EUROCASTLE INVESTMENT LIMITED

2018 ANNUAL REPORT

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

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

Dear Fellow Shareholders,

2018 was another very busy and productive year at Eurocastle ("the Company"), characterised by strong cash flow generation from our NPL portfolios, a transformational year for our key investment, doBank, and significant distributions to our shareholders.

Eurocastle has continued to execute on its investment strategy, maintaining its position as one of the most active players in Italian NPLs and related assets. Focusing on building shareholder value, the Company also sought to take advantage of the challenging equity markets, using available cash to capitalise on a widening discount between Eurocastle's share price and net asset value ("NAV") to repurchase €57 million, or 14%, of the Company's shares through two tender offers and the Company's first ever open market buyback programme. The Company will continue to monitor the market and remains focused on closing the discount to NAV at which its shares trade.

"Our investments continue to deliver outstanding performance, returning to date €513 million, or 99% of the equity invested, whilst still being carried at a value of €375 million."

ITALIAN INVESTMENTS

To date we have deployed approximately €519 million in Italian investments, including doBank, 24 loan pools and Italian real estate. Our investments continue to deliver outstanding performance, returning to date €513 million, or 99% of the equity invested, whilst still being carried at a value of €375 million.

Eurocastle's principal investment, doBank, had a transformational year. In June 2018, doBank announced a plan to hand back its banking license, allowing it to optimise the group's financial structure. This new flexibility allowed doBank to commit to acquire up to 100% of Altamira Asset Management, a leading debt recovery and real estate platform in Europe with approximately €55 billion gross book value ("GBV") of assets under management and operations in Spain, Portugal and Cyprus. This transaction is expected to be immediately accretive to doBank's earnings with the proforma combined 2018 EBITDA more than double doBank standalone. The transaction is expected to close in May 2019, subject to regulatory approval.

doBank also pursued organic growth, winning €15 billion GBV of new mandates in 2018, including its first international contract in Greece following the establishment of its first international branch, doBank Hellas. The progressive onboarding of these new contracts helped drive doBank's 2018 EBITDA (excluding non-recurring items) to €84 million, up 20% compared to 2017.

Looking ahead, we are very optimistic about doBank's performance and the potential for further share price appreciation. As the dominant servicer in Italy, we believe doBank is very well positioned to take advantage of the significant growth opportunities in that market whilst the Altamira acquisition provides it with the opportunity to capitalise on a wider market, positioning it as the leader in the NPL and REO servicing markets in Southern Europe.

Our other Italian investments continue to perform well, driven by the expertise and active management of the Company's Manager, Fortress, and doBank. During the year, our loan portfolio investments in aggregate realised in excess of €100 million of cash flow. To date, on an unlevered basis these portfolios have returned 117% of our underwriting expectations in terms of pace, and for those loans resolved in full, 169% of the projected amount.

FINANCIAL RESULTS

Our financial results for 2018 reflect our ongoing efforts to generate strong cash flows from our investments and make regular distributions to our shareholders. NFFO for the year was €32.0 million, or €0.63 per share, and the Company returned €95.1 million to shareholders, of which:

- €28.9 million was from the regular quarterly dividends of €0.15 per share,
- €9.5 million was a return of capital,
- €55.0 million related to share tenders, and
- €1.6 million resulted from the buyback programme.

The Company's NAV declined from €10.56 as at 31 December 2017 to €8.70 as at 31 December 2018. After taking into account €0.90 per share of distributions paid, this represents a decline of €0.96 per share of which €1.56 per share was due to the decrease in doBank's share price, partially offset by €0.24 per share of accretion from the share repurchases and a €0.36 per share increase in the Company's remaining investments, net of all corporate expenses. It is worth noting that the increase in doBank's share price since year end to €13.20, as at 6 March 2019, equates to an increase of €1.76 per Eurocastle share which more than offsets the impact of its fair value decrease over 2018.

OUTLOOK

As the Italian market continues to evolve, and with significant changes to the way in which banks are required to provision for bad loans, we continue to view Italy as a very attractive market with potential to deploy more capital in the next few years.

Despite the recent decline in the stock of NPLs, Italy remains the largest NPL market in Europe and is entering a new phase with multi-origination disposals and increasing secondary market activity. In addition, the unlikely to pay ("UTP") market in Italy is becoming increasingly active with €86 billion GBV of loans on bank's balance sheets. We believe that we will see more activity in UTP sales in 2019, creating further opportunities for Eurocastle.

We are very excited about these potential upcoming developments and look forward to updating you during the year.

"Our financial results for 2018 reflect our ongoing efforts to generate strong cash flows from our investments and make regular distributions to our shareholders."

FINANCIAL HIGHLIGHTS AT A GLANCE[1]

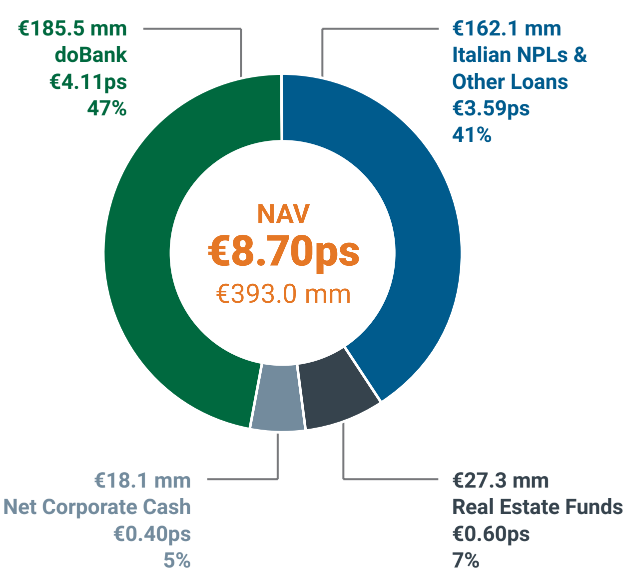
Year End 2018 NAV[2,3]: €393.0 mm	FY 2018 NFFO: €32.0 mm	FY 2018 Dividend: €38.4mm[4]
€8.70ps	***€0.63ps***	***€0.78ps***
(Year End 17: €556.5 mm/ €10.56ps)	**(Q4 18: €10.2 mm/€0.22ps) (FY 17: €111.1 mm/€1.86ps)**	**(Q4 18: €6.8 mm/€0.15ps) (FY 17: €116.3 mm/€2.10ps)**
		Q4 2018 Dividend declared on 6 March 2019 & payable on 28 March 2019

COMPANY STRATEGY

Eurocastle Investment Limited is a publicly traded closed-ended investment company that focuses on investing in Italian performing and non-performing loans, Italian loan servicing platforms and other real estate related assets in Italy. The Company believes that the markets in which it seeks to make investments, and in particular Italy, continue to be characterised by a significant imbalance between sellers and buyers of investments driven in large part by banks' requirements to deleverage. The Company believes that this imbalance creates attractive investment opportunities due to there being a limited universe of buyers with access to deep market knowledge, industry relationships and servicing expertise.

PORTFOLIO OVERVIEW[5]

Eurocastle's current portfolio of Italian Investments is made up of three key parts: doBank, Italian NPLs & Other Loans and Real Estate Funds, with the remainder comprising Net Corporate Cash. The chart below shows the net assets as at 31 December 2018.



doBank: 25.5% interest (20 million shares) in the largest third party Italian NPL servicer managing €82.2 billion GBV. Listed on the Milan Stock Exchange (DOB:IM). doBank currently manages all NPL portfolios in which ECT has an interest.

Valuation: €9.25 per doBank share (as at 31 December 2018 versus €13.20 per doBank share as of 6 March 2019).

Italian NPLs & Other Loans: Interests across 24 loan pools (including one performing pool).

Valuation: Expected future unlevered cash flows predominantly discounted at a 12% yield.

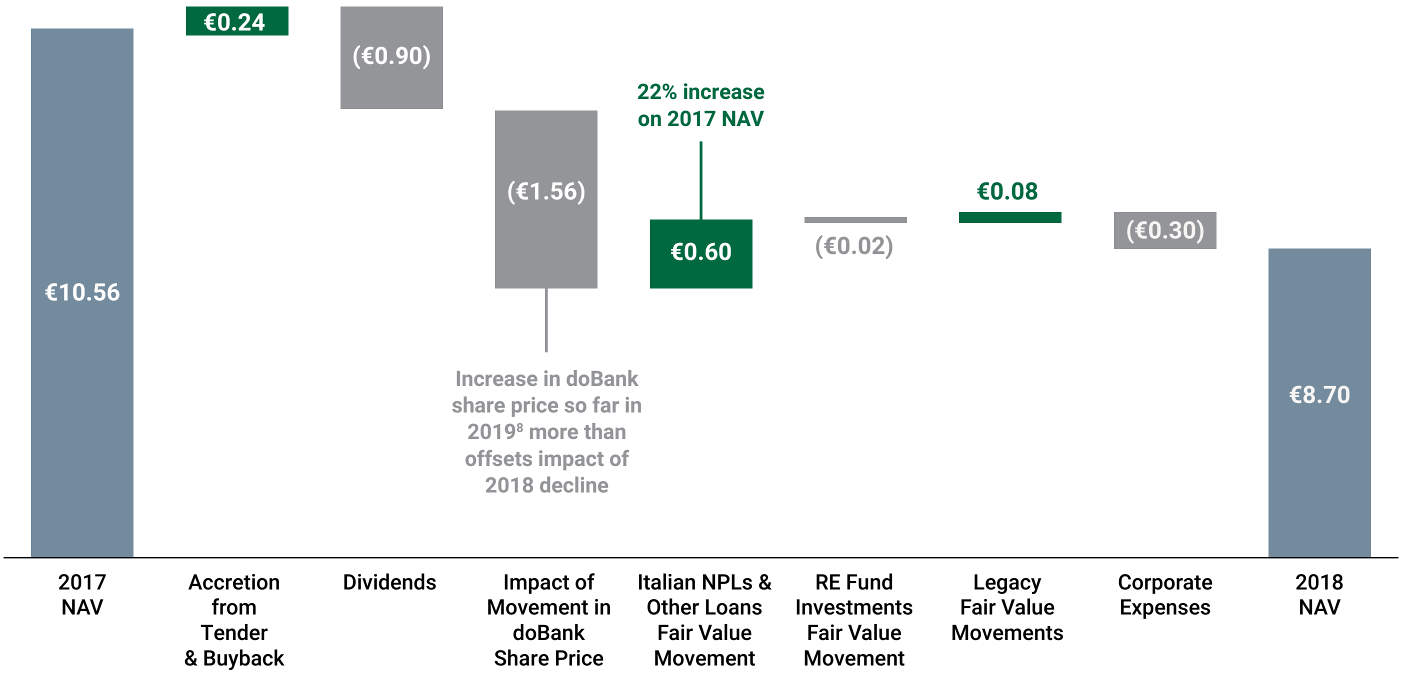
RE Funds: Interests in one publicly listed fund and two private Italian real estate redevelopment funds.

- Redevelopment funds discounted at an average 19% yield.
- Listed fund carried at a 34% discount to the relevant Fund's Q4 2018 NAV.

Net Corporate Cash: Corporate cash net of estimated commitments and liabilities (prior to deduction of Q4 2018 dividend, payable on 28 March 2019).

