EUROCASTLE

Interim Results

August 19, 2004

Eurocastle Investment Limited
19 August 2004

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Interim Results half year 2004

Half Year Highlights

- IPO completed in June 2004, raising net proceeds of approximately €75 million
- Net profit of €3.8 million, or €0.32 per share, despite having a significant amount of uninvested cash during the six month period
- On track to pay quarterly dividends at annualized dividend rate of €1.20 per share
- Total assets increased by €579 million to €639 million
- Diversified securities portfolio with average investment grade rating of BBB+
- Completed our first term financing with €400 million of non-recourse debt

Selected Financial Data (amounts in €'000, except share data and supplemental data)	Unaudited Half Year to 30 June 2004	8 August 2003 (Date of Formation) to 31 December 2003
Operating Data		
Net profit / (loss)	3,786	(98)
Earnings per share	0.32	(0.01)
Weighted average number of shares outstanding, diluted	11,955,615	11,857,670
Balance Sheet Data		
Available for sale securities (includes cash to be invested)	506,355	-
Comprising:		
Real estate backed securities	284,498	-
Other asset backed securities	161,185	-
Restricted cash	60,672	-
Securities portfolio contract	51,542	57,611
Cash and cash equivalents	76,285	1,690
Total Assets	638,529	59,617
Debt Obligations	439,717	-
Shareholders' equity	196,433	58,929

Supplemental Total Real Estate and Other ABS Securities Data as of June 30, 2004

Weighted average asset yield	4.096%
Weighted average liability cost	2.676%
Weighted average net spread	1.420%
Weighted average credit rating	BBB+
Weighted average asset credit spread	1.97%
Percentage investment grade	95%
Number of securities	48

Chairman's Statement

Half Year Review

Eurocastle Investment Limited (LSE: ECT) reported that net profit for first half of 2004 was €3.78 million or €0.32 per share. As of 30 June 2004, the total book value of the Company's stockholders' equity was €196.4 million or €10.64 per share.

Eurocastle successfully completed its initial public offering on 29 June 2004 with a net capital raise of approximately €75 million, despite difficult equity markets in Europe. Eurocastle's core business strategy is to invest in a diverse portfolio of moderately credit sensitive European real estate securities and real estate related assets and other European asset backed securities that we finance in a manner designed to match the terms of our assets and liabilities.

Eurocastle will seek to deliver stable dividends and attractive risk adjusted returns to stockholders through prudent asset selection and the use of innovative financing structures, which reduce interest rate, refinancing and currency risks. In the first half of the year, Eurocastle purchased approximately €450 million of securities and issued its first term financing.

Since the IPO, we have acquired approximately €340 million of securities. Significant investment opportunities exist in the growing European ABS markets, which continue to fuel the deployment of our capital.

European ABS Market

Eurocastle was formed in August 2003 to capitalise on growth in the European asset backed securities market. The European ABS market has grown rapidly, with compounded annual growth in new issuance of 28 per cent. since 1996, and new issuance reaching US$197 billion in 2003. A key characteristic of the market over time has been the low volatility in spreads and ratings relative to other European financial markets. European real estate backed securities (CMBS and RMBS) represent by far the largest component of the European ABS market, accounting for 73 per cent. of all new ABS issuance in 2004 to date.

Investment Portfolio

As of 30 June 2004, Eurocastle's total securities portfolio of €506 million included €284 million of mortgage backed securities, €161 million of other asset backed securities and €61 million of restricted cash held within Eurocastle CDO I pending investment in additional real estate and other asset backed securities during the ramp-up period.. The securities portfolio is well diversified with 48 issues; 96% are floating-rate securities with an average life of 3.7 years. The portfolio is geographically diversified with 30% in UK, 20% in Italy 13% in Germany and 9% in France. The average credit quality of the securities portfolio was BBB+, 95% of the securities were rated investment grade and the average investment size was €8 million. . The weighted average credit spread was 1.97% as of 30 June 2004. The weighted average credit spread represents the yield premium on our securities over EURIBOR. The Company continually monitors the credit and return profile of its securities portfolio and will opportunistically buy and sell securities as part of its asset management discipline. Eurocastle's financing structures are designed to offer flexibility to enable us to successfully manage the credit and yield profile of our portfolio.

