



EUROCASTLE

REG-Eurocastle Inv. Ltd Interim Results - Part 2

August 4, 2005

RNS Number:7149P

Eurocastle Inv. Ltd

Part 2 : For preceding part double-click [nRNSD7149P]

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CHAIRMAN'S STATEMENT

Overview

Eurocastle Investment Limited (LSE: ECT) reported net profit after taxation for the quarter ended 30 June 2005 of e6.8 million, or e0.35 per diluted share, as compared to e1.6 million, or e0.13 per diluted share, for the second quarter of 2004. The Company also reported net profit after taxation for the half year ended 30 June 2005 of e13.2 million, or e0.69 per diluted share, as compared to e3.8 million, or e0.32 per diluted share, for the first half of 2004. Funds from operations (or FFO), which exclude a e0.5 million increase in the fair value of the Company's credit-leased real estate classified as investment properties in the balance sheet, amounted to e12.7 million and e6.2 million, respectively, for the half year and quarter ended 30 June 2005. Eurocastle generated an FFO return on average invested common equity of 12.6% for the quarter, and 12.8% for the half year, ended 30 June 2005. As of 30 June 2005, the Company's shareholders' equity was e291.9 million or e12.06 per outstanding share, as compared to e196.4 million, or e10.64 per outstanding share, as of 30 June 2004.

Eurocastle's core business strategy is to invest in and manage a diverse portfolio consisting primarily of European real estate related debt and real estate assets. The Company's objective is to deliver stable and growing dividends and attractive risk-adjusted returns to shareholders by optimizing the difference between the yield on investments and the cost of financing these investments. Since Eurocastle's IPO in June 2004, the Company's annualized dividends to shareholders have increased by approximately 17% from e1.20 to e1.40 per share.

Although we are starting to see some widening of credit spreads, they continue to be at historically tight levels. In spite of this, we have continued to accretively invest capital in real estate debt and credit-leased real estate and are pleased with the performance of our overall investment portfolio. As asset spreads have tightened, our debt costs have declined correspondingly; the weighted average net spread (or the yield on our assets minus the cost of our debt) on the real estate debt portfolio was 1.44% at 30 June 2005, compared to 1.45% at the end of December 2004. The European real estate debt markets continue to be active and growing. In the first half of 2005, new issuances of real estate related debt totaled e100 billion, up 27% from the comparable period in 2004. We expect this record growth to continue to provide Eurocastle with significant accretive investment opportunities in real estate related debt.

Given our investment pace since the half year end and our current investment pipeline, substantially all of the equity capital that we raised in June 2005 is

invested or committed to investments.

Second Quarter 2005 Dividend

We aim to pay out substantially all of Eurocastle's earnings in the form of quarterly dividends to shareholders. On 14 June 2005, the Board of Directors of Eurocastle declared a dividend of e0.35 per share for the quarter ended 30 June 2005, an increase of e0.02 per share from the prior quarter. The record date for this increased dividend was 24 June 2005 and the payment date was 15 July 2005.

Investment Activity

Real Estate Debt Portfolio

In the half year ended 30 June 2005, Eurocastle purchased approximately e205 million of real estate related securities and e24 million of real estate related loans, with approximately e159 million in face amount of real estate securities, other asset backed securities and real estate loans having been purchased during the quarter ended 30 June 2005. The securities purchased during the quarter had an average credit rating of BBB and an average credit spread above Euribor of 1.22%. Purchases of CMBS in the second quarter amounted to e108.4 million, with an average spread of 1.40% and average rating of BBB. RMBS purchases in the second quarter amounted to e20.6 million, with an average spread of 0.85% and average rating of BBB. Other ABS purchases in the second quarter amounted to e29.9 million, with an average spread of 0.86% and average rating of A.

After allowing for sales of securities and principal redemptions, the net increase in face amount of real estate and other asset backed securities and real estate related loans during the second quarter was e64.8 million, raising the amount of these investments from e1,052.1 million at the last quarter end to e1,116.9 million. We have also seen significant opportunities to invest in the B-Note and mezzanine loan markets and have developed a robust pipeline of these investments for the third quarter of 2005.

Credit-Leased Real Estate Portfolio

In the credit-leased real estate markets, we are continuing to build on our successful December 2004 acquisition of 96 German properties from Deutsche Bank AG by developing a strong investment pipeline of European credit-leased real estate. During the quarter, we entered into negotiations to purchase up to e350 million of credit-leased real estate. On 25 July 2005, Eurocastle invested approximately e184 million in assets backed by a portfolio of commercial properties under long-term leases with the Italian government. Consistent with our policy of match funding, this investment has been term financed on a fixed rate basis.

