million (31 March 2016: 12 properties for €35.1 million) versus a carrying value, at the date of sale, of €2.0 million (31 March 2016: €35.1 million).

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Investment property held for sale	-	1,970
Investment property held for sale	**-**	**1,970**

10. AVAILABLE-FOR-SALE SECURITIES

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

Available-for-sale securities are carried at fair value with unrealised gains credited to equity. Fair value represents the market value of the bonds derived from broker prices at the reporting date. An unrealised gain of €0.7 million has been credited to equity as at 31 March 2017 (31 December 2016: €0.5 million).

The fair value of the available-for-sale securities as at 31 March 2017 (unaudited) is shown below:

							Weighted Average	
	Current face €'000	Cost €'000	Unrealised gains €'000	Carrying value €'000	Cost as a % of current face	Carrying value as a % of current face	Average rating	Maturity (years)(1)
CMBS	6,781	4,957	696	5,653	73.1%	83.4%	D	0.4
As at 31 March 2017 (unaudited)	**6,781**	**4,957**	**696**	**5,653**	**73.1%**	**83.4%**	**D**	**0.4**

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

As at 31 December 2016:

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

11. ITALIAN INVESTMENTS

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

(i) the doBank Group - In October 2015, the Group invested in a joint venture which is held at fair value through profit or loss under the exemption in IAS 28 due to the strategic intentions and potential exit strategy in the short to medium term.

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

(iii) Real estate funds:

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

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

(c) Real Estate Fund Investment III (up to its disposal in February 2017) and Real Estate Fund Investment IV are associate investments and are held at fair value through profit or loss under the exemption in IAS 28 due to the strategic intentions and potential exit strategy in the short to medium term.

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

The holdings in investments have been summarised below.

As at 31 March 2017 (unaudited)	Ownership %	Investments in joint ventures (Note 12) €'000	Investments in associates (Note 13) €'000	Other fair value investments (Note 14) €'000	Total €'000
doBank Group	50.0%	**264,524**	**-**	**-**	**264,524**
Romeo- NPLs	50.0%	108,573	-	-	108,573
NPLs / PL (Pools 1 -5)	80.7%	-	-	3,736	3,736
NPLs (Pool 6)	50.0%	1,629	-	-	1,629
NPLs (Pools 7 -18)	25.0%	-	23,291	-	23,291
Total NPLs		**110,202**	**23,291**	**3,736**	**137,229**
Real Estate Fund Investment I	7.5%	-	-	14,434	14,434
Real Estate Fund Investment II	50.0%	10,744	-	-	10,744
Real Estate Fund Investment IV	100.0%	-	21,236	-	21,236
Real Estate Fund Investment V	50.0%	400	-	-	400
Total Real Estate Funds		**11,144**	**21,236**	**14,434**	**46,814**
Total Investments as at 31 March 2017 (unaudited)		**385,870**	**44,527**	**18,170**	**448,567**

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

12. INVESTMENTS IN JOINT VENTURES

The following is a summary of the Group's joint venture investments held at fair value and equity accounted for as at 31 March 2017 (unaudited):

	Accounted for at fair value		Accounted for under the equity method			
	doBank Group	**Romeo - NPLs**	**Real Estate Fund Investment II**	**Real Estate Fund Investment V**	**Series 3 NPLs (Pool 6)**	**Total**
	(Note 12.1)	(Note 12.2)	(Note 12.3)		(Note 12.4)	
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance as at 1 January 2017	264,741	106,090	10,640	300	1,711	383,482
Acquisitions	-	-	-	100	-	100
Distributions	-	-	(391)	-	(90)	(481)
(Decrease) / increase in fair value	(217)	2,483	-	-	-	2,266
Share of post tax profit	-	-	495	-	8	503
Balance as at 31 March 2017 (unaudited)	**264,524**	**108,573**	**10,744**	**400**	**1,629**	**385,870**

The following is a summary of the Group's joint venture investments as at 31 December 2016:

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

12.1. Investment in the doBank Group

On 30 October 2015, the Group acquired a 50% equity interest in the doBank Group (formerly Unicredit Credit Management Bank S.p.A ("UCCMB")), comprising an NPL servicing business, and an NPL pool (refer to note 12.2) for a consideration of approximately €246 million, subject to certain post-closing adjustments. The investment in the doBank Group is held through a joint venture in a Luxembourg company, Avio S.ár.l. The Group accounts for the investment in the doBank Group at fair value through profit or loss as it has taken the exemption under IAS 28.

On 30 September 2016, the doBank Group's NPL pool was transferred to Romeo SPV Srl. The Group holds a 47.5% economic interest in this entity, while the doBank Group holds a 5% economic interest (of which Eurocastle has a 2.5% indirect interest). This NPL pool is now referred to as the “Romeo NPLs” (see note 12.2). The below financial information excludes the revaluation gains of the Romeo NPLs and corresponding interest which is held directly by doBank Group (refer to note 12.2).