Investment Activity

The investment pipeline remained strong with approximately €125 billion of CMBS and RMBS new issuance in the first half of 2004, representing a 30% increase over the first half of 2003. Credit spreads have continued to tighten in the investment grade credit market. BBB spreads are 50 to 75 basis points tighter than a year ago for established investment bank sponsored CMBS programmes while BB are relatively stable.

In the first half of 2004, we purchased approximately €450 million in face amount of real estate securities and other asset backed securities with an average credit rating of BBB+. In addition, the Company has acquired exposure to €151 million in face amount of real estate securities and other asset backed securities through a securities portfolio contract with a major investment bank.

Since 30 June 2004, we have purchased approximately €340 million of investments and continue to have a strong pipeline of investments and expect to be fully invested by year end.

Financing Activity

On 8 June 2004, we completed a €400 million non-recourse debt offering issued by Eurocastle CDO I and Eurocastle CDO I plc (the 'CDO'). The issue consists of

€372 million face amount of investment grade senior and mezzanine bonds and €28 million face amount of non-investment grade mezzanine and subordinated bonds. The Company retained €21 million face amount of the investment grade mezzanine bonds as well as all of the non-investment grade bonds. As at 30th June, the CDO has an expected weighted average life of 4 years.

To date, Eurocastle has acquired approximately 97% of the collateral that ultimately will secure the CDO. Upon completion, the Company expects the total collateral value to be approximately €400 million. The collateral currently consists of 45% commercial mortgage backed securities (CMBS), 9% residential mortgage backed securities (RMBS) and 46% other asset backed securities. The completed portfolio is expected to have a weighted average credit rating of BBB and an expected weighted average life of 4 years.

This financing reflects Eurocastle's core business strategy of investing in asset-backed securities and financing these investments to term with match-funded debt structures.

Our Manager

Eurocastle is externally managed by Fortress Investment Group LLC with a London based team dedicated to Eurocastle. Fortress is a global alternative investment and asset management firm with approximately US$8 billion of equity capital currently under management. Fortress was founded in 1998, and currently employs, together with its affiliates, over 200 people. Fortress is headquartered in New York and its affiliates have offices in London, Rome, Frankfurt and Geneva.

In the United States, Fortress manages Newcastle Investment Corp. (NYSE symbol: NCT), a publicly traded real estate investment and finance company, which invests in US real estate securities and other real estate assets using a similar investment and financing strategy to those of the Company. As at 30th June 2004, Newcastle had a market capitalization of over US$1 billion.

Dividend policy

We intend to pay quarterly dividends to shareholders. Our aim is to pay out all or substantially all of Eurocastle's earnings in the form of dividends to shareholders (excluding surpluses from the sale or realisation of investments held directly by the Company). The aggregate dividend for the 12 month period following the Company's initial public offering on 29th June 2004 is currently anticipated to be €1.20 per share.

Conference Call

Management will conduct a conference call on 19 August 2004 to review the company's financial results for the period ended 30 June 2004. The conference call is scheduled for 4:00 P.M. London time (11:00 A.M. New York time).
All interested parties are welcome to participate on the live call. You can access the conference call by dialling US (800) 288-9626 or International (612) 288-0329 ten minutes prior to the scheduled start of the call; please reference 'Eurocastle First Half 2004 Interim Report Call.'

For those who are not available to listen to the live call, a replay will be available until Monday September 27, 2004 by dialling US (800) 475-6701 or International (320) 365-3844; please reference access code '743363.'

Summary

We are pleased with our performance during the first year of operations. We believe in the strength of our business plan and our ability to provide stable dividends and transparency to our shareholders. With a solid investment pipeline, we are well-positioned to achieve long-term growth and look forward to our future as a public company.

Thank you for your continued commitment and support.

Wesley R. Edens
Chairman and Chief Executive Officer

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 2004 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 14. 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 Bulleting 1999/4 'Review of interim financial information' issued by the 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 2004.