Capital Markets

During the quarter, Eurocastle successfully completed a public offering of 5,740,000 shares resulting in gross proceeds to the Company of approximately e99 million (net proceeds e95 million) and closed two secured term financings to match fund our real estate debt investments. Moreover, after the quarter, we established a revolving credit facility to finance additional investments.

The term financing of the Company's first sterling-denominated portfolio of real estate debt investments, Eurocastle CDO II, was completed on 5 May 2005. Approximately f158 million, or 79%, of the f200 million issue was rated AAA by S & P and Fitch respectively. The CDO has a weighted average life of approximately ten years.

The term financing of the Company's second euro-denominated portfolio of real estate investments, Eurocastle CDO III, was completed on 28 April 2005. Approximately e324 million, or approximately 81%, of the e400 million issue was rated AAA by S&P and Fitch respectively. The CDO also has a weighted average life of approximately ten years.

On 14 July 2005, we established a €400 million three year extendable revolving credit facility. We intend to use this facility to acquire additional real estate debt and to refinance a significant part of the portfolio previously financed under short-term repurchase agreements. Since 30 June 2005, our short-term financings have been reduced by €20.6 million by using this facility.

Investment Portfolio

Real Estate Debt Portfolio

As of 30 June 2005, Eurocastle's total real estate debt portfolio of approximately €1.3 billion, which represents approximately 75% of the Company's total assets, included €571.2 million of CMBS, €103.6 million of short-term investments, €506.4 million of other asset backed securities, €47.2 million of loans and €32.2 million of cash held pending investment in additional real estate related debt. The real estate debt portfolio is well diversified with 92 securities and loans and an average life of approximately 3.6 years; approximately 96% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 50% in the UK, 16% in Italy, 12% in Germany, 11% Pan European and 5% in France. The average credit quality of the securities portfolio is BBB+ and approximately 89% of the securities are rated investment grade. The portfolio's weighted average credit spread was approximately 1.90% as of 30 June 2005.

Our real estate debt portfolio has continued to perform well. As of 30 June 2005, none of our securities or loans have defaulted, and there have been no principal losses to date. We continue to seek investments that will generate superior risk-adjusted returns with a long-term objective of capital preservation and earnings stability in varying interest rate and credit cycles.

Credit-Leased Real Estate Portfolio

As of 30 June 2005, Eurocastle owned an approximately €319 million portfolio of credit-leased real estate consisting of 96 German properties, or approximately 300,000 square meters of office space, which are leased primarily to Deutsche Bank. Deutsche Bank continues to occupy most of the current space on a medium to long-term basis. Since we acquired the portfolio in December, we have added 16 new leases, bringing the total occupancy of this portfolio to approximately 76%. We continue to work on adding new tenants to our properties, as well as managing the lease renewal or re-letting of space under leases that are expiring or near expiration.

About Eurocastle

Eurocastle Investment Limited is a Euro-denominated Guernsey closed-end investment company that invests in and manages a diverse portfolio consisting primarily of European real estate related debt and real estate assets. Eurocastle is managed by Fortress Investment Group LLC, a global alternative investment and asset management firm with approximately US\$15 billion of equity capital currently under management.

Conference Call

Management will conduct a conference call on Thursday, 4 August 2005 to review the Company's financial results for the half year and quarter ended 30 June 2005. The conference call is scheduled for 3:00 P.M. London time (10 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-866-323-3742 (from within the U.S.) or +1-706-643-0550 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle Half Year and Second Quarter Earnings Call."

For those who are not available to listen to the live call, a replay will be available until 11:59 P.M. New York time on 12 August 2005 by dialing +1-800-642-1687 (from within the U.S.) or +1-706-645-9291 (from outside of the

U.S.); please reference access code "8170404."