See page 23 for all End Notes

FY 2018 NAV Bridge
In € per share



2018 BUSINESS HIGHLIGHTS

doBank Business Update

A transformational year for doBank in light of the **commitment to acquire Altamira** and consolidation of its leadership in the Italian market through new large portfolio mandates.

- In June 2018, doBank's board of directors approved a project to reorganise doBank, optimising the financial structure to support the group's growth.
- In December 2018, doBank committed to acquire **up to 100% of Altamira,** a leading Southern European debt recovery and real estate platform with approximately €55 billion AuM. The transaction will be funded predominantly through third party bank debt and, once completed, is expected to be **immediately accretive** to doBank's earnings with the **proforma combined 2018 EBITDA more than double doBank standalone.**
- During the year, the Company won **€15 billion GBV** of new mandates, including its **first international landmark contract in Greece** with a GBV of **€1.8 billion.**

doBank Financial Performance

- Strong operational results for the year ended 31 December 2018, with **EBITDA[6] of €84.0 million** and **Net Income[6] of €52.6 million** substantially **up (by 20% and 17% respectively)** versus FY 2017.
- Key drivers were the progressive on-boarding of €13.2 billion GBV of the €15 billion GBV mandates won, helping take gross collections to €2.0 billion, up by 7% versus FY 2017 together with an **increase** in the **EBITDA margin** from **33% to 36%** whilst maintaining a **strong cash conversion rate of 93% of EBITDA.**
- In February 2019, doBank's board proposed a **dividend of €36.8 million** (70% of net profit excluding non-recurring items). The dividend, which is subject to shareholder approval, is expected to be paid in April 2019 with Eurocastle's share being approximately €9 million.

Investment Activity

During the year, the Company **invested €46.0 million** (€28.8 million after leverage) primarily through three transactions:

- **€8.4 million** in a follow-on investment in the mezzanine and junior notes of two securitizations which collectively own the FINO NPL portfolio.
- **€7.7 million** to acquire a shared interest, alongside other Fortress affiliates, in a portfolio of Italian distressed loans to a single borrower with a **GBV of ~€81 million.** The loans are secured by 1st lien ship mortgages.
- **€29.5 million** to acquire a shared interest, alongside other Fortress affiliates, in a NPL portfolio predominantly secured by real estate to SME borrowers with a **GBV of €675 million.** Shortly after closing, **Eurocastle received €17.2 million** after the portfolio was financed, resulting in a **net investment of €12.2 million.**

Material Realisations and Strong Portfolio Performance

During the year, the Company realised **€111 million** from its investments.

- Eurocastle received **~€49 million** of net proceeds through the **sale of senior notes of the FINO 1 securitization** along with a further **€62 million** across all investments.
- NPL performance continues to be ahead of expectation with unlevered **pace of collections** reaching **117%** and **profitability on fully resolved loans 169% versus underwriting.**

Capital Activity

During the year, the Company capitalised on a widening discount between the share price and NAV to repurchase shares amounting to 14% of the Company for a total of **€56.6 million,** at an **average discount of 14% to the Q4 2018 NAV,** through two tender offers and the **Company's first ever open market buyback programme.**

- Eurocastle completed two share tenders in August 2018 and December 2018 respectively, repurchasing €55 million at an average 13% discount to the Q4 2018 NAV and a premium to the share price at the time of announcement of approximately 11% and 8% respectively.
- In August 2018, the Company commenced its first open market buyback programme repurchasing €1.6 million worth of shares in the year at an average price of €6.59 representing a 24% discount to the Q4 2018 NAV.

BUSINESS HIGHLIGHTS SUBSEQUENT TO 31 DECEMBER 2018

Share Buyback Programme

- Between 1 January and 6 March 2019, the Company bought back a further €0.5 million worth of shares, under its share buyback programme, at an average price representing a discount of 23% to the Q4 2018 NAV. That programme ended on 6 March 2019, and a new programme has commenced on 7 March 2019 for a further period ending no later than 8 May 2019. Under the new share buyback programme, the Company is seeking to buy back shares with an aggregate market value of up to €4.0 million versus €2.0 million in the previous programme.

FINO Deferred Purchase Price

- On 27 February 2019, the Company funded €46.6 million of the €64.7 million deferred purchase price related to the FINO portfolio. The remaining €18.1 million commitment is expected to be payable in H2 2020.

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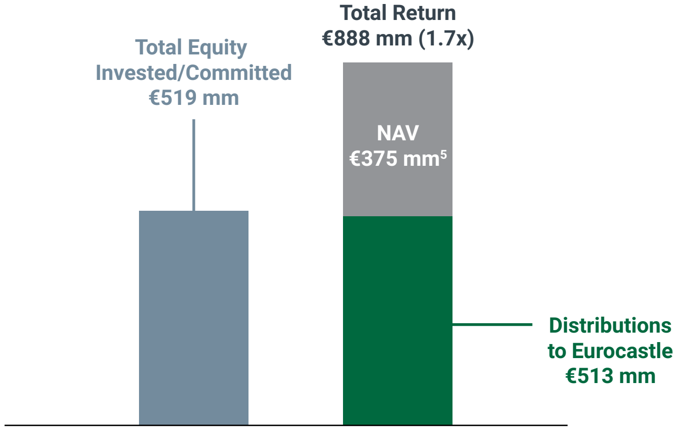
THE INVESTMENTS

Since the establishment of its new strategy in 2013, Eurocastle has invested or committed €519 million in its Italian Investments at an average targeted gross yield in the mid-teens. The investments continue to deliver outstanding performance, returning to date €513 million, or 99% of the equity invested whilst still being carried at a value of €375 million[5].

The Company generates its running cash returns from these investments through recoveries received on the NPL pools, dividends on its remaining interest in doBank and operating and sales cash flows from its real estate fund investments. The Company values these investments at their fair value. Cash flow performance, as well as other factors influencing projected cash flows, therefore plays a key part in the Company's earnings each quarter.

Italian Investments LTD Performance



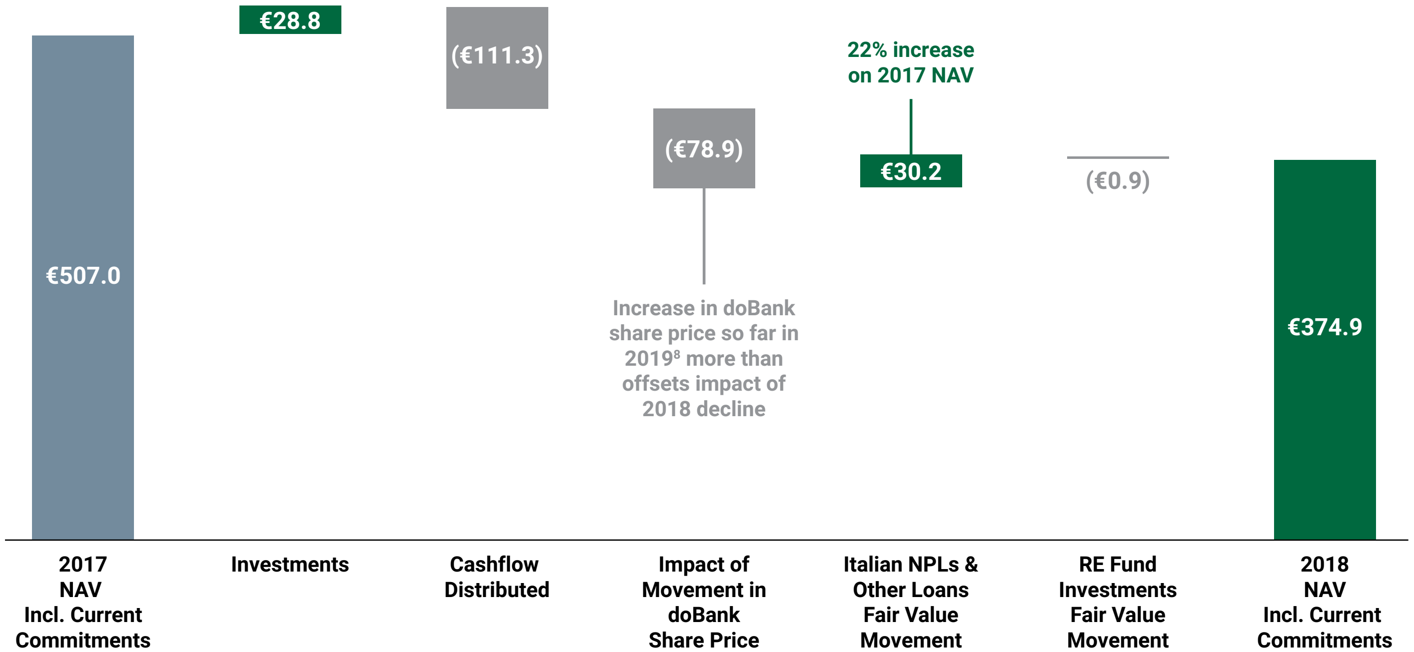
The table and chart below summarise the movement in NAV of the investments held by the Company during the year:

	Q4 2017 NAV[5] *€ million*	Investments in 2018 *€ million*	Cash Flow Distributed to ECT *€ million*	Fair Value Movements *€ million*	Q4 2018 NAV[5] *€ million*	Q4 2018 NAV *€ per share*
doBank	271.8	–	(7.4)	(78.9)	185.5	4.11
Italian NPLs & Other Loans	204.8	28.4	(101.3)	30.2	162.1	3.59
Real Estate Funds	30.4	0.4	(2.6)	(0.9)	27.3	0.60
Total	**507.0**	**28.8**	**(111.3)**	**(49.6)**	**374.9**	**8.30**

In addition to the cash flows distributed as detailed above, a further €9.2 million has been generated for Eurocastle and as at 31 December 2018 was held at the level of the investment (and therefore included within the NAV of the investment).

Italian Investments—FY 2018 NAV Bridge

(€ million)



doBANK

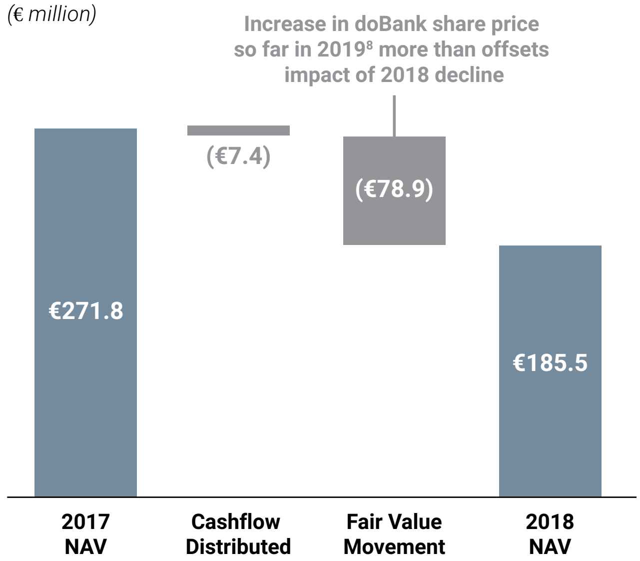
In October 2015, Eurocastle acquired a 50% interest in doBank (formerly UniCredit Credit Management Bank S.p.A) from UniCredit S.p.A. In July 2017, doBank listed on the Milan stock exchange under ticker DOB:IM and today represents the largest independent servicing group in Italy.

