



EUROCASTLE

REG-Eurocastle Inv. Ltd 1st Quarter Results - Part 1

May 04, 2005

RNS Number:8714L
Eurocastle Investment Limited
04 May 2005

Contact:
Lilly H. Donohue
Director of Investor Relations
Tel: 001-212-798-6118

EUROCASTLE INVESTMENT LIMITED

FINANCIAL REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2005

First Quarter 2005 Highlights

- Total assets amounted to e1,624.3 million at the quarter end.
- Equity book value total of e209.7 million, or e11.36 per share.
- Net earnings of e6.5 million for the quarter, or e0.34 per diluted share.
- First quarter dividend of e0.33 per share, payable on 6 May 2005.
- Return on average invested capital during the quarter was 12.96%.

Selected Financial Data	Three Months Ended 31 March 2005	Three Months Ended 31 March 2004
(amounts in e'000, except share data and supplemental data)		
Operating Data		
Net profit	6,455	2,229
Earnings per diluted share	0.34	0.19
Weighted average number of shares outstanding, diluted	19,174,094	11,868,150
Balance Sheet Data		
	As of 31 March 2005	As of 31 December 2004
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)	1,236,615	1,264,484
Real estate loans (includes loans pledged under repurchase agreements)	46,356	21,938
Investment properties	318,523	318,514
Cash and cash equivalents	11,484	10,293
Total assets	1,624,329	1,627,619
Debt obligations	1,393,919	1,154,310
Shareholders' equity	209,720	206,420

Supplemental Total Real Estate and Other ABS Securities and Real Estate Loans Data as of 31 March 2005*

Weighted average asset yield	4.25%
Weighted average liability cost	2.71%
Weighted average net spread	1.54%
Weighted average credit rating	BBB+
Weighted average asset credit spread (above Euribor)	1.99%
Percentage investment grade	90%

* excludes short term investments with a maturity of less than 3 months and rated A-1+ by Standard & Poor's and P-1 by Moody's

EUROCASTLE INVESTMENT LIMITED

CHAIRMAN'S STATEMENT

First Quarter Review

Eurocastle Investment Limited (LSE: ECT) reported net earnings for the quarter ended 31 March 2005 of e6.5 million or e0.34 per diluted share. As of 31 March 2005, the Company's shareholders' equity was e209.7 million or e11.36 per outstanding share.

Eurocastle's core business strategy is to invest in a diverse portfolio consisting primarily of European real estate related assets, including mortgage backed securities, real estate loans, B-Notes, direct credit leased real estate as well as other asset backed securities which we finance in a manner designed to match the terms of our assets and liabilities. In the quarter ended 31 March 2005, Eurocastle purchased approximately e45.8 million of asset backed securities and e24.4 million of real estate related loans.

The real estate related securities markets are robust. In the first quarter, new issuance for commercial and residential mortgage backed securities totaled e38 billion. We believe the supply of European commercial mortgage backed securities will continue to grow as this market has been consistently setting record issuance year over year, resembling the scale and growth rate of the U.S. markets a decade ago. Overall credit spreads remain at historically tight levels due to the low rate environment and improvement in credit quality, but so long as the new issuance markets stay active, we expect to see a continued supply of new investment opportunities. In particular, we have seen significant opportunities to invest in the B-Note and mezzanine loan markets as the ownership of real estate continues to migrate from the public sector to the private sector. In addition, the investment pipeline for direct real estate is also strong and we are optimistic that we can build on our success in December with additional investments in credit leased real estate.

First Quarter 2005 Dividend

The Board of Directors of Eurocastle declared a dividend of e0.33 per share for the quarter ended 31 March 2005 on 19 April 2005. The record date for this dividend is 29 April 2005 and the payment date is 6 May 2005.

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.

First Quarter Investment Activity

Total purchases in the quarter were e70.2 million in face amount of real estate securities, other asset backed securities and real estate loans, excluding short term investments (asset backed commercial paper). The securities purchased had an average credit rating of BBB- and an average credit spread above Euribor of 2.21%. Purchases of CMBS amounted to e10.7 million with an average spread of 0.97% and average rating of BBB. RMBS purchases amounted to e25.3 million with an average spread of 1.82% and average rating of BBB-. Other ABS purchases amounted to e9.8 million with an average spread of 1.82% and average rating of BBB. Real estate related loans amounted to e24.4 million with an average spread of 3.31% and average rating of BB. After allowing for sales of securities and principal redemptions, the net increase in face amount of real estate and other asset backed securities during the quarter was approximately e32.1 million.

Capital Markets

Subsequent to quarter end, Eurocastle successfully priced two secured debt offerings to match-fund credit sensitive real estate securities and other asset backed securities. CDO II is a £200 million collateralized debt obligation which is expected to be issued by Eurocastle CDO II PLC on 5 May 2005 to purchase sterling investments. CDO III is a e400 million financing which was issued by Eurocastle CDO III PLC on 28 April 2005 to purchase euro investments.

Eurocastle CDO II

£158 million, or approximately 79%, of the issue is expected to be rated AAA/AAA by S&P and Fitch respectively. The CDO has an expected weighted average life of 7.22 years.

The total collateral value of the portfolio after the end of the investment period is expected to be approximately £200 million and consist of approximately 40% commercial mortgage backed securities. Once fully invested, the portfolio is expected to have a weighted average credit rating of BBB-. To date, the CDO has acquired approximately 72% of the assets that will comprise the completed portfolio.

