



EUROCASTLE

3rd Quarter Results

Oct 20, 2004

Eurocastle Investment Limited
19 October 2004

EUROCASTLE INVESTMENT LIMITED

Financial Report for the three months ended 30 September 2004

Third Quarter Highlights

- Net earnings of €3.2 million, or €0.17 per share.
- Cumulative distributable income of €0.37 per share.
- Declared first quarterly dividend of €0.30 per share, payable on 5 November at an annualized dividend rate of €1.20 per share.
- Total assets increased 36% from €638.5 million to €869.0 million during the quarter.
- Established warehouse borrowing lines with an investment bank for acquiring our second and third asset backed securities portfolios.

Selected Financial Data (amounts in €'000, except share data and supplemental data)	Three Months Ended 30 September 2004	Nine Months Ended 30 September 2004
Operating Data		
Net profit	3,183	6,970
Earnings per share	0.17	0.49
Weighted average number of shares outstanding, diluted	18,943,733	14,302,043
	As of 30 September 2004 (Unaudited)	As of 31st December 2003 (Audited)

Balance Sheet Data

Available for sale securities (includes cash to be invested)	858,192	-
Comprising:		
Commercial mortgage backed securities	490,122	-
Other asset backed securities	354,582	-
Restricted cash	13,488	-
Securities portfolio contract	-	57,611
Cash and cash equivalents	1,619	1,690
Total assets	868,961	59,617
Debt obligations	654,027	-
Shareholders' equity	203,315	58,929

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

Weighted average asset yield	4.25%
Weighted average liability cost	2.68%
Weighted average net spread	1.57%
Weighted average credit rating	BBB+
Weighted average asset credit spread (above Euribor)	2.07%
Percentage investment grade	88%
Number of securities	67

Chairman's Statement

Third Quarter Review

Eurocastle Investment Limited (LSE: ECT) reported net earnings for the third quarter ended 30 September 2004 of €3.2 million or €0.17 per share. As of 30 September 2004, the Company's stockholders' equity was €203.3 million or €11.01 per share.

Eurocastle's core business strategy is to invest in a diverse portfolio of moderately credit sensitive European real estate securities, real estate related assets and other European asset backed securities which we finance in a manner designed to match the terms of our assets and liabilities. In the quarter ended 30 September 2004, Eurocastle purchased approximately €259 million of asset backed securities.

We continue to find attractive opportunities to invest in the growing European ABS markets. The investment pipeline for the fourth quarter is expected to be strong, which is customary in the asset backed securities markets as originators seek to manage their balance sheets. With our current commitments and the expected investment pipeline, we anticipate being fully invested by year end.

Third Quarter 2004 Dividend

The board of directors of Eurocastle declared a dividend of €0.30 per share for the quarter ended 30 September 2004. The record date for this dividend will be 29 October 2004 and the payment date will be on 5 November 2004.

Our aim is to pay out all or substantially all of Eurocastle's earnings in the form of dividends to shareholders. Eurocastle intends to pay quarterly dividends to shareholders.

Third Quarter Investment Activity

In the third quarter of 2004, we purchased €258.7 million in face amount of real estate securities and other asset backed securities. The securities purchased had an average credit rating of BBB+ and an average credit spread above Euribor of 1.93%. Purchases of CMBS amounted to €130.1 million with an average spread of 1.77% and average rating of BBB+. Other ABS purchases amounted to €128.6 million with an average spread of 2.09% and average rating of BBB. The net increase in the face amount of securities during the quarter was €397.2 million which includes securities purchased under the terms of a securities portfolio contract with an investment bank.

Investment Portfolio

As of 30 September 2004, Eurocastle's total securities portfolio of €858.2 million included €490.1 million of commercial mortgage backed securities, €354.6 million of other asset backed securities and €13.5 million of restricted cash held within Eurocastle CDO I pending investment in additional real estate securities and other asset backed securities during the ramp-up period.

The securities portfolio is well diversified with 67 issues and an average life of 3.9 years; 95% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 35% in the UK, 30% in Italy, 11% in Germany and 6% in France. The average credit quality of the securities portfolio is BBB+, 88% of the securities are rated investment grade and the average investment size is €9 million. The weighted average credit spread was 2.07 % as of 30 September 2004. The weighted average credit spread represents the yield premium on our securities over Euribor.

About Eurocastle

Eurocastle Investment Limited is an investment company that invests in and manages a diverse portfolio consisting primarily of European real estate related asset-backed securities. Eurocastle is managed by Fortress Investment Group LLC, a global alternative investment and asset management firm with approximately US\$10 billion of equity capital currently under management.

Conference Call

Management will conduct a conference call on Wednesday 20 October 2004 to review the Company's financial results for the quarter ended 30 September 2004. The conference call is scheduled for 3:00 P.M. London time (10:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing US (800) 762-6067 or International (480) 629-9567 ten minutes prior to the scheduled start of the call; please reference 'Eurocastle Third Quarter 2004 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 29 October 2004 by dialing US (800) 475-6701 or International (320) 365-3844; please reference access code '751228.'