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

INDEPENDENT REVIEW REPORT TO EUROCASTLE INVESTMENT LIMITED

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2005 which comprises Consolidated Income Statements, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, Consolidated Statements of Changes in Equity and the related notes 1 to 17. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the United Kingdom Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1994/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Ernst & Young LLP
London

3 August 2005

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Half Year 30 June 2005 e'000	Unaudited Half Year to 30 June 2004 e'000
Operating income			
Interest income		30,437	2,763
Rental income		12,655	-
Unrealised gain on securities portfolio contract		-	4,056
Realised gain on disposal of available-for-sale securities		1,853	-
Increase in fair value of investment properties		513	-
Total operating income		45,458	6,819
Operating expenses			
Interest expense		25,495	1,808
Losses on foreign currency contracts/currency translation		1,159	50
Property expenses		1,202	-
Other operating expenses	3	4,100	1,175
Total operating expenses		31,956	3,033
Profit on ordinary activities before taxation		13,502	3,786
Taxation expense		287	-
Net profit after taxation		13,215	3,786
Earnings per ordinary share (adjusted for share consolidation)			
Basic	12	0.71	0.32
Diluted	12	0.69	0.32
Weighted average ordinary shares outstanding (adjusted for share consolidation)			
Basic	12	18,529,515	11,930,263
Diluted	12	19,253,965	11,955,615

See notes to the consolidated interim financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2005 e'000	31 December 2004 e'000
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Assets			
Cash and cash equivalents		87,650	10,293
Restricted cash		1,769	2,812
Asset backed securities, available-for- sale (includes cash to be invested)	4	923,682	796,522
Asset backed securities pledged under repurchase agreements	4	289,703	467,962
Real estate related loans	5	33,170	21,938
Real estate related loans pledged under repurchase agreements	5	14,069	-
Investment property	7	319,451	318,514
Other assets	6	12,918	9,578
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Total assets		1,682,412	1,627,619
=====	=====	=====	=====
Equity and Liabilities			
Capital and Reserves			
Issued capital, no par value, unlimited number of shares authorised, 24,209,670 shares issued and outstanding at 30 June 2005	13	286,814	192,309
Net unrealised gain on available-for-sales securities	4	9,252	6,604
Hedging reserve	4,14	(6,179)	713
Accumulated profit		957	6,394
Other reserves	13	1,020	400
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Total equity		291,864	206,420
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Minority Interests		2	2
Liabilities			
CDO bonds payable	8	789,563	347,877
Bank borrowings	9	244,004	608,849
Repurchase agreements	10	303,772	197,584
Taxation payable		287	-
Dividends payable	16	6,464	-
Trade and other payables	11	46,456	266,887
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Total liabilities		1,390,546	1,421,197
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Total equity and liabilities		1,682,412	1,627,619
=====	=====	=====	=====
See notes to the consolidated interim financial statements			

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited	Unaudited
Half Year to	Half Year to

	30 June 2005 e'000	30 June 2004 e'000
Cash Flows From Operating Activities		
Net profit before taxation	13,502	3,786
Adjustments for:		
Unrealised gain on securities portfolio contract	-	(4,056)
Unrealised (gain)/loss on foreign currency contracts	(76)	52
Accretion of discounts on securities	(2,854)	(171)
Amortisation of borrowing costs	525	-
Gain on disposal of available-for-sale securities	(1,853)	-
Shares granted to Directors	27	72
Revaluation (gain) on investment properties	(513)	-
Net change in operating assets and liabilities:		
Decrease/(Increase) in restricted cash	1,043	(1,381)
Increase in other assets	(3,896)	(2,616)
Increase in trade and other payables	27,441	1,690
Net cash flows used in operating activities	33,346	(2,624)
Cash Flows From Investing Activities		
Securities portfolio contract deposit	-	(59,000)
Repayment of securities portfolio contract deposit	-	69,125
Addition to investment property	(424)	-
Net purchase of available-for-sale securities/loans	(308,215)	(507,529)
Proceeds from sale of available-for-sale-securities	87,317	568
Net cash flows used in investing activities	(221,322)	(496,836)
Cash Flows From Financing Activities		
Proceeds of issuance of ordinary shares	99,015	138,488
Costs related to issuance of ordinary shares	(3,998)	(4,233)
Proceeds from issuance of bonds	445,943	351,000
Costs related to issuance of bonds	(4,523)	(3,342)
Borrowings under repurchase agreements	106,188	92,142
Repayments under warehouse borrowing facility	(350,843)	-
Repayment of bank borrowings	(14,261)	-
Dividends paid to shareholders	(12,188)	-
Net cash flows from financing activities	265,333	574,055
Net Increase in Cash and Cash Equivalents	77,357	74,595
Cash and Cash Equivalents, Beginning of Period	10,293	1,690
Cash and Cash Equivalents, End of Period	87,650	76,285