Eurocastle has an approximately £17.5 million equity interest in the CDO II portfolio.

Eurocastle CDO III

€324 million, or approximately 81%, of the €400 million issue is expected to be rated AAA/AAA by S&P and Fitch respectively. The CDO has an expected weighted average life of 7.29 years.

The total collateral value of the portfolio after the end of the investment period is expected to be approximately €400 million and consist of approximately 50% commercial mortgage backed securities. Once fully invested, the portfolio is expected to have a weighted average credit rating of BBB-. To date, the CDO has acquired approximately 60% of the assets that will comprise the completed portfolio.

Eurocastle has an approximately €30 million equity interest in the CDO III portfolio.

Investment Portfolio

As of 31 March 2005, Eurocastle's total securities portfolio of €1,283 million, which represents 79% of the Company's total assets, included €526 million of commercial mortgage backed securities, €199 million of asset backed commercial paper, €489 million of other asset backed securities, €46 million of loans, and €23 million of cash held within Eurocastle CDO I pending re-investment in additional real estate securities and other asset backed securities. The securities and loans portfolio is well diversified with 87 issues and an average life of 3.9 years; 96% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 41.0% in the UK, 24.8% in Italy, 13.6% Pan European, 10.4% in Germany, and 4.5% in France. The average credit quality of the securities portfolio is BBB+ and 90% of the securities are rated investment grade. The weighted average credit spread was 1.99% as of 31 March 2005. The weighted average credit spread represents the yield premium on our securities over Euribor.

Eurocastle also owns a €318 million portfolio of credit leased real estate. The portfolio consists of 96 German properties, or 300,000 square meters of office space, which are leased primarily to Deutsche Bank AG. 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 six new leases. We continue to work on adding new tenants to our properties as well as managing leases that are expiring or will expire soon.

Credit

Our real estate securities portfolio continues to perform. As of 31 March 2005, none of our securities or loans 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.

About Eurocastle

Eurocastle Investment Limited is an investment company that invests in and manages a diverse portfolio consisting primarily of European real estate securities, other European asset-backed securities and other European real estate related 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 5 May 2005 to review the Company's financial results for the quarter ended 31 March 2005. The conference call is scheduled for 3 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 US +1-800-762-6067 or International +1-480-629-9566 ten minutes prior to the scheduled start of the call; please reference "Eurocastle First 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 11 May 2005 by dialing US +1-800-475-6701 or International +1-320-365-3844; please reference access code "780616."

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 31 March 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 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 31 March 2005.

Ernst & Young LLP
London

3 May 2005

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

Notes	Unaudited Three Months	Three Months
-------	---------------------------	--------------

		Ended 31 March 2005 e'000	Ended 31 March 2004 e'000

Operating income			
Interest income		14,709	394
Rental income		6,349	-
Unrealised gain on securities portfolio contract		-	2,562
Realised gain on disposal of available-for-sale securities		921	-

Total operating income		21,979	2,956

Operating expenses			
Interest expense		12,392	279
Loss on foreign currency translation		166	10
Property operating expense		106	-
Other operating expenses	3	2,717	438

Total operating expenses		15,381	727

Profit on ordinary activities before taxation		6,598	2,229
Taxation expense		143	-
=====			
Net profit after taxation		6,455	2,229
=====			
Earnings per ordinary share (adjusted for share consolidation)			
Basic	12	0.35	0.19
Diluted	12	0.34	0.19
Weighted average ordinary shares outstanding (adjusted for share consolidation)			
Basic	12	18,463,670	11,857,670
Diluted	12	19,174,094	11,868,150
=====			

See notes to the consolidated interim financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 31 March 2005 e'000	31 December 2004 e'000

Assets			
Cash and cash equivalents		11,484	10,293
Restricted cash		949	2,812
Asset backed securities, available-for-sale (includes cash to be invested)	4	831,492	796,522
Asset backed securities pledged under repurchase agreements	4	405,123	467,962
Real estate related loans	5	22,512	21,938
Real estate related loans pledged under repurchase agreements	5	23,844	-
Investment property	7	318,523	318,514
Other assets	6	10,402	9,578

Total assets		1,624,329	1,627,619
=====	=====	=====	=====
Equity and Liabilities			
Capital and Reserves			
Issued capital, no par value, unlimited number of shares authorised, 18,463,670 shares issued and outstanding at 31 March 2005	13	192,309	192,309
Net unrealised gain on available-for-sales securities and hedge instruments	4, 14	10,255	7,317
Accumulated profit		6,756	6,394
Other reserves	13	400	400
-----	-----	-----	-----
Total equity		209,720	206,420
-----	-----	-----	-----
Minority Interests		2	2
Liabilities			
CDO bonds payable	8	347,973	347,877
Bank borrowings	9	642,738	608,849
Repurchase agreements	10	403,208	197,584
Taxation payable		143	-
Trade and other payables	11	20,545	266,887
-----	-----	-----	-----
Total liabilities		1,414,607	1,421,197
-----	-----	-----	-----
Total equity and liabilities		1,624,329	1,627,619
=====	=====	=====	=====

See notes to the consolidated interim financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Three Months Ended 31 March 2005 e'000	Three Months Ended 31 March 2004 e'000
-----	-----	-----
Cash Flows From Operating Activities		
Net profit before taxation	6,598	2,229
Adjustments for:		
Unrealised gain on securities portfolio contract	-	(2,562)
Unrealised loss on foreign currency contracts	753	10
Accretion of discounts on securities	(