Summary

We are pleased with our third quarter performance and the payment of our first dividend as a public company. We believe that reporting on a quarterly basis, as well as our dividend policy of paying out substantially all of our earnings, will provide transparency and discipline to our financial reporting process. We expect to be back in the capital markets in the first quarter of 2005 as our pipeline of investment opportunities continues to grow.

Thank you for your continued commitment and support.

Wesley R. Edens
Chairman and Chief Executive Officer

19 October 2004

INDEPENDENT REVIEW REPORT TO EUROCASTLE INVESTMENT LIMITED

Introduction

We have been instructed by the Company to review the financial information for the three months ended 30 September 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 Bulletin 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 three months ended 30 September 2004.

Ernst & Young LLP
London

19 October 2004

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

	Notes	Unaudited Three Months Ended 30 September 2004 €'000	Unaudited Nine Months Ended 30 September 2004 €'000	8 August 2003 (Formation Date) to 31 December 2003 €'000

Operating income				
Interest income		9,020	11,784	50
Gain on securities portfolio contract	2,8	84	4,140	611
Loss on foreign currency translation		(230)	(280)	-

Total operating income		8,874	15,644	661

Operating expenses				
Interest expense		4,512	6,320	-
Other operating expenses	3	1,179	2,354	759

Total operating expenses		5,691	8,674	759

Net profit (loss)		3,183	6,970	(98)
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Earnings per ordinary share (adjusted for share consolidation)				
Basic	10	0.17	0.49	(0.01)
Diluted	10	0.17	0.49	(0.01)
Weighted average ordinary shares outstanding (adjusted for share consolidation)				
Basic	11	18,463,670	14,140,801	11,857,670
Diluted	11	18,943,733	14,302,043	11,857,670
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EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Notes	Unaudited 30 September 2004	31 December 2003 €'000
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€'000

Assets

Cash and cash equivalents		1,619	1,690
Restricted cash	2	2,273	-
Securities portfolio contract	2,8	-	57,611
Asset backed securities, available for sale (includes cash to be invested)	2,4	858,192	-
Derivative assets	8	973	-
Other assets	5	5,904	316

Total assets 868,961 59,617
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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 September 2004 (11,857,670 at 31 December 2003, adjusted for share consolidation)

	11	192,842	59,027
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Net unrealised gain on available for sales securities	4	3,601	-
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Accumulated profit (loss)		6,872	(98)
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Total equity 203,315 58,929

Minority Interests		2	-
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Liabilities

CDO bonds payable	9	347,780	-
Repurchase agreements	6	146,683	-
Warehouse borrowings	9	159,564	-
Trade and other payables	7	11,617	688

Total liabilities 665,644 688

Total equity and liabilities 868,961 59,617
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The financial statements were approved by the board of directors on 19 October 2004.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited	8 August 2003
	Nine Months	(Formation
	Ended	Date) to
	30 September	31 December
	2004	2003
	€'000	€'000

Cash Flows From Operating Activities

Net profit (loss)	6,970	(98)
Adjustments for:		
Unrealised gain on securities portfolio contract	-	(611)
Unrealised gain on foreign currency contracts	(973)	-
Loss on foreign currency translation	55	-
Accretion and amortisation	(359)	-
Shares granted to directors	72	-

Net change in operating assets and liabilities:		
Increase in restricted cash	(2,273)	
Increase in other assets	(5,591)	(113)
Increase in trade and other payables	10,930	688

Net cash flows used in operating activities	8,831	(134)

Cash Flows From Investing Activities		
Securities portfolio contract deposit	(59,000)	(57,000)
Repayment of securities portfolio contract deposit	119,388	-
Purchase of available for sale securities	(866,044)	-
Repayment of security principal	9,106	-

Net cash flows used in investing activities	(796,550)	(57,000)

Cash Flows From Financing Activities		
Proceeds from issuance of ordinary shares	138,488	59,288
Costs related to issuance of ordinary shares	(4,745)	(261)
Proceeds from issuance of bonds	351,000	-
Costs related to issuance of bonds	(3,342)	-
Borrowings under repurchase agreement	146,683	-
Borrowings under warehouse credit facility	159,564	-
Repayment of deferred financing costs	-	(203)

Net cash flows from financing activities	787,648	58,824

Net Increase/ (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Period	1,690	-
Cash and Cash Equivalents, End of Period	1,619	1,690

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

-----Issued Capital-----

	Ordinary Shares (adjusted for share Amount consolidation) €'000	Net Unrealised Gains €'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	-	(4,745)	-	-	(4,745)
Issuance of ordinary shares to Directors	6,000	72	-	-	72
Net unrealized gain on available for sale securities	-	-	3,601	-	3,601
Net profit	-	-	-	6,970	6,970

At 30 September 2004	18,463,670	192,842	3,601	6,872	203,315
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EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (amounts in tables in thousands)

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. The principal activities of the Company include investing in, financing and management of European real estate securities and other real estate related assets 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 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 €74.5 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 single

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.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries drawn up to 30 September 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 September 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, CDO II and CDO III as it retains the residual risks of ownership of these entities.