Ernst & Young LLP

London

18 August 2004

CONSOLIDATED INCOME STATEMENTS

For the six months ended 30 June 2004

	Notes	Unaudited Halfyear to 30 June 2004 €'000	8 August 2003 (Date of Formation) to 31 December 2003 €'000
Operating income			
Interest income		2,763	50
Unrealised gain on securities portfolio contract	2,8	4,056	611
Loss on foreign currency translation		(50)	-
Total operating income		6,769	661
Operating expenses			
Interest expense		1,808	-

Other operating expenses	3	1,175	759
Total operating expenses		2,983	759
Net profit (loss)		3,786	(98)
Earnings per ordinary share (adjusted for share consolidation)			
Basic	10	0.32	(0.01)
Diluted	10	0.32	(0.01)
Weighted average ordinary shares outstanding (adjusted for share consolidation)			
Basic	11	11,930,263	11,857,670
Diluted	11	11,955,615	11,857,670

See notes to consolidated financial statements below

CONSOLIDATED BALANCE SHEETS

At 30 June 2004

	Notes	Unaudited Halfyear to 30 June 2004 €'000	8 August 2003 (Date of Formation) to 31 December 2003 €'000
Assets			
Cash and cash equivalents		76,285	1,690
Restricted cash	2	1,381	-
Securities portfolio contract	2,8	51,542	57,611
Asset backed securities, available for sale	2,4	506,355	-
Derivative assets	8	37	-
Other assets	5	2,929	316
Total assets		638,529	59,617
Equity and Liabilities			
Capital and Reserves			
Issued capital, no par value, unlimited number of shares authorised, 18,463,670 shares issued and outstanding at 30 June 2004 (11,857,670 at 31 December 2003, adjusted for share consolidation)	11	193,354	59,027
Net unrealised loss on available for sales securities	4	(609)	-
Accumulated profit (loss)		3,688	(98)
Total equity		196,433	58,929
Minority Interests		2	-
Liabilities			
CDO bonds payable	9	347,693	-
Repurchase agreements	6	92,024	-
Trade and other payables	7	2,377	688
Total liabilities		442,094	688
Total equity and liabilities		638,529	59,617

The financial statements were approved by the board of directors on 18 August 2004.

See notes to consolidated financial statements below

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 June 2004

	Unaudited Halfyear to 30 June 2004 €'000	8 August 2003 (Date of Formation) to 31 December 2003 €'000
Cash Flows From Operating Activities		
Net profit (loss)	3,786	(98)
Adjustments for:		
Unrealised gain on securities portfolio contract	(4,056)	(611)
Unrealised gain on foreign currency contracts	(37)	-
Loss on foreign currency translation	89	
Accretion and amortisation	(171)	-
Shares granted to directors	72	-
Net change in operating assets and liablilities:		
Increase in restricted cash	(1,381)	
Increase in other assets	(2,616)	(113)
Increase in trade and other payables	1,690	688
Net cash flows used in operating activities	(2,624)	(134)
Cash Flows From Investing Activities		
Securities portfolio contract deposit	(59,000)	(57,000)
Repayment of securities portfolio contract deposit	69,125	-
Purchase of available for sale securities	(507,529)	-
Repayment of security principal	568	-
Net cash flows used in investing activities	(496,836)	(57,000)
Cash Flows From Financing Activities		
Proceeds from issuance of ordinary shares	138,488	59,288
Costs related to issuance of ordinary shares	(4,233)	(261)
Proceeds from issuance of bonds	351,000	-
Costs related to issuance of bonds	(3,342)	
Borrowings under repurchase agreement	94,261	-

Repayments under repurchase agreement		(2,119)		-
Payment of deferred financing costs		-		(203)
Net cash flows from financing activities		574,055		58,824
Net Increase in Cash and Cash Equivalents		74,595		1,690
Cash and Cash Equivalents, Beginning of Period		1,690		-
Cash and Cash Equivalents, End of Period		76,285		1,690

See notes to consolidated financial statements below

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued Capital				
	Ordinary Shares (adjusted for share consolidation)	Amount €'000	Net Unrealised Gains (Losses) €'000	Accumulated Profit (Loss) €'000	Total Equity €'000
At 8 August 2003 Date of Formation)	-	-	-	-	-
Issuance of ordinary shares	11,857,670	59,288	-	-	59,288
Costs related to issuance of ordinary shares	-	(261)	-	-	(261)
Net loss	-	-	-	(98)	(98)
At 31 December 2003	11,857,670	59,027	-	(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
Costs related to issuance of ordinary shares on IPO	-	(4,233)	-	-	(4,233)
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	18,463,670	193,354	(609)	3,688	196,433

See notes to consolidated financial statements below

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(amounts in tables in thousands)

1. BACKGROUND

Eurocastle Investment Limited (the 'Company') was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced it operations on 21 October 2003. The principal activities of the Company include investing in, financing and management of European securities and other asset backed securities. The directors consider the Company to operate in a single business segment and one geographical segment, being Europe.