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

	doBank Group 31 March 2017 (unaudited)	**doBank Group 31 December 2016**
	€'000	**€'000**
Non-current assets	530,000	530,000
Current assets	51	50
Cash	1,197	1,670
Current liabilities	(2,201)	(2,238)
Net assets	**529,047**	**529,482**
Group's share of net assets (50%)	**264,524**	**264,741**

The Group's share of net assets relates to Avio S.ár.l which includes the investment of the doBank Group carried at fair value.

12.2. Investment in Romeo - NPLs

The below financial information represents the Group's 50% interest in the Romeo NPLs and therefore includes the 2.5% held indirectly through the doBank Group.

The following table summarises the financial information of the Joint Venture:

	Romeo - NPLs 31 March 2017 (unaudited) €'000	Romeo - NPLs 31 December 2016 €'000
Non-current assets	217,146	212,170
Current assets	31	40
Current liabilities	(31)	(30)
Net assets	**217,146**	**212,180**
Group's share of net assets (50%)	**108,573**	**106,090**

12.3. Investment in Real Estate Fund Investment II

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

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

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

	Fund Investment II (2) 31 March 2017 (unaudited) €'000	Fund Investment II (2) 31 December 2016 €'000
Cash	2,743	2,711
Current assets	411	509
Inventories (1)	32,702	34,322
Current liabilities	(3,704)	(4,503)
Non-current liabilities	(10,665)	(11,759)
Net assets	**21,487**	**21,280**
Group's share of net assets (50%)	**10,744**	**10,640**

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

(2) The 31 March 2017 financial information includes the balance sheet of Torre RE Fund as at 31 December 2016, being the latest available information at the reporting date. The 31 December 2016 financial information includes the balance sheet of Torre RE Fund as at 30 September 2016, being the latest available information at that reporting date.

As at 31 March 2017, the Group's share of the fund's net asset value of €10.7 million (31 December 2016: €10.6 million) compared to a fair value assessment of €15.4 million (31 December 2016: €17.0 million). An independent valuer has deemed the fair value to be reasonable.

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

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

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

The portfolio is serviced by Italfondiario S.p.A. (refer to note 25).

For further details of the NPL portfolio (Pool 6), refer to 'Italian NPLs' table under the business review section on page 8.

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

	Series 3 NPLs (Pool 6)	**Series 3 NPLs (Pool 6)**
	31 March 2017 (unaudited)	**31 December 2016**
	€'000	**€'000**
Non-current assets	3,262	3,421
Current assets	860	626
Current liabilities	(864)	(626)
Net assets	**3,258**	**3,421**
Group's share of net assets (50%)	**1,629**	**1,711**

13. INVESTMENT IN ASSOCIATES

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

	Accounted for under the equity method	Accounted for at fair value		
	NPL/PL Series 1,2,4 & 5 (Pools 7-18)	Real Estate Fund Investment III	Real Estate Fund Investment IV	Total
	(Note 13.1)	(Note 13.2)	(Note 13.3)	
	€'000	€'000	€'000	€'000
Balance as at 1 January 2017	24,624	19,546	19,806	63,976
Distributions	(1,673)	-	(133)	(1,806)
Net disposal proceeds	-	(20,990)	-	(20,990)
Increase in fair value	-	-	1,563	1,563
Realised gain	-	1,444	-	1,444
Share of post tax profit	340	-	-	340
Balance as at 31 March 2017 (unaudited)	**23,291**	**-**	**21,236**	**44,527**

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

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

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

All portfolios are serviced by Italfondiario S.p.A. (refer to note 25).

For further details of all NPL portfolios (Pool 7 -18), refer to 'Italian NPLs' table under the business review section on page 8.

The following table summarises the financial information of the associates:

	Series 1,2,4 & 5 NPLs (pools 7-18)	Series 1,2,4 & 5 NPLs (pools 7-18)
	31 March 2017 (unaudited)	31 December 2016
	€'000	€'000
Non-current assets	93,148	98,539
Current assets	190	379
Current liabilities	(175)	(424)
Net assets	**93,163**	**98,494**
Group's share of net assets (25%)	**23,291**	**24,624**

13.2. Associate Investment in Real Estate Fund Investment III

In February 2017, the Group sold its 27.1% interest in Real Estate Fund Investment III. The transaction, together with other distributions received resulted in total net proceeds of €21.0 million compared to an aquisition cost of €10.7 million. During the three months ended 31 March 2017, the Group recognised a realised gain of €1.4 million on disposal of Real Estate Fund Investment III compared to a carrying value of €19.5 million as at 31 December 2016.