In connection with the listing, Eurocastle sold 48.8% of its holding, and currently holds a 25.5% interest in doBank. Together with the interests of Fortress affiliates, the Company currently holds a joint 51.1%[7] interest.

doBank is Italy's leading independent servicer of NPLs by GBV of loans under management, serving a broad range of banks and investors with total serviced loans of €82.2 billion GBV as at 31 December 2018. doBank also provides ancillary products and services related to the management, purchase and sale of NPLs.

doBank—FY 2018 NAV Bridge

(€ million)



Following the IPO, Eurocastle, through its Manager, continues to work closely with doBank management, making available to doBank the benefit of its extensive servicing and investment expertise gained over 20 years in the local market and globally to help doBank generate additional value for its shareholders.

In 2018, doBank made significant progress not only in growing its core revenues and improving operational performance but also in diversifying the business through international expansion. In June 2018, doBank announced a reorganisation of the group aimed at increasing flexibility and optimising its capital structure through ceasing to be a banking group. Subsequently, on 31 December 2018, doBank agreed to buy up to 100% of Altamira Asset Management, a leading Spanish debt recovery and real estate servicing platform, with assets under management of c. €55 billion and operations in Spain, Portugal and Cyprus. The acquisition, which is expected to be completed by May 2019 (subject to regulatory approval) will be financed by doBank's cash at hand and bank debt, with peak leverage in terms of net debt over EBITDA targeted at below 3x. The combined entity will be the leading servicer in Southern Europe with pro forma GBV under management of €137 billion as at 31 December 2018. doBank believes that the combination creates a pure servicing platform with exposure to approximately €650 billion of non-performing assets in southern Europe and creates opportunities for cross-selling with no client overlap as well as significant potential operational synergies.

In addition to this transformational acquisition, doBank made important progress in attracting new servicing mandates through organic growth with €15 billion of contracts awarded in 2018, including doBank's first mandate in the Greek market. The progressive on-boarding of €13.2 billion of these mandates helped drive revenue growth while its operating leverage was demonstrated through an increase in doBank's EBITDA margin from 33% in 2017 to 36% for 2018.

Key Financial Highlights

In € million unless otherwise noted	FY 2018	FY 2017	Δ (%)	
NPLs Under Management (GBV in €bn)	82.2	76.7	+7.1%	€13.2 billion mandates on-boarded up to year-end. Greek mandate to be on-boarded in Q1 2019
Gross Collections (in €bn)	1.96	1.84	+6.8%	Driven by the progressive on-boarding of mandates
Gross Revenues	233.5	213.5	+9.3%	Due to significant volume growth and resilient average fees
EBITDA excl. Non-Recurring Items ("NRI")	84.0	70.1	+19.8%	Strong operating leverage. EBITDA margin up from 33% to 36%
Net Income excl. NRI	52.6	45.0	+17.0%	Indicated to pay 70% as dividend
Dividend	36.8	31.5	+16.8%	Expected to be paid in April 2019, subject to shareholder approval

Eurocastle's valuation of its remaining 25.5% interest in doBank as at 31 December 2018 was €185.5 million[9], or €4.11 per Eurocastle share. This reflects a price of €9.25 per doBank share as at 31 December 2018 compared to €13.55 per doBank share as at 31 December 2017. The share price decrease, together with the annual dividend received in May 2018, resulted in a net fair value loss of €78.9 million, or €1.56 per Eurocastle share (29%) FY 2018. As at 6 March 2019, doBank's share price was €13.20 per doBank share.

See page 23 for all End Notes

ITALIAN NPLS & OTHER LOANS

Since May 2013, the Company has invested or committed approximately €289 million in 24 Italian loan pools with a combined GBV of approximately €25 billion, comprising:

i) a minority interest in a €14.4 billion GBV sub-pool of the €17.7 billion GBV NPL portfolio sold by Unicredit in July 2017 ("FINO NPL")

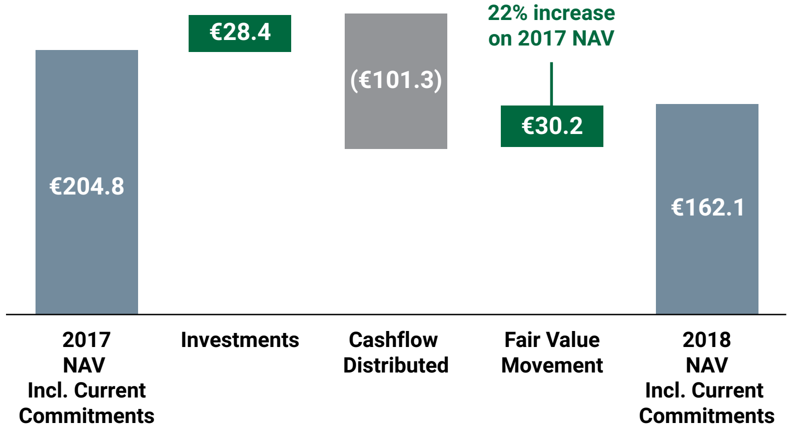
ii) a 47.5% interest in the €3.3 billion GBV NPL portfolio acquired as part of the doBank transaction ("Romeo NPL")

iii) interests across 20 smaller diverse pools, one performing pool and a distressed loan pool with a combined GBV of €7.7 billion

The portfolios are all serviced by doBank.

Italian NPLs & Other Loans—FY 2018 NAV Bridge

(€ million)



Acquisitions

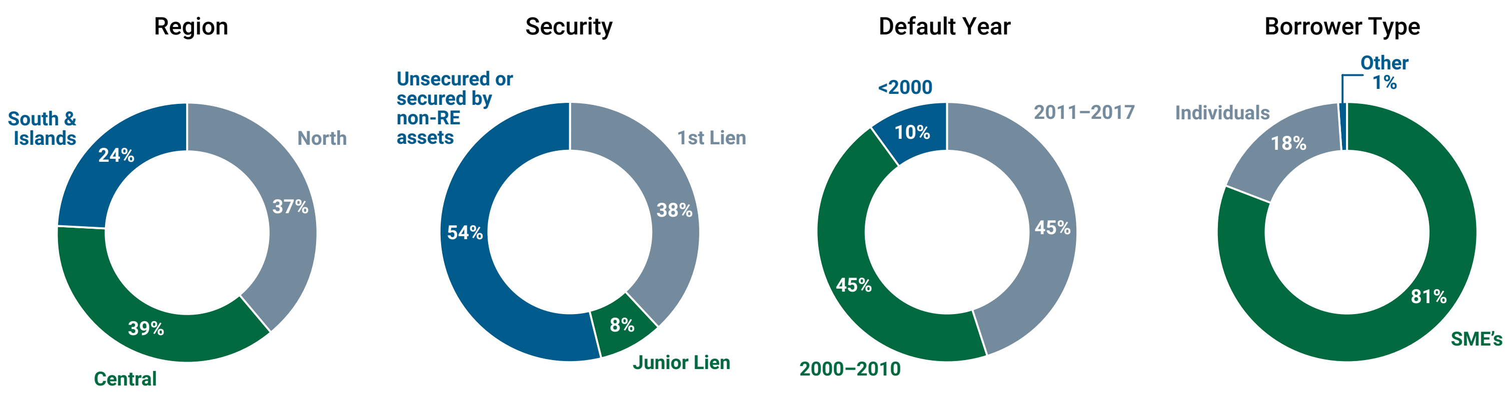
During the year, the Company invested €46.0 million (€28.4 million after leverage) across three transactions:

- A follow-on investment of €8.4 million to acquire an interest in the mezzanine and junior notes of the securitisations that collectively own the FINO portfolio.
- A €7.7 million investment to acquire an interest alongside Fortress affiliates, in a portfolio of distressed loans to a single borrower with a GBV of ~€81 million, secured by 1st lien ship mortgages.
- An investment of €29.5 million alongside Fortress affiliates in a NPL portfolio predominantly secured by real estate claims to SME borrowers with a GBV of €675 million. Shortly after closing, Eurocastle received €17.2 million after the portfolio was financed, resulting in a net investment of €12.2 million.

Performance and Valuation Update

- During the year, the Company received material realisations of €101 million including €49 million, through the sale of the senior notes in FINO 1, following the completed GACS programme.
- NPL performance continues ahead of expectation with unlevered pace of collections reaching 117% and profitability on fully resolved loans 169% versus underwriting.
- Through consistent quarterly increases, aggregate NPL pool valuations increased by €30.2 million, or €0.61 per share (22%) in 2018.

Portfolio Breakdown[10]



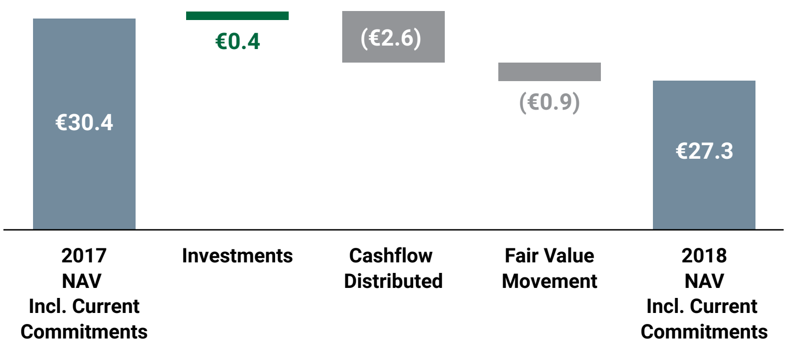
ITALIAN REAL ESTATE FUNDS

Since 2014, Eurocastle has made several investments in this asset class, investing or committing €67.4 million in five separate real estate funds.

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

Italian RE Funds—FY 2018 NAV Bridge

(€ million)



RE Funds Update

Interests in one publicly listed fund and two private Italian real estate redevelopment funds.

- RE Fund I (publicly listed fund)—Fund manager is in the process of selling down the remaining assets. In Q2 2018, received a distribution of €1.8 million (€150 per unit) primarily from sales made by the fund in 2017.
- RE Fund II—Redevelopment of both buildings is completed with all units of first building sold. In the process of closing pre-sold units of the second building while marketing the rest.
- RE Fund V—Redevelopment under way. Following initial staged investment of €5.0 million, a further €0.4 million was invested in 2018, with €0.4 million expected to be funded in H1 2019. First cash flows anticipated in 2019.

RE Funds Performance

- RE Fund I fair value represents the Company's holding of 11,929 units valued at €640 per unit, equivalent to a 34% discount to fund's Q4 2018 reported NAV. Net of the distribution received, fair value decreased by €1.7 million, or €0.03 per share (15%) during 2018.
- Fair value of RE Fund II and V increased by €0.8 million or €0.02 per share (4%) during 2018.
- RE Fund Investment performance continues ahead of expectation with pace of distributions reaching 102% and profitability of 120% versus underwriting.