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 quarter ended 30 September 2004 the Company exercised its option to purchase all of the securities held under the contract realising total gains of €4.8 million.

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 as shown separately in Note 4.

Deferred Financing Costs

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

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 re-measured 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 Three Months Ended 30 September 2004 €'000	Unaudited Nine Months Ended 30 June 2004 €'000	8 August 2003 (Formation) (Date) to 31 December 2003 €'000
Professional fees	217	614	484
Management fees	729	1,370	257
Other	233	370	18
	1,179	2,354	759

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. AVAILABLE-FOR-SALE SECURITIES

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

September 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 September 2004.

	Gross Unrealised			Weighted Average		S & P Rating	Coupon	Yield	Maturity Yield
	Current Face Amount	Amortised Cost Basis	Gains	Losses	Carrying Value				
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	186,945	186,682	1,137	(7)	187,812	BBB+	4.09%	4.11%	4.14
Other ABS	204,434	202,958	1,769	(223)	204,504	BBB+	4.17%	4.34%	4.31
Subtotal-Portfolio I	391,379	389,640	2,906	(230)	392,316	BBB+	4.13%	4.23%	4.23
Portfolio II									
CMBS	64,189	63,608	152	(105)	63,655	BB+	4.94%	4.91%	4.76
Other ABS	48,038	48,277	151	(15)	48,413	BBB	3.98%	3.92%	5.81
Subtotal-Portfolio II	112,227	111,885	303	(120)	112,068	BBB-	4.53%	4.48%	5.21
Portfolio III									
CMBS	88,332	88,743	270	(67)	88,946	BBB+	4.77%	4.66%	3.55
Other ABS	81,950	80,524	941	(100)	81,365	BBB	4.50%	4.22%	3.51
Subtotal-Portfolio III	170,282	169,267	1,211	(167)	170,311	BBB	4.64%	4.45%	3.53
Total Portfolios I to III	673,888	670,792	4,420	(517)	674,695	BBB	4.33%	4.33%	4.22
Other Securities									
CMBS	150,698	149,832	354	(477)	149,709	AA-	3.40%	3.62%	2.61
Other ABS	20,500	20,479	-	(179)	20,300	A-	3.60%	6.56%	4.41
Total other securities	171,198	170,311	354	(656)	170,009	A+	3.42%	3.97%	2.83
	845,086	841,103	4,774	(1,173)	844,704	BBB+	4.14%	4.25%	3.94

CMBS - Commercial Mortgage Backed Securities

Other ABS - Other Asset Backed Securities

The Carrying Value in the table above excludes restricted cash of €13.5 million included in Portfolio I pending its investment in additional CMBS and other ABS during the ramp-up period.

The securities denoted Portfolio I is encumbered by the CDO I securitization (Note 8). The securities denoted by Portfolio II and Portfolio III are encumbered by the borrowings under the warehouse credit facilities for CDO II and CDO III described in Note 9. Most of the securities categorized as other above were encumbered by repurchase agreements (Note 6) as at 30 September 2004.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER ASSETS

	Unaudited 30 September 2004 €'000	31 December 2003 €'000
Interest receivable	5,465	-
Deferred financing costs	50	203
Prepaid insurance	389	111
Other assets	-	2
	5,904	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 €146.7 million and 2.382%, respectively at 30 September 2004.

7. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2004 €'000	31 December 2003 €'000
Unsettled security purchases	9,717	-
Interest payable	1,312	-
Due to affiliates	260	381
Accrued expenses	328	307
	11,617	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 purchased 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 had paid a deposit to the Bank. In July 2004 the Company exercised its right to purchase the securities. The fair value of the contract was 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 31 December 2003 was approximately €57.6 million. The unrealized gain on the securities portfolio contract at 31 December 2003 was approximately €0.61 million.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the terms of the securities contract the Company was 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 September 2004, the net unrealized gain on these contracts was approximately €1.0 million. 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. Bonds and Loans Payable

CDO Bonds

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

Class	Rating	Current Face Amount €'000	Carrying Amount €'000	Weighted Average Cost of Financing	Weighted Average Maturity (in years)
A and B Notes	AAA/AA	351,000	347,780	2.718%	7.86

Warehouse Borrowings

In July 2004, through its newly created subsidiaries CDO II and CDO III, 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, are being financed and held in a custody account by the bank. The Company is using 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.

The terms of the credit facility provide for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) plus 75 basis points. The total amounts drawn under the facility and the related weighted average financing cost was €159.6 million and 2.89%, respectively at 30 September 2004.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Three Months Ended 30 September 2004	8 August 2003 (Formation Date) to 31 December 2003
Weighted average number of ordinary shares, outstanding basic	18,463,670	11,857,670
Dilutive effect of ordinary share options	480,063	-
Weighted average number of ordinary shares outstanding, diluted	18,943,733	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.

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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 September 2004 and 31 December 2003, management fees and expense reimbursements of approximately €0.3 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 '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

On 19 October the directors declared a third quarter 2004 interim dividend of €0.30 per share to all holders of shares on 29 October 2004, the record date. The total dividend payable on 5 November 2004 is €5.5 million.