13.3. Associate Investment in Real Estate Fund Investment IV

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

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

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

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

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

	As at 31 March 2017 (unaudited)			As at 31 December 2016		
	Fund Investment IV *Italian Investments*	**Fund Investment IV *Legacy (1)***	**Total**	**Fund Investment IV *Italian Investments***	**Fund Investment IV *Legacy (1)***	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance as at 1 January	17,747	2,059	19,806	-	-	-
Investment	-	-	-	7,068	-	7,068
Distributions	(133)	-	(133)	(985)	(52)	(1,037)
Fair value movement	1,414	149	1,563	11,664	2,111	13,775
Balance carried forward	**19,028**	**2,208**	**21,236**	**17,747**	**2,059**	**19,806**

During the period, the Group recognised a fair value gain of €1.4 million in respect of its 89.6% interest in the fund. The fair value reflects the latest net asset value of the fund adjusted for current third party bids on the underlying real estate assets and excludes liabilities which rank junior to the Group's interest in the capital structure.

The following table summarises the financial information of the associate as at 31 December 2016 under Italian GAAP, being the latest available financial information:

	Fund Investment IV
	31 December 2016 (unaudited)
	€'000
Non-current assets	90,099
Current assets	1,502
Non-current liabilities (2)	(71,105)
Current liabilities	(360)
Net assets	**20,136**

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

(2) Includes €8.9m of liabilities which rank junior to the Group's interest in the capital structure.

14. OTHER FAIR VALUE INVESTMENTS

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

	31 March 2017 (unaudited) €'000	31 December 2016 €'000
NPLs/PL - pools 1 to 5 - (refer to note 14.1)	3,736	3,943
Real Estate Fund Investment I (refer to note 14.2)	14,434	14,279
Carrying value	**18,170**	**18,222**

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

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

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

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

	31 March 2017 (unaudited)			31 December 2016		
	Group's share €'000	Non controlling interest €'000	NPLs / PL Pools 1-5 Total Portfolio €'000	Group's share €'000	Non controlling interest €'000	NPLs / PL Pools 1-5 Total Portfolio €'000
Balance as at 1 January	3,182	761	3,943	3,932	940	4,872
Distributions	(252)	(60)	(312)	(2,097)	(492)	(2,589)
Increase in fair value	85	20	105	1,347	313	1,660
Carrying value	**3,015**	**721**	**3,736**	**3,182**	**761**	**3,943**

All portfolios are serviced by Italfondiario S.p.A. (refer note 25).

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

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("Real Estate Fund Investment I"). The holding represents 7.46% of the total units issued by Real Estate Fund Investment I. The units are listed on the Italian Stock Exchange. Real Estate Fund Investment I has extended its maturity date to 31 December 2020. These units are held at fair value though profit or loss.

During the three months ended 31 March 2017 the Group received no distributions (31 March 2016: €125 per unit for a total amount of €1.5 million).

The fair value of the investment is determined by the share price of Real Estate Fund Investment I at the reporting date. As at 31 March 2017, the share price was €1,210 (31 December 2016: €1,197) . The movement in the investment is as follows:

	Fund Investment I 31 March 2017 (unaudited) €'000	Fund Investment I 31 December 2016 €'000
Balance as at 1 January	14,279	14,339
Distributions	-	(1,491)
Increase in fair value	155	1,431
Carrying value	**14,434**	**14,279**

15. LOANS AND RECEIVABLES HELD FOR SALE - LEGACY DEBT PORTFOLIO

The following is a summary of the Group's loans and receivables as at 31 March 2017:

(Unaudited)	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average rating [1]
CDO V [2]					
CMBS	38,584	30,805	(30,169)	636	CCC+
Other ABS	4,546	4,357	-	4,357	BBB
Real estate related loans	25,779	25,779	(25,431)	348	D
	68,909	60,941	(55,600)	5,341	CCC
Total portfolio	**68,909**	**60,941**	**(55,600)**	**5,341**	**CCC**

As at 31 December 2016:

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

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

(2) The securities within CDO V are encumbered by CDO securitisations (note 17)

The movement in the impairment losses is shown below:

	31 March 2017 (unaudited) €'000	31 December 2016 €'000
Balance as at 1 January	(76,321)	(116,238)
Reversals due to paydowns and sales in the year	21,425	65,441
Impairment losses for the period (refer to note 21)	(699)	(27,567)
Foreign exchange movement on impairments reserve	(5)	2,043
Carrried forward	**(55,600)**	**(76,321)**

16. DERIVATIVE ASSETS - LEGACY DEBT PORTFOLIO

Derivative assets represent the fair value of foreign currency swaps.

During 2007, a subsidiary within the Group's legacy debt investment portfolio (CDO V) entered into a series of foreign currency swaps with a major investment bank to cover the foreign exchange risk in relation to its Pound Sterling denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and, with regards to interest, Euribor plus a spread. The fair value loss for the three months ended 31 March 2017 was €nil (31 December 2016: loss of €0.5 million) is recorded in the income statement. During the three months ended 31 March 2017, the Group fully redeemed €1.0 million of foreign currency swaps.