Further details of all remaining fund investments as at 31 December 2018 can be found in the table below:

	Fund Investment I	Fund Investment II	Fund Investment V
Investment Status	Active	Active	Active
Investment Date	Mar-14	Jul-14	Q2-17
Eurocastle Ownership	7.5%	49.3%	49.6%
Fund Type	Publicly Listed	Private	Private
Collateral Type	5 mixed use properties	2 luxury residential redevelopments	1 luxury residential redevelopment
Collateral Location	Northern & Central Italy	Rome	Rome
ECT Q4 2018 NAV per share	€0.17	€0.26	€0.17
Fund Leverage[11]	0%	11%	46%
Legal Fund Maturity	Q4 2020	Q4 2020	Q4 2023

See page 23 for all End Notes

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Income Statement *€ Thousands*
Portfolio Returns	
doBank	(78,889)
Italian NPLs & Other Loans	30,162
Real Estate Funds	(864)
Fair value movement on Italian investments	**(49,591)**
Fair value movements on residual Legacy entities	**4,045**
Other income—Gains on foreign currency translation	**2**
Total loss	**(45,544)**
Operating Expenses	
Interest expense	**461**
Manager base and incentive fees	10,670
Remaining operating expenses	4,016
Other operating expenses	**14,686**
Total expenses	**15,147**
Net loss for the year	**(60,691)**
€ per share	***(1.20)***

For the year ended 31 December 2018, the total net loss reported was €60.7 million, or €1.20 per share. Excluding the €78.9 million unrealised loss which arose from the decrease in the doBank share price, which is marked-to-market based on doBank's closing share price, Eurocastle recognised a €18.2 million profit, or €0.35 per share.

BALANCE SHEET AND NAV RECONCILIATION AS AT 31 DECEMBER 2018

	Italian Investments € Thousands	Corporate € Thousands	Total € Thousands
Assets			
Cash and cash equivalents	–	87,768	87,768
Other assets	–	133	133
Investments:			
doBank	185,518	–	185,518
Italian NPLs & Other Loans	97,422	–	97,422
Real Estate Funds	26,876	–	26,876
Other net assets of subsidiaries (residual legacy entities)	–	248	248
Total assets	**309,816**	**88,149**	**397,965**
Liabilities			
Trade and other payables	–	2,105	2,105
Manager base and incentive fees	–	2,837	2,837
Total liabilities	**–**	**4,942**	**4,942**
Net Asset Value	**309,816**	**83,207**	**393,023**
FINO deferred purchase price commitment	64,680	(64,680)	–
RE Fund Investment V remaining unfunded estimated investment	419	(419)	–
NAV (adjusted for outstanding commitments)	**374,915**	**18,108**	**393,023**
NAV (€ per Share)	***8.30***	***0.40***	***8.70***

NORMALISED FFO

Normalised FFO ("NFFO") is a non-IFRS financial measure that, with respect to all of the Company's Italian Investments other than doBank, recognises i) income on an expected yield basis updated periodically, allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns and ii) any additional gains or losses not previously recognised through NFFO at the point investments are realised. Cash flow receipts are therefore allocated by the Company between income and capital in accordance with this expected yield methodology. With respect to doBank, following the IPO, the Company recognises NFFO based on its share of doBank's reported annual net income excluding non-recurring items after tax together with any gains or losses arising from the sale of its shares. The income cash flow profile of each of the Company's investments may not exactly equal the NFFO recognised by the Company each period but will do so over the life of each investment.

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

The measure is also used as the basis to determine the Manager's entitlement to receive incentive compensation, with the base upon which such an amount is determined equal to the net invested capital of the Company's Italian Investments and calculated against the NFFO for Italian Investments after allocated corporate costs[12]. It should be noted that, given NFFO is recognised on a level yield basis for investments which are not realised, there is a difference between the incentive compensation which is currently accrued on the Company's balance sheet and that which would be due from the Company should all investments immediately be realised at their current reported unrealised asset values. As of 31 December 2018, the incentive fees would be an additional €22.5 million, or €0.50 per share, on an immediate realisation.

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NORMALISED FFO (CONTINUED)

Normalised FFO for the Year Ended 31 December 2018

	Average Net Invested Capital[13] € Thousands	Annualised Yield	Total NFFO € Thousands
doBank	81,151	17%	13,693
Italian NPLs & Other Loans	92,934	31%	28,535
Real Estate Fund Investments	31,500	3%	899
Italian Investments NFFO before expenses	**205,585**	**21%**	**43,127**
Legacy portfolios			4,045
Manager base & incentive fees[12]			(10,670)
Other operating expenses			(4,475)
Normalised FFO			**32,027**
Per Share			*0.63*

Italian Investments generated €43.1 million, or €0.85 per share, representing a yield of 21% on the average net invested capital for the period. Including €4.0 million of NFFO from the legacy portfolio which arose following a series of liquidations of the former investment structure and net of all expenses, NFFO for the year was €32.0 million, or €0.63 per share.

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

Net (Loss)/Profit to Normalised FFO Reconciliation

	doBank € Thousands	Italian NPLs & Other Loans € Thousands	Real Estate Fund Investments € Thousands	Italian Investments € Thousands	Legacy € Thousands	Corporate Expenses € Thousands	Total € Thousands
Net (loss)/profit	(78,889)	30,162	(864)	(49,591)	4,045	(15,145)	**(60,691)**
Effective yield adjustments[14]	92,582	(1,627)	1,763	92,718	—	—	**92,718**
Normalised FFO for the year	**13,693**	**28,535**	**899**	**43,127**	**4,045**	**(15,145)**	**32,027**
Per Share	*0.27*	*0.56*	*0.02*	*0.85*	*0.08*	*(0.30)*	*0.63*

DISTRIBUTION POLICY

In March 2017 the Company announced the adoption of a distribution policy with the goal of generating substantial liquidity to shareholders by accelerating distributions of Normalised FFO and surplus capital not invested.

The policy saw the establishment of a three-part programme with the intention to:

i. continue to pay a regular quarterly dividend (currently set at €0.15 per share);

ii. supplement this on a quarterly basis with undistributed NFFO realised in cash; and

iii. supplement this on a semi-annual basis with 50% of the capital held by the Company at the previous half-year end that has not been invested or designated for investment in an opportunity being actively pursued at the time, in each case all distributions being subject to the applicable legal requirements for working capital, distributions and expenses.

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

Cash NFFO Dividend for the Fourth Quarter 2018

In line with the current regular dividend, the Board has approved to pay a dividend of €0.15 per share. The dividend was declared on 6 March 2019 and will be paid on 28 March 2019. The table below reconciles NFFO to total dividends declared for Q4 2018:

NFFO to Dividend Reconciliation	Q4 2018	
	€ Thousands	*€ Per Share*
Q4 2018 NFFO	**10,213**	**0.22**
Less: NFFO recognised in Q4 2018 not yet realised in cash	(5,756)	
Plus: undistributed NFFO recognised prior to Q4 2018, realised in cash in Q4 2018	3,270	
NFFO realised in Cash	**7,727**	**0.16**
Less: Q3 2018 top-up for regular Quarterly dividend	(6,851)	
Q4 2018 Top-up to regular Quarterly dividend	5,898	
Total Q4 2018 Dividend[4]	**6,774**	**0.15**
Of which:		
Regular Dividend	*6,774*	*0.15*
Supplemental Dividend	—	—

In 2016 and 2017 and the first three quarters of 2018, the Company recognised NFFO of €178.9 million and declared dividends of €171.6 million leaving €7.3 million of undistributed NFFO as of 30 September 2018. During the fourth quarter of 2018, the Company recognised NFFO of €10.2 million and has declared total dividends related to the period of approximately €6.8[4] million. As at 31 December 2018, the aggregate amount of undistributed NFFO was therefore €10.8 million, or €0.24 per share which is intended to be distributed in accordance with the Company's policy in the period in which Eurocastle receives it in cash (subject to the applicable legal requirements and reserves for working capital, distributions and expenses).

Undistributed NFFO	Q4 2018	
	€ Thousands	*€ Per Share*
Undistributed NFFO outstanding, recognised before Q4 2018	5,024	0.11
Undistributed NFFO outstanding, recognised in Q4 2018	5,756	0.13
Total Undistributed NFFO	**10,780**	**0.24**

See page 23 for all End Notes

DISTRIBUTIONS

Period	Type	Date Declared	Date Paid	Declared& Paid in 2018 € million	Declared& Paid in 2018 € per share	Relating to 2018 € million	Relating to 2018 € per share
Q4 2017	Income	20/03/2018	05/04/2018	€ 14.2	€ 0.27	–	–
Q1 2018	Income	22/05/2018	31/05/2018	€ 7.9	€ 0.15	€ 7.9	€ 0.15
Q1 2018	Capital	22/05/2018	31/05/2018	€ 9.5	€ 0.18	€ 9.5	€ 0.18
Q2 2018	Income	16/08/2018	31/08/2018	€ 7.2	€ 0.15	€ 7.2	€ 0.15
Q3 2018	Income	21/11/2018	29/11/2018	€ 7.1	€ 0.15	€ 7.1	€ 0.15
Q4 2018	Income	06/03/2019	28/03/2019	–	–	€ 6.8	€ 0.15
Total				**€ 45.9**	**€ 0.90**	**€ 38.5**	**€ 0.78**

Additional Distributions: Share Tender and Share Buyback Programme

Following the accelerated capital distribution the Company made in May 2018 of €9.5 million or €0.18 per share, the Company took further steps to return capital to shareholders in a manner that is accretive to the Company and its shareholders.

Subsequently, the Company capitalised on a widening discount between the share price and NAV to repurchase shares amounting to 14% of the Company for a total of €56.6 million, at an average discount of 14% to the Q4 2018 NAV, through two tender offers and the Company's first ever open market buyback programme.

Eurocastle completed two tender offers in August 2018 and December 2018 respectively, repurchasing an amount of €55.0 million at an average discount to the Q4 2018 NAV of 13% and premium to the then current share price of 11% and 8% respectively.

In August 2018, the Company implemented its first open market buyback programme repurchasing €1.6 million worth of shares in the year at an average price of €6.59 representing a 24% discount to the Q4 2018 NAV.

DIRECTORS

The Directors who have held office during the year were:

Randal A. Nardone
Claire Whittet[15]
Jason Sherwill[15]
Peter Smith
Simon J. Thornton[15]

DIRECTORS INTERESTS

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

	As at 31-Dec-18	As at 31-Dec-17
Randal A. Nardone[16]	1,026,859	1,026,859
Claire Whittet	3,000	2,000
Jason Sherwill	13,400	12,400
Peter Smith	–	–
Simon J. Thornton	11,547	10,547

Mr. Hammad Khan was officially appointed to the Board of Directors on 15 February 2019. Mr. Khan is a representative of Eurocastle's largest shareholder, which is an affiliate of EJF Capital LLC ("EJF"). As of the latest substantial holding notice submitted to the AFM, EJF owns a combined total of 28.5% of the total voting shares in Eurocastle as at 31 December 2018. Mr. Khan is a senior managing director, Europe, of EJF.

SUBSTANTIAL SHAREHOLDINGS

Per the shareholder register and as at 6 March 2019, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings[17]
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV	45%
Euroclear Nominees Limited	40%
The Bank of New York (Nominees) Limited	7%

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

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

AUDITORS

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

CORPORATE GOVERNANCE

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

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

MANAGEMENT AGREEMENT

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

DIRECTORS' STATEMENTS AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 14. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

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

See page 23 for all End Notes

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 Company has adequate resources to continue in operational existence for the foreseeable future.