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 defined 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 each. 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 €74.97 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by IASB's predecessor, the International Accounting Standards Committee, that remain in effect. The financial statements are prepared in accordance with IAS 34 'Interim Financial Statements'. In preparing interim financial statements, the same accounting principles and methods of computation are applied as in the financial statements as at 31 December 2003 and for the period 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 Company commenced operations on 21 October 2003. As the Company's existence is shorter than one year, comparative periods for the consolidated statement of income, cash flows and statement of changes in equity are shown for the period 8 August to 31 December 2003.

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of financial instruments held for trading or available-for-sale purposes.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries drawn up to 30 June 2004.

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 out of the Company.

At 30 June 2004, the Company's subsidiaries consisted of its investment in Eurocastle Funding Limited ('EFL'), a limited company incorporated in Ireland, 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 held by outside parties has no associated voting rights. The Company retains control over EFL as the sole beneficial holder of secured notes issued by EFL. The Company consolidates CDO I as it retains the residual risks of ownership.

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.

Securities Portfolio Contract

The securities portfolio contract described in Note 8 qualifies as a derivative financial instrument held for trading purposes under IASB rules. Derivative financial instruments held for trading purposes are carried at fair value, which includes valuation allowances for instruments for which liquid markets do not exist. Changes in the fair value of derivative financial instruments held for trading purposes are recorded as unrealized gains or losses in the income statement. During the six months ended 30 June 2004, a net unrealized gain of approximately €4.06 million (8 August to 31 December 2003 €0.61 million) was recorded on the securities portfolio contract. The determination of the fair value of the securities portfolio contract is based on dealer price quotations.

Available For Sale Securities

All investments in available-for-sale securities are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as available-for-sale are measured at fair value. The fair value of these securities is estimated by obtaining counterparty quotations. Gains or losses on available-for-sale investments are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Securities available-for-sale which are owned directly by the consolidated special purpose vehicles are shown separately in Note 4 (as 'CDO securities, available-for-sale') from those securities owned directly by the Company.

Deferred Financing Costs

Deferred financing costs represent costs associated with the issuance of financings.

Interest-Bearing Loans and Borrowings

All loans and borrowings, including the Company's repurchase agreements, are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Minority Interests

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

Revenue

Revenue is recognized 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 is recognized as the interest accrues (based on the effective yield of the asset).

Income Tax

The Company is a Guernsey, Channel Islands limited company. No provision for income taxes has been made. The company's subsidiaries, EFL, CDO I, CDO II and CDO III are Irish registered companies and are structured to qualify as securitization companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies, if any, are retranslated at the historical exchange rate and all differences are recognized in equity.

Forward Exchange Contracts

The Company has entered into forward exchange contracts in connection with its foreign currency denominated investments. These contracts, which do not qualify for special hedge accounting under IAS 39, are initially recorded at cost, being the fair value of the consideration given. Subsequently, these contracts are measured and carried at fair value with the resulting gain or loss recorded in current earnings.

3. OTHER OPERATING EXPENSES

	Unaudited Halfyear to 30 June 2004	8 August 2003 (Date of Formation) to 31 December 2003
	€'000	€'000
Professional fees	397	484
Management fees	641	257
Other	137	18
	1,175	759

4. AVAILABLE-FOR-SALE SECURITIES

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

June 2004 which have been marked to fair value through equity pursuant to IAS 39. Unrealized losses that are considered other than temporary are recognized currently in income. There were no such losses incurred from incorporation to 30 June 2004.

CDO Securities available for sale	Current Face	Unamortised premium) / discount	Amortised cost	Gains	Losses	Carrying Value	S&P	Coupon	Yield	Weighted Average Maturity
	€'000	€'000	€'000	€'000	€'000	€'000				
CMBS	165,548	(110)	165,658	367	(33)	165,992	BBB+	4.029%	4.036%	4.01
RMBS	32,250	(96)	32,346	28	(4)	32,370	BBB	3.946%	3.866%	3.64
CLO	52,500	(1,082)	53,582	132	(22)	53,692	BBB+	5.162%	4.148%	4.41
NPL	48,000	2,369	45,631	184	(72)	45,743	BBB+	4.005%	5.414%	3.10
WBS	12,000	0	12,000	0	0	12,000	BBB	3.554%	3.520%	5.00
OTHER ABS	33,885	205	33,679	0	(20)	33,659	A-	3.247%	3.534%	4.46
	*344,183	1,286	342,896	711	(151)	343,456	BBB+	4.097%	4.162%	3.99