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary Shares (adjusted for share consolidation)	Share Capital e'000	Other Reserves e'000	Net Unrealised Gains/ (Losses) e'000	Hedging Reserves e'000	Accumulated Profit (Loss) e'000	Total Equity e'000
At 1 January							

2004 (as previously reported)	11,857,670	59,027	-	-	-	(98)	58,929
Effect of adopting IFRS 2	-	-	200	-	-	-	200
Costs related to issuance of shares on IPO	-	(200)	-	-	-	-	(200)
At 1 January 2004 (restated)	11,857,670	58,827	200	-	-	(98)	58,929
Second capital call on existing shares	-	59,288	-	-	-	-	59,288
Issuance of ordinary shares on IPO	6,600,000	79,200	-	-	-	-	79,200
Effect of adoption of IFRS 2 - fair value of share options	-	-	200	-	-	-	200
Costs related to issuance of ordinary shares on IPO (including e200k relating to adoption of IFRS 2)	-	(4,433)	-	-	-	-	(4,433)
Issuance of ordinary shares to Directors	6,000	72	-	-	-	-	72
Net unrealised loss on available for sale securities	-	-	-	(609)	-	-	(609)
Net profit	-	-	-	-	-	3,786	3,786
At 30 June 2004 (restated) (unaudited)	18,463,670	192,954	400	(609)	-	3,688	196,433
At 1 July 2004 (restated)	18,463,670	192,954	400	(609)	-	3,688	196,433
Costs related to issuance of ordinary shares on IPO	-	(645)	-	-	-	-	(645)
Net unrealised gain on available for sale securities	-	-	-	7,213	-	-	7,213
Net unrealised gain on hedge instruments	-	-	-	-	713	-	713
Net gains not recognised in the income statement	-	-	400	6,604	713	-	7,717
Net profit for the period	-	-	-	-	-	8,245	8,245

Total income and expense for the year	-	-	400	6,604	713	12,031	19,748
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Dividends paid	-	-	-	-	-	(5,539)	(5,539)
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At 31 December 2004(restated)	18,463,670	192,309	400	6,604	713	6,394	206,420
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EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

	Ordinary Shares (adjusted for share consolidation)	Share Capital e'000	Other Reserves e'000	Net Unrealised Gains/ (Losses) e'000	Hedging Reserves e'000	Accumulated Profit (Loss) e'000	Total Equity e'000
At 1 January 2005	18,463,670	192,309	400	6,604	713	6,394	206,420
Net unrealised gain on available-for-sale securities	-	-	-	4,038	-	-	4,038
Issuance of shares - June 2005	5,740,000	99,015					99,015
Costs related to issue of shares - June 2005		(3,998)					(3,998)
Issuance of ordinary shares to Directors	6,000	108					108
Realised losses reclassified to the income statement	-	-	-	2	-	-	2
Realised gains reclassified to the income statement	-	-	-	(1,392)	-	-	(1,392)
Net unrealised loss on hedge instruments	-	-	-	-	(6,892)	-	(6,892)
Cost related to issue of options on follow on share issue		(620)	620				
Net gains not recognised in the income statement	-	-	1,020	9,252	(6,179)	-	4,093
Net profit for the period	-	-	-	-	-	13,215	13,215
Total income							

and expense for the period	-	-	-	2,648	(6,892)	13,215	8,971

Dividends paid and declared	-	-	-	-	-	(18,652)	(18,652)

At 30 June 2005 (unaudited)	24,209,670	286,814	1,020	9,252	(6,179)	957	291,864
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EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

Eurocastle Investment Limited (the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle Investment Limited is a Euro denominated Guernsey closed-end investment company. The principal activities of the Company include the investing in, financing and managing of European real estate securities, other European asset backed securities, and other European real estate related assets.

The Company is externally managed by its manager, Fortress Investment Group LLC (the "Manager"). The Company 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. The Company has no direct employees. For its services, the Manager receives an annual management fee (which includes a reimbursement for expenses) and incentive compensation, as described in the Management Agreement. The Company has no ownership interest in the Manager.

In October 2003, the Company issued 118,576,700 ordinary shares through a private offering to qualified investors at a price of €1 per share. Pursuant to a written resolution of the Company dated 18 June 2004, the shareholders resolved to receive one share in exchange for every ten shares previously held by them. Immediately following this resolution, the Manager and its employees held 1,356,870 ordinary shares. In June 2004, the Company issued 6,600,000 ordinary shares in its initial public offering at a price of €12.00 per share, for net proceeds of €74.3 million. In June 2005 the Company completed a secondary public offering issuing 5,740,000 ordinary shares at a price of €17.25 per share, for net proceeds of €95.0 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared in accordance with IAS 34 "Interim Financial Statements." In preparing interim financial statements, the accounting principles applied reflect the amendments to IAS and the adoption of new IFRS which became effective from 1 January 2005. Other than in respect of these changes, explained further below, the interim financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2004 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the Company, because the Company conducts its business predominantly in euros.

The changes to IFRS effective 1 January 2005 have had the following impact on the Company's consolidated interim financial statements:

IFRS 2 "Share-based payments" - Share options granted in 2003 and 2004 for the purpose of compensating the Manager for its successful efforts in raising capital for the Company have been accounted for at the fair value on grant date. The fair values of such options at the date of grant have been debited to equity as the costs of issuance of ordinary shares with corresponding increases in other reserves.

IAS 39 Financial Instruments: Recognition and Measurement - Asset backed securities, available for sale at fair value of e289.7 million (31 December 2004: e468.0 million) and real estate loans of e14 million (31 December 2004: nil) have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 these securities have been reclassified as pledged securities and loans in the balance sheet.

Both of the above changes in the accounting policies have been made in accordance with the provisions of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors with the corresponding adjustments reflected in the prior period comparatives.

Basis of Preparation

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, investment property, financial assets and liabilities held for trading, and available-for-sale assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised or historical cost.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the half year ended 30 June 2005. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company.

At 30 June 2005, the Company's subsidiaries consisted of Eurocastle Funding Limited ("EFL"), Eurocastle CDO I PLC ("CDO I"), Eurocastle CDO II PLC ("CDO II") and Eurocastle CDO III PLC ("CDO III"), all limited companies incorporated in Ireland. The ordinary share capital of EFL is held by outside parties and has no associated voting rights. The Company retains control over EFL as the sole beneficial holder of secured notes issued by EFL. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation - Special Purpose Entities, the Company consolidates CDO I, CDO II and CDO III as it retains control over these entities and retains the residual risks of ownership of these entities.

Eurocastle acquired its investment properties through two German limited liability companies, Longwave Acquisition GmbH ("Longwave") and Shortwave Acquisition GmbH ("Shortwave") which are held through two Luxembourg companies (Eurobarbican and Luxgate), set up as sociétés a responsabilité limitée. Longwave and Shortwave each own German companies which have been used to hold one or several of the investment properties. These companies were established as special purpose vehicles limited to holding the single or multiple real estate investment properties acquired at the end of December 2004. Longwave has 60 subsidiaries and Shortwave has 2 subsidiaries. Luxgate owns all of the ordinary share capital of Eurobarbican which in turn owns all of the share capital of Longwave and Shortwave.

Financial Instruments

Classification

Financial assets and liabilities measured at fair value through the profit and loss account are those instruments that the Company principally holds for the purpose of short-term profit taking. These include securities portfolio contracts and forward foreign exchange contracts that are not designated as

effective hedging instruments.

Available-for-sale assets are financial assets that are not classified as held for trading purposes, loans and advances, or held to maturity. Available-for-sale instruments include real estate and other asset backed securities.

Recognition

The Company recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets (trade date). From this date any gains and losses arising from changes in fair value of the assets are recognised.

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

Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or liability not measured at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all trading instruments and available for sale assets are carried at fair value.

All financial assets other than trading instruments and available-for-sale assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

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

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

The fair value of derivatives that are not exchange traded is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

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

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are

realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Assets held for trading and available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on derecognition.

Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on securities and loans are not reversed through the income statement. Subsequent increases in the fair values of debt instruments classified as available-for-sale, which can be objectively related to an event occurring after previous impairment losses have been recognised in the income statement, are recorded in the income statement. Such reversals are then taken through the income statement only to the extent previous impairment losses have been taken through the income statement.

Hedge accounting

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged items affects the net profit and loss.

Repurchase Agreements

Securities and real estate loans subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liabilities have been classified as repurchase agreements.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash comprises margin account balances held by derivative

counterparties as collateral for forward foreign exchange contracts, as well as cash held by the trustees of CDO I, II and III securitisations as a reserve for future trustee expenses. As such, these funds are not available for use by the Group.

Investment Properties

Investment properties comprise land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment property is initially recognised at cost, being the fair value of the consideration given, including real estate transfer taxes, professional advisory fees and other acquisition costs. After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the consolidated income statement.

The value of investment properties incorporates five properties which are held by the Company under finance or operating leases. An associated liability is recognised at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.

Fair values for all investment properties have been determined by reference to the existing rental income and operating expenses for each property and the current market conditions in each geographical market. Fair values also incorporate current valuation assumptions which are considered reasonable and supportable by willing and knowledgeable parties.

Deferred Financing Costs

Deferred financing costs represent costs associated with the issuance of financings and are amortised over the term of such financing using the effective interest rate method.

Interest-Bearing Loans and Borrowings

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

Minority Interests

Minority interests represent interests held by outside parties in the Company's consolidated subsidiaries.

Revenue Recognition

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

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

Rental income is recognised on an accruals basis.

Income Tax

The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The company's subsidiaries, EFL, CDO I, CDO II and CDO III are Irish registered companies and are structured to qualify as securitisation companies

The Company's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the six months ended 30 June 2005 relates to these subsidiaries.

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

Share-based payments are accounted for based on their fair value on grant date. In accordance with the transitional provisions of IFRS 2, Share-Based Payment the Company has restated the comparative information by way of adjusting the opening balance of equity for earlier periods. The effect of the transitional provisions is in compliance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

	Unaudited Half Year to 30 June 2005 e'000	Unaudited Half Year to 30 June 2004 e'000
Professional fees	795	397
Management fees	1,449	641
Incentive fees	1,456	-
Other	400	137
	<u>4,100</u>	<u>1,175</u>

The following is a summary of the Company's available-for-sale securities at 30 June 2005.

	Gross Unrealised						Weighted Average		
	Current Face Amount	Amortised Cost Basis	-----		Carrying Value	S&P Rating	Coupon	Yield	Maturity (Years)
			Gains	Losses					
	e'000	e'000	e'000	e'000	e'000				
Portfolio I									
CMBS	159,288	159,197	2,002	(62)	161,137	BBB	3.96%	4.00%	3.31
Other ABS	231,583	231,761	3,492	(91)	235,162	A-	4.04%	4.04%	3.45
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	390,871	390,958	5,494	(153)	396,299	BBB+	4.01%	4.02%	
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Portfolio II									

Portfolio II

CMBS	136,254	135,687	847	(107)	136,427	BBB	3.46%	3.51%	5.10
Other ABS	119,727	120,316	684	(324)	120,676	BBB	4.03%	3.94%	4.36
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	255,981	256,003	1,531	(431)	257,103	BBB	3.73%	3.71%	4.75
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Portfolio III									
CMBS	116,563	116,782	1,199	(136)	117,845	BBB-	4.31%	4.33%	4.24
Other ABS	106,547	105,894	1,754	(241)	107,407	BBB	4.08%	4.37%	2.94
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	223,110	222,676	2,953	(377)	225,252	BBB	4.20%	4.34%	3.62
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total									
Portfolio	869,962	869,637	9,978	(961)	878,654	BBB	3.98%	4.01%	3.85
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Other Securities									
CMBS	156,460	155,538	429	(249)	155,718	BBB+	3.47%	3.55%	2.36
Other ABS	42,993	43,140	155	(100)	43,195	A+	3.18%	3.12%	3.71
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	199,453	198,678	584	(349)	198,913	A-	3.41%	3.46%	2.65
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	1,069,415	1,068,315	10,562	(1,310)	1,077,567	BBB+	3.87%	3.91%	3.63
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Short-Term									
Investments									
Certificate									
of deposit	103,600	103,600	-	-	103,600	A-1+	n/a	1.97%	0.1
	-----	-----	-----	-----	-----				
Total	1,173,015	1,171,915	10,562	(1,310)	1,181,167				
	-----	-----	-----	-----	-----				
Restricted Cash					32,218				

Total Asset Backed Securities									
(including cash to be									
invested) (unaudited)					1,213,385				

CMBS - Commercial Mortgage Backed Securities
Other ABS - Other Asset Backed Securities

The securities within Portfolio I, II and III are encumbered by CDO securitisations (Note 8).

Asset backed securities, available for sale at fair value of e289.7 million have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005, these securities have been reclassified as pledged securities as follows:

More to follow, for following part double-click [nRN2D7149P]