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

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

DIRECTORS' STATEMENTS PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

Each of the Directors as at 31 December 2018 (whose names are listed on page 14) confirms that, to the best of each person's knowledge and belief:

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FORWARD LOOKING STATEMENTS

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

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: 6 March 2019

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

OPINION

We have audited the financial statements of Eurocastle Investment Limited (the "Company") for the year ended 31 December 2018 which comprise the income statement, the statement of other comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of the loss for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the IASB;
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSION RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

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

Key audit matter	How the matter was addressed in our audit
Valuation, existence and ownership of investments *Refer to note 8 (investments)* The valuation of investments, in particular unlisted investments, requires significant judgement and estimates by management and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The investment portfolio at the year-end comprised of listed investments valued at £193m and unlisted investments valued at £117m. Any input inaccuracies or unreasonable bases used in the valuation judgements could result in a material misstatement of the income statement and balance sheet. There is also a risk that management may influence the significant judgements and estimates in respect of valuations in order to achieve valuation and other performance targets to meet market expectations.	***We responded to this matter by testing the valuation, existence and ownership of all material investments. We performed the following procedures:*** In respect of quoted equity investments (49% of the total assets) we: • Agreed valuations to externally quoted prices from reputable sources • Agreed the investment holdings to independently received third party confirmation from the custodian to confirm existence and ownership In respect of unlisted investments (29% of the total assets) we: • Utilised our own internal experts to evaluate the appropriateness of the valuation methodology used and the integrity of the valuation models • Re-performed the calculation of the investment valuations • Where available, checked financial inputs to the valuation models to audited financial information of investee companies • For all investments acquired during the year we obtained and agreed all key agreements and contracts and considered whether these were accurately reflected in the valuation model • For existing investments we analysed changes in significant assumptions compared with assumptions audited in previous periods and vouched these to independent evidence, where available, including available industry data • Challenged the investment manager regarding significant judgements made and obtaining corroborating evidence where available • Agreed the investment holdings to independently received third party confirmation from the custodian or to the audited financial statements of the underlying investment to confirm existence, ownership and completeness
Completeness and accuracy of incentive fees paid to the investment manager The investment manager is entitled to an incentive fee calculated against Normalised Funds From Operations (NFFO). The investment manager is perceived to be in a unique position to be able to manipulate NFFO through its input into the valuation of the investment portfolio and its responsibility for calculating the incentive fee.	***We responded to this matter by recalculating the incentive fee under the terms of the investment management agreement.*** In particular, we: • Performed a recalculation of the incentive fee charged in the year • Obtained and agreed the NFFO calculations which drive the incentive fee calculation • Agreed the amounts paid in the year to bank statements or year-end accruals • For each investment we have agreed distributions received from investments in the year and recalculated the roll-forward of the net invested capital against which the performance hurdle rate is assessed

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OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

MATERIALITY

We determined materiality for the financial statements as a whole to be €3.98 million (2017: €6.5 million), which was set at 1% (2017: 1.15%) of total assets. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for members of the Company in assessing the financial performance of the Company.

We determined that for other account balances, classes of transactions and disclosures not related to the investment portfolio a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We determined that materiality for these areas should be €0.30 million (2017: €0.74 million), which was set at 2% (2017: 1.8%) of total expenditure.

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality for the Company should be 75% (2017: 75%) of materiality, namely €2.98 million (2017: €4.9 million).

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of €80k (2017: €130k) as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

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

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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OTHER MATTERS

Following the recommendation of the audit committee, we were appointed by the audit committee in November 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ending 31 December 2013 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

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

Daniel Taylor
For and on behalf of BDO LLP
Chartered Accountants and Recognised Auditor
London
6 March 2019

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

END NOTES

[1]Per share calculations for Eurocastle throughout this document are based on the weighted average or outstanding voting shares and therefore exclude shares held in treasury. As at 31 December 2018, a total of 63.8 million shares were in issue of which 45.2 million were voting shares and 18.7 million were held in treasury. Amounts per share are therefore calculated on the following basis: Q4 2018 Net Asset Value per share ("NAV per share")—45.2 million voting shares in issue; Q4 2017 NAV per share is based on 52.7 million voting shares outstanding; FY 2018 on 50.6 million weighted average voting shares, FY 2017 on 59.6 million weighted average shares and Q4 2018 on 47.2 million weighted average shares.

[2]NAV as at 31 December 2018 is before deducting the Q4 2018 dividend of €0.15 per share declared and to be paid in March 2019.

[3]The NAV net of additional incentive fees of €22.5 million, or €0.50 per share, which would be due to the Manager if all investments were realised at 31 December 2018 at their Q4 2018 fair value, would be €370.5 million, or €8.20 per share. Please refer to pages 11-12 for further details.

[4]Q4 2018 declared dividend of €0.15 per share estimated at €6.8 million based on 45.1 million outstanding voting shares. Actual nominal amount of dividend will be determined based on the total voting shares outstanding on 14 March 2019 (Q4 2018 dividend record date) which will be dependent on the amount of shares that will be bought back under the open market buy-back programme until then.

[5]The parts making up the NAV adjusted for outstanding commitments. NAV of Italian NPLs & Other Loans includes €64.7 million of deferred purchase price on FINO. NAV of Real Estate Funds includes a remaining unfunded estimated investment at €0.4 million in RE Fund Investment V. NAV of Net Corporate Cash deducts outstanding commitments listed above.

[6]Excluding Non-Recurring Items (start-up costs for Greek and UTP businesses and part of the costs of the acquisition of Altamira Asset Management); 2018 EBITDA reported at €81.3 million, 2018 Net Income reported at €50.9 million.

[7]All percentage ownerships of doBank in this document exclude the 1.55 million of treasury shares doBank has retained as at 31 December 2018.

[8]Based on last available closing price as at the date of release of this report—6 March 2019.

[9]Includes €0.2 million of other assets & liabilities held within the structure.

[10]Stratifications weighted by the NAV and ownership of each portfolio as at 31 December 2018.

[11]Fund leverage as of Q4 2018.

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

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

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

[15]Independent directors.

[16]Randal A. Nardone is a member of Fortress Operating Entity I LP (registered holder of 5,025 shares) and Principal Holdings I LP (registered holder of 240,403 shares) and as a result of these relationships he is interested in the shares owned by these entities.

[17]Percentages calculated on 45.2 million voting shares in issue (net of 18.7 million shares held in treasury).

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	Notes	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Portfolio Returns			
Fair value movement on Italian investments	4	(49,591)	217,102
Share of post tax profits from Italian investments	4	–	1,961
Gain on classification to an investment entity	4	–	6,393
Fair value movements on other net assets of subsidiaries	4	4,045	(1,088)
Other income			
Other income		–	2,379
Gains on foreign currency translation and other derivatives		2	7,381
Total income		**(45,544)**	**234,128**
Operating expenses			
Interest expense		461	286
Other operating expenses	5	14,686	40,815
Total expenses		**15,147**	**41,101**
Net operating (loss)/profit before taxation		**(60,691)**	**193,027**
Taxation expense—current		**—**	**16**
Total tax expense		**—**	**16**
(Loss)/profit after taxation from continuing operations		**(60,691)**	**193,011**
Profit after taxation from discontinued operations		**—**	**40,492**
(Loss)/profit after taxation for the year		**(60,691)**	**233,503**
Attributable to:			
Ordinary equity holders of the Company		(60,691)	233,537
Non-controlling interest		—	(34)
Net (loss)/profit after taxation		**(60,691)**	**233,503**
Earnings per ordinary share(1) from continuing operations		€	€
Basic and diluted		(1.20)	3.24
Earnings per ordinary share(1) from discontinued operations			
Basic and diluted		–	0.68
Earnings per ordinary share(1)			
Basic and diluted	11	(1.20)	3.92

(1) Earnings per share is based on the weighted average number of shares in the year of 50,550,606 (31 December 2017: 59,582,743). Refer to note 11.

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

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Net (loss)/profit after taxation	**(60,691)**	**233,503**
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[(1)]	–	780
Unrealised gain on available-for-sale securities[(1)]	–	414
Total other comprehensive income	**–**	**1,194**
Total comprehensive (loss)/profit for the year	**(60,691)**	**234,697**
Attributable to:		
Ordinary equity holders of the Company	(60,691)	234,731
Non-controlling interest	–	(34)
Total comprehensive (loss)/profit for the year	**(60,691)**	**234,697**

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

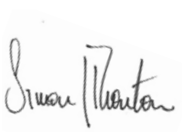
There are no tax effects relating to the components disclosed in the statement of other comprehensive income.

(1) With effect from 1 July 2017, the Company was classified as an investment entity as set out under IFRS 10. As a result of this change, the Company was no longer required to prepare consolidated financial statements from 1 July 2017.

	Notes	As at 31 December 2018 €'000	As at 31 December 2017 €'000
Assets			
Cash and cash equivalents	6	87,768	121,481
Other assets	7	133	55
Investments	8	310,064	442,053
Total assets		**397,965**	**563,589**
Equity and Liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	12	1,977,731	1,992,810
Treasury shares	12	(156,833)	(115,026)
Accumulated loss		(1,427,875)	(1,321,265)
Total equity		**393,023**	**556,519**
Liabilities			
Trade and other payables	10	4,942	7,070
Total liabilities		**4,942**	**7,070**
Total equity and liabilities		**397,965**	**563,589**

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

The financial statements were approved by the Board of Directors on 6 March 2019 and signed on its behalf by:



Simon J. Thornton

Director and Audit Committee Chairman

	Notes	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Cash flows from operating activities			
(Loss)/profit before taxation for the year—continuing operations		**(60,691)**	**193,027**
Profit before taxation for the year—discontinued operations		**—**	**40,344**
Adjustments for:			
Fair value movements on Italian investments	4	49,591	(217,102)
Share of post tax profits from Italian investments	4	—	(1,961)
Gain on classification to an investment entity	4	—	(6,393)
Fair value movement on other net assets of subsidiaries	4	(4,045)	1,088
Interest expense		461	286
Gain on foreign currency and other derivatives		(2)	(7,381)
Movements on discontinued operations		—	(40,521)
Total adjustments to (loss)/profit for the year		**46,005**	**(271,984)**
(Increase)/decrease in other assets		(77)	3,919
Decrease in trade and other payables		(2,136)	(5,825)
Movements in working capital		**(2,213)**	**(1,906)**
Proceeds from other derivatives		—	7,247
Proceeds from sale of investment properties		—	1,970
Proceeds from prepayment and sales of loans and receivables (CDO V)		—	11,856
Acquisition of Italian investments	8	(28,770)	(70,226)
Disposal of Italian investments	8	48,579	220,277
Cash distribution from Italian investments	8	62,689	109,572
Cash distribution from subsidiaries		3,946	3,165
Cash deconsolidated due to change in entity status		—	(15,963)
Interest received		—	158
Interest paid		(510)	(1,578)
Cash movements from operating activities		**85,934**	**266,478**
Cash generated from operations		**69,035**	**225,959**
Taxation paid		—	(2,566)
Net cash flows from operating activities		**69,035**	**223,393**
Cash flows from financing activities			
Repurchase of share capital net of costs		(56,847)	(84,201)
Dividends paid	13	(45,901)	(111,070)
Dividends paid to non-controlling interest		—	(464)
Repayment of CDO V bonds issued (discontinued operations)		—	(15,255)
Net decrease in cash flows from financing activities		**(102,748)**	**(210,990)**
Net (decrease)/increase in cash and cash equivalents		**(33,713)**	**12,403**
Cash and cash equivalents, beginning of the year	6	**121,481**	**109,078**
Total cash and cash equivalents, end of the year	6	**87,768**	**121,481**

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

	Share capital €'000	Other reserves €'000	Treasury shares €'000	Net unrealised gains/ (losses) €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
As at 1 January 2017	**1,992,810**	**9,724**	**(36,935)**	**(256)**	**(1,457,826)**	**1,058**	**508,575**
Profit after taxation for the year	–	–	–	–	233,503	–	233,503
Other comprehensive income/(loss) for the year	–	–	–	1,194	–	(34)	1,160
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**1,194**	**233,503**	**(34)**	**234,663**
Contributions by and distributions to owners:							
Shares issued to Directors from treasury shares (note 12)	–	–	18	–	(18)	–	–
Shares issued from treasury shares upon exercise of share options (note 12)	–	–	6,093	–	(6,093)	–	–
Repurchase of shares (note 12)	–	–	(84,202)	–	–	–	(84,202)
Release of other reserves upon exercise of share options	–	(9,724)	–	–	9,724	–	–
Dividends to non-controlling interest	–	–	–	–	–	(464)	(464)
Dividend declared (note 13)	–	–	–	–	(102,053)	–	(102,053)
Impact of prospective change in accounting policy (note 2)	–	–	–	(938)	1,498	(560)	–
As at 31 December 2017	**1,992,810**	**–**	**(115,026)**	**–**	**(1,321,265)**	**–**	**556,519**
Loss after taxation for the year	–	–	–	–	(60,691)	–	(60,691)
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(60,691)**	**–**	**(60,691)**
Contributions by and distributions to owners:							
Shares issued to Directors from treasury shares (note 12)	–	–	18	–	(18)	–	–
Shares repurchased and cancelled (note 12)	(15,079)	–	–	–	–	–	(15,079)
Repurchase of shares (note 12)	–	–	(41,825)	–	–	–	(41,825)
Dividend declared (note 13)	–	–	–	–	(45,901)	–	(45,901)
As at 31 December 2018	**1,977,731**	**–**	**(156,833)**	**–**	**(1,427,875)**	**–**	**393,023**

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

1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange) regulated by the Nederlands Authority for Financial Markets ("AFM") with the Financial Conduct Authority ("FCA") its home state regulator (due to its original previous listing on the London Stock Exchange). Eurocastle is subject to EU transparency rules as a result of its listing on an EU regulated market and, consequently, shareholders are required to notify Eurocastle and the relevant regulators when their holding of the issued share capital and/or of the voting rights in Eurocastle reaches, exceeds or falls below certain thresholds, whereby the lowest threshold is 5%.

The activities of the Company include investing indirectly in Italian performing and non-performing loans ("PLs"/"NPLs"), distressed loan assets and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Following the disposal of the Company's legacy German real estate business and legacy debt portfolio, as of 1 July 2017, the Company is classified as an investment entity under IFRS 10. As from 1 January 2018, the separate financial statements of the Company are its only financial statements. Whilst the income statement for the year ended 31 December 2017 is presented as consolidated, the balance sheet as at 31 December 2017 presents the Company only balance sheet.

Significant estimates and judgements

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

Fair value movements on investments

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

Other income

Other income relates to sales fees recognised in relation to the sale of assets from legacy German real estate portfolios.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest expense

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand with an original maturity of three months or less.

Capital and reserves

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

Where the Company purchases the Company's own equity shares (treasury shares—see note 12), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

Dividends

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

Financial Instruments

Recognition

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

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

Classification

Financial Assets

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

Financial liabilities

Financial liabilities are composed of trade and other payables.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised when:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 Company's continuing involvement is the amount of the transferred asset that the Company 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 Company'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 recognised in the income statement.

Foreign currency translation

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

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.

Segment Reporting

The company operates in one geographical segment, being Europe. The Board of Directors assesses its business through one primary segment, Italian investments. The Company's Italian investments are currently made up of an NPL servicing business ("doBank"), Italian NPLs & Other Loans and Real Estate Funds.

New standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Company that have been adopted in the annual financial statements for the year ended 31 December 2018 were:

IFRS 9 "Financial Instruments"

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

On 24 July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which superseded all previous versions of the standard. The Company adopted the standard from 1 January 2018. There has been no impact on transition and adoption of the standard in the current year and the comparatives, as the majority of the Company's financial instruments are held at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15 "Revenue from contracts with customers"

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company does not have any revenue from contracts with customers and therefore this standard did not have any impact on the financial statements of the Company.

New standards and interpretations not yet applied

IFRS 16 "Leases"

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied). The Company does not have any leases and therefore considers that this standard will not have a material impact on the financial statements of the Company.

3. FINANCIAL RISK MANAGEMENT

Alternative Investment Fund Managers Directive ("AIFMD") Leverage

The AIFMD prescribes two methods of measuring and expressing leverage and requires disclosure of the maximum amount of leverage the Company might be subject to. The definition of leverage is wider than that of gearing and includes those assets on balance sheet that are subject to market based valuation changes. For the purposes of AIFMD reporting, leverage is the ratio between the fair value of the assets under management and the net asset value of the Company. The ratio is required to be calculated on a gross basis and a commitment basis, under the European Commission's Delegated Regulation (commonly known as the Level 2 Regulation). The gross basis does not take into account any netting or hedging, whereas the commitment basis takes into account both netting and hedging. As at 31 December 2018, the leverage (as defined by this measure) under the gross and commitment basis was 79.03% and 79.03% respectively (31 December 2017: 79.44% and 79.44%).

Risk Management

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

Capital Risk Management

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

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

- Working capital requirements and follow-on investment capital for portfolio investments;
- Capital available for new investments;
- The distribution policy.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to achieve positive returns in all market environments. In order to maintain or adjust the capital structure, the Company may raise or return capital from or to shareholders through the issue and repurchase of voting shares and/or capital distribution. The effects of the issue, repurchase and resale of treasury shares are listed in note 15. Liberum Capital Limited acts as the Company's nominated adviser and broker. The Company established a distribution policy in 2017 which, in addition to share buybacks, includes payment of a regular dividend and other forms of capital distribution.

At 31 December 2018, the Company had net equity of €393.0 million (31 December 2017: €556.5 million) and no direct leverage (31 December 2017: no direct leverage).

Credit Risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents. As at 31 December 2018, the Company's cash and cash equivalents was €87.8 million (31 December 2017: €121.5 million).

Banking arrangements

The Company's banking arrangements are with major financial institutions with investment grade credit ratings with which the Company and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case. As at 31 December 2018, the Company has placed €60.0 million of its corporate cash with a financial institution rated long term stable: A+ by Fitch; Aa3 by Moody's; and A+ by S&P (31 December 2017: €65.8 million—rated long term stable: A+ by Fitch; A3 by Moody's; and BBB+ by S&P). As at 31 December 2018, the remaining corporate cash was held with a financial institution rated long term stable: A+ Stable by Fitch; A2 Stable by Moody's; and A Stable by S&P (31 December 2017: rated long term stable: A by Fitch; A1 by Moody's; and A by S&P). The Company monitors on a regular basis the credit worthiness of the various financial institutions to mitigate credit risk exposure with respect to its banking arrangements.

Market Risk

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

Macro-economic and political risks

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

Following a period of political uncertainty in Italy, in March 2018 general elections were held with no single party achieving the required majority to form a government. The elections saw a marked increase in the share of the vote won by two "anti-establishment" political parties: the League and the Five Star Movement.

On 31 May 2018, following nearly three months of negotiations and several impasses, a coalition government comprising these two parties was formed. Law professor Giuseppe Conte was appointed as the prime minister with support from both parties. The respective party leaders, Matteo Salvini of the League and Luigi Di Maio of the Five Star Movement, were also appointed as vice premiers thus forming the 66th Italian government. In the second half of 2018 Italy's parliament approved a budget for 2019 which was rejected by the EU Commission, resulting in further economic uncertainty. This in turn led to interest rate credit spreads on Italian Government bonds widening by more than 300 basis points before moderately tightening after the Italian Government agreed to lower its budget deficit from 2.4% to 2.04%. This culminated in Italy's economy contracting for the second consecutive quarter at the end of 2018, causing the country to enter into a technical recession in a further setback for the Government. The upcoming European Parliament elections in May 2019 represent the next key event for the current Government.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The current instability in the geopolitical environment could have a material impact on financial activities both at a market and retail level. A deterioration of the Italian economy may affect the recoveries the Company expects on its investments. At the same time, it could affect investor demand in general for these types of investments. While the expected yield on these portfolios is sensitive to the performance of the underlying assets, the value at which these investments are held by the Company is sensitive to the market yields at which they trade. Refer to note 8 for details of sensitivity analysis on the Italian investments.

The Company is subject to risk with respect to its investments in Italian loans by virtue of the risk of delinquency, foreclosure, speed of foreclosure proceedings and loss on the loans underpinning the securities in which the Company invests.

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 Company would anticipate to receive on its Italian loan investments. The Company has taken steps to mitigate this exposure by putting in place a structure to bid on certain assets which are auctioned by the Italian courts, following recovery orders, to preserve NPL recoveries.

Furthermore, the Company also seeks to maximise recoveries with respect to its Italian loan investments by agreeing collection strategies with the servicer of the claims through an agreed upon annual business plan with approval required on resolutions that deviate from that plan (subject to certain thresholds).

As at 31 December 2018, the Company had a 25.5% interest in doBank, an NPL servicing business. In July 2017, the Company sold a significant portion of its holding through the initial public offering of doBank. UniCredit S.p.A (long term credit rating: BBB by Fitch; Baa1 by Moody's; and BBB– by S&P) comprises 17% of doBank's assets under management as at 31 December 2018. The Company is exposed to equity price risk through its investment in doBank. A change in the quoted market price would have a comparable percentage change on the valuation of the investment. The current and future performance of doBank relies to a certain extent on UniCredit S.p.A in relation to existing revenues generated on collections in respect of portfolios managed on their behalf together with the provision of a certain amount of future flow of NPLs under a servicing agreement.

Interest rate risk

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

Foreign Currency Risk

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

Liquidity Risk

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

Eurocastle's liquidity is primarily generated by distributions from its Italian Investments. The Company expects that its cash in hand and cash flow provided by operations will satisfy its liquidity needs over the next twelve months.

Operational Risk

The Company has a significant interest in doBank comprising a NPL servicing business. In July 2017, doBank was listed on the Milan stock exchange. doBank is subject to corporate governance requirements due to its listing. doBank employs an experienced management team and loan servicing teams to carry out the daily operational tasks associated with the business. Loss of one or more key members of staff may have an adverse operational impact on the business of doBank. The loan servicing business is reliant upon IT and other operational and reporting systems. Any system disruptions and failures may interrupt or delay doBank's ability to service loans. The management team of doBank regularly reviews its operational risks and has appropriate compensation and contingency plans in place to mitigate these risks.

4. PORTFOLIO RETURNS

Movements on investments are summarised below:

	Year ended 31 December 2018	Year ended 31 December 2017			
	Fair value movements €'000	Share of post tax profits/ (losses) €'000	Fair value movements €'000	Gain on classification to investment entity €'000	Total portfolio returns €'000
doBank (note 8)	(78,889)	–	193,526	–	**193,526**
Italian NPLs & Other Loans (note 8)	30,162	1,335	13,306	–	**14,641**
Real Estate Funds (note 8)	(864)	626	10,270	6,393	**17,289**
Portfolio returns on Italian investments	**(49,591)**	**1,961**	**217,102**	**6,393**	**225,456**
Fair value movements on other net assets of subsidiaries	4,045	–	(1,088)	–	**(1,088)**
Total portfolio returns	**(45,546)**	**1,961**	**216,014**	**6,393**	**224,368**

With effect from 1 July 2017, the Company had been classified as an investment entity. Investments which were previously equity accounted for, have been reclassified at fair value through profit and loss from 1 July 2017. For the year ended 31 December 2017, the income statement includes six months of its share of profit from equity accounting and six months of fair value movements from the date of change. The total impact of the change was €6.4 million, which related to Real Estate Fund Investment II.

5. OTHER OPERATING EXPENSES

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Professional fees	846	547
Transaction costs	570	287
Manager base and incentive fees (related party, note 14)	10,670	37,357
Manager recharge (related party, note 14)	1,552	1,469
General and administrative expenses	1,048	1,155
Total other operating expenses	**14,686**	**40,815**

6. CASH AND CASH EQUIVALENTS

	As at 31 December 2018 €'000	As at 31 December 2017 €'000
Corporate cash at Company level	87,768	121,481
Total cash and cash equivalents	**87,768**	**121,481**

7. OTHER ASSETS

	As at 31 December 2018 €'000	As at 31 December 2017 €'000
Prepaid expenses	133	55
Total other assets	**133**	**55**

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

8. INVESTMENTS

The Company directly or indirectly holds the following investments:

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
Italian investment portfolio	309,816	441,905
Other net assets of subsidiaries (residual legacy entities)	248	148
Total investments	**310,064**	**442,053**

With effect from 1 July 2017, the Company has been classified as an investment entity. As a result, investments which were previously equity accounted for, have been reclassified at fair value through profit and loss from 1 July 2017.

As at 31 December 2018, the movements in the Italian investment portfolio were as follows:

	doBank	Italian NPLs & Other Loans	Real Estate Funds	
	Fair value accounted €'000	Fair value accounted €'000	Fair value accounted €'000	Total investments €'000
Balance as at 1 January 2018	**271,842**	**140,103**	**29,960**	**441,905**
Additions	**–**	**28,395**	**375**	**28,770**
Disposals	**–**	**(48,579)**	**–**	**(48,579)**
Distributions received	**(7,435)**	**(52,659)**	**(2,595)**	**(62,689)**
Fair value movement	**(78,889)**	**30,162**	**(864)**	**(49,591)**
Balance as at 31 December 2018	**185,518**	**97,422**	**26,876**	**309,816**

As at 31 December 2017, the movements in the Italian investment portfolio were as follows:

	doBank	Italian NPLs & Other Loans			Real Estate Funds			
	Fair value accounted €'000	Equity accounted €'000	Fair value accounted €'000	Total Italian NPLs & Other Loans € '000	Equity accounted €'000	Fair value accounted €'000	Total Real Estate Funds €'000	Total investments €'000
Balance as at 1 January 2017	**264,741**	26,335	110,033	**136,368**	10,940	59,113	**70,053**	**471,162**
Additions	**–**	–	65,121	**65,121**	4,067	846	**4,913**	**70,034**
Disposals	**(166,103)**	–	–	**–**	–	(54,176)	**(54,176)**	**(220,279)**
Transfer	**4,945**	–	(4,945)	**(4,945)**	–	–	**–**	**–**
Distributions received	**(25,312)**	(3,562)	(68,250)	**(71,812)**	(1,158)	(6,231)	**(7,389)**	**(104,513)**
Other net assets	**45**	–	730	**730**	–	282	**282**	**1,057**
Share of profits to 30 June 2017	**–**	1,335	–	**1,335**	626	–	**626**	**1,961**
Change due to classification as an investment entity	**–**	(24,108)	24,108	**–**	(14,475)	20,868	**6,393**	**6,393**
Fair value movement	**193,526**	–	13,306	**13,306**	–	10,270	**10,270**	**217,102**
Fair value movement recognised via discontinued operations	**–**	–	–	**–**	–	(1,012)	**(1,012)**	**(1,012)**
Balance as at 31 December 2017	**271,842**	–	**140,103**	**140,103**	**–**	**29,960**	**29,960**	**441,905**

Refer to the portfolio summary for further details on investments on pages 37 and 38.

8. INVESTMENTS (CONTINUED)

Portfolio summary

With effect from 1 July 2017, the Company has been classified as an investment entity. As a result, all of the Company's investments are now held at fair value through profit and loss from 1 July 2017.

The Company's investments are categorised as follows:

- **I.** doBank
- **II.** Italian NPLs & Other Loans
- **III.** Real Estate Funds

I. doBank

In October 2015, the Company indirectly acquired a 50% equity interest in doBank S.p.A (formerly UniCredit Credit Management Bank S.p.A ("UCCMB")), predominantly a NPL servicing business.

The investment in doBank is held through a joint venture in a Luxembourg company, Avio S.ár.l.

On 14 July 2017, doBank completed its initial public offering through which the Company sold approximately 48.8% of its shareholding. The Company, together with other Fortress affiliates, retains a joint 51.1% interest in the outstanding shares (excluding 1.55 million of treasury shares) of doBank. doBank is listed on the Milan Stock Exchange.

On 31 December 2018, doBank committed to acquire up to 100% of Altamira Asset Management S.A ("Altamira"). Altamira is a leader in Southern Europe in the credit and real estate asset management market, with assets under management of approximately €55 billion and operations in Spain, Portugal and Cyprus. The transaction is expected to close in Q2 2019.

II. Italian NPLs & Other Loans

The Company holds interests across 24 pools with a combined GBV of €25.4 billion. The interest in these pools range from minority stakes up to 80.66% and are held through subsidiaries, joint ventures and associates incorporated in Italy, Luxembourg and United States of America.

During 2018, the Company acquired interests in two loan pools and made a follow-on investment in an existing pool. In January 2018, the Company closed on a €8.4 million follow-on investment to acquire, together with other Fortress affiliates, additional interests in the mezzanine and junior notes of the two securitisations that collectively own the FINO NPL portfolio. In May 2018, the Company acquired a shared interest in a NPL pool with a GBV of approximately €81 million. The loans are secured by 1st lien ship mortgages. In November 2018, the Company acquired a shared interest in a NPL pool predominantly secured by real estate claims to SME borrowers with a GBV of €675 million. As with other NPLs, the investments were acquired via associate entities incorporated in the United States of America. All investments in associates are accounted for at fair value through profit and loss under IAS 28:18.

All NPLs/PLs are serviced by doBank (refer to note 14).

III. Real Estate Funds

The Company has the following Real Estate Fund investments:

Real Estate Fund Investment I

On 28 March 2014, the Company indirectly purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("Real Estate Fund Investment I"). The holding represents 7.46% of the total units issued by Real Estate Fund Investment I. The units are listed on the Italian Stock Exchange. Real Estate Fund Investment I is managed by Torre SGR S.p.A ("Torre"), an affiliate of the Manager.

8. INVESTMENTS (CONTINUED)

Real Estate Fund Investment II

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

Real Estate Fund Investment V

In April 2017, building on Real Estate Fund Investment II, the Company closed on the purchase of an office to residential conversion development site in Rome ("Real Estate Fund Investment V") through a joint venture in Torre Real Estate Fund III Value Added—Sub fund B. Real Estate Fund Investment V is managed by Torre, an affiliate of the Manager.

Fair value hierarchy

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

As at 31 December 2018:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank	185,518	—	—	185,518
Italian NPLs & Other Loans	—	—	97,422	97,422
Real Estate Funds	7,635	—	19,241	26,876
Total	**193,153**	—	**116,663**	**309,816**

As at 31 December 2017:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank	271,842	—	—	271,842
Italian NPLs & Other Loans	—	—	140,103	140,103
Real Estate Funds	11,119	—	18,841	29,960
Total	**282,961**	—	**158,944**	**441,905**

Explanation of the fair value hierarchy:

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

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

8. INVESTMENTS (CONTINUED)

Transfers between levels

There were no transfers between levels for the year ended 31 December 2018 (31 December 2017: €180 million). The following table presents the transfer between levels for the year ended 31 December 2017:

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank	180,360	–	(180,360)	–
Total transfers between Level 1 and Level 3	**180,360**	–	**(180,360)**	–

On 12 July 2017, the Company sold 49% of its shares in doBank through an initial public offering. doBank is listed on the Milan Stock Exchange. As a result of the initial public offering, the investment in doBank was transferred from a level 3 investment to a level 1 investment. The investment was transferred at €180 million, representing the fair value of the investment at the date of the initial public offering at €9 per share.

Level 1 and Level 3 reconciliation

The changes in investments measured at fair value, for which the Company has used Level 1 and Level 3 inputs to determine fair value as of 31 December 2018 and 2017, are as follows:

Level 1 Investments:

	2018 €'000	2017 €'000
Fair value at beginning of year	282,961	14,279
Shares transferred from Level 3 to Level 1	–	180,360
Net change in unrealised fair value gains on investments	(89,808)	88,322
Fair value of Level 1 investments at end of year	**193,153**	**282,961**

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2018:

	Italian NPLs & Other Loans €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2018	140,103	18,841	158,944
Distributions received	(52,659)	(809)	(53,468)
Unrealised fair value movement in the year	30,162	834	30,996
Disposals in the year	(48,579)	–	(48,579)
Investments acquired in the year	28,395	375	28,770
As at 31 December 2018	**97,422**	**19,241**	**116,663**

8. INVESTMENTS (CONTINUED)

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2017:

	doBank €'000	Italian NPLs & Other Loans €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2017	264,741	110,033	39,352	414,126
Distributions received	(24,122)	(68,250)	(1,459)	(93,831)
Unrealised fair value movement in the year	91,871	13,306	(1,977)	103,200
Investments acquired in the year	—	65,121	846	65,967
Transfer	4,945	(4,945)	—	—
Other net assets	45	730	282	1,057
Proceeds on disposal	(166,103)	—	(54,176)	(220,279)
Change due to classification as an investment entity	—	24,108	19,957	44,065
Gain on classification to investment entity	—	—	6,393	6,393
Realised gain on disposal	8,983	—	9,623	18,606
Investments transferred to Level 1	(180,360)	—	—	(180,360)
As at 31 December 2017	**—**	**140,103**	**18,841**	**158,944**

Expected recoveries of investments

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

	2018		2017	
	Within one year[(1)] €'000	More than one year €'000	Within one year[(2)] €'0000	More than one year €'000
doBank	9,406	176,112	8,136	263,706
Italian NPLs & Other Loans	8,801	88,621	57,049	83,054
Real Estate Funds	447	26,429	157	29,803

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

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

8. INVESTMENTS (CONTINUED)

Fair value methodology and sensitivity analysis

Italian NPLs & Other Loans

The Company's investment in its loans pools (pools 1–24) are classified as level 3 on the fair value hierarchy. The fair value of the investments is derived from internal valuation models. The assumptions used in the models are based on cash flows (actual and projected) per the latest business plan and reviewed by senior management.

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

For the year ended 31 December 2018:	Italian PLs	Italian NPLs	FINO NPLs	Total
Expected profit multiple(1)	2.1	2.0	2.0	2.0
Remaining weighted average life	3.2	3.6	3.6	3.6
Discount rate	23%	12%	15%	13%

For the year ended 31 December 2017:	Italian PLs	Italian NPLs	FINO NPLs	Total
Expected profit multiple(1)	2.1	2.1	1.9	2.1
Remaining weighted average life	3.9	4.0	5.1	4.4
Discount rate	23%	12%	15%	14%

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

The key assumptions reported above are after taking into account the equity invested by the Company into each investment (and therefore are net of any embedded leverage within the respective vehicle at the time the investment was made).

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

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

For the year ended 31 December 2018:	Italian PLs €'000	Italian NPLs €'000	FINO NPLs €'000	Total €'000
Fair value	9,330	85,144	2,948	97,422
Increase in discount rate by 25bps	9,268	84,541	2,423	96,232
Value sensitivity	**(62)**	**(603)**	**(525)**	**(1,190)**

For the year ended 31 December 2017:	Italian PLs €'000	Italian NPLs €'000	FINO NPLs €'000	Total €'000
Fair value	9,189	87,461	43,453	140,103
Increase in discount rate by 25bps	9,116	86,816	43,039	138,971
Value sensitivity	**(73)**	**(645)**	**(414)**	**(1,132)**

8. INVESTMENTS (CONTINUED)

Real Estate Funds

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

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

For the year ended 31 December 2018	Real Estate Funds	Total
Expected profit multiple	1.4	1.4
Remaining weighted average life	1.0	1.0
Discount rate	19%	19%

For the year ended 31 December 2017	Real Estate Funds	Total
Expected profit multiple	1.4	1.4
Remaining weighted average life	1.4	1.4
Discount rate	19%	19%

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

For the year ended 31 December 2018	Real Estate Funds €'000	Total €'000
Fair value	19,062	19,062
Increase in discount rate by 25bps	19,021	19,021
Value sensitivity	**(41)**	**(41)**

For the year ended 31 December 2017	Real Estate Funds €'000	Total €'000
Fair value	18,891	18,891
Increase in discount rate by 25bps	18,841	18,841
Value sensitivity	**(50)**	**(50)**

9. CONTRACTUAL MATURITIES

Contractual maturities

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

As at 31 December 2018, the Company had no contractual maturities on financial liabilities, outside of trade and other payables which are all due within one year.

9. CONTRACTUAL MATURITIES (CONTINUED)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of the Company'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 2018 Carrying value €'000	As at 31 December 2017 Carrying value €'000	As at 31 December 2018 Fair value €'000	As at 31 December 2017 Fair value €'000
Financial assets				
Cash and cash equivalents	87,768	121,481	87,768	121,481
Italian investments held at fair value through profit or loss	310,064	442,053	310,064	442,053

10. TRADE AND OTHER PAYABLES

	As at 31 December 2018 €'000	As at 31 December 2017 €'000
Due to Manager (related party, refer note 14)	3,230	3,218
Accrued expenses and other payables	1,712	3,852
Total trade and other payables	**4,942**	**7,070**

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

11. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period. A dilutive effect arises if the exercise price of the share option is lower than the average share price for the option period. As at 31 December 2018, all share options were exercised, therefore there was no dilutive effect (31 December 2017: no dilutive effect).

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

	As at 31 December 2018	As at 31 December 2017
Weighted average number of ordinary shares excluding treasury shares*	50,550,606	59,582,743
Weighted average number of ordinary shares—dilutive	**50,550,606**	**59,582,743**

*weighted average shares for the year

12. SHARE CAPITAL AND RESERVES

As at 31 December 2018, there were 63,813,362 shares (31 December 2017: 66,121,054) issued of which 18,655,060 (31 December 2017: 13,408,890) are held in treasury. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares		
	Voting shares	Treasury shares	Total
As at 1 January 2017	**60,110,413**	**6,010,641**	**66,121,054**
Shares issued from treasury to the Directors as part of their in-place compensation arrangements for €nil consideration—22 June 2017	3,000	(3,000)	—
Share options exercised by Manager—11 August 2017—issued from treasury	998,751	(998,751)	—
Shares repurchased and held in treasury—22 November 2017	(8,400,000)	8,400,000	—
As at 31 December 2017	**52,712,164**	**13,408,890**	**66,121,054**
Shares issued from treasury to the Directors as part of their in-place compensation arrangements for €nil consideration—21 June 2018	3,000	(3,000)	—
Shares repurchased and held in treasury—6 August 2018	(5,000,000)	5,000,000	—
Share buyback programme	(249,170)	249,170	—
Shares repurchased and cancelled—20 December 2018	(2,307,692)	—	(2,307,692)
As at 31 December 2018	**45,158,302**	**18,655,060**	**63,813,362**

Other reserves

Until exercised in full, other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in May 2013 and April 2015.

Accumulated loss

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

Treasury shares reserve

On 11 August 2017, the Manager of the Company exercised all 5.5 million share options on a net settlement basis based on the 10 August 2017 closing price of €9.40 per share. This resulted in the Manager receiving 998,751 ordinary shares. The shares were transferred from treasury shares and no cash was received by the Company.

On 16 November 2017, the Company purchased 8,400,000 of its own equity shares. The treasury share reserve amount is based on the price of €10.00 paid per share and includes costs directly attributable to the share repurchase of €0.2 million.

On 6 August 2018, the Company purchased 5,000,000 of its own equity shares. The treasury share reserve amount is based on the price of €8.00 per share and includes costs directly attributable to the share repurchase of €0.1 million.

On 6 August 2018, the Company commenced its first open market buyback programme. The buyback programme ended on 15 November 2018 and was resumed on 20 December 2018. As at 31 December 2018, the Company bought back 249,170 of its own equity shares at an average price of €6.59 per share under the share buyback programme. The directly attributable cost of the share buyback programme was €0.1 million.

On 20 December 2018, the Company repurchased and cancelled 2,307,692 of its own equity shares. The share capital reserve amount is based on the price of €6.50 per share and includes costs directly attributable to the share repurchase and cancellation of €0.1 million.

As at 31 December 2018, the total number of shares held in treasury was 18,655,060 (31 December 2017: 13,408,890).

All rights associated with treasury shares held by the Company are suspended until the shares are re-issued.

13. DIVIDENDS PAID AND DECLARED

The following dividends were declared for the year ended 31 December 2018:

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share[1]	Amount €'000
20 March 2018	26 March 2018	27 March 2018	05 April 2018	€ 0.270	14,232
16 May 2018	22 May 2018	23 May 2018	31 May 2018	€ 0.330	17,395
09 August 2018	16 August 2018	17 August 2018	31 August 2018	€ 0.150	7,153
14 November 2018	21 November 2018	22 November 2018	29 November 2018	€ 0.150	7,121
Total				**€ 0.900**	**45,901**

(1) The Q1 2018 dividend of €0.33 per share includes €0.18 per share of capital distribution

The following dividends were declared for the year ended 31 December 2017:

Declaration date	Ex-dividend date	Record date	Payment date	Dividend per share	Amount €'000
16 March 2017	22 March 2017	23 March 2017	31 May 2017	€ 0.150	9,017
18 May 2017	22 May 2017	23 May 2017	31 May 2017	€ 0.140	8,415
03 August 2017	17 August 2017	18 August 2017	31 August 2017	€ 0.410	25,056
28 November 2017	04 December 2017	05 December 2017	11 December 2017	€ 1.130	59,565
Total				**€ 1.830**	**102,053**

14. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Company entered into the Management Agreement with the Manager in August 2003. Pursuant to the Management Agreement, the Manager, under the supervision of the Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Company's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Company. Since 1 January 2015, the management fee paid to the Manager is equal to (i) 1.5% of the Company's Adjusted NAV reported quarterly, excluding net corporate cash, and (ii) 0.75% of the share of Adjusted NAV relating to net corporate cash. Incentive compensation is equal to 25% of the euro amount by which the Company's Normalised FFO derived from Italian Investments, after allocated corporate costs, exceeds the net invested capital in the Company's Italian Investments multiplied by the hurdle rate of 8% per annum (calculated on a cumulative but not compounding basis). Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative (following the disposal of the legacy assets in 2017, this is no longer applicable).

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

When it was signed in 2003, the Management Agreement provided for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Company by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Company and the Manager, incentive compensation (as outlined above) will continue to be payable to the Manager post-termination.

The Manager is deemed to be the key employee for reporting purposes. As at 31 December 2018, management fees, incentive fees and expense reimbursements of €3.2 million (31 December 2017: €3.2 million) were due to the Manager. During the year ended 31 December 2018, management fees of €6.0 million (31 December 2017: €7.8 million), €4.7 million of incentive fees (31 December 2017: €29.5 million), and expense reimbursements of €1.6 million of which €nil related to discontinued operations (31 December 2017: €1.8 million, of which €0.4 million related to discontinued operations) were charged to the income statement.

14. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS (CONTINUED)

Total annual remuneration for the Eurocastle directors is €0.2 million (31 December 2017: €0.2 million), payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Company.

As a result of the investment in Italian performing and non-performing loans, the Company is party to various servicing agreements with doBank S.p.A and its subsidiary Italfondiario S.p.A ("doBank"). The terms of the agreements have been approved by the Independent Directors. doBank inter alia 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 2018 was €6.7 million (2017: €4.6 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 December 2018.

Fortress Italian NPL Opportunities Series Fund LLC (which owns the NPL pools) and Fortress Italian Real Estate Opportunities Series Fund LLC (being the entity where the majority of the Company's interest in Real Estate Fund Investments are held through) are managed by an affiliate of the Manager. The total management fee expense for the year ended 31 December 2018 is €0.7 million (2017: €0.7 million) and offsets fully against the Company's Management Fee payable to the Manager.

The Company's non-controlling interest in Real Estate Fund Investment I (refer to note 8) along with its joint venture investment in Real Estate Fund Investment II and Real Estate Fund Investment V (refer to note 8) are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total management fee expense, across these funds, for the year ended 31 December 2018 was €0.3 million (31 December 2017: €0.3 million).

15. INVESTMENT IN SUBSIDIARIES

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

Luxembourg:
Italy Investment S.à r.l (in liquidation)
Verona Holdco S.à r.l
Undercroft S.à r.l
Luxgate S.à r.l
Eurobarbican S.à r.l
Belfry Lux Participation S.à r.l (in liquidation)
Truss Lux Participation S.à r.l
Mars Holdco S.à r.l
Finial S.à r.l (in liquidation)

Germany:
Short Wave Acquisition GmbH (in provisional liquidation)

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

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

Ireland:
Additionally the Company has an investment in Eurocastle Funding Designated Activity Company (incorporated in Ireland).

15. INVESTMENT IN SUBSIDIARIES (CONTINUED)

As at 31 December 2018, the unconsolidated subsidiaries do not have any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability to transfer funds to the Company in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the Company.

16. SUBSEQUENT EVENTS

On 27 February 2019, the Company funded €46.6 million of the €64.7 million deferred purchase price related to the FINO portfolio. The remaining €18.1 million commitment payable in H2 2020.

17. COMMITMENTS

As at 31 December 2018, the Company had entered into a formal commitment of €8.2 million, of which it expects to fund €5.8 million in a second Italian Real Estate Redevelopment Fund (Real Estate Fund Investment V). The undrawn formal commitment as at 31 December 2018 is €2.8 million with the remaining expected commitment being €0.4 million and due to be funded in the next six months. The formal commitment endures for a further 24 months.

In July 2017 the Company closed on its previously committed FINO NPL investment deploying approximately €44 million to acquire alongside other affiliates of the Manager a 50.1% interest in a €14.4 billion NPL portfolio from UniCredit S.p.A. The transaction terms included a deferred purchase price payable by the purchaser of the FINO notes. The Company has committed to provide equity funding for the deferred purchase price in the amount of €64.7 million, based on its proportional ownership of the purchaser. Of the €64.7 million, €46.6 million was funded in Q1 2019, with the remaining €18.1 million payable in H2 2020.

CORPORATE INFORMATION

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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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