Other Securities available for sale

CMBS	87,477	180	87,297	60	(1,221)	86,136	A-	3.157%	3.598%	2.28
NPL	5,000	174	4,826	(26)	0	4,800	A	3.413%	4.795%	2.29
WBS	11,183	(89)	11,273	18	0	11,291	BB	5.713%	5.624%	5.40
	103,660	265	103,396	52	(1,221)	102,227	BBB+	3.445%	3.875%	2.62

Total

CMBS	253,025	70	252,955	427	(1,254)	252,128	BBB+	3.727%	3.885%	3.41
RMBS	32,250	(96)	32,346	28	(4)	32,370	BBB	3.946%	3.866%	3.64
CLO	52,500	(1,082)	53,582	132	(22)	53,692	BBB+	5.162%	4.148%	4.41
NPL	53,000	2,543	50,457	158	(72)	50,543	BBB+	3.949%	5.355%	3.02
WBS	23,183	(89)	23,273	18	0	23,291	BBB-	4.595%	4.535%	5.19
Other ABS	33,885	205	33,679	0	(20)	33,659	A-	3.247%	3.534%	4.46
	447,843	1,551	446,292	763	(1,372)	445,683	BBB+	3.946%	4.096%	3.67

* Carrying value excludes restricted cash of €60.7 million included in CDO Securities pending its investment in additional CDO securities during the ramp-up period.

5. OTHER ASSETS

	Unaudited 30 June 2004 €'000	31 December 2003 €'000
Interest receivable	2,876	-
Deferred financing costs	-	203
Prepaid insurance	47	111
Other assets	6	2
	2,929	316

Deferred financing costs represent costs associated with the issuance of a collateralized debt obligation. These costs have been offset against the proceeds of the issuance.

6. REPURCHASE AGREEMENTS

In February 2004, the Company entered into a master repurchase agreement with certain major investment banks to finance the purchase of available-for-sale securities. The terms of the repurchase agreements provide for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) which resets or rolls monthly or quarterly, with the corresponding security coupon payment dates, plus an applicable spread. The Company's carrying amount and weighted average financing cost of these repurchase agreements was approximately €92 million and 2.312%, respectively at 30 June 2004.

7. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2004 €'000	31 December 2003 €'000
Interest payable	1,098	-
Due to affiliates	160	381
Accrued expenses	1,119	307
	2,377	688

8. DERIVATIVE FINANCIAL INSTRUMENTS

In November 2003, the Company entered into a securities portfolio contract with a major investment bank (the 'Bank') whereby the Bank would purchase European commercial mortgage backed and other asset backed securities, targeted to aggregate approximately €500 million, subject to the Company's right, but not the obligation, to purchase such securities from the Bank. The Company has paid a deposit to the Bank. The fair value of the contract is calculated as the value of the securities purchased by the Bank, adjusted for the cost of funding the purchase of securities and any other applicable costs. The fair value of the contract as at 30 June 2004 and 31 December 2003 was approximately €51.54 million and €57.6 1 million respectively. The unrealized gains on the securities portfolio contract at 30 June 2004 and 31 December 2003 was approximately €4.06 million and €0.61 million respectively.

The Company is exposed to market risk on the underlying securities as, should the intended securitization of such assets not be consummated, the Company would be required to either purchase the securities or pay the loss realized on the disposal up to the amount of any deposits made by the Company under the contract, less any interest earned on the deposits.

In connection with the Company's purchase of its available-for-sale securities, the Company has entered into forward foreign currency exchange contracts. IAS 39 requires the Company to record any unrealized gain or loss on these contracts in current earnings. At 30 June 2004, the net unrealized gain on these contracts was approximately €37 thousand. The fair value of these contracts, which has been recorded in derivative liabilities on the balance sheet, has been calculated based on information obtained from an independent market data source.