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Foreign currency swaps - Pound Sterling	1,190	2,144
Total derivative assets	**1,190**	**2,144**

17. CDO BONDS PAYABLE - LEGACY DEBT PORTFOLIO

As at 31 March 2017 (unaudited):

	Class	Rating [(1)]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %
CDO V	D2, D3, E1, E2	C/C/ C/C	54,471	54,471	1.94%	2.27%
Total			**54,471**	**54,471**	**1.94%**	**2.27%**

The legal maturity of the bonds is 20 June 2047.

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

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

As at 31 December 2016:

	Class	Rating [(1)]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %
CDO V	C2, D1, D2, D3, E1, E2	CCC/ C/C/C/ C/C	60,463	60,454	1.90%	2.21%
Total			**60,463**	**60,454**	**1.90%**	**2.21%**

The legal maturity of the bonds is 20 June 2047.

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

18. TRADE AND OTHER PAYABLES

	As at 31 March 2017 (unaudited) €'000	As at 31 December 2016 €'000
Interest payable	18	592
Due to Manager (refer note 25)	8,184	2,136
Capital expenditure accruals	388	615
Dividends payable	9,017	9,017
Accrued expenses and other payables	11,210	13,960
Total trade and other payables	**28,817**	**26,320**

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

19. 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 period.

Diluted earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period. A dilutive effect arises if the exercise price of the share option is lower than the average share price for the option period.

The Group's potential ordinary shares during the period were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements (refer note 23).

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

	As at 31 March 2017 (unaudited)	**As at 31 December 2016**
Weighted average number of ordinary shares*	60,110,413	66,087,627
Dilutive effect of ordinary share options	-	-
Weighted average number of ordinary shares - dilutive	**60,110,413**	**66,087,627**

***weighted average shares for the period**

20. SHARE CAPITAL AND RESERVES

As at 31 March 2017, there were 66,121,054 shares (31 December 2016: 66,121,054) issued and outstanding of which 6,010,641 (31 December 2016: 6,010,641) are held in treasury. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares
Balance at 1 January 2016	72,401,494
Shares repurchased and cancelled - 27 June 2016	(6,284,440)
Issued to the Directors as part of their in-place compensation arrangements for €nil consideration	4,000
Balance at 31 December 2016	**66,121,054**
Shares repurchased and held in treasury - 27 June 2016	(6,010,641)
Balance as at 31 March 2017 and 31 December 2016 excluding shares held in treasury	**60,110,413**

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

Other reserves

Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in May 2013 and April 2015 (refer note 23).

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

Net unrealised loss on available-for-sale securities and reclassified loans and receivables
The reserve includes unrealised gains on available-for-sale securities (refer note 10) and the remaining unrealised losses on reclassified loans and receivables (refer note 15).

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

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

21. DISCONTINUED OPERATIONS

As at 31 March 2017, the Group has completed its plan to dispose of the remaining interest in its Legacy German real estate assets. In addition, the Group has initiated a plan to sell the remaining assets in its legacy debt portfolio business (CDO V) and expects the sale to be completed within twelve months. Accordingly, the results of the legacy property business and the legacy debt business are classified as discontinued operations (under IFRS 5) and are presented as follows:

	Three months ended 31 March 2017 (unaudited)			Three months ended 31 March 2016 (unaudited)		
	Legacy Real Estate €'000	Legacy Debt €'000	Total €'000	Legacy Real Estate €'000	Legacy Debt €'000	Total €'000
Portfolio returns						
Fair value movement on associate investment	-	149	149	-	-	-
Operating income						
Interest income	-	-	-	-	268	268
Rental income	5	-	5	8,168	-	8,168
Service charge income	454	-	454	1,595	-	1,595
Decrease in fair value of investment properties	-	-	-	(679)	-	(679)
Losses on foreign currency translation and swaps	-	(78)	(78)	-	(735)	(735)
Gain on paydown of loans and receivables	-	1,088	1,088	-	1,325	1,325
Gain on deconsolidation of subsidiary undertakings	-	-	-	2,000	-	2,000
Total income	**459**	**1,159**	**1,618**	**11,084**	**858**	**11,942**
Operating expenses						
Interest expense	254	543	797	3,824	761	4,585
Service charge expenses	-	-	-	1,595	-	1,595
Property operating expenses	(78)	-	(78)	2,946	-	2,946
Transaction costs	(6)	60	54	591	-	591
Other operating expenses	396	76	472	622	152	774
Other expenses						
Impairment losses	-	699	699	-	798	798
Total Expenses	**566**	**1,378**	**1,944**	**9,578**	**1,711**	**11,289**
Net operating (loss) / profit before taxation	**(107)**	**(219)**	**(326)**	**1,506**	**(853)**	**653**
Taxation (credit) / expense - current	(173)	-	(173)	727	-	727
Taxation expense - deferred	-	-	-	69	-	69
Total tax credit	**(173)**	**-**	**(173)**	**796**	**-**	**796**
Profit / (loss) after taxation for the period	**66**	**(219)**	**(153)**	**710**	**(853)**	**(143)**

22. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

31 March 2017 (unaudited):

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Available-for-sale securities (refer to note 10)	-	5,653	-	5,653
Investments in joint ventures (refer to note 12)	-	-	373,097	373,097
Investments in associates (refer to note 13)	-	-	21,236	21,236
Other fair value investments (refer to note 14)	14,434	-	3,736	18,170
Derivative assets (refer note 16)	-	1,190	-	1,190
Total	**14,434**	**6,843**	**398,069**	**419,346**

31 December 2016:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Available-for-sale securities (refer to note 10)	-	5,482	-	5,482
Investments in joint ventures (refer to note 12)	-	-	370,831	370,831
Investments in associates (refer to note 13)	-	-	39,352	39,352
Other fair value investments (refer to note 14)	14,279	-	3,943	18,222
Derivative assets (refer note 16)	-	2,144	-	2,144
Total	**14,279**	**7,626**	**414,126**	**436,031**

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

The following table shows reconciliation for the Level 3 fair value measurements as at 31 March 2017 (unaudited):

	Investments in joint ventures €'000	Investments in associates €'000	Other fair value investments €'000	Total €'000
As at 1 January 2017	370,831	39,352	3,943	414,126
Disposal of fair value investment	-	(20,990)	-	(20,990)
Distributions received from fair value investments	-	(133)	(312)	(445)
Realised gain in the period	-	1,444	-	1,444
Fair value movement in the period	2,266	1,563	105	3,934
As at 31 March 2017 (unaudited)	**373,097**	**21,236**	**3,736**	**398,069**

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

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

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value methodology and sensitivity analysis

Available-for-sale securities

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

As at 31 March 2017, average price (which is a percentage of current face) of the two tranches of debt were 95.5% and 81.0% (31 December 2016: 95.0% and 77.5%).

doBank Group

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

The key assumptions relating to the valuation as at 31 March 2017 are set out below:

(Unaudited)	Total
Discount applied	43%
Earnings multiple (net of discount)	7.4

The table below presents the sensitivity of the valuation to a change in the most significant assumption as at 31 March 2017:

(Unaudited)	Total
Fair value	264,524
Decrease of earnings multiple (net of discount applied) by 1x	234,200
Value sensitivity	**(30,324)**

An increase of 7% in the discount applied to the earnings multiple would lead to a decrease in the value of €30.3 million.

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

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

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

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

NPLs/ PL

The Group's investment in its NPLs / PL (pools 1 - 18) are classified as level 3 on the fair value hierarchy. The fair value of the investments is derived from internal valuation models. The assumptions used in the models are based on cash flows (actual and projected) per the latest business plan and reviewed by senior management.

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

As at 31 March 2017:

(Unaudited)	Italian Loan Pools (1-18)	Romeo - NPLs	Total
Expected profit multiple [1]	1.73	1.93	1.87
Remaining weighted average life	2.9	4.5	4.2
Discount rate	12%	12%	12%

As at 31 December 2016:

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

(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:

(Unaudited)	Italian Loan Pools (1-18) €'000	Romeo - NPLs €'000	Total €'000
Fair value	27,919	108,573	136,492
Increase in discount rate by 25bps	27,766	107,812	135,578
Value sensitivity	**(153)**	**(761)**	**(914)**

As at 31 December 2016:

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

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

Real Estate Fund Investment IV

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

The table below shows the sensitivity analysis for the investment as at 31 March 2017:

(Unaudited)	€'000
Fair value	21,236
Decrease in real estate asset bids by 1%	20,412
Value sensitivity	**(824)**

The table below shows the sensitivity analysis for the investment as at 31 December 2016:

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

23. SHARE OPTIONS

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

Date of grant	Options outstanding at 1 January 2017	Options issued	Options lapsed	Options remaining at 31 March 2017	Fair value at grant date €'000	Exercise price €	Date of expiration
30 May 2013	1,500,000	-	-	1,500,000	4,968	7.25	15 May 2023
29 April 2015	3,976,299	-	-	3,976,299	4,756	7.85	30 April 2025
Total	**5,476,299**	**-**	**-**	**5,476,299**	**9,724**		

Movements in the number of share options for the year ended 31 December 2016 is shown below:

Date of grant	Options outstanding at 1 January 2016	Options issued	Options lapsed	Options remaining at 31 December 2016	Fair value at grant date €'000	Exercise price €	Date of expiration
27 Jan 2006	3,956	-	(3,956)	-	-	3,600.00	27 Jan 2016
27 Jan 2006	6,101	-	(6,101)	-	-	6,000.00	27 Jan 2016
1 Dec 2006	8,829	-	(8,829)	-	-	7,400.00	1 Dec 2016
30 May 2013	1,500,000	-	-	1,500,000	4,968	7.25	15 May 2023
29 April 2015	3,976,299	-	-	3,976,299	4,756	7.85	30 April 2025
Total	**5,495,185**	**-**	**(18,886)**	**5,476,299**	**9,724**		

24. DIVIDENDS PAID AND DECLARED

The following dividends were declared for the three months ended 31 March 2017:

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
16 March 2017	22 March 2017	23 March 2017	31 May 2017	€ 0.150	9,017
Total					**9,017**

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

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
10 March 2016	17 March 2016	18 March 2016	29 April 2016	€ 0.125	9,050
23 June 2016	30 June 2016	01 July 2016	29 July 2016	€ 0.125	7,513
23 September 2016	28 September 2016	29 September 2016	28 October 2016	€ 0.125	7,514
15 December 2016	21 December 2016	22 December 2016	31 January 2017	€ 0.150	9,017
Total					**33,094**

25. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003. Pursuant to the Management Agreement, the Manager, under the supervision of the Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. Since 1 January 2015 the management fee paid to the Manager is equal to (i) 1.5% of the Group's Adjusted NAV reported quarterly, and (ii) 0.75% of the share of Adjusted NAV relating to net corporate cash. Furthermore, the Manager's entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in the Group's Italian Investments and calculated against the Normalised FFO for Italian Investments after allocated corporate costs. Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative.

The Management Agreement provides that Eurocastle will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Group's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Group by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the consolidated income statement.

The Manager is deemed to be the key employee for reporting purposes. The total compensation recharged in the period to the Company is €0.5 million, of which €0.3 million relates to discontinued operations (31 December 2016: €4.0 million, of which €3.1 million relates to discontinued operations).

When it was signed in 2003 the Management Agreement provided for an initial term of ten years with automatic three year extensions, subject to certain termination rights. On 25 April 2016, the Company and the Manager entered into an amendment to the Management Agreement to include a one-off interim renewal in August 2017 for a period of two years, following which it will revert back to three year extensions. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Group and the Manager, incentive compensation (as outlined above) will continue to be payable to the Manager post-termination.

At 31 March 2017, management fees, incentive fees and expense reimbursements of €6.4 million (31 December 2016: €2.1 million) were due to the Manager. For the year ended 31 December 2016 management fees of €1.9 million, of which €nil million relates to discontinued operations (31 December 2016: €6.8 million, of which €0.1 million relates to discontinued operations), €4.1 million of incentive fees (31 December 2016: €5.3 million), and expense reimbursements of €0.8 million, €0.4 million of which relates to discontinued operations (31 December 2015: €5.0 million, of which €3.5 million relates to discontinued operations) were charged to the income statement.

Total annual remuneration for the Eurocastle directors is €0.2 million (31 December 2016: €0.1 million), payable quarterly in equal instalments. The increase follows a review to bring the Independent Directors remuneration in line with listed peers. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondiario S.p.A. ("Italfondiario"). The terms of the agreements have been approved by the Independent Directors. Italfondiario provides portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the three months ended 31 March 2017 was €0.4 million (31 March 2016: €0.5 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 March 2017.

The Fortress Italian NPL Opportunities Fund LLC (which owns pools 6-18) and the Fortress Italian Real Estate Opportunities Series Fund LLC (which the majority of the Group's interest in Real Estate Fund Investments are held through) are managed by an affiliate of the Manager. The total management fee expense for the three months ended 31 March 2017 is €0.1million (31 March 2016: €nil million) and offsets fully against the Group's Management Fee payable to the Manager.

The Group's non-controlling interest in Real Estate Fund Investment I (refer to note 14.2) along with its joint venture investment in Real Estate Fund Investment II (refer to note 12.3) are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total management fee expense, across both these funds, for the three months ended 31 March 2017 was €0.1 million (31 March 2016: €0.4 million).

26. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group conducts its business through five primary segments: the doBank Group, NPLs/PL, Real Estate Fund Investments, Legacy Debt portfolio (CDO V) and the Legacy Real Estate. The Group's Italian Investments currently made up of an NPL servicing business ("doBank Servicer"), non-performing loans ("NPLs") and a performing loan ("PL") portfolio along with real estate fund units. The discontinued operations comprise of the Group's Legacy Debt portfolio of investments in European real estate related debt and Legacy German Real Estate business.

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

The Legacy real estate debt investment segment (discontinued operation) derives its income primarily from interest on loans and receivables.

Up to the disposal date of each respective portfolio, the Legacy Real Estate segment (discontinued operation) relates to investment properties and derives its income primarily from rental income, service charge income.

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

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

Segment liabilities for the debt investment portfolio include CDO bonds payable.

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

	Italian Investments							Discontinued Operations		
Three months ended 31 March 2017 (unaudited)	**doBank Group €'000**	**NPLs/PL €'000**	**Real Estate €'000**	**Other €'000**	**Italian Investments €'000**	**Corporate €'000**	**Total Eurocastle €'000**	**Legacy Debt Portfolio €'000**	**Legacy Real Estate €'000**	**Total Eurocastle €'000**
Portfolio returns	(217)	2,936	3,508	-	6,227	-	6,227	149		6,376
Revenue [(1)]	-	-	-	-	-	-	-	-	459	459
Other operating income [(2)]	-	-	-	7,247	7,247	2,359	9,606	1,010	-	10,616
Total operating income [(3)]	**(217)**	**2,936**	**3,508**	**7,247**	**13,474**	**2,359**	**15,833**	**1,159**	**459**	**17,451**
					0		-			
Interest expense	-	-	-	-	-	(42)	(42)	(543)	(254)	(839)
Other operating expense	(1)	(16)	(103)	-	(120)	(8,634)	(8,754)	(136)	(312)	(9,202)
Impairment losses	-	-	-	-	-	-	-	(699)	-	(699)
Total operating expenses	**(1)**	**(16)**	**(103)**	**-**	**(120)**	**(8,676)**	**(8,796)**	**(1,378)**	**(566)**	**(10,740)**
					-		-			
Net operating profit / (loss)	**(218)**	**2,920**	**3,405**	**7,247**	**13,354**	**(6,317)**	**7,037**	**(219)**	**(107)**	**6,711**
					-		-			
Taxation expense	-	(14)	-	-	(14)	-	(14)	-	173	159
Net income / (loss) after taxation	**(218)**	**2,906**	**3,405**	**7,247**	**13,340**	**(6,317)**	**7,023**	**(219)**	**66**	**6,870**
					-		-			
Non controlling interest	-	(20)	-	-	(20)	-	(20)	-	-	(20)
Net income / (loss) after non controlling interest	**(218)**	**2,886**	**3,405**	**7,247**	**13,320**	**(6,317)**	**7,003**	**(219)**	**66**	**6,850**
					-					
Effective yield adjustments [(4)]	6,033	1,181	11,513	-	18,727	-	18,727	-	-	18,727
Reversal of interest on CDO bonds	-	-	-	-	-	-	-	543	-	543
Impairment reversal on debt	-	-	-	-	-	-	-	699	-	699
Sales fee	-	-	-	-	-	(2,351)	(2,351)	-	2,351	-
Reversal of loss on FX	-	-	-	-	-	-	-	78	-	78
Reversal of realised gains on paydowns and sales	-	-	-	-	-	-	-	(1,088)	-	(1,088)
Reversal of deferred tax credit	-	-	-	-	-	-	-	-	-	-
Other	1	30	104	-	135	(142)	(7)	(13)	190	170
Normalised funds from operations	**5,816**	**4,097**	**15,022**	**7,247**	**32,182**	**(8,810)**	**23,372**	**-**	**2,607**	**25,979**

(1) Included within revenue income is €0.6 million of service charge income within the Legacy Real Estate segment.

(2) Included under "Other" is a realised gain of €7.2 million on an investment made within the period on distressed debt claim.

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

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

Normalised FFO is a non-IFRS financial measure that, with respect to the Company’s Italian Investments1, recognises i) income on an expected yield basis updated periodically, allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns and ii) any additional gains or losses previously not recognised through NFFO at the point investments are fully realised. On Eurocastle’s Legacy Business, the measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses, foreign exchange movements and any movements on portfolios with a negative NAV other than sales or asset management fees realised.

26. SEGMENTAL REPORTING (CONTINUED)

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

	Italian Investments						Discontinued Operations		
Three months ended 31 March 2016 (unaudited)	**doBank Group €'000**	**NPLs/PL €'000**	**Real Estate €'000**	**Italian Investments €'000**	**Corporate €'000**	**Total Eurocastle €'000**	**Legacy Debt Portfolio €'000**	**Legacy Real Estate €'000**	**Total Eurocastle €'000**
Portfolio returns	5,051	3,663	3,262	11,976	-	11,976	-	-	11,976
Revenue [1]	-	-		-	74	74	268	9,763	10,105
Other operating (loss) / income	-	-	-	-	(200)	(200)	590	1,321	1,711
Total operating income [2]	**5,051**	**3,663**	**3,262**	**11,976**	**(126)**	**11,850**	**858**	**11,084**	**23,792**
Interest expense	-	-	-	-	-	-	(761)	(3,824)	(4,585)
Other operating expense	(9)	(42)	-	(51)	(3,446)	(3,497)	(152)	(5,754)	(9,403)
Impairment losses	-	-	-	-	-	-	(798)	-	(798)
Total operating expenses	**(9)**	**(42)**	**-**	**(51)**	**(3,446)**	**(3,497)**	**(1,711)**	**(9,578)**	**(14,786)**
Net operating profit / (loss)	**5,042**	**3,621**	**3,262**	**11,925**	**(3,572)**	**8,353**	**(853)**	**1,506**	**9,006**
Taxation expense	-	-	(8)	(8)	-	(8)	-	(796)	(804)
Net profit / (loss) after taxation	**5,042**	**3,621**	**3,254**	**11,917**	**(3,572)**	**8,345**	**(853)**	**710**	**8,202**
Non controlling interest	-	(28)	-	(28)	-	(28)	-	-	(28)
Net profit / (loss) after non controlling interest	**5,042**	**3,593**	**3,254**	**11,889**	**(3,572)**	**8,317**	**(853)**	**710**	**8,174**
Effective yield adjustments	568	737	(1,235)	70	-	70	-	-	70
Reversal of revaluation losses	-	-	-	-	-	-	-	974	974
Impairment losses on debt	-	-	-	-	-	-	798	-	798
Sales fees	-	-	-	-	-	-	-	715	715
Reversal of deferred tax credit	-	-	-	-	-	-	-	69	69
Other	-	-	-	-	91	91	20	(369)	(258)
Normalised funds from operations	**5,610**	**4,330**	**2,019**	**11,959**	**(3,481)**	**8,478**	**(35)**	**2,099**	**10,542**

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

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

26. SEGMENTAL REPORTING (CONTINUED)

Segmental Balance Sheet:

As at 31 March 2017 (unaudited)	Italian Investments: doBank Group €'000	Italian Investments: NPLs/PL €'000	Italian Investments: Real Estate €'000	Italian Investments €'000	Corporate €'000	Total Eurocastle €'000	Discontinued Operations: Legacy Debt Portfolio €'000	Discontinued Operations: Legacy Real Estate €'000	Total Eurocastle €'000
Total assets [1]	264,584	141,693	50,715	456,992	120,447	577,439	11,607	2,724	591,770
Total liabilities	(7)	(4,098)	(280)	(4,385)	(21,388)	(25,773)	(54,904)	(2,611)	(83,288)
Segment net assets / (liabilities)	**264,577**	**137,595**	**50,435**	**452,607**	**99,059**	**551,666**	**(43,297)**	**113**	**508,482**
Tax liabilities	(1)	(18)	(3)	(22)	(1,975)	(1,997)	-	(113)	(2,110)
Non-controlling interest	-	(806)	-	(806)	-	(806)	-	-	(806)
Net assets / (liabilities)	**264,576**	**136,771**	**50,432**	**451,779**	**97,084**	**548,863**	**(43,297)**	**-**	**505,566**

As at 31 December 2016	Italian Investments: doBank Group €'000	Italian Investments: NPLs/PL €'000	Italian Investments: Real Estate €'000	Italian Investments €'000	Corporate €'000	Total Eurocastle €'000	Discontinued Operations: Legacy Debt Portfolio €'000	Discontinued Operations: Legacy Real Estate €'000	Total Eurocastle €'000
Total assets [1]	262,319	143,098	68,258	473,675	100,447	574,122	18,334	7,669	600,125
Total liabilities	(6)	(2,780)	(10)	(2,796)	(15,475)	(18,271)	(60,949)	(7,554)	(86,774)
Segment net assets / (liabilities)	**262,313**	**140,318**	**68,248**	**470,879**	**84,972**	**555,851**	**(42,615)**	**115**	**513,351**
Tax liabilities	(1)	(13)	(3)	(17)	(4,649)	(4,666)	(2)	(108)	(4,776)
Non-controlling interest	-	(1,058)	-	(1,058)	-	(1,058)	-	-	(1,058)
Net assets / (liabilities)	**262,312**	**139,247**	**68,245**	**469,804**	**80,323**	**550,127**	**(42,617)**	**7**	**507,517**

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

27. INVESTMENT IN SUBSIDIARIES

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

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

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

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

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

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

28. SUBSEQUENT EVENTS

In May 2017, Eurocastle announced the successful completion of a €75 million financing on the secured portion of its Romeo NPL portfolio. As a result, Eurocastle received approximately €36 million or 50% of the net proceeds after costs and reserves.

In May 2017, the Company received a distribution of €4.8 million or €400 per unit from Real Estate Fund Investment I following an asset sale in 2016.

Following a commitment Eurocastle made in December 2016 to invest up to €5.0 million into a second Italian real estate development fund (Real Estate Fund Investment V), the Company made a further commitment of €3.2 million in April 2017. The commitment endures for 45 months as at 31 March 2017. Of this commitment €4.4 million has been funded, of which €4.0 million was paid in April 2017.

29. COMMITMENTS

In December 2016, Eurocastle together with other affiliates of the Manager agreed to acquire a significant portion of a €17.7 billion portfolio of Italian non-performing loans from UniCredit S.p.A.. The transaction entails an anticipated equity investment for Eurocastle of between €50 million and €70 million. The commitment is expected to fund mid-2017.

Refer note 28 for details of Eurocastle's commitment in Real Estate Fund Investment V.