Eurocastle Investment Limited

2015 Annual Report

EUROCASTLE INVESTMENT LIMITED IS A PUBLICLY TRADED CLOSED-ENDED INVESTMENT COMPANY THAT FOCUSES ON INVESTING IN PERFORMING AND NON-PERFORMING LOANS AND OTHER REAL ESTATE RELATED ASSETS PRIMARILY IN ITALY, AND ACTIVELY MANAGING ITS LEGACY BUSINESS—COMMERCIAL REAL ESTATE ASSETS IN GERMANY AND EUROPEAN REAL ESTATE RELATED DEBT. THE COMPANY IS EURO DENOMINATED AND IS LISTED ON EURONEXT AMSTERDAM UNDER THE SYMBOL "ECT". EUROCASTLE IS MANAGED BY AN AFFILIATE OF FORTRESS INVESTMENT GROUP LLC, A LEADING GLOBAL INVESTMENT MANAGER. FOR MORE INFORMATION REGARDING EUROCASTLE INVESTMENT LIMITED AND TO BE ADDED TO OUR EMAIL DISTRIBUTION LIST, PLEASE VISIT WWW.EUROCASTLEINV.COM.

LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

About three years ago, we set Eurocastle on a path to re-build a strong new foundation for our shareholders. Since then we have made a tremendous effort to reposition the company, responsibly deploy capital in a new investment strategy in Italy and dispose of our legacy business in Germany. We are very pleased with the results we have delivered and in this letter we will highlight Eurocastle's key achievements over the last 12 months and our outlook for 2016.

2015 has been a very positive and productive year for Eurocastle. The Company delivered strong results and ended the year extremely well positioned to take advantage of dynamic market opportunities in Italy. We started the year strongly with the exciting announcement of the agreement to acquire doBank (formerly UCCMB, UniCredit's "bad bank"). The acquisition closed at the end of October. During the year Eurocastle deployed over €266 million of capital in Italy, approximately four times the capital deployed in 2014, and almost fully monetized its legacy business generating nearly €78 million of cash in line with our expectations. These transactions, in combination with the €312 million of capital raised in April, further secured Eurocastle's leading position in the market in Italy.

Financial Results

Eurocastle's Adjusted NAV at the end of 2015 was €532.5 million or €7.35 per share of which New Investments comprised of Italian investments and corporate cash represent almost 97% or €7.16 per share. The Adjusted NAV excludes negative NAV in the Legacy Business as the leverage is non-recourse to the Company.

From an operating perspective, Normalised FFO for the year was €17.1 million, or €0.29 per share, of which €8.1 million, or €0.11 per share, was generated in the fourth quarter alone following the acquisition of doBank at the end of October. For the full year 2015 we distributed €0.50 per share. Since we implemented the new strategy in 2013, we have distributed a stable dividend of €0.125 per share each quarter. Our goal is to grow the dividend now that doBank has closed and we work to invest more of our available cash.

Capital Raise and Italian Investments

In April 2015, we successfully completed an equity offering raising €312 million of gross proceeds through the issuance of 39.8 million shares at €7.85 per share. At the end of October, we closed on the acquisition of doBank, investing €246 million, or 79% of the capital raised in April, for a 50% stake. We believe that this investment is transformational for Eurocastle as it provides it with a servicing platform and an NPL portfolio of €3.3 billion GBV. In addition to doBank, Eurocastle invested €5.6 million to acquire an interest in four NPL portfolios with a combined GBV of €160 million, €10.7 million to purchase units of an unlisted Italian real estate fund at a 56% discount to the fund's NAV and a further €1.9 million in a distressed bond. These investments bring Eurocastle's total equity invested since the announcement of its new investment strategy to €337 million.

Our Italian investments demonstrated outstanding performance in 2015, generating strong returns for our shareholders. As highlighted above, since 2013 we have invested €337 million of new capital in 15 loan pools, three real estate funds, a distressed bond and doBank. Due to active asset management, these investments had generated cash flows ahead of expectations: the €33 million of performing and non-performing loan investments made had returned €29 million by the end of 2015, approximately 23% ahead of underwriting. We also fully realized the €3.9 million distressed bond investment, collecting €7.4 million in the third quarter.

The biggest and most exciting news at Eurocastle in 2015 was our investment in doBank, formerly UniCredit's "bad bank", UCCMB. As mentioned above, after protracted negotiations, in October we closed the transaction together with certain other Fortress affiliates. The combined purchase price of the deal was approximately €530 million, or €491 million after adjusting for deal costs and cash collected on the NPL portfolio since the cutoff date of December 31, 2013. Eurocastle's investment of approximately €246 million represents a 50% share in the company which includes:

1. The largest and highest rated (S&P – "Strong"; Fitch – RSS1- and CSS1-) independent special servicer with a banking license and €45 billion GBV of assets under management ("AUM"). Together with the existing AUM, the acquisition includes a 10-year servicing contract on Unicredit's future sub and non-performing claims below €1 million and selected assets above €1 million.

2. An NPL portfolio with a GBV of €3.3 billion which on average has stronger characteristics compared to previously acquired NPL pools – the loans are 42% secured by real estate and mainly located in northern and central Italy.

Since closing, doBank is performing well and good progress has been made on the integration process. New asset management and collections strategies have been implemented, asset management teams have been reorganized to adopt a cluster approach based on the size of the loans being managed and annual and quarterly collection targets have been assigned to each asset manager. We are also actively pursuing other avenues of revenue generation for the company such as increasing servicing flow through third party clients and utilizing doBank's banking license by lending at auctions. In addition, doBank is a "Bank of Justice", which enables it to provide banking services to the judicial system such as holding current accounts for lawyers and court receivers as well as transferring legal payments electronically.

LEGACY BUSINESS

We made significant progress during the year in realising value from our Legacy Business: German real estate and other debt investments. At the end of 2015, our German real estate comprised 3 portfolios which are all non-recourse to the Company. In line with our strategy to accelerate recoveries from these portfolios, we sold 193 assets in 2015 generating approximately €607 million of sales proceeds which, together with operating cash flows, resulted in €72.4 million of net cash to Eurocastle. In December, we agreed to sell the Zama portfolio which, once fully closed, is expected to generate further net proceeds of €3.6 million.

In addition, we collected a further €5.4 million in 2015 primarily from the resolutions of two loans held unlevered on the balance sheet.

The Legacy Business now has a remaining NAV of €13.5 million or just 3% of the Group's total Adjusted NAV.

OUTLOOK FOR 2016

Across Italy's banking system, a total of just €12.7 billion[1] of NPLs changed hands in 2015, representing less than 7% of the estimated €201 billion[2] of non-performing loans on banks' balance sheets. Of these transactions, Eurocastle acquired an interest in 27% by GBV, as well as the complex acquisition of the doBank servicing platform with €45 billion AUM. The slow pace of NPL transactions has left an overhang of unsold NPLs on banks' balance sheets that is widely regarded as responsible for Italy's current banking crisis – Italy's top five Italian banks have lost ~40% of their market cap in the last three months. In response, the government and the Bank of Italy have recently taken a number of significant steps to try to narrow the "bid ask" spread and expedite NPL sales. While such attempts have in the past met with varying success, we believe recent initiatives could finally have a meaningful impact. We have laid out a timeline of the key initiatives below:

- In early 2015, the Italian Government implemented a judicial reform with the aim of shortening the foreclosure process and the timing of loan resolutions. The reform primarily only applies to loans on which bankruptcy proceedings had not previously begun, and due to the huge backlog of the loans already in the court system, the reform has had little impact to date. The Government is working on the second round of judicial reforms expected to materialize in the second half of 2016.
- In mid-2015, the Italian Government proposed the adoption of a "bad bank" to absorb impaired loans from the banking system. The bad bank failed to materialize due to the European Union's opposition to what it regarded as a form of Government aid to Italian banks.
- Instead, in November 2015, four medium-sized banks were taken over by the Bank of Italy and split into a "good bank" and a resolution vehicle ("REV"). The REV which has NPLs with a GBV of €8.5 billion is expected to trade in the second half of 2016 at around 17.5% of GBV.
- On January 27, 2016, the Italian Government announced that it had reached agreement with the European Union on a new NPL measure in a form of the Government Guarantee (referred to as "GACS") allowing the Italian Government to provide a state guarantee for the NPLs. GACS envisions a state guarantee covering only the senior tranches of a securitization structure containing the NPLs of the banks. The pricing of the guarantee will be at a market rate to ensure the aid-free nature of the scheme. Per the recent announcement, the Italian Government expects the first GACS deal to trade in the second quarter, but we believe the second half of 2016 is a more realistic timeline.

We expect the adoption of the GACS program to have a positive impact on Eurocastle in two respects. Firstly, it should accelerate the sale of NPLs by banks and create buying opportunities in the junior tranches of the newly created notes. Secondly, we believe the GACS program represents a tremendous servicing opportunity for doBank. In order for an SPV to benefit from a government guarantee, the senior tranche will need to receive a credit agency rating of not lower than BBB-, and that rating will be strongly affected by the rating of the designated servicer. doBank is the largest and highest rated third party servicer in Italy; only Italfondiario – another Fortress affiliated servicer – is currently comparable in size and rating quality. To get the best credit ratings for NPL transactions under the new GACS program, it follows that banks are likely to turn to doBank to service their NPL pools, adding to doBank's servicing revenues. doBank could also be well placed to buy the junior tranches of the pools it services.

[1] *Based on internal estimate.*
[2] *Source: ABI Monthly Outlook as of December 2015.*

In addition to loans and other credit investments, we will also continue to take advantage of other opportunities in Italy such as selective investments in real estate funds and other real estate related assets. As mentioned above, we have already seen such investments perform well with significant returns to the Company. In total we invested approximately €48 million in three real estate funds which in 2015 generated €12.6 million of cash flow. In March 2016, we committed a further €7 million in this sector to substantially acquire the majority of the units in a new established unlisted real estate fund.

We continue to be very excited about investing in Italy and the value those investments can create for Eurocastle and its shareholders. On behalf of everyone at Eurocastle, we thank you for your continued support and look forward to updating you on our progress as the year continues to unfold.

BUSINESS REVIEW

Financial Highlights

- ***Normalised FFO***[1] of €17.1 million, or €0.29 per share, for the full year of which €8.1 million, or €0.11 per share, was generated in the fourth quarter following the completion of the doBank acquisition on 30 October 2015.
  - Before costs, New Investments[2] alone generated €21.4 million of Normalised FFO in 2015, resulting in a return on average net invested capital[3] of 22%.
- ***Adjusted Net Asset Value ("NAV")***[4] of €532.5 million, or €7.35 per share, reflecting:
  - A decline of €0.62 per share for the first three quarters of 2015 following revaluation losses within the Legacy Business[5] and €0.375 per share of dividends.
  - An increase of €0.05 per share in the fourth quarter of 2015 after having paid a dividend of €0.125 per share following revaluation gains from the Company's New Investments.
- ***Annual Dividend*** of €31.2 million, or €0.50 per share.

	FY 2015		FY 2014		Q4 2015		Q3 2015	
	€ million	€ per share	€ million	€ per share	€ million	€ per share	€ million	€ per share
Normalised FFO	17.1	*0.29*	9.4	*0.29*	8.1	*0.11*	2.4	*0.03*
Legacy Cash Flow Received	77.8	*1.31*	39.8	*1.22*	17.3	*0.24*	27.4	*0.38*
Adjusted NAV [4]	532.5	*7.35*	258.4	*7.92*	532.5	*7.35*	528.3	*7.30*

Business Highlights

- **Capital Structure -** On 29 April 2015 Eurocastle successfully completed an equity offering raising gross proceeds of €312.1 million through the issuance of 39.8 million shares at a price of €7.85 per share, more than doubling the size of the Company. Net proceeds of the offer were approximately €304.4 million or €7.65 per share providing the Company with additional funds to pursue new investment opportunities in the Italian debt and real estate markets. As at 31 December 2015, Eurocastle had net corporate cash of €192 million.
- **New Investments** - In 2015, the Company invested €266.4 million across seven transactions in line with the company's targeted returns and includes:
  i. A €246.0 million investment [6] to acquire a 50% share in doBank (formerly UniCredit Credit Management Bank S.p.A. ("UCCMB")), now the largest 3rd party loan servicer in Italy with over €45 billion Gross Book Value ("GBV") under management and a €3.3 billion GBV portfolio of non-performing loans ("NPLs").
  ii. An investment of €10.7 million to acquire 27% of the units of an unlisted Italian real estate fund at a discount of 56% to the fund's NAV [7].
  iii. A 25% share of four NPL portfolios with a total GBV of approximately €160 million for €5.6 million.
  iv. A further €1.9 million investment in a distressed bond.
- **New Investment Performance –** During the year Eurocastle collected €32.5 million, or €0.55 per share, €10.1 million ahead of underwriting expectations.
- **Legacy Business –** The Company made significant progress towards its goal of fully disposing of these assets, collecting €77.8 million over the year. In December the Company agreed to sell the Zama portfolio generating a further €3.6 million expected to be received by the end of March 2016. As at 31 December 2015, the legacy business has a remaining NAV of €13.5 million, or €0.19 per share representing just 3% of the Group's Adjusted NAV.

1 *Normalised FFO is a non-IFRS measure used to provide additional information regarding the underlying performance of the Company, as outlined in Note 29 of the Annual Report.*
2 *All investments acquired by the Group since the establishment of its new strategy in April 2013.*
3 *Time weighted average of investments made (net of any capital returned) over the relevant period.*
4 *Adjusted NAV excludes the negative net asset value of the Drive, Belfry and CDO V portfolios as outlined on page 10.*
5 *All investments owned by the Group prior to April 2013.*
6 *Consideration paid at closing on 30 October 2015. The amount is subject to certain customary post-closing adjustments.*
7 *As at 30 June 2015, the most recently reported NAV of the fund available at the time of closing the transaction.*

Eurocastle Investment Limited ("Eurocastle" or the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle and its consolidated investments (together with Eurocastle, the "Group") have invested primarily in Italian loans and real estate fund units, German commercial real estate and European real estate debt. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". For more information regarding Eurocastle, please visit www.eurocastleinv.com.

STRATEGY

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

Eurocastle's current portfolio is divided into three segments (further segmented in the financial statements – refer to note 29); (i) New Investments comprising all those investments made since the Company's new strategy was established in April 2013, (ii) Net Corporate Cash, and (iii) Legacy Investments comprising German commercial real estate and European real estate related debt. The table below shows the segmental assets:

	Assets € million	Adjusted NAV € million	Adjusted NAV *€ per share*
New Investments	327.0	327.0	4.51
Net Corporate Cash	192.0	192.0	2.65
Legacy Business[1]	106.9	13.5	0.19
TOTAL	***625.9***	***532.5***	***7.35***

NEW INVESTMENTS:

In the period up to 31 December 2015 Eurocastle had invested €337.2 million in its New Investments at an average targeted gross yield of approximately 15%. After returning €51.2 million of cash, as at 31 December 2015 the portfolio had a remaining Adjusted NAV of €327.0 million and comprised (i) investments in 14 pools of Italian NPLs and one performing loan valued at €29.1 million, (ii) an interest of €41.7 million in three Italian real estate funds and (iii) a 50% interest in doBank valued at €256.2 million.

The Company's other investment in a distressed bond was fully realised within 18 months of the original investment, generating €7.4 million of cash flow against an investment of €3.9 million.

	Number of Portfolios	Equity Invested In 2015 € million	Total Equity Invested € million	Cash flows Realised In 2015 € million	Total Cash flows Realised € million	Adjusted NAV € million	Adjusted NAV € per share
NPL / PL[2]	15	5.6	39.0	10.5	29.1	29.1	0.40
Real Estate Funds	3	12.9	48.3	12.6	12.6	41.7	0.58
doBank	2	246.0	246.0	2.1	2.1	256.2	3.53
Other Investments[3]	1	1.9	3.9	7.3	7.4	-	-
TOTAL	***21***	***266.4***	***337.2***	***32.5***	***51.2***	***327.0***	***4.51***

1 *Excludes the Assets and net asset value of those Legacy portfolios with negative NAV (Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle, as outlined on page 10.*

2 *NAV includes €4.1 million relating to cash flows realised to date but not yet distributed.*

3 *Adjusted NAV of Other Investments now reflected in corporate cash following the full realisation of the investment before the year end.*

doBank:

In February 2015 Eurocastle announced its commitment to acquire a portfolio of NPLs and a servicing business being sold by UniCredit. This transaction, in which the Company invested jointly with other Fortress affiliates, was completed on 30 October 2015 for a total purchase price of approximately €530 million. After adjusting for closing costs and collections received on the NPL portfolio from its cutoff date of 31 December 2013, the net purchase price paid by Eurocastle at closing was approximately €246 million, which is a 50% share of the total investment. The transaction includes:

I. A large portfolio of Italian NPLs with a GBV of approximately €3.3 billion. The portfolio is 42% secured by real estate, which is on average more secured than portfolios previously acquired. In addition, the portfolio is characterised by a larger average loan size of €0.7 million and a greater exposure to Northern and Central Italy of 81%.

II. An NPL servicing business. Previously UCCMB, the servicer has been renamed to doBank and is now the largest third party servicer in Italy. doBank has a banking license, over €45 billion GBV of loans under management, 589 full time employees and a wide network of branches throughout Italy.

In addition, the transaction includes 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.

Italian NPLs:

Excluding the doBank NPL portfolio, since May 2013 the Company has invested approximately €39.0 million in one performing and 14 non-performing Italian loan pools with a combined GBV of €6.3 billion. To date these investments have generated €29.1 million of cash flow or 75% of the amount invested, of which €4.2 million was generated in the fourth quarter of 2015 and €10.5 million in 2015.

Details of all portfolios acquired up to 31 December 2015 can be found in the table below:

	Pools 1 to 5	Pool 6	Pool 7	Pools 8,9,11	Pool 10	Pools 12, 13	Pool 14	Pool 15	TOTAL
Investment Date	May-13	Jul-13	Jun-14	Jul-Dec 14	Dec-14	Nov-Dec 15	Dec-15	Dec-15	n/a
Invested to Date (€ m's)	14.0	2.6	7.4	1.0	8.4	1.1	3.1	1.4	39.0
CF Realised to Date (€ m's) [1]	19.3	1.8	4.4	0.4	2.8	-	0.3	0.1	29.1
NAV (€ million)[1]	**5.6**	**1.8**	**6.7**	**0.9**	**8.6**	**1.1**	**3.0**	**1.4**	**29.1**
NAV (€ per share)	***0.08***	***0.03***	***0.09***	***0.01***	***0.11***	***0.02***	***0.04***	***0.02***	***0.40***
Eurocastle Ownership	81%	50%	25%	25%	25%	25%	25%	25%	61%
GBV at acquisition (€ m's)	4,040	14	883	210	1,001	50	46	63	6,307
Number of Claims	8,159	86	11,763	3,301	3,877	1,963	164	108	29,421
% Secured	12%	91%	19%	4%	8%	0%	96%	63%	14%
Avg. Default Year	1994	2008	1997	2010	1995	2011	2007	2012	n/a
% North & Central Italy	70%	54%	57%	68%	79%	81%	58%	73%	70%

[1] *NAV includes €4.1 million relating to cash flows realised to date but not yet distributed.*

ITALIAN REAL ESTATE FUNDS:

In 2014 and 2015 Eurocastle made its first investments in this asset type, investing €48.3 million in three separate real estate funds:

	Investment Date	Equity Invested € million	Cash flows Realised € million	Adjusted NAV € million	Adjusted NAV € per share	Eurocastle Ownership
Fund Investment I	Mar-14	22.2	8.9	14.3	0.20	7%
Fund Investment II	July-14	15.4	3.3	12.1	0.17	49%
Fund Investment III	Sep-15	10.7	0.4	15.3	0.21	27%
TOTAL		***48.3***	***12.6***	***41.7***	***0.58***	***25%***

In March 2014 Eurocastle invested €22.2 million (including transaction costs) to acquire 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") at a 36.5% discount to the fund's NAV at acquisition. Its assets consisted of 14 mixed-use properties with a market value of €490 million[1]. A large proportion of the properties are concentrated in Rome, Milan and elsewhere in northern Italy. The fund is managed by Torre SGR, an affiliate of Eurocastle's Manager, Fortress Investment Group.

In the first quarter of 2015 two assets representing 35% of the UIU fund's NAV were sold at a slight premium to NAV. The majority of the net proceeds were distributed to unit holders in March 2015, resulting in the Company's first cash flow from this investment of €8.9 million, or approximately 40% of the amount invested. As at 31 December 2015, and after the first quarter distribution of €750 per unit, the price per unit was €1,202 compared to an acquisition price of €1,788 (€1,864 per unit including transaction costs). In February 2016, a distribution of €125 per unit was announced resulting in a further €1.5 million being returned to Eurocastle.

In July 2014 Eurocastle made its second investment in Italian real estate funds, co-investing with certain affiliates of Fortress and an Italian third party property developer to acquire 100% of the units of a newly established private fund ("Fund Investment II"). As at 31 December 2015 the Company had invested €15.4 million into the fund of which €2.2 million was invested during the year. The fund has purchased two office buildings in Rome that are being redeveloped into luxury residential properties for resale with the expectation that the units will be completed and fully sold by the end of 2017. In April 2015 the fund returned €3.3 million of capital to Eurocastle after raising third party financing to fund a portion of the development costs.

On 16 September 2015 the Company successfully funded a €10.7 million commitment to acquire a 27.1% interest in the units of an unlisted Italian real estate fund at a discount of 56% to the fund's NAV at acquisition[2]. The fund consists 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, a number of underlying leases have been extended and one asset comprising 26% of the fund's market value[3] was sold in February 2016 to the underlying tenant at a 5% premium to its previously reported market value. As a result of this the Company expects a distribution of up to €6 million in May 2016. As at 31 December 2015 the investment was valued at €15.3 million, an increase of €4.6 million to the amount invested, but remained at a 46% discount to the fund's NAV[3].

On 8 March 2016, Eurocastle entered into a structured transaction which, on completion (anticipated in the second quarter of 2016), would see the Group acquire substantially all of the units of Fondo Virgilio, a newly established unlisted Italian real estate fund comprising a retail portfolio in Northern Italy and 3 office assets together valued at €132 million. This transaction will represent a new capital investment of up to €7 million. On completion of the transaction, Eurocastle's share of the implied net asset value of this fund is expected to be approximately €14 million assuming the full €7 million investment is made.

1 *As at 31 December 2014*

2 *As at 30 June 2015*

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

LEGACY BUSINESS:

In 2015 Eurocastle made significant progress on realising value from its legacy German commercial real estate and other debt investments. As at 31 December 2015, after realising €77.8 million in the year primarily from sales, and excluding up to €2 million of expected net cash flow from amounts outstanding on agreed sales, the Legacy Business had a remaining adjusted NAV of €13.5 million, just 3% of Eurocastle's total Adjusted NAV. The Company now regards the German commercial real estate portfolio as a discontinued operation given it expects to fully monetise these assets in 2016. At the same time, the Group is actively exploring opportunities to exit from its legacy debt investments. Eurocastle intends to deploy any such proceeds into its New Investments Business.

	German Commercial Real Estate	Other Debt Investments	TOTAL
Number of portfolios	3	2	5
Assets (€ million)[1]	97.5	9.4	106.9
Liabilities (€ million)[1]	(93.3)	(0.1)	(93.4)
Adjusted NAV (€ million)[1]	4.2	9.3	**13.5**
Adjusted NAV (€ per share)	*0.06*	*0.13*	*0.19*
YTD Q4 2015 CFs (€ million)	72.4	5.4	77.8

GERMAN COMMERCIAL REAL ESTATE:

The Company intends to continue to sell its existing German commercial real estate assets as part of a comprehensive sales strategy to divest these Legacy Assets. Eurocastle primarily expects to receive cash flows both through net proceeds from asset sales (after costs and repayment of financing) and through sales fees.

During 2015, Eurocastle made significant progress in realising value from these portfolios, receiving €72.4 million having sold six portfolios and a significant portion of the assets in the Drive portfolio. In addition, the Company is due to receive a further €3.6 million, having agreed the sale of the Zama portfolio in December 2015.

The Group is left with three remaining portfolios in Germany; Drive, Belfry and Truss. Due to revaluations during 2015, the market value of the assets in the Drive and Belfry portfolios now fall below their liabilities. Given the non-recourse nature of their respective financings, the Group does not include the NAV of these portfolios within its reported Adjusted NAV. The Group does, however, have agreements in place with the lenders of each of these portfolios whereby it receives running asset management and sales fees. Any such fees received by Eurocastle would therefore benefit the Group's Adjusted NAV.

Sales fees received from the Drive portfolio, equivalent to 3.5% of gross sales proceeds, totalled €4.9 million in 2015, of which €1.9 million was realised in October. Since this distribution Eurocastle has sold or agreed to sell another 34 assets in Drive for a total consideration of €48.2 million, which will realise a further €1.8 million in fees to Eurocastle in 2016.

[1] *Excludes the Assets and Liabilities of those legacy portfolios with negative NAV (Belfry, Drive and CDO V) whose debt is non-recourse to Eurocastle, as outlined on page 10.*

The table below contains a summary of the Company's German real estate portfolio as at 31 December 2015:

	Truss € million	Belfry (Negative NAV) € million	Drive (Negative NAV) € million	Zama (Agreed sale) € million	Sold Portfolios € million	TOTAL € million
Assets	**97.5**	43.3	260.9	29.5	14.9	446.1
Liabilities	**(93.3)**	(52.9)	(323.3)	(25.5)	(16.7)	(511.7)
Adjusted NAV[1]	**4.2**	**-**	**-**	**4.0**	**(1.8)**	**6.4**
Adjusted NAV (€ per share)	***0.06***	-	-	*0.06*	*(0.02)*	*0.09*
Permitted Distributions	**Sales CAD & Fees**	Sales & AM Fees	Sales & AM Fees	Sales CAD	LCF, CAD & Fees	
FY 2015 Cash Distributed	**1.7**	0.1	6.1	0.0	64.5	72.4
Occupancy	**92%**	83%	68%	95%	56%	78%
WALT	**4.4**	3.5	2.1	5.4	9.0	3.0
LTV[2]	**95%**	129%	111%	93%	-	108%
Debt Maturity	**Mar-16**	Apr-16	Jan-17	May-16	-	-

OTHER DEBT INVESTMENTS:

In 2015 the Company realised €5.4 million of proceeds, primarily from the sale in January 2015 of a loan position held unlevered.

Within its levered portfolio, any proceeds received from redemptions or sales are diverted towards repaying the most senior ranking class of debt outstanding. Following impairments to certain junior ranking loan investments as a result of unfavourable workouts, the levered portfolio's assets are now less than its outstanding liabilities. Given the non-recourse nature of its financing, and as with Drive and Belfry, the Group no longer includes the NAV of this portfolio within its reported Adjusted NAV.

The table below summarises the remaining portfolio as at 31 December 2015:

	Levered[3] (Negative NAV) € million	Unlevered € million	Total € million
Total Assets	66.7	**9.4**	76.1
Total Liabilities	(89.2)	**(0.1)**	(89.3)
Adjusted NAV	**-**	**9.3**	**9.3**
Adjusted NAV (€ per share)	-	***0.13***	*0.13*
FY2015 Cash Distributed	0.1	**5.3**	5.4
WA Credit Rating[4]	CC	**D**	CC
% Investment Grade	3%	**0%**	2%
Total Securities[5]	24	**2**	24
Debt Maturity	Jun-47	**-**	-

CDO V - Levered: Duncannon is a portfolio primarily consisting of mezzanine CMBS and junior loan positions financed by securitised debt. Since 2009, as a result of Duncannon failing to meet certain cash flow triggers, Eurocastle receives no cash flows other than management fees which totalled €0.1 million for 2015. All of the remaining cash flows are diverted towards paying down the most senior class of debt: €111.5 million was repaid in 2015, of which €52.4 million were generated in the third quarter following the sale of a number of securities at a price close to their nominal value, with the remainder primarily from principal proceeds.

Balance Sheet - Unlevered: The remaining portfolio as at 31 December 2015 consisted of two low value mezzanine loans carried at 52% of their face value.

1 *Excludes the negative net asset value of Drive and Belfry whose debt is non recourse to Eurocastle as outlined on page 10.*

2 *LTV represents the market value of the assets over the outstanding debt face amount.*

3 Adjusted NAV *excludes the negative NAV of the* Levered portfolio *- CDO V whose debt is non recourse to Eurocastle as outlined on page10.*

4 *Represents the average of the minimum rating of each security reported by Fitch, Moody's and S&P.*

5 *Total Securities eliminates positions that are held in two or more portfolios.*

FY 2015 INCOME STATEMENT

	New Investments € Thousands	Legacy € Thousands	Total € Thousands
Operating income			
New Italian Investments			
Fair value movements on Italian Investments			
doBank (servicer & NPL)	9,667	-	9,667
NPLs[1]	9,040	-	9,040
Real estate fund units	1,396	-	1,396
Share of post-tax profits from associate investment in real estate fund units	5,125	-	5,125
Gain on repurchase of mezzanine financing	1,503	-	1,503
Legacy Debt Investments			
Interest income	-	2,232	2,232
Gains on foreign currency contracts, translation and swaps	-	47	47
Impairment losses	-	(30,711)	(30,711)
Gain on pay-downs of loans and receivables	-	3,969	3,969
Total operating income	**26,731**	**(24,463)**	**2,268**
Operating expenses			
Interest expense	-	3,840	3,840
Other operating expenses - transaction costs	1,702	-	1,702
Other operating expenses - group running costs	9,248	358	9,606
Total operating expenses	**10,950**	**4,198**	**15,148**
Net operating profit / (loss) before taxation	**15,781**	**(28,661)**	**(12,880)**
Total tax expense	28	-	28
Net profit / (loss) after taxation from continuing operations	**15,753**	**(28,661)**	**(12,908)**
Loss after taxation from discontinued operations	-	(29,685)	(29,685)
Profit / (loss) after taxation for the year	**15,753**	**(58,346)**	**(42,593)**
Per Share[3]	*0.26*	*(0.98)*	*(0.72)*
Attributable to:			
Ordinary equity holders of the Company	14,911	(58,346)	(43,435)
Non-controlling interest	842	-	842

For the 12 months ended 2015, the total net loss after taxation and non-controlling interests as reported under IFRS was €43.4 million, driven by a €58.3 million loss on the Group's legacy investments. Within the Group's New Investments, where the majority of these assets are accounted for at fair value under a discounted cash flow approach, net income after taxation and non-controlling interest for the twelve months ended 2015 was €14.9 million, or €0.25 per share. Of this amount, €11.7 million, or €0.16 per share[3], was generated in the fourth quarter of 2015 alone, following €14.7 million of revaluation gains on its NPL investments and doBank. These gains resulted from a reduction in the market-based discount rate applied on the valuation of these assets, together with additional fair value movements arising from the first two months ownership of doBank.

	New Investments € Thousands	Legacy € Thousands	Total € Thousands
Net profit / (loss) attributable to ordinary shareholders after taxation	**14,911**	**(58,346)**	**(43,435)**
Reversal of Net loss attributed to negative NAV portfolios[2]	-	51,304	51,304
Adjusted net profit / (loss)	**14,911**	**(7,042)**	**7,869**
Per Share[3]	*0.25*	*(0.12)*	*0.13*

Excluding losses arising within those legacy portfolios that have a negative NAV, the Group generated net profit after taxation of €7.9 million, which reflects a €7.0 million loss arising primarily as a result of revaluations and realised losses on the Company's legacy assets. The impact of further potential losses in 2016 is limited given the remaining adjusted NAV of this segment as at 31 December 2015 was €13.5 million, or €0.19 per share.

[1] *The fair value movements on Italian NPL Investments includes the share of post-tax profits from the associate (€4.6 million) and joint venture (€0.2 million) investments in NPLs which are disclosed separately in the Company's financial statements. These investments are accounted for under the equity method but the underlying investments are fair valued.*

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

[3] *Earnings per share based on 59.5 million weighted average ordinary shares for the full year 2015 and 72.4 million for the fourth quarter.*

NORMALISED FFO

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

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

FY 2015 Segmental Normalised FFO

	New Investments € Thousands	Legacy € Thousands	Total € Thousands	Average Net Invested Capital[1]	Yield
NPLs	5,165	-	**5,165**	20,805	25%
Re Fund Units	7,430	-	**7,430**	33,109	22%
doBank	5,688	-	**5,688**	246,031	14%
Other Investments	3,106	-	**3,106**	3,823	108%
New Investments	**21,389**	**-**	**21,389**	**97,787**	**22%**
Legacy Portfolios	-	8,276	**8,276**		
Manager Base & Incentive Fees	(6,490)	(675)	**(7,165)**		
Other operating expenses	(3,843)	(1,568)	**(5,411)**		
Normalised FFO	**11,056**	**6,033**	**17,089**		
Per Share	*0.19*	*0.10*	***0.29***		
Actual Cash flow Generated	**23,035**	**73,135**	**96,170**		
Per Share	*0.39*	*1.23*	*1.62*		

In 2015 Eurocastle generated Normalised FFO of €17.1 million, or €0.29 per share, with €21.4 million (€0.36 per share) related to New Investments before corporate costs. Given the average net invested capital in 2015 was approximately €98 million, this equates to a yield of 22%.

Actual cash flow distributed by the Group and received by Eurocastle was significantly higher, amounting to €96.2 million, or €1.62 per share, of which €73.1m, or €1.23 per share was generated from the Legacy Business given its disposition strategy. The total dividend for the year amounted to €31.2 million, or €0.50 per share.

	New Investments € Thousands	Legacy € Thousands	Total € Thousands
Net loss attributable to ordinary shareholders after taxation	**14,911**	**(58,346)**	**(43,435)**
Fair value to effective yield adjustments[2]	(2,998)	-	(2,998)
Realised (gains) / losses on sales (including paydowns on debt business)	(1,503)	(59,805)	(61,308)
Deferred tax	-	(3,897)	(3,897)
Impairment losses on debt	-	34,556	34,556
Revaluation (gains) / losses	-	93,362	93,362
Transaction Costs not Capitalized	578	-	578
Other	68	163	231
Normalised funds from operations	**11,056**	**6,033**	**17,089**
Per Share	*0.19*	*0.10*	*0.29*

1 *Average Net invested capital and Normalised FFO yield calculated over 2 months for doBank and 9 months for Other Investments.*

2 *Normalised FFO earnings with respect to the Company's New Investments are recognised on an effective yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their projected annualised returns. Normalised FFO is a non-IFRS financial measure.*

Management Agreement

In March 2015, in line with the Company's strategy, Eurocastle's Board of Directors reached an agreement with the Manager to amend the terms of its Management Agreement with retrospective effect from 1 January 2015. This amendment was subsequently signed in April 2015. These amendments include (i) resetting the capital base upon which the management fee is calculated from €404 million to the Group's Adjusted NAV reported quarterly, (ii) in relation to net corporate cash, reducing the management fee from 1.5% to 0.75%, and (iii) resetting the base upon which the Manager's entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in its New Investments and calculating incentives against the Normalised FFO for New Investments after allocated corporate costs.

The Directors believe the new fee structure better incentivises the Manager to monetise the Legacy Business and deploy the resulting capital, along with any additional available cash, at higher returns. Applying these amendments to the Group's Adjusted NAV of €258.4 million as at 31 December 2014, the new terms reduced the annual management fee by approximately €3 million whilst giving the Manager the opportunity to earn additional incentive fees should the Manager exceed the required 8% return hurdle on the net invested capital in each calendar year.

Total fees under the management agreement for 2015 amounted to €7.2 million, comprising €4.6 million of management fees and €2.6 million of incentive fees. The fees under the old arrangement for the same period would have been €9.1 million.

Balance Sheet and Adjusted NAV Reconciliation

	New Investments € Thousands	Corporate € Thousands	Legacy € Thousands	Total € Thousands
Assets				
Cash and cash equivalents	7,462	204,252	38,440	250,154
Investment properties held for sale	-	-	393,810	393,810
Italian investments at Fair Value				
doBank (servicer & NPL)	256,019	-	-	256,019
NPL's[1]	28,625	-	-	28,625
Real estate fund units	14,339	-	-	14,339
Associate investment in real estate fund units	15,350	-	-	15,350
Joint venture investment in real estate fund units	12,160	-	-	12,160
Loans and receivables	-	-	70,259	70,259
Derivative assets	-	-	2,614	2,614
Other assets	124	98	17,855	18,077
Intangible assets	-	-	4	4
Total assets	**334,079**	**204,350**	**522,982**	**1,061,411**
Total liabilities				
Trade and other payables	5,755	14,534	77,049	97,338
Current taxation payable	7	-	8,918	8,925
CDO bonds payable	-	-	88,904	88,904
Bank borrowings	-	-	409,576	409,576
Finance lease payable	-	-	16,683	16,683
Deferred taxation liability	-	-	681	681
Total liabilities	**5,762**	**14,534**	**601,811**	**622,107**
Net Asset Value	**328,317**	**189,816**	**(78,829)**	**439,304**
Non-controlling interest	(1,335)	-	-	(1,335)
Net Asset Value after Non-controlling interest	**326,982**	**189,816**	**(78,829)**	**437,969**
Negative NAV Addbacks[2]	-	-	94,512	94,512
NAV Reallocation following Legacy Portfolio Sales	-	2,200	(2,200)	-
Adjusted NAV	**326,982**	**192,016**	**13,483**	**532,481**
Adjusted NAV (€ per Share)[3]	***4.51***	***2.65***	***0.19***	***7.35***

[1] *NPL Investments includes the associate (€1.8 million) and joint venture (€21.9 million) investments in NPLs which are disclosed separately in the Company's financial statements. These investments are accounted for under the equity method but the underlying investments are fair valued.*

[2] *Adjusts for the negative net asset values of the Drive (€62.4 million), Belfry (€9.6 million) and CDO V (€22.5 million) portfolios whose financings are non-recourse to the Company.*

[3] *Adjusted NAV per share based in on 72.4 million ordinary shares in issue.*

Capital Structure

On 29 April 2015 the Company issued 39,762,992 shares at €7.85 per share. The net proceeds received from the share issue were €304.4 million after deducting share issue costs of €7.8 million. Additionally during the year, the Company issued a further 3,000 ordinary shares to the Independent Directors per their in-place compensation arrangements for €nil consideration. The Company had 72,401,494 ordinary shares in issue as at 31 December 2015.

Dividends

	€ million
First quarter at €0.125 per share	4.0
Second quarter at €0.125 per share	9.0
Third quarter at €0.125 per share	9.1
Fourth quarter at €0.125 per share	9.1
Total 2015 Dividends	**31.2**

Directors

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

Keith Dorrian[1]
Randal A. Nardone[2]
Claire Whittet[1] (appointed 29 January 2016)
Jason Sherwill[1]
Peter Smith
Simon J. Thornton[1]

Directors Intersts

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

	As at 31 December 2015	As at 31 December 2014
Keith Dorrian	3,045	2,045
Randal A. Nardone[2]	1,026,859	772,082
Claire Whittet	N/A	N/A
Jason Sherwill	10,400	1,000
Peter Smith	-	-
Simon J. Thornton	8,547	7,547

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

Substantial Shareholdings

Per the shareholder register and as at 3 March 2016, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings
Euroclear Nominees Limited	43.3%
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV	48.1%
The Bank of New York (Nominees) Limited	4.3%

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

Auditors

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

Corporate Governance

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

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

Management Agreement

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

Directors' Statements As To Disclosure Of Information To Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 11. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

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

Going Concern

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

The Directors have reviewed the Group's processes to control those risks to which the Group is exposed, as disclosed in note 25 to the consolidated financial statements, as well as reviewing the annual budget.

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

Directors' Statements Pursuant To The Disclosure And Transparency Rules

Each of the Directors as at 31 December 2015 (whose names are listed on page 11) confirms that, to the best of each person's knowledge and belief:

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

Registered Office

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

On behalf of the Board

Simon J. Thornton
Director and Audit Committee Chairman
Date: 9 March 2016

Statement Of Directors' Responsibilities In Respect Of The Financial Statements

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

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

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

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

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

INDEPENDENT AUDITORS REPORT

Independent Auditors Report To The Members Of Eurocastle Investment Limited And Subsidiaries

We have audited the consolidated financial statements of Eurocastle Investment Limited for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board.

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

Respective Responsibilities Of Directors And Auditors

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

Scope Of The Audit Of The Financial Statements

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

Opinion Of Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Opinion On Other Matters

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

INDEPENDENT AUDITORS REPORT

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Daniel Taylor
For and on behalf of BDO LLP
London
9 March 2016
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Continuing operations			
Operating income			
New Italian Investments			
Fair value movements on Italian Investments	12.1	15,384	2,667
Share of post tax profits from associate investment in NPLs	12.3	4,569	581
Share of post tax profits from joint venture investment in NPLs	12.3	150	471
Share of post tax profits from associate investment in real estate fund units	14	5,125	-
Gain on repurchase of mezzanine financing	19	1,503	1,963
Legacy Debt Investments			
Interest income	3	2,232	8,353
Loss on disposal of available for sale securities		-	(407)
Gains on foreign currency contracts, translation and swaps	7	47	681
Impairment losses	8	(30,711)	(20,437)
Gain on paydown of loans and receivables		3,969	1,853
Total operating income		**2,268**	**(4,275)**
Operating expenses			
Interest expense	4	3,840	5,164
Other operating expenses	5	11,308	8,658
Total operating expenses		**15,148**	**13,822**
Net operating loss before taxation		**(12,880)**	**(18,097)**
Taxation expense - current	6	28	23
Loss after taxation from continuing operations		**(12,908)**	**(18,120)**
Loss after taxation from discontinued operations	17	**(29,685)**	**(90,750)**
Loss after taxation for the year		**(42,593)**	**(108,870)**
Attributable to:			
Ordinary equity holders of the Company		(43,435)	(109,300)
Non-controlling interest	12.2	842	430
Net loss after taxation		**(42,593)**	**(108,870)**
Earnings per ordinary share from continuing operations		cents	cents
Basic and diluted	22	(21.7)	(55.5)
Earnings per ordinary share from discontinued operations			
Basic and diluted	22	(49.9)	(278.1)
Earnings per ordinary share			
Basic and diluted	22	(71.5)	(333.6)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Net loss after taxation		**(42,593)**	**(108,870)**
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	3	1,752	9,050
Net unrealised gains released to the income statement on impaired available-for-sale securities reclassified to loans and receivables	8,11	(70)	(3,134)
Amortisation of novated swaps		(143)	(580)
Unrealised gain on asset backed securities, available-for-sale		817	467
Realised hedging reserve on deconsolidation of Retail property portfolio		(442)	-
Net unrealised gain on hedge instruments		-	2,038
Total other comprehensive income		**1,914**	**7,841**
Total comprehensive loss for the year		**(40,679)**	**(101,029)**
Attributable to:			
Ordinary equity holders of the Company		(41,521)	(101,459)
Non-controlling interest	12.2	842	430
Total comprehensive loss for the year		**(40,679)**	**(101,029)**

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

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

CONSOLIDATED BALANCE SHEET

	Notes	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Assets			
Cash and cash equivalents	9	250,154	142,581
Investment properties held for sale	18	393,810	217,418
Italian Investments held at fair value through profit or loss	12.1	275,230	28,215
Associate investment in NPLs	12.3	21,940	15,681
Joint venture investment in NPLs	12.3	1,813	2,258
Associate investment in real estate fund units	14	15,350	-
Joint venture investment in real estate fund units	13	12,160	13,225
Loans and receivables	11	70,259	199,676
Derivative assets	16	2,614	8,291
Other assets	15	18,077	18,091
Intangible assets		4	15
Legacy Investments in listed shares at fair value through profit or loss	10	-	2,198
Available-for-sale securities		-	188
Assets in disposal groups classified as held for sale	24	-	283,060
Investment property	18	-	603,026
Total assets		**1,061,411**	**1,533,923**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	23	2,014,845	1,714,625
Accumulated loss		(1,599,809)	(1,525,145)
Net unrealised loss on available-for-sale securities reclassified to loans and receivables	11	(3,094)	(5,593)
Hedging reserve		3	588
Other reserves	26	26,024	21,888
Total shareholders' equity		**437,969**	**206,363**
Non-controlling interest		1,335	2,321
Total equity		**439,304**	**208,684**
Liabilities			
Trade and other payables	21	97,338	77,023
Current taxation payable	6	8,925	10,824
CDO bonds payable	19	88,904	194,248
Bank borrowings	20	409,576	757,916
Finance lease payable	18	16,683	17,085
Deferred taxation liability	6	681	4,578
Liabilities directly associated with assets in disposal groups classified as held for sale	24	-	263,565
Total liabilities		**622,107**	**1,325,239**
Total equity and liabilities		**1,061,411**	**1,533,923**

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 9 March 2016 and signed on its behalf by:

Simon J. Thornton
Director and Audit Committee Chairman

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Cash flows from operating activities			
Operating loss before taxation		(45,435)	(109,725)
Adjustments for non-cash items			
Interest income	3	(785)	(4,586)
Interest expense	4	26,369	40,937
Unrealised loss / (gain) on foreign exchange contracts		(47)	(681)
Amortisation of discount on securities	11	(1,448)	(3,771)
Amortisation of borrowing costs		4,044	5,294
Amortisation of tenant incentives / leasing commissions	18	1,621	1,694
Realised loss on disposal of available for sale investments		-	407
Realised gain on repurchase of mezzanine financing	19	(1,503)	(1,963)
Impairment losses	8	30,711	20,437
Gain on paydown		(3,969)	(1,853)
Amortisation of intangibles		8	33
Depreciation of fixture and fittings		-	4
(Increase) / decrease in fair value of investment properties	18	82,860	66,699
Increase in fair value investments - subsidiaries	12.2	(4,321)	(2,099)
Share of post tax profits from joint ventures	12.3, 12.4, 13	(9,817)	(471)
Share of post tax profits from associates	12.3, 14	(9,694)	(582)
Fair value movement on real estate fund units	12.5	(1,396)	(567)
(Gain) / loss on sale of subsidiaries	17	(54,979)	26,077
Capital expenditures / tenant incentives	18	(12,774)	(12,906)
Proceeds from sale of investment properties	18	305,716	169,618
Purchase of intangibles		4	(6)
Proceeds from prepayment of available-for-sale securities		63,115	4,607
Proceeds from sale of available for sale securities		1,293	22,201
Proceeds from prepayment of loans and receivables		42,667	108,911
Acquisition of joint ventures	12.4, 13	(248,711)	(13,225)
Acquisition of associates	12.3, 14	(16,300)	(16,908)
Cash received from sales of subsidiaries - discontinued operations		19,912	(3,757)
Purchase of real estate fund units	12.5	-	(21,323)
Distributions received from real estate fund units	12.5	8,947	-
Cash distributions from fair value subsidiary investments - NPL	12.2	7,578	4,351
Cash distributions from joint ventures	12.3, 13	4,019	386
Cash distributions from associates	12.3, 14	4,385	1,809
Interest received		1,177	5,350
Interest paid		6,381	(34,692)
Cash flows from operating activities before working capital movements		**199,628**	**249,700**
(Increase) / decrease in other assets		(3,288)	8,656
Increase in trade and other payables		18,688	4,801
Cash generated from operations		**215,028**	**263,157**
Taxation paid		(2,954)	(1,488)
Net cash flows from operating activities		**212,074**	**261,669**
Cash flows from financing activities			
Issue of share capital net of issuance costs		304,356	-
Dividends paid		(26,259)	(16,316)
Repurchase of mezzanine financing	19	(18,715)	(2,043)
Cash distributed to non-controlling interest		(1,828)	(952)
Repayments of bonds issued		(111,527)	(104,571)
Repayments of bank borrowings		(254,482)	(184,444)
Net cashflows from financing activities		**(108,455)**	**(308,326)**
Net increase in cash and cash equivalents		**103,619**	**(46,657)**
Total cash and cash equivalents, beginning of year		**146,535**	**193,192**
Total cash and cash equivalents, end of year	9	**250,154**	**146,535**

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Parent							
	Ordinary shares Number	Share capital €'000	Other reserves €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
At 1 January 2014	**32,632,502**	**1,714,425**	**22,088**	**(11,976)**	**(870)**	**(1,399,529)**	**2,842**	**326,980**
(Loss) / profit for the year	-	-	-	-	-	(109,300)	430	(108,870)
Other comprehensive income	-	-	-	6,383	1,458	-	-	7,841
Total comprehensive income/(loss)	**-**	**-**	**-**	**6,383**	**1,458**	**(109,300)**	**430**	**(101,029)**
Contributions by and distributions to owners:								
Shares issued to Directors (note 23)	3,000	-	-	-	-	-	-	-
Distributions to non-controlling interest	-	-	-	-	-	-	(951)	(951)
Release of option reserve for lapsed options	-	200	(200)	-	-	-	-	-
Dividend declared (note 27)	-	-	-	-	-	(16,316)	-	(16,316)
At 31 December 2014	**32,635,502**	**1,714,625**	**21,888**	**(5,593)**	**588**	**(1,525,145)**	**2,321**	**208,684**
Loss after taxation for the year	-	-	-	-	-	(43,435)	842	(42,593)
Other comprehensive income	-	-	-	2,499	(585)	-	-	1,914
Total comprehensive income/(loss)	**-**	**-**	**-**	**2,499**	**(585)**	**(43,435)**	**842**	**(40,679)**
Contributions by and distributions to owners:								
Share issued to Directors (note 23)	3,000	-	-	-	-	-	-	-
Issue of ordinary shares (note 23)	39,762,992	312,139	-	-	-	-	-	312,139
Costs in relation of issue of ordinary shares	-	(7,783)	-	-	-	-	-	(7,783)
Costs in relation to issue of options following share issue	-	(4,756)	4,756	-	-	-	-	-
Distributions to non-controlling interest	-	-	-	-	-	-	(1,828)	(1,828)
Release of option reserve for lapsed options	-	620	(620)	-	-	-	-	-
Dividend declared (note 27)	-	-	-	-	-	(31,229)	-	(31,229)
At 31 December 2015	**72,401,494**	**2,014,845**	**26,024**	**(3,094)**	**3**	**(1,599,809)**	**1,335**	**439,304**

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

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company" or the "Parent") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange). The activities of the Group include the investing in, financing and management of Italian performing and non-performing loans and other credit receivables, real estate related assets and related businesses.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group's Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property / asset management and finance services), as described in note 28. The Group has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost basis except for investment properties, available-for-sale securities, derivative financial investments and loan portfolios which are measured at fair value. The financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements for the year ended 31 December 2014.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the year ended 31 December 2015. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

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

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

At 31 December 2015, the Group consisted of a number of subsidiaries in Germany, Italy, Ireland, Luxembourg and the United States of America (refer to note 30).

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

Deconsolidation of Subsidiaries

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

Investment in Associates

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

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

Joint Ventures

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

Significant accounting policies and critical accounting judgements and estimates

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

The critical accounting judgements, estimates and significant accounting policies for the year ended 31 December 2015 are as follows:

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

The Group assesses on a regular basis whether there is any objective evidence of impairment in respect of the available-for-sale investments and loans and receivables portfolios. In determining whether objective evidence of impairment exists, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable significant financial difficulty of the issuer or obligor, defaults or breaches of contract, the probability of the borrower entering bankruptcy or other financial reorganisation, adverse changes in the payment status of the borrowers in a group or external events that would imply a high probability of default and loss (refer to note 11). The impairment is booked when the losses are considered to be other than temporary diminutions in value.

(ii) Valuation of investment properties

Investment properties are stated at fair value. The determination of fair values requires considerable judgement and includes yield as the key assumption. Other assumptions include passing rent, void periods, relettability, marketability of properties, terms of lease and comparison with similar properties in the real estate market. The fair values are determined based on valuations by external valuers, which are carried out in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors. Accordingly, the values reflect the physical, economical, legal and regulatory status of the properties based on the information available at the date of valuation (refer to note 18). Where investment properties are in the process of a binding sale, the relevant sales price, after accounting for sales costs, is taken as being the fair value and is reflected as such in the financial statements.

(iii) Refinancing of bank borrowings and CDO bonds payable

Refinancing of bank loans and CDO bonds payable are reviewed to determine if the terms of the new facility are substantially different to the existing terms. The Group makes this determination using the net present value of the cash flows under the new terms discounted at the original effective interest rate compared to the discounted present value of the remaining cash flows under the existing terms. If the comparison exceeds a 10% threshold, the refinancing is considered to be substantially different. The Group also reviews the qualitative changes to the financings (e.g. nature and amount of security, counterparties or change in type of financing) to make their assessment. The Group renegotiated the Belfry term financing in 2015 and it is considered to be a continuance of existing facilities (refer note 20).

(iv) Joint ventures held at fair value

The joint venture in doBank is held at fair value through profit and loss, in accordance with the exemption under IAS 28. The key judgements that the directors exercise in applying the fair value exemption under IAS 28 for Joint Ventures are the strategic intentions and medium term nature of the investment.

(v) Disposal groups classified as held for sale & investment properties held for sale

Assets and liabilities held in disposal groups classified as held for sale are recognised as such when the assets will be disposed of together as a group in a single transaction and liabilities associated with those assets will be transferred in the same transaction. Judgement is exercised in determining whether the sales become probable within 12 months from classification.

The underlying investments in German commercial real estate are classified as held for sale when: (i) they are available for immediate sale; (ii) management is committed to a plan to sell; (iii) it is unlikely that a significant change to the plan will be made or that the plan will be withdrawn; (iv) an active programme to locate a buyer and complete the plan must have been initiated; (v) the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) a sale is expected to complete within twelve months from the date of classification. Investment properties held for sale are measured at the lower of: (i) their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and (ii) fair value less costs of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of operation that has been disposed of or has been abandoned. Discontinued operations are presented in the income statement as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post tax gain or loss recognised on the re-measurement to fair value less costs to sell.

(vi) Fair value measurement principles

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

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

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

The underlying investments in loan portfolios and the NPL servicer (doBank) are held at fair value through profit and loss on initial recognition. The fair value and changes therein are derived from future expected cash flows based on the assumptions of the latest business plan discounted at an appropriate discount rate. The key assumptions for determining the fair value include the timing and amounts of cash flows, as well as the discount rate applied.

(vii) Impairment

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

Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairments tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an assets exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs").

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Financial Instruments

Classification
Financial assets and liabilities classified at fair value through profit or loss include those designated as such at initial recognition, including investments in listed shares and fund units, performing and non-performing loan portfolios, foreign currency swaps and forward foreign exchange contracts that are not designated as effective hedging instruments. All other financial instruments are classified as loans and receivables and carried at amortised cost.

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.

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 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 on 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.

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.

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.

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 and loss or available-for-sale. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, being the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Interest income and interest expense

Interest income and expenses 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 expense includes 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.

Loans and receivables investments

Loans and receivables investments are carried at amortised cost less provision for impairment. The Group assesses individually each loan and receivable asset to ascertain whether objective evidence of impairment as described above exists.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of the assets is reduced by the amount of the loss which is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the carrying amount of the asset is amended and the increase or decrease is recognised in the income statement.

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

Available-for-sale investments

Available-for-sale investments are carried at fair value. The Group assesses individually for each available-for-sale asset whether objective evidence of impairment as described above exists.

If there is evidence of impairment, the cumulative unrealised loss previously recognised in equity, in net unrealised gains and losses, is reclassified from equity and recognised in the income statement for the period, reported in net gains / losses on financial assets available-for-sale. 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.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest Income".

Refer to notes 8 and 11 for details of impairment losses on available-for-sale and loans and receivables investments.

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, with a maturity greater than three months, comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, cash held by the trustees of securitisation vehicles as a reserve for future trustee expenses and cash held as part of the minimum liquidity requirement by property funds. As such, these funds are not available for use by the Group. These funds are not offset against other financial instruments.

Investment property

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

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

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

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

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.

Leases

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

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

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

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

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.

Revenue

The Group considers revenue to comprise fair value movements in its underlying investments in NPLs, doBank and real estate fund units along with income from loan collections and distributions from real estate fund units. Revenue from discontinued operations comprises rental and service charge income.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Service charges

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

Service income

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

Service costs

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

Property expenses

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

Deferred taxation

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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

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.

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

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

IFRS 15 *Revenue from Contracts with Customers* is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. The core principle is that an entity should recognise revenue from contracts with customers to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These amendments are not expected to impact the Group’s current financial position or performance. On 11 September 2015 the IASB delayed the effective date from 1 January 2017 to 1 January 2018.

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

IFRS 16 *Leases* was issued on 13 January 2016. It sets out the new principles for the recognition, measurement and disclosure of leases. The standard is effective from 1 January 2019 and is not expected to have a significant impact on the Group as it is in the process of disposing of its legacy real estate business.

3. INTEREST INCOME

Interest income for the year ended 31 December 2015 represents €2.2 million (31 December 2014: €8.4 million) of interest income earned on the available-for-sale securities and loans and receivables, and interest calculated using the EIR method of €2.2 million (31 December 2014: €8.2 million). Coupon interest earned of €2.2 million (31 December 2014: €5.7 million) is split between available-for-sale securities (€0.2 million), loans and receivables (€2.0 million) (31 December 2014: €1.8 million and €3.9 million respectively).

Interest earned using the EIR method on impaired assets for the year ended 31 December 2015 of €1.1 million (31 December 2014: €1.7 million) includes €nil interest on available-for-sale securities, interest on loans and receivables of €0.2 million, and interest on real estate related loans of €0.9 million (31 December 2014: €nil, €0.7 million, and €1.0 million respectively).

Interest income includes the effect of amortisation of the available-for-sale securities reserve amounting to €1.8 million (31 December 2014: €9.1 million) as a result of reclassification of available-for-sale securities to loans and receivables. This amortisation is offset by the accretion of the carrying value of the reclassified loans and receivables, resulting in a net nil impact on the income statement. The amortisation and accretion have been adjusted to reflect changes in the anticipated cash flows.

4. INTEREST EXPENSE

Interest expense for the year ended 31 December 2015 comprises interest expense incurred on the CDO bonds payable of €3.5 million (31 December 2014: €4.6 million). Interest expense is calculated using the EIR method.

The amortisation of discount/premium on debt investments are included within interest expense. Amortisation of discount/premium amounted to €0.3 million (31 December 2014: €0.5 million).

5. OTHER OPERATING EXPENSES

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Professional fees	695	613
Transaction costs	1,702	851
Management fees (note 28)	6,679	4,214
Manager Recharge (note 28)	1,562	1,859
Depreciation of fixtures and fittings	3	4
Amortisation of intangible assets	8	33
General and administrative expenses	659	1,084
Total other operating expenses	**11,308**	**8,658**

6. TAXATION EXPENSE

Taxation Overview

The taxation expense for the year ended 31 December 2015 relates to the Group's Luxembourg subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company's subsidiaries, EFL, CDO IV, CDO V and Feco, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

The Group's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries.

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

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Current tax expense		
Luxembourg	28	23
Total tax expense - current	**28**	**23**

There are currently no tax expenses in Italy.

Deferred tax on revaluation of investment properties

Portfolio	Year ended 31 December 2015 (decrease) / increase in fair values €'000	Year ended 31 December 2015 movement on deferred tax asset / (liability) €'000	Year ended 31 December 2014 (decrease) / increase in fair values €'000	Year ended 31 December 2014 movement on deferred tax asset / (liability) €'000
Mars	(2,129)	-	(16,973)	-
Drive	(59,994)	-	(21,523)	-
Wave	(5,897)	(143)	(5,302)	(1,934)
Zama	(2,118)	-	(1,639)	-
Bridge (1)	-	-	(253)	-
Retail	(12,722)	5,389	(21,009)	112
Total	**(82,860)**	**5,246**	**(66,699)**	**(1,822)**

(1) Deferred tax represents the tax on the valuation losses / gains at the individual entity level. The Group no longer has an interest in the Bridge portfolio following the maturity of the related loan facility in January 2014.

The Group is exempt from Guernsey income tax. The tax expense in the consolidated income statement for the year is higher than the Group's Guernsey income tax rate of 0%. The difference is reconciled below:

Breakdown of taxation liability:

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Split between:		
Current tax	8,925	10,824
Deferred tax	681	4,578
Closing taxation payable	**9,606**	**15,402**
Classified as held for sale (refer note 24)		
Current tax	-	267
Deferred tax	-	356
Total taxation payable	**9,606**	**16,025**

Reconciliation of total tax charge:

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Loss before tax	(12,880)	(18,097)
Tax at domestic tax rates applicable to profits in the respective countries	-	-
Other	28	23
Total tax charge	**28**	**23**

Deferred tax liabilities are attributed to the following (2014: including disposal groups of €0.4 million) :

	2015			2014		
	Assets €'000	Liabilities €'000	Net €'000	Assets €'000	Liabilities €'000	Net €'000
Loan expense	1	(2)	(1)	23	(383)	(360)
Tenant improvement and leasing commissions	-	(57)	(57)	-	(134)	(134)
Accelerated capital allowance	-	(3,533)	(3,533)	-	(11,795)	(11,795)
Revaluation of investment properties	3,099	-	3,099	8,448	(104)	8,344
Capital expenditure	-	(145)	(145)	-	(1,596)	(1,596)
Tax value of recognised losses	13	-	13	583	-	583
Short-term temporary differences	-	(57)	(57)	-	24	24
Net deferred tax asset / (liability)	**3,113**	**(3,794)**	**(681)**	**9,054**	**(13,988)**	**(4,934)**

Deferred tax liabilities are presented net of deferred tax assets where the legal right of offset exists. The net deferred tax liability shown above relates to the Legacy German property business which is classified as a discontinued operation. There is no deferred tax asset or liability related to continuing operations as at 31 December 2015.

Unrecognised tax losses

The Group has tax losses which arose in Germany of €131.4million (31 December 2014: €111.2 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Included in this amount for 2014, is €41.1 million with respect to the Retail Portfolios. A deferred tax asset of €20.3 million (31 December 2014: €17.0 million) has not been recognised in respect of those losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time.

No tax has been charged or credited to other comprehensive income or directly to equity during the year or the prior year.

7. GAINS / (LOSSES) ON FOREIGN CURRENCY CONTRACTS, TRANSLATION AND SWAPS

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Fair value movements in currency swaps[1]	(5,677)	(2,293)
Foreign currency translation (losses) / gains on assets subject to currency swaps [1]	(341)	133
Total losses on currency swaps	**(6,018)**	**(2,160)**
Other currency gains	6,065	2,841
Total currency gains	**47**	**681**

(1) The foreign currency swaps are disclosed in note 16.

8. IMPAIRMENT LOSSES

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Impairment losses on loans and receivables	30,781	23,571
Realisation of previously unrealised losses on impaired loans and receivables previously held as available for sale	(70)	(3,134)
Total impairment losses	**30,711**	**20,437**

During the year ended 31 December 2015, the Group has recognised impairment losses on 13 securities (31 December 2014: 14 securities). As at 31 December 2015, 22 securities have recognised impairment losses (31 December 2014: 26 securities).

The carrying value of the impaired securities or loans as at 31 December 2015 after the impairment losses was €45.9 million (31 December 2014: €93.4 million).

9. CASH AND CASH EQUIVALENTS

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Corporate cash	204,252	96,875
Cash within Italian Investments	7,462	8,575
Cash within the real estate operating companies (discontinued operations)	35,392	30,924
Cash within the CDO vehicles	3,048	6,207
Cash and cash equivalents	250,154	142,581
Cash and cash equivalents classified as held for sale (note 24)	-	3,954
Total cash and cash equivalents	**250,154**	**146,535**

Cash within Italian Investments is held to cover distributions to the Company, operating expenses and other working capital. It includes €1.3 million which is to be distributed to the non controlling interests (31 December 2014: €2.3 million).

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

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

10. LEGACY INVESTMENTS IN LISTED SHARES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2015 €'000	2014 €'000
Balance as at 1 January	2,198	-
Fair value and exchange movements during the year	329	2,675
Sale of underlying shares	(2,527)	(477)
Balance as at 31 December	**-**	**2,198**

The investment related to 1,399,491 listed shares in Punch Taverns Plc that were obtained during the restructuring of the Punch Taverns note held in CDO V (previously recorded in Loans and Receivables). The shares were disposed of on 10 September 2015 for a total consideration of €2.5 million.

11. LOANS AND RECEIVABLES

The following is a summary of the Group's loans and receivables as at 31 December 2015:

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

As at 31 December 2014:

	Current face amount €'000	Amortised cost basis €'000	Impairment losses €'000	Carrying value €'000	Weighted average: Average rating [(1)]	Weighted average: Coupon % [(2)]	Weighted average: Margin % [(3)]	Weighted average: Maturity (years)
CDO IV								
Real estate related loans	12,253	12,257	(2,790)	9,467	D	0.66%	2.30%	1.53
	12,253	12,257	(2,790)	9,467	D	0.66%	2.30%	1.53
CDO V [(4)]								
CMBS	151,801	131,503	(36,983)	94,520	CCC+	0.91%	2.04%	1.91
Other ABS	40,542	39,120	-	39,120	BB+	2.76%	1.94%	4.51
Real estate related loans	143,794	143,713	(89,951)	53,762	D	0.56%	2.37%	0.60
	336,137	314,336	(126,934)	187,402	CCC-	0.98%	2.17%	1.66
Other securities								
Real estate related loans	18,174	5,847	(3,040)	2,807	D	1.19%	2.47%	-
	18,174	5,847	(3,040)	2,807	D	1.19%	2.47%	-
Total portfolio	**366,564**	**332,440**	**(132,764)**	**199,676**	**CCC-**	**0.98%**	**2.19%**	**1.58**

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

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

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

(4) The securities within CDO V are encumbered by CDO securitisations (note 19).

Following the amendments to IAS 39, "Reclassification of Financial Assets", the Group reclassified all available-for-sale securities within CDO V to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 it had the intention and the ability to hold for maturity or the foreseeable future. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date which amounted to €1.1 billion. The disclosures below detail the impact of the reclassifications to the Group.

The following table shows carrying values and fair values of the reclassified assets:

	At 1 July 2008 Carrying Value €'000	At 31 December 2015 Carrying Value €'000	At 31 December 2014 Carrying Value €'000	At 31 December 2015 Fair Value €'000	At 31 December 2014 Fair Value €'000
Available-for-sale securities, reclassified to loans and receivables	1,077,560	20,928	78,180	17,314	59,107

As of the reclassification date, the effective interest rate on the reclassified available-for-sale securities was approximately 12%, with expected recoverable cash flows of €1.3 billion. The effective interest rate was determined on an asset-by-asset basis.

If the reclassification had not been made, Eurocastle's income statement for 2015 would have included €4.6 million of reversals on the reclassified available-for-sale securities of impairments, compared with impairments of €9.3 million after the reclassification. During 2015, shareholders' equity (net losses not recognised in the income statement) would have included €14.4 million of changes in unrealised fair value gains in respect of reclassified available-for-sale securities which were not impaired between 1 July 2008 and 31 December 2015.

After reclassification, the reclassified financial assets contributed the following amounts to income for the year:

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Net interest income	1,340	1,759
Impairment (reversals) / losses on securities classified as loans and receivables	(9,303)	10,163
(Gains) / losses on available-for-sale securities reclassified to loans and receivables	**(7,963)**	**11,922**

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

After the reclassification, if the asset subsequently becomes impaired the amount recorded in shareholders' equity, relating to the impaired asset, is released to the income statement at the impairment date. During 2015, €0.1 million of unrealised fair value gains have been released to the income statement for impaired reclassified financial assets available-for-sale (31 December 2014: €3.1 million). Additionally, €1.8 million (31 December 2014: €9.1 million) of amortisation of the available-for-sale securities reserve has been released from shareholders equity as a result of the reclassification of available-for-sale securities to loans and receivables. This amortisation has been adjusted by nil to reflect changes in the expected cash flows (31 December 2014: €nil).

At 31 December 2015, the net unrealised loss on loans and receivables reclassified from AFS was €3.1 million (31 December 2014: €5.6 million).

The movement in the impairment losses is shown below:

	2015 €'000	2014 €'000
Balance as at 1 January	(132,764)	(136,537)
Reversals due to paydowns and sales in the year	32,691	28,720
Losses for the year	(24,404)	(40,898)
Reversals for the year	8,239	15,951
Balance at 31 December	**(116,238)**	**(132,764)**

12. ITALIAN INVESTMENTS

The Group holds the following investments:

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

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

(iii) Real estate fund units - these investments are held at fair value through profit or loss as investments in listed Italian real estate funds.

The holdings in investments have been summarised below.

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

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

	doBank (see note 12.4)	NPL/PL (see note 12.2)	Real Estate Fund Units (see note 12.5)	Total
	€'000	€'000	€'000	€'000
Balance as at 1 January	-	6,325	21,890	28,215
Acquisitions	246,352	-	-	246,352
Cash/distributions received	-	(5,774)	(8,947)	(14,721)
Increase in fair value	9,667	4,321	1,396	15,384
Balance as at 31 December	**256,019**	**4,872**	**14,339**	**275,230**

As at 31 December 2014:

	NPL/PL	Real Estate Fund Units	Total
	€'000	€'000	€'000
Balance as at 1 January	12,314	-	12,314
Acquisitions	-	21,323	21,323
Cash distributions received	(8,089)	-	(8,089)
Increase in fair value	2,100	567	2,667
Balance as at 31 December	**6,325**	**21,890**	**28,215**

12.2. NPL/PL held at fair value by subsidiaries

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

The movement in fair value investments is as follows:

	2015		
	NPL/PL Pools 1-5	Non controlling interest	Total Portfolio
	€'000	€'000	€'000
Balance as at 1 January	5,110	1,215	6,325
Cash received from portfolios	(4,657)	(1,117)	(5,774)
Increase in fair value	3,479	842	4,321
Balance as at 31 December	**3,932**	**940**	**4,872**

	2014		
	NPL/PL Pools 1-5	Non controlling interest	Total Portfolio
	€'000	€'000	€'000
Balance as at 1 January	9,964	2,350	12,314
Cash received from portfolios	(6,524)	(1,565)	(8,089)
Increase in fair value	1,670	430	2,100
Balance as at 31 December	**5,110**	**1,215**	**6,325**

The total of cash received from pools 1 to 5 in 2015 is €9.4 million (31 December 2014: €4.9million) of which €1.8 million has been paid to non controlling interests (31 December 2014: €1.0 million).

The non-performing loan portfolios are partly secured by residential and commercial properties, judicial mortgages and personal guarantees in Italy. The performing loan portfolio (pool 5), with a carrying value of €0.6 million, is fully secured against commercial and residential properties in Italy.

All portfolios are serviced by Italfondiario S.p.A. a related party to the Manager (refer note 28).

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to gains of €4.3 million (31 December 2014: €2.1 million) and are presented in the Group income statement in the line item "Fair value movements on Italian investments".

The non controlling interest in the fair value of the portfolios is €0.9 million (31 December 2014: €1.2 million) which excludes distributions payable of €0.4 million (31 December 2014: €1.1 million).

12.3. NPLs held as associates and joint ventures

The Group's interest in non-performing loan pools 7-15 is through an associate entity in Delaware called Fortress Italian NPL Opportunities Series Fund LLC and is accounted for using the equity method, however the underlying entities hold the portfolios at fair value through profit and loss and therefore the net assets reflects the fair value of the investments. The Group holds a 25% interest in the associate entity which is managed by a fund manager. The Group exercises significant influence as a result of the ability to vote on the appointment and termination of the fund manager.

On 9 June 2014, the Group acquired 25% of the membership interest in the first series of the Fortress Italian NPL Opportunities Series Fund LLC (the "Series 1 Fund") for a total consideration of €7.4 million (pool 7). The Series 1 Fund acquired securitisation notes relating to pool 7 on 27 June 2014. The Series I Fund made a second investment of €8.5 million on 23 December 2014 in a second non-performing loan portfolio from the same counterparty (Pool 10). During 2015 cash distributions were received of €3.4 million (31 December 2014: €0.7 million).

On 14 July 2014, the Group acquired 25% of the membership in the second series of the Fortress Italian NPL Opportunities Series Fund LLC - Series 2 (the "Series 2 Fund") for a total consideration of €0.3m (Pool 8). The Series 2 Fund acquired the non-performing portfolio of loans from three Italian local co-operative banks affiliated with ICCREA Group ("BCC") on 29 July 2014. The Series 2 Fund made a second investment of €0.2 million in a non-performing loan portfolio (Pool 9) on 29 October 2015 and a third investment of €0.5 million on 23 December 2014 in a further non-performing loan portfolio (Pool 11). The Series 2 Fund made an additional investment of €1.0 million in an additional non-performing loan portfolio (Pool 12) in November 2015. During 2015 distributions were received of €0.4 million (31 December 2014: €nil million).

The Group's investment in pool 6 of non-performing Italian loans is through a joint investment entity in Italy called Quintino Securitisation S.r.l. The membership interest of 50% is held in the third series of the Fortress Italian NPL Opportunities Series Fund LLC - Series 3 (the "Series 3 Fund") which holds the notes in Quintino Securitisation S.r.l. The financial and operating decisions of this entity require joint agreement and hence is subject to joint control. The results, assets and liabilities of the joint investment entity are incorporated in these financial statements using the equity method. The Group's share of net assets represents the fair value of its investment. The joint venture partner is a credit fund managed by an affiliate of the Manager. During 2015 cash distributions were received of €0.6 million (31 December 2014: €0.4 million).

In December 2015, the Group acquired 25% of the membership in the fourth series of the Fortress Italian NPL Opportunities Series Fund LLC - Series 4 (the "Series 4 Fund") for a total consideration of €4.5m. The Series 4 Fund holds notes relating to three non-performing loan portfolios (Pools 13, 14 and 15).

The following table summarises the financial information of the Associates as at 31 December 2015:

	Associates Series 1,2 & 4 NPLs (pools 7-15) €'000	**Joint Venture Series 3 NPLs (Pool 6) €'000**	**Total €'000**
Non-current assets	87,499	3,626	91,125
Current assets	410	758	1,168
Current liabilities	(151)	(758)	(909)
Net assets	**87,758**	**3,626**	**91,384**
Group's share of net assets	**21,940**	**1,813**	**23,753**

	Series 1,2 & 4 NPLs (pools 7-15) €'000	**Series 3 NPLs (Pool 6) €'000**	**Total €'000**
Share of profit for the year	18,277	300	18,577
Group's share of profit	**4,569**	**150**	**4,719**

12.4. Investments in joint ventures held at fair value

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

The following table summarises the financial information of the Joint Venture as at 31 December 2015:

	doBank €'000
Non-current assets	511,336
Current assets	3
Cash	8,984
Current liabilities	(8,142)
Net assets	**512,181**
Group's share of net assets	**256,091**

	doBank €'000
Interest income	68
Revaluation gains	36,278
Interest expense	-
Other expenses	(17,013)
Post tax profit for the period	**19,333**
Group's share of post tax profit	**9,667**

The Group's share of net assets and post tax profit for the period relates to Avio S.ár.l and is combined with the Group's share of the net assets and post tax profit of Verona to reflect the total recorded in the Group's financial statements.

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

At 31 December 2015, cumulative realised gains from NPL portfolios (pools 1, 2 and 5) were €6.1 million, being distributed funds greater than the original €9.2 million purchase price for those pools. At 31 December 2014, cumulative realised gains from NPL portfolios (pools 1 and 5) were €2.9 million compared to the €7.8 million purchase price for those pools. During 2015, realised gains were €3.2 million (31 December 2014: €2.9m realised gains). Refer note 12.2 for fair value movements on pools 1-5.

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

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

For the year ended 31 December 2014:

	Italian Loan Pools (1-11)	**Total**
Expected profit multiple [(1)]	1.7	1.7
Remaining weighted average life	1.2	1.2
Discount rate	25%	25%

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

During the year ended 31 December 2015, the discount rate applied to NPL/PL fair value calculations included within the Italian loan pools and the doBank investment was adjusted from an average of 17% as at 30 September 2015 to 12% at year end so as to reflect the current market rate, which was not possible to reliably measure in prior reporting periods. The impact of the change in discount rate is €7.7 million and is reflected in the Italian loan pools including the pool held within doBank.

Sensitivity analysis

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

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

For the year ended 31 December 2014:

	Italian Loan Pools (1-11) €'000	**Total €'000**
Fair value	22,348	22,348
Increase in discount rate by 25bps	22,227	22,227
Value sensitivity	**(121)**	**(121)**

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.

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

On 28 March 2014, the Group purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("UIU" / "Fund Investment I") for a total consideration of €21.3 million. The acquisition price per unit was €1,787.50. The holding represents 7.46% of the total units issued by UIU with the purchase settled in cash. The units are listed on the Italian Stock Exchange. Fund Investment I has a maturity of 31 December 2017. The Group incurred transaction costs of €0.9 million in connection with the acquisition which was recorded through profit and loss in 2014. These units are held at fair value though profit and loss.

In March 2015, following the sale of assets in UIU, the Group received a distribution of €750 per unit for a total amount of €8.9 million.

The fair value of the investment is determined by the share price of UIU at the reporting date. As at 31 December 2015, the share price was €1,202 (31 December 2014: €1,835) . The movement in the investment is as follows:

	Fund Investment I 2015 €'000	Fund Investment I 2014 €'000
Balance as at 1 January	21,890	-
Acquisition	-	21,323
Distributions received	(8,947)	-
Increase in fair value (unrealised)	1,396	567
Balance as at 31 December	**14,339**	**21,890**

13. JOINT VENTURE INVESTMENT IN REAL ESTATE FUND UNITS

On 22 July 2014, the Group entered into a limited partnership called CF Aula SCS ("Aula" or "Fund Investment II"). The Group acquired a 50% equity interest in the partnership and the other partner is an affiliate of the Manager who also has a 50% equity interest. The partnership has acquired 100% of the units in Torre Real Estate Fund III Value Added – Sub fund A which is managed by Torre SGR, an affiliate of the Manager. The fund has invested in two office buildings in Rome that will be redeveloped into luxury residential properties for resale. The redevelopment program is expected to take place over approximately two years. The first property (Via Bertoloni) will involve the demolition of the existing office building. A new residential and retail building will be constructed. The units will be sold on an individual basis. The second office building (Via Bolzano) will be converted into residential units which will be sold on an individual basis.

During 2015, the Group invested an additional €2.2 million in Aula (31 December 2014: €13.2 million) and received a repayment of capital of €3.3 million (31 December 2014: €nil million).

The Group’s investment in Aula is accounted for as a joint venture using the equity method. CF Aula SCS is a limited liability partnership incorporated in Luxembourg. The Group owns 50% of the partnership interest and the operating and financing decisions require joint agreement; hence it is subject to joint control.

The following table summarises the financial information of the Joint Venture as at 31 December 2015:

	Fund Investment II 2015 €'000	Fund Investment II 2014 €'000
Non-current assets	24,000	26,450
Current assets	320	-
Net assets	**24,320**	**26,450**
Group's share of net assets	**12,160**	**13,225**

	Fund Investment II €'000	Fund Investment II €'000
Post tax profit for period	-	-
Group's share of post tax profit	**-**	**-**

14. ASSOCIATE INVESTMENT IN REAL ESTATE FUND UNITS

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

The Group's investment in the unlisted mixed-use real estate fund units, Fund Investment III, is accounted for as an "Investment in Associate" due to its 27.1% shareholding and its ability to appoint 1 of the 5 directors to the advisory board.

The investment into the associate was made in two tranches. The value of the investment is recorded in the accounts based on the higher market value paid on the second tranche of shares. A gain was recorded against associate income of €4.8m as a result of the revaluation of the first tranche of shares. The Group received a distribution of €0.4m from the fund in November 2015.

The following table summarises the financial information of the associate as at 30 September 2015, being the latest available financial information:

	Fund Investment III €'000
Non-current assets	228,040
Current assets	6,045
Non-current liabilities	(126,720)
Current liabilities	(3,387)
Net assets	103,978
Adjustment to net assets to reflect the company's estimate of fair value	(47,378)
Adjusted net assets	**56,600**
Group's share of adjusted net assets	**15,350**
Revenue	11,506
Revaluation gains	12,000
Interest Expense	(4,411)
Other expenses	(1,500)
Post tax profit for the period	**17,595**
Group's share of post tax profit	**5,125**

The post tax profit for the period relates to 100% of the fund's post tax profits for the nine months ended 30 September 2015. Due to the Group only having acquired the investment in September 2015, the Group's share of the post tax profit does not equate to that recorded in the Group's financial statements.

15. OTHER ASSETS

	As at 31 December 2015 €'000	**As at 31 December 2014 €'000**
Tenant incentives and leasing commissions	2,917	4,775
Service charge receivable	2,684	3,639
Proceeds receivable from the disposal of investment properties	5,358	2,772
Interest receivable	185	577
Rent receivable	877	924
Prepaid expenses	617	468
Other accounts receivable	5,439	4,936
Total other assets	**18,077**	**18,091**

Service charge and rent receivables are net of a provision for doubtful debts of €3.1 million (31 December 2014: €2.8 million).

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

16. DERIVATIVE ASSETS

	As at 31 December 2015 €'000	**As at 31 December 2014 €'000**
Foreign currency swaps (1) - Pound Sterling	2,614	8,291
Total derivative assets	**2,614**	**8,291**

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

Derivative assets represent the fair value of foreign currency swaps.

During 2007, a subsidiary (CDO V) entered into a series of foreign currency swaps with a major investment bank to cover the foreign exchange risk in relation to its Pound Sterling denominated assets. As per the arrangement, the subsidiary pays any Pound Sterling interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and, with regards to interest, Euribor plus a spread. The fair value loss of €5.7 million (31 December 2014: €2.3 million) is recorded in the income statement (refer to note 7).

17. DISCOUNTINUED OPERATIONS

At 31 December 2015 the Group is committed to a plan to dispose of its remaining interest in its Legacy German real estate assets within twelve months from the date of the report. Accordingly the results of the Legacy property business have been classified as discontinued operations and are presented as follows:

	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Operating income		
Interest income	1	4
Rental income	50,278	84,965
Service charge income	11,394	16,800
Decrease in fair value of investment properties	(82,860)	(66,699)
Gain on discounted loan redemptions	31,513	-
Gain / (loss) on deconsolidation of subsidiary undertakings	23,466	(26,077)
Total operating income	**33,792**	**8,993**
Operating expenses		
Interest expense	26,081	46,360
Service charge expenses	11,408	16,151
Property operating expenses	19,116	26,807
Other operating expenses	9,742	11,303
Total operating expenses	**66,347**	**100,621**
Net operating loss before taxation	**(32,555)**	**(91,628)**
Taxation expense - current	1,027	1,295
Taxation credit - deferred	(3,897)	(2,173)
Total tax credit	**(2,870)**	**(878)**
Loss after taxation for the year	**(29,685)**	**(90,750)**

Cash flows from discontinued operations:

Discontinued operations	Year ended 31 December 2015 €'000	Year ended 31 December 2014 €'000
Operating activities	347,503	176,757
Financing activities	(254,482)	(184,444)
Net cash flow generated from / (used in) discontinued operations	**93,021**	**(7,687)**

18. INVESTMENT PROPERTY

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Investment property held for sale	393,810	217,418
Investment property held as a disposal group for sale (note 24)	-	278,445
Investment property	-	603,026
Total investment property net of tenant incentives and leasing commissions	393,810	1,098,889
Tenant incentives and leasing commissions (included in other assets - note 15 and note 25)	2,917	5,026
Total investment property	**396,727**	**1,103,915**

As at 31 December 2015, the investment property held for sale is financed by approximately €409.6 million of bank borrowings (31 December 2014: approximately €171.9 million). During the year ended 31 December 2015, the Group has sold 86 (31 December 2014: 33) properties for €356.3 million (31 December 2014: €169.6 million) versus a carrying value, at date of sale, of €358.3 million (31 December 2014: €176.8 million).

The table below shows the items classified under investment property held for sale in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions included within other assets) as at 31 December 2015:

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

As at 31 December 2014:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Balance at 1 January 2014	1,653,775	74,329	1,728,104
Capital expenditures	12,254	-	12,254
Tenant incentives and leasing commissions	(1,694)	-	(1,694)
Free rent	652	-	652
Disposals	(159,618)	(10,000)	(169,618)
Deconsolidation of the Bridge Portfolio	(399,303)	-	(399,303)
Increase in minimum payments under head lease	-	219	219
(Decrease) / increase in fair value	(67,407)	708	(66,699)
Balance at 31 December 2014	**1,038,659**	**65,256**	**1,103,915**

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

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

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to losses of €60.3 million (31 December 2014: losses of €66.7 million) and are presented in the Discontinued Operations note (note 17) under the line item "Decrease in fair value of investment properties".

The major inputs to the external valuation process are verified by senior management who also assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities. The total fees, including the fee for the assignment earned by the valuer from the Group is less than 5.0% of the total rental income.

As the Group is executing its plan to dispose of its Legacy property assets, all investment properties are classified as held for sale and are stated at fair value. The gain or loss on the sale of investment property is reported in the "Decrease in fair value of investment properties" line item in the discontinued operations note (refer note 17).

Included within the carrying value of investment property is €0.7 million in respect of rent free periods granted to tenants (2014: €1.8 million) This balance arises as a result of the IFRS treatment of leases with rent free periods, which requires the recognition of rental income on a straight line basis over the expected term of the lease, with the difference between this and cash receipts changing the carrying value of the property against which revaluations are measured.

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

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Investment property valuations	380,044	1,080,634
Minimum payments under head leases separately included in liabilities on the balance sheet	16,683	23,281
Total investment property	396,727	1,103,915
Investment property held as a disposal group for sale (refer note 24)	-	(284,892)
Balance sheet carrying value of investment property	**396,727**	**819,023**

The assumptions made relating to the valuations are set out below which include those portfolios classified as disposal groups (refer note 24):

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

Year ending 31 December 2014	**Office**	**Retail**	**Average**
Passing rent per sqm per month (€)	11.40	8.75	10.02
Market rent per sqm per month (€)	13.31	8.72	10.92
Average net initial yield	5.3%	7.1%	5.7%
Vacancy rate	34.7%	6.5%	22.5%

Sensitivity analysis

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

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

2014 (€'million)	**Office**	**Retail**	**Total**
Market value	666	415	1,081
Increase in yield of 25 bps	657	412	1,069
Value sensitivity	**(9)**	**(3)**	**(12)**

The Group acquired certain leasehold property that it classifies as investment property. The leases are accounted for as finance leases. Lease arrangements over the land on which the nine investment properties are built have unexpired terms ranging from 6 years to 55 years. Most are at a fixed rental, but some contain an obligation to pay a contingent rental calculated by reference to a retail price index. The amount recognised as an expense in the year in respect of contingent rental is €0.3 million (31 December 2014: €0.5 million).

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 December 2015 €'000	Present value 31 December 2015 €'000	Total value 31 December 2014 €'000	Present value 31 December 2014 €'000
Under 1 year	746	732	1,035	1,011
From 2 to 5 years	3,017	2,732	4,399	3,916
More than 5 years	24,710	13,219	42,887	18,354
Total	**28,473**	**16,683**	**48,321**	**23,281**

The fair value of investment properties held under finance leases is approximately €15.3 million (31 December 2014: €42.0 million) including €nil in relation to assets held in disposal groups (31 December 2014: €6.2 million - refer note 24).

Additional information

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

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

(1) Wave, Drive and Belfry went into negative NAV during the financial year.

(2) The Zama portfolio was sold as at 31 December 2015, with completion expected towards the end of Q1 2016.

The table below provides additional information for various portfolios within the Group at 31 December 2014:

Portfolio	Property valuation [3] €'000	Term financing (face amount) €'000	Other (liabilities)/ assets [4] €'000	Net assets / (liabilities) [4] €'000	Net operating income (NOI) [5] €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures / (accrual releases) [6] €'000
Drive	418,769	388,726	(19,916)	10,127	17,190	4.1%	52.8%	1,900
Wave	110,145	68,200	(17,196)	24,749	7,264	6.6%	74.4%	1,125
Mars Fixed 2	59,500	45,541	1,109	15,068	2,393	4.0%	74.8%	4,200
Truss	87,900	83,580	297	4,617	6,744	7.7%	94.9%	284
Belfry	52,420	53,544	1,910	786	3,846	7.3%	85.7%	(4)
Zama	28,700	25,868	1,351	4,183	2,155	7.5%	95.2%	351
Total portfolio excluding Mars Floating and classified as held for sale	**757,434**	**665,459**	**(32,445)**	**59,530**	**39,592**	**5.7%**	**68.9%**	**7,856**
Mars Floating [7]	50,700	97,746	471	(46,575)	2,959	5.8%	56.8%	2,034
Sub-total	**808,134**	**763,205**	**(31,974)**	**12,955**	**42,551**	**5.7%**	**68.2%**	**9,890**
Classified as held for sale (refer note 31)	272,500	254,373	1,370	19,495	20,156	7.4%	94.8%	666
Total portfolio	**1,080,634**	**1,017,578**	**(30,604)**	**32,450**	**62,707**	**5.8%**	**75.1%**	**10,556**

(3) Property valuation excludes the leasehold gross-ups of €16.7 million (31 December 2014: €23.3 million) of which €nil million relates to assets in disposal groups (31 December 2014: €6.1 million).

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

(5) Net operating income is calculated after deducting €0.3 million (31 December 2014: €0.5 million) of free rent. It excludes the amortisation of tenant incentives and leasing commissions, the fund costs related to the Drive portfolio and other real estate related general expenses included within property operating expenses in the consolidated income statement. It is shown here as the annualised amount at the period end.

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

(7) The remainder of the Mars Floating property portfolio was sold in October 2015.

The financing arrangements on all portfolios additionally require the sale of investment properties to achieve minimum release price thresholds before lenders will release security over the assets being sold. This release pricing varies from portfolio to portfolio. Release pricing in excess of current values will hinder the ability of the Group to sell certain assets without specific lender waivers.

As at the end of 2015, there were 22 vacant properties with a carrying value of €22.3 million and annual operating costs of €0.3 million. The corresponding figures as at 31 December 2014 was 29 properties with a carrying value of €78.8 million and annual operating costs of €0.7 million.

19. CDO BONDS PAYABLE

As at 31 December 2015:

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

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

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

In 2006, CDO V acquired a number of asset-backed securities that were later financed by the issuance of limited recourse notes. The obligation to the external note holders has been recorded as a financial liability in the balance sheet as CDO bonds payable. The carrying value of the financial assets and associated note liabilities as at 31 December 2015 was €60.9 million and €88.9 million (31 December 2014: €197.9 million and €194.2 million) respectively, with a net liabilities position of €21.7 million (31 December 2014: net assets position of €3.6 million). Refer to note 11 and 16 for the financial asset disclosures.

The fair value of the financial assets and associated note liabilities as at 31 December 2015 was €38.1 million and €20.7 million (31 December 2014: €138.2 million and €114.7 million) respectively, with a net position of €17.4 million (31 December 2014: €23.5 million). Refer to note 25 for the fair value disclosures.

In the year ended 31 December 2015, Eurocastle Funding Limited purchased €5.1 million of CDO V Class C1 notes at a price of 90% of nominal resulting in a gain to the Group of €0.5 million; and a further tranche of €15.2 million at a price of 94% resulting in a gain to the Group of €1.0 million. In the year ended 31 December 2014, Eurocastle Funding Limited purchased €4.0 million of CDO Class C1 notes at a price of 51% of nominal resulting in a gain to the Group of €2.0 million.

As at 31 December 2014:

	Class	Rating [1]	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing %	Weighted average margin %	Weighted average maturity (in years) [2]
CDO V	A, B, C1, C2, D1, D2, D3, E1, E2	B/CC C/C/ C/C/C/ C/C	194,572	194,248	1.54%	0.92%	2.9
Total			**194,572**	**194,248**	**1.54%**	**0.92%**	**2.9**

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

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

20. BANK BORROWINGS

		Current face amount €'000		Carrying amount €'000				
Portfolios	**Month raised**	**As at 31 December 2015**	**As at 31 December 2014**	**As at 31 December 2015 (1)**	**As at 31 December 2014 (1)**	**Weighted average effective interest rate**	**Weighted average funding cash coupon**	**Maturity**
Investment Property								
Wave [1]	Apr 2007	-	68,200	-	66,651	-	-	-
Truss [2]	Dec 2005	82,730	83,580	82,720	83,479	4.93%	4.85%	Mar 2016
Mars Fixed II [3]	Jun 2008	-	45,541	-	45,451	-	-	-
Zama [4]	Feb 2007	24,911	25,868	24,911	25,793	0.63%	0.63%	May 2016
Total investment property excluding Drive, Belfry, Mars Floating and portfolios held for sale		**107,641**	**223,189**	**107,631**	**221,374**	**3.94%**	**3.88%**	
Drive - Senior [5]	Feb 2006	-	80,259	-	78,958	-	-	-
Drive - Junior [5]	Feb 2006	261,219	308,467	249,976	306,380	3.44%	3.00%	Jan 2017
Belfry	Aug 2005	51,969	53,544	51,969	53,458	3.35%	3.35%	Apr 2016
Mars Floating [6]	Jan 2007	-	97,746	-	97,746	-	-	-
Total term financing		**420,829**	**763,205**	**409,576**	**757,916**	**3.55%**	**3.27%**	
Term financing held in disposal group (refer note 24) [7]		-	254,373	-	253,560	-	-	
Net total term financing		**420,829**	**1,017,578**	**409,576**	**1,011,476**	**3.55%**	**3.27%**	

(1) The Wave facility was repaid in July 2015 following the sale of the majority of the assets in the portfolio.

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

(3) The Mars Fixed II facility was repaid in November 2015 following the sale of the remaining asset in the portfolio.

(4) The Zama portfolio was agreed to be sold in December 2015. Following the first tranche of assets closing (5 out of the 6) in March 2016, the facility was repaid in full.

(5) The Senior loan was repaid in full following significant sales in the year ended 31 December 2015. The Junior loan maturity of January 2016 was recently extended to January 2017 with an interim amortisation target in July 2016 of €180 million.

(6) On 30 October 2015, the Company sold the remaining assets in the Mars Floating portfolio for a total sales price of €50.7 million. The sale resulted in Eurocastle receiving fees of €1.2 million with the remaining outstanding debt of approximately €48.0 million forgiven by the lender.

(7) The Group signed a heads of terms to dispose of the Superstella, Tannenberg and Turret portfolios in December 2014. These portfolios were deconsolidated from the Group following the completion of the transaction on 11 March 2015 (refer note 24).

The cash amount of interest paid is calculated by multiplying the weighted average funding cash coupon by the current face amount on an Actual/360 basis.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2015 €'000	As at 31 December 2014 €'000
Security deposit	385	3,497
Interest payable	35,765	27,661
Due to Manager (refer note 28)	3,387	1,874
Capital expenditure accruals	17,080	15,690
Accrued expenses and other payables	40,721	28,301
Total trade and other payables	**97,338**	**77,023**

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

22. LOSS PER SHARE

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

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

The Group's potential ordinary shares during the year 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 26).

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

	As at 31 December 2015	As at 31 December 2014
Weighted average number of ordinary shares	59,544,817	32,634,105
Dilutive effect of ordinary share options	33,264	-
Weighted average number of ordinary shares - dilutive	**59,578,081**	**32,634,105**

23. SHARE CAPITAL AND RESERVES

As at 31 December 2015, there were 72,401,494 shares (31 December 2014: 32,635,502) issued and outstanding. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares
Balance at 1 January 2014	32,632,502
Issued to the Directors as part of their in-place compensation arrangements for €nil consideration	3,000
Balance at 31 December 2014	**32,635,502**
Issued on 29 April 2015 at a price of €7.85 per share	39,762,992
Issued to the Directors as part of their in-place compensation arrangements for €nil consideration	3,000
Balance at 31 December 2015	**72,401,494**

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 June 2005, January 2006, December 2006, May 2013 and April 2015 (refer note 26).

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

Net unrealised loss on reclassified loans and receivables
The reserve represents the remaining unrealised losses on reclassified loans and receivables (refer note 11).

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

24. ASSETS AND LIABILITIES IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In December 2014, the Group signed a heads of terms to dispose of the Superstella, Tannenberg and Turret portfolios. The disposal closed on 11 March 2015 with the Company realising €24.5 million in net asset value to the Group. The assets and liabilities of these portfolios have been classified as held for sale in the consolidated balance sheet.

	Superstella €'000	Tannenberg €'000	Turret €'000	As at 31 December 2014 €'000
Cash and cash equivalents	757	804	2,393	3,954
Other assets [(1)]	59	100	502	661
Investment property	58,383	52,378	167,684	278,445
Assets held for sale	**59,199**	**53,282**	**170,579**	**283,060**
Trade and other payables	597	317	2,272	3,186
Current taxation payable	-	-	267	267
Bank borrowings	53,979	52,317	147,264	253,560
Finance lease payable	-	3,150	3,046	6,196
Deferred taxation liability	-	-	356	356
Liabilities held for sale	**54,576**	**55,784**	**153,205**	**263,565**

(1) Included in other assets are tenant incentives and leasing commissions of €0.3 million.

The following tables provide additional information for various portfolios within the Group at 31 December 2014:

Portfolio	Property valuation €'000	Term financing (face amount) €'000	Other (liabilities)/ assets €'000	Net assets / (liabilities) €'000	Net operating income (NOI) €'000	NOI yield on valuation %	Occupancy %	Capitalised expenditures / (accrual releases) €'000
Turret	164,887	147,556	44	17,374	12,186	7.4%	95.3%	558
Superstella	58,383	54,500	741	4,623	3,967	6.8%	100.0%	81
Tannenberg	49,230	52,317	585	(2,502)	4,003	8.1%	89.3%	27
Total	**272,500**	**254,373**	**1,370**	**19,495**	**20,156**	**7.4%**	**94.8%**	**666**

Type	Total outstanding at 31 December 2014 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	3,954	3,954	-	-
Total assets	**3,954**	**3,954**	**-**	**-**
Liabilities				
Interest payable [(1)]	27,999	10,299	17,700	-
Bank borrowings	253,560	52,317	201,243	-
Finance leases payable	6,196	288	1,075	4,833
Total liabilities	**287,755**	**62,904**	**220,018**	**4,833**

Maturities and mandatory amortisation by current face:

Portfolio (€ million)	2015	2016	2017	Total
Superstella	-	-	54.5	54.5
Tannenberg	52.3	-	-	52.3
Turret	-	147.6	-	147.6
Total	**52.3**	**147.6**	**54.5**	**254.4**

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

Please refer to note 18 for the fair value disclosure with respect to investment property.

25. FINANCIAL INSTRUMENTS

Risk Management

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

Capital Risk Management

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

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

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

At 31 December 2015, the Group had net equity of €439.3 million (31 December 2014: €208.7 million) and a leverage ratio of 53.2% (31 December 2014: 85.4%).

Market Risk

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

A deterioration of the Italian economy may affect the recoveries the Group expects on its loan investments. At the same time, it could affect investor demand in general for these types of investments. While the expected yield on these portfolios is sensitive to the performance of the underlying assets, the value at which these investments are held by the Group is sensitive to the market yields at which they trade. At 31 December 2015, a 25bp increase / (decrease) in the discount rate applied to fair value the Italian loan portfolio, including doBank, would (decrease) / increase net equity by €2.8 million (31 December 2014: €0.1 million) due to a corresponding reduction in the carrying value of the portfolio.

The Group's Legacy real estate investment assets are located in Germany and therefore, the performance of such assets depends on the strength of the German economy and other factors affecting German real estate values. A decline in the German economy or the commercial property market may have an immediate effect on the net income of the properties and could lead to higher rates of delinquency or defaults under leases. The Group is also subject to general property market risks including, among other things, fluctuations in rental levels and property yields. These risks are assessed by the Group on an ongoing basis. In addition, external third party valuations of the Group's real estate assets are obtained during each financial year. These appraisals take current market developments into consideration.

The Group recognises that a significant deterioration in the German economy may affect the Group's ability to dispose of assets or the level of proceeds received in relation to any such disposals. In addition, the nature of the Group's assets, asset sales may not be effected swiftly enough to avoid default of the Group's existing financings. The Group's top five tenants accounted for 67.8% of its passing rental income for the year ended 31 December 2015 (31 December 2014: 69.5% on a like-for-like basis). Loss of any one of these tenants could impact on the Group's ability to dispose of these legacy assets.

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

Within the Group's legacy debt investments, the Loans and Receivables (refer note 11) are predominantly floating rate, are held at amortised cost and subject to impairment tests. The Group is therefore exposed to market risks associated with the underlying assets and their ability to service their financings.

Credit Risk

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

Italian bankruptcy laws and other laws and regulations governing creditors' rights in Italy may offer significantly less protection for creditors than the bankruptcy regime in other jurisdictions, thus affecting the recoveries the Group would anticipate to receive on its Italian loan investments. The Group is also subject to credit risk with respect to its investments in real estate, primarily in relation to its underlying tenants.

The Group has a 50% interest in doBank comprising a NPL servicing business and an NPL pool (see note 12.4). The future performance of doBank relies primarily on UniCredit S.p.A. (rated: A- by Fitch; A2 by Moody's; and BBB by S&P) providing a certain amount of flow of NPLs under a servicing agreement between the parties.

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

The Group minimises credit risk by assessing the creditworthiness of its larger tenants, its securities portfolio and the underlying credit quality of its holdings and where appropriate, repositioning such investments to upgrade the credit quality and yield on the investments. Furthermore, with respect to its Italian loan investments, it also seeks to maximise recoveries by agreeing collection strategies with the servicer of the claims.

The maximum credit risk exposure in respect of Italian loan investments (including doBank) and debt investments as at 31 December 2015 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €0.4 billion (31 December 2014: €0.2 billion).

The Group's banking arrangements are with major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case. The corporate cash amount of €204.3 million held at Eurocastle is all held with a financial institution rated long term stable: A by Fitch; A2 by Moody's; and A- by S&P. The balance of the Group's remaining cash relating to the Legacy property business is predominantly held with a financial institution rated: BBB by Fitch; Baa1 by Moody's; and BBB+ by S&P.

The largest tenant of the Group (refer note 29) is a financial institution rated: BBB by Fitch; Baaa1 by Moody's; and BBB+ by S&P.

Operational Risk

The Group has a 50% interest in doBank comprising of an NPL servicing business and NPL pool (see note 12.4). doBank employs an experienced management team and loan servicing teams to carry out the daily operational tasks associated with the business. Loss of one or more key members of staff may have an adverse operational impact on the business of doBank. The loan servicing business is reliant upon IT and other operational and reporting systems. Any system disruptions and failures may interrupt or delay doBank's ability to service loans. The management team of doBank regularly reviews its operational risks and has appropriate incentive and contingency plans in place to mitigate these risks.

In order to effect its planned disposition of the Legacy German property portfolio, the Manager is reliant on its dedicated asset management team in Germany executing its plan. The Manager seeks to mitigate this where possible by implementing incentives.

Liquidity Risk

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

Eurocastle's liquidity is primarily generated by distributions from its Italian Investments and the remaining expected cash flows from asset sales within its legacy real estate portfolios. The Company expects that its cash on hand and cash flow provided by operations will satisfy its liquidity needs over the next twelve months.

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

The Group's legacy debt investments are generally financed long-term, with 86.6% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, and their credit status is continuously monitored.

The Group's Italian investments have been funded through equity without any third party debt.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables that are due within one year as at 31 December 2015:

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

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

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

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

As at 31 December 2014:

Type	Total outstanding at 31 December 2014 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	142,581	142,581	-	-
Interest receivable [(1)]	577	3,059	5,230	-
Asset backed securities, available-for-sale	188	188	-	
Fair value investments - listed shares	2,198	2,198	-	-
Loans and receivables	199,676	26,290	147,067	26,319
Italian Investments held at fair value through profit or loss [(2)]	46,154	6,109	35,776	4,269
Joint venture investment in real estate fund units	13,225	-	13,225	-
Derivative assets	60,418	12,842	38,642	8,934
Total assets	**465,017**	**193,267**	**239,940**	**39,522**
Liabilities				
Interest payable [(1)]	27,661	19,907	3,846	-
CDO bonds payable	194,248	-	-	194,248
Bank borrowings	757,916	607,786	150,130	-
Finance leases payable [(3)]	48,321	1,035	4,399	42,887
Derivative liabilities	52,127	11,127	33,272	7,728
Total liabilities	**1,080,273**	**639,855**	**191,647**	**244,863**

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

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

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

Fair values of financial assets and financial liabilities

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

	As at 31 December 2015 Carrying value €'000	As at 31 December 2014 Carrying value €'000	As at 31 December 2015 Fair value €'000	As at 31 December 2014 Fair value €'000
Financial assets				
Cash and cash equivalents	250,154	142,581	250,154	142,581
Asset backed securities, available-for-sale	-	188	-	188
Fair value investments - listed shares	-	2,198	-	2,198
Loans and receivables	70,259	199,676	35,493	128,863
Italian Investments held at fair value through profit or loss	275,230	28,215	275,230	28,215
Derivative assets	2,614	8,291	2,614	8,291
Financial liabilities				
CDO bonds payable	88,904	194,248	20,666	114,684
Bank borrowings	409,576	757,916	409,576	779,178
Finance lease payable	16,683	17,085	16,683	17,085

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

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

Fair value hierarchy

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

31 December 2015:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Italian Investments held at fair value through profit or loss	14,339	-	284,644	298,983
Derivative assets (refer note 16)	-	2,614	-	2,614

31 December 2014:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Financial assets				
Asset backed securities, available-for-sale	188	-	-	188
Fair value investments - listed shares	2,198	-	-	2,198
Italian Investments held at fair value through profit or loss	21,890	-	24,264	46,154
Derivative assets (refer note 16)	-	8,291	-	8,291

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:

	2015 €'000	2014 €'000
As at 1 January	24,264	14,487
Cash received from fair value investments	(10,189)	(10,283)
Fair value movement in year	18,707	3,152
Fair value investments acquired in the year	251,862	16,908
As at 31 December	**284,644**	**24,264**

Included in level 3 assets are the investments in NPLs/PLs held by associates and joint ventures, to reflect the underlying fair values of instruments held by the entities.

26. SHARE OPTION PLAN

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

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

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

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

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

27. DIVIDENDS PAID AND DECLARED

The following dividends were declared and paid for the year ended 31 December 2015 (31 December 2014: €16.3 million):

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

28. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provided for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the 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 below) will continue to be payable to the Manager post-termination. 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. Under the original agreement, Eurocastle paid the Manager an annual fee (payable monthly in arrear) of 1.5% of the gross equity of the Group, as described in the Management Agreement.

On 7 April 2015, the Company and the Manager entered into an amendment to the Management Agreement, effective 1 January 2015. These amendments included (i) resetting the capital base upon which the management fee is calculated to the Group's Adjusted NAV reported quarterly, (ii) reducing the fee upon which the management fee is paid from 1.5% to 0.75% on the share of Adjusted NAV relating to net corporate cash, and (iii) resetting the base upon which the Manager's entitlement to receive incentive compensation is calculated so that it is equal to the net invested capital in its New Investments and calculated against the Normalised FFO for New Investments after allocated corporate costs. Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative.

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

The Manager is deemed to be the key employee for reporting purposes. The total compensation recharged to the Company is €5.6 million (31 December 2014: €5.0 million).

At 31 December 2015, management fees, incentive fees and expense reimbursements of approximately €3.5 million (31 December 2014: €1.9 million) were due to the Manager. For the year ended 31 December 2015 management fees of €4.6 million, €0.5m of which relates to discontinued operations (31 December 2014: €6.1 million), €2.6m of incentive fees (31 December 2014: €nil), and expense reimbursements of €6.0 million, €4.4 million of which relates to discontinued operations (31 December 2014: €5.7 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.1 million (31 December 2014: €0.1 million) payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Group.

As a result of the investment in Italian performing and non-performing loans, the Group is party to various servicing agreements with Italfondario S.p.A. (“Italfondario”) which is majority owned by an affiliate of the Manager. The terms of the agreements have been approved by the Independent Directors. Italfondario provides portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in the year ended 31 December 2015 was €2.0 million (31 December 2014: €1.8 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 December 2015.

The Group's investments in Italian loans are originated and underwritten on behalf of the Group by the Manager, with the assistance of external consultants and Italfondiario. The due diligence fee paid by the Group to Italfondiario for deals closed in 2015 is €0.4 million. The fee is deducted from the collections prior to distribution. As such, there is no amount due as at 31 December 2015. During the year the Group incurred due diligence fees of €0.5 million on unsuccessful deals that related to work undertaken by Italfondiario.

The Fortress Italian NPL Opportunities Fund LLC, which manages pools 6 - 15 is managed by an affiliate of the Manager. The total fee expense for the year is €0.1 million which is set-off against the Group Management Fee payable to the Manager.

The Group's non controlling interest in the UIU real-estate fund (refer note 12.5) along with its joint venture investment in Aula are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total fee expense, across both these funds, for the year is €0.4 million.

The Group’s joint venture investment in Aula (refer note 13) is held in a fund managed by Torre S.p.A which is majority owned by an affiliate of the Manager.

29. SEGMENTAL REPORTING

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

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

The discontinued operations segment relates to investment properties which mainly derives its income primarily from rental income and service charge income. This segment was restated from the prior year, where it was classified as German commercial real estate.

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

The doBank segment derives its income from dividends.

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

Segment assets for the debt investment segment include available-for-sale securities and loans and receivables. Segment assets for the investment properties segment represent investment properties (including investment properties available-for-sale).

Segment liabilities for the debt investment segment include CDO bonds payable and bank borrowings. Bank borrowings are also included as segment liabilities within the investment properties segment.

The major tenants of the Group (including all portfolios) whose rental income exceed 5% of the Groups total rental income are (2014 on a like-for-like basis):

	31 December 2015		31 December 2014	
	Passing rent €'000	% of total portfolio	Passing rent €'000	% of total portfolio
Commerzbank AG	17,405	48.7%	17,692	49.8%
REWE	2,069	5.8%	2,069	5.8%
HUK-Coburg	1,904	5.3%	1,972	5.5%

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

Year ended 31 December 2015	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Revenue [(1)]	2,232	-	-	-	2,232	61,673	63,905
Impairment losses	(30,711)	-	-	-	(30,711)	-	(30,711)
Other operating income / (loss)	4,016	17,886	9,667	(822)	30,747	(27,881)	2,866
Total operating income	**(24,463)**	**17,886**	**9,667**	**(822)**	**2,268**	**33,792**	**36,060**
Interest expense	(3,840)	-	-	-	(3,840)	(26,081)	(29,921)
Other operating expense	(358)	(700)	(2)	(10,248)	(11,308)	(40,266)	(51,574)
Total operating expenses	**(4,198)**	**(700)**	**(2)**	**(10,248)**	**(15,148)**	**(66,347)**	**(81,495)**
Net operating (loss) / profit	**(28,661)**	**17,186**	**9,665**	**(11,070)**	**(12,880)**	**(32,555)**	**(45,435)**
Taxation (expense) / credit	(2)	(25)	(1)	-	(28)	2,870	2,842
Net (loss) / income after taxation	**(28,663)**	**17,161**	**9,664**	**(11,070)**	**(12,908)**	**(29,685)**	**(42,593)**
Non controlling interest	-	(842)	-	-	(842)	-	(842)
Net (loss) / income	**(28,663)**	**16,319**	**9,664**	**(11,070)**	**(13,750)**	**(29,685)**	**(43,435)**
Decrease / (increase) in fair values	3,109	1,730	(3,977)	(175)	687	-	687
Real estate revaluations	-	-	-	-	-	90,253	90,253
Deferred tax	-	-	-	-	-	(3,897)	(3,897)
Realised (gains) / losses on paydowns and sales	(4,826)	(1,503)	-	-	(6,329)	-	(6,329)
Gain on deconsolidation	-	-	-	-	-	(54,979)	(54,979)
Impairment losses on debt	34,556	-	-	-	34,556	-	34,556
Other	(3,901)	68	-	-	(3,833)	4,066	233
Normalised funds from operations	**275**	**16,614**	**5,687**	**(11,245)**	**11,331**	**5,758**	**17,089**

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

Restated Year ended 31 December 2014	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Revenue [1]	8,308	45	-	8,353	101,769	110,122
Impairment losses	(20,437)	-	-	(20,437)	-	(20,437)
Other operating income / (loss)	4,668	3,701	(560)	7,809	(92,776)	(84,967)
Total operating income	**(7,461)**	**3,746**	**(560)**	**(4,275)**	**8,993**	**4,718**
Interest expense	(5,160)	(4)	-	(5,164)	(46,360)	(51,524)
Other operating expenses	(837)	(967)	(6,854)	(8,658)	(54,261)	(62,919)
Total operating expenses	**(5,997)**	**(971)**	**(6,854)**	**(13,822)**	**(100,621)**	**(114,443)**
Net operating (loss) / profit	**(13,458)**	**2,775**	**(7,414)**	**(18,097)**	**(91,628)**	**(109,725)**
Taxation (expense) / credit	(1)	(22)	-	(23)	878	855
Net (loss) / income after taxation	**(13,459)**	**2,753**	**(7,414)**	**(18,120)**	**(90,750)**	**(108,870)**
Non controlling interest	-	(430)	-	(430)	-	(430)
Net (loss) / income	**(13,459)**	**2,323**	**(7,414)**	**(18,550)**	**(90,750)**	**(109,300)**
Decrease / (increase) in fair values	-	2,965	(18)	2,947	65,421	68,368
Realised gains on sale	-	-	-	-	(11,149)	(11,149)
Deferred tax	-	-	-	-	(2,173)	(2,173)
Net realised losses on investment property sales	-	-	-	-	18,137	18,137
Realised losses on paydown and sales	(3,024)	-	-	(3,024)	-	(3,024)
Fair value adjustment on real estate fund units	-	2,115	-	2,115	-	2,115
Loss on deconsolidation	-	-	-	-	26,077	26,077
Impairment losses on debt	20,437	-	-	20,437	-	20,437
Other	(1,259)	827	578	146	-	146
Normalised funds from operations	**2,695**	**8,230**	**(6,854)**	**4,071**	**5,563**	**9,634**

(1) Included within revenue income is interest income of €8.3 million within the debt investment segment and €0.1 million within the investment properties segment.

Normalised FFO is a non-IFRS financial measure used to provide investors with additional information regarding the underlying performance of the Group and its ability to service debt and make capital expenditure. This measure excludes realised gains and losses, sales related costs (including realised swap losses), impairment losses and foreign exchange movements. On the Company's New Investments, income is recognised on an effective yield basis allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns.

Segmental Balance Sheet:

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

As at 31 December 2014	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Total assets	217,247	67,940	-	97,005	382,192	1,151,733	1,533,925
Total liabilities	(194,776)	(2,798)	-	(8,421)	(205,995)	(1,108,162)	(1,314,157)
Segment net assets / (liabilities)	**22,471**	**65,142**	**-**	**88,584**	**176,197**	**43,571**	**219,768**
Tax liabilities	-	-	-	-	-	(11,090)	(11,090)
Non-controlling interest	-	(2,315)	-	-	(2,315)	-	(2,315)
Net assets / (liabilities)	**22,471**	**62,827**	**-**	**88,584**	**173,882**	**32,481**	**206,363**

Segmental Cashflows:

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

As at 31 December 2014	European Real Estate Debt €'000	Italian Investments and Non-controlling Interest €'000	doBank €'000	Unallocated €'000	Total Eurocastle €'000	Discontinued Operations €'000	Total Eurocastle €'000
Cashflows from operating activities	144,857	(45,854)	-	(14,091)	84,912	176,757	261,669
Cashflows from financing activities	(106,614)	(952)	-	(16,316)	(123,882)	(184,444)	(308,326)
Net increase / (decrease) in cash and cash equivalents	**38,243**	**(46,806)**	**-**	**(30,407)**	**(38,970)**	**(7,687)**	**(46,657)**

30. INVESTMENT IN SUBIDIARIES

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

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

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

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

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

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

Following the restructuring of the Mars Floating finance facility during 2009, the Mars Floating lender has acquired a 50% interest in the Mars Floating portfolio. The Mars Fixed 1 portfolio was restructured and deconsolidated in the second quarter of 2011. The remaining equity interest was sold in 2012.

31. SUBSEQUENT EVENTS

In line with its strategy to accelerate recoveries from its legacy real estate assets in Germany, the Group announced that it has agreed to sell its Zama portfolio in December 2015. Sales of five of the six assets have completed in the first week of March 2016 with the external loan having been repaid in full. The remaining asset is expected to close during the month of March 2016 realising estimated net proceeds to Eurocastle of €3.6 million.

The Group announced that after over a decade of valuable service, Keith Dorrian has indicated his intention to retire from its Board of Directors later this year. The Group is at the same time delighted to announce that Ms. Claire Whittet has agreed to join the Board and her appointment became effective on 29 January 2016.

The Group has sold a further 2 properties subsequent to year-end of €0.8 million generating no cash after repayment of asset level financings. These 2 sales are within the Drive portfolio and will generate a sales fee to the Group. The Group also completed on 6 assets subsequent to year, which were signed prior to year end generating sales proceeds of €8.2 million. These assets were all within the Drive portfolio and generated no cash after repayment of asset level financings, but did generate a sales fee payable to the Group.

The facility secured against the Truss portfolio matured on the 8 February 2016. The Group has entered into a standstill agreement until and including 8 March 2016 with the lender, pending documentation of an extension and agreement on finalisation of the ongoing sales process.

On 8 March 2016, Eurocastle entered into a structured transaction which, on completion (anticipated in the second quarter of 2016), would see the Group acquire substantially all of the units of Fondo Virgilio, a newly established unlisted Italian real estate fund comprising a retail portfolio in Northern Italy and 3 office assets at €132 million. This transaction will represent a new capital investment of up to €7 million. On completion of the transaction, Eurocastle’s share of the implied net asset value of this fund is expected to be approximately €14 million assuming the full €7 million investment is made.

32. COMMITMENTS

As at 31 December 2015, the Company had entered into two letters of comfort in relation to the disposal of assets in the Mars Fixed II portfolio. One matures at the end of March 2016 and relates to warranties and documentation regarding the sold asset. The maximum exposure at the reporting date is €6.0 million. The other endures 15 months as at 31 December 2015 and has maximum exposure at the reporting date of €3.6 million.

As at 31 December 2015, the Company had entered into a letter of comfort as part of the terms of the Wave portfolio disposal. The maximum exposure at the reporting date is €10.4 million.

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

CORPORATE INFORMATION

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Randal A. Nardone

Jason Sherwill

Peter M. Smith

Dr. Simon J. Thornton

Claire Whittet

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FORWARD-LOOKING STATEMENTS

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

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