9. CDO Bonds Payable

The following table presents certain information regarding Eurocastle's debt obligations of Eurocastle CDO I as of 30 June 2004 (euros in thousands):

Class	Rating	Current Face Amount	Carrying Amount	Weighted Average Cost of Financing	Weighted Average Maturity (in years)
Class A	AAA	338,000	334,816	2.755%	6.87
Class B	AA	13,000	12,877	3.207%	9.43
		351,000	347,693	2.771%	6.96

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit (loss) available to ordinary shareholders by the weighted average number of shares of ordinary stock outstanding during the period.

Diluted earnings per share is calculated by dividing net profit (loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of ordinary share equivalents during the period.

The Company's ordinary share equivalents outstanding during the period were the stock options issued under its share option plan.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements.

11. SHARE CAPITAL

The Company was registered in Guernsey on 8 August 2003 under the provisions of the Companies (Guernsey) Law, 1994 (as amended). On 21 October 2003, the Company issued 118,576,700 shares at €1.00 each. Pursuant to a written resolution of the Company dated 18 June 2004 the Shareholders resolved to receive one share for every ten shares previously held by them. In June 2004, through its initial public offering, the Company received subscriptions for and issued 6,600,000 ordinary shares at a price of €12 each. As a result, the Company's total gross capital was approximately €197.85 million. Under the Company's Articles of Association, the Directors have the authority to effect the issuance of additional ordinary shares or to create new classes of shares as they deem necessary.

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

	Unaudited 30 June 2004	8 August 2003 (Date of Formation) to 31 December 2003
Weighted average number of ordinary shares, outstanding basic	11,930,263	11,857,670
Dilutive effect of ordinary share options	25,352	-
Weighted average number of ordinary shares outstanding, diluted	11,955,615	11,857,670

12. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Company entered into the Management Agreement with the Manager in August 2003, which provides 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 twelve consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. Pursuant to the Management Agreement, the Manager, under the supervision of the Company's 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. For performing these services, the Company will pay the Manager an annual fee of 1.5% of the gross equity of the Company, as defined in the Management Agreement.

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, administrative and other similar services rendered for the Company by providers retained by the Manager or, if provided by the Manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis.

To provide an incentive for the Manager to enhance the value of the Company's ordinary stock, the Manager is entitled to receive incentive compensation on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the euro amount by which (1) funds from operations ('FFO') of the Company before the incentive compensation per ordinary share, exceeds (2) an amount equal to (a) the weighted average of the price per ordinary share in any offerings by the Company (adjusted for any prior capital dividends or distributions) multiplied by (b) a simple interest rate of eight percent (8%) per annum multiplied by (B) the weighted average number of ordinary shares outstanding during such period.

FFO is used to compute the Company's incentive compensation to the Manager. FFO, for these purposes, represents net income (computed in accordance with International Financial Reporting Standards), plus depreciation and amortization on real estate property (and excluding accumulated depreciation and amortization from the computation of gain or loss on sold real estate property), after adjustments for unconsolidated partnerships and joint ventures (calculated to reflect FFO on the same basis).

At 30 June 2004 and 31 December 2003, management fees and expense reimbursements of approximately €0.2 million and €0.4 million respectively, were due to the Manager.

13. SHARE OPTION PLAN

In December 2003, the Company (with the approval of the board of directors and pursuant to the confidential information memorandum dated August 2003) adopted a nonqualified share option plan (the 'the Company Option Plan') for officers, directors, employees, consultants and advisors, including the Manager. In December 2003, for the purpose of compensating the Manager for its successful efforts in raising capital for the Company, the Manager was granted options representing the right to acquire 1,185,767 ordinary shares at an exercise price of €10 per share (number of shares and exercise price adjusted for share consolidation). In June 2004 following the IPO, the Manager was granted an additional 660,000 options at an exercise price of € 12 per share. The Manager options represent an amount equal to 10% of the ordinary shares issued by the Company. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

14. SUBSEQUENT EVENTS

In July 2004, through its newly created subsidiaries, the Company exercised its option to purchase the securities under the securities portfolio contract for an aggregate purchase price of approximately €77.5 million. The Company financed the purchase price through a revolving credit facility arrangement with a major investment bank, whereby the securities purchased, along with any additional securities to be acquired, will be financed and held in a custody account by the bank. The Company intends to use this credit facility as a means of accumulating securities intended to be used in future securitization transactions ('CDO II' and 'CDO III'). Although, the Company currently anticipates completing CDO II and CDO III in the near term, there is no assurance that CDO II and CDO III will be consummated or on what terms they will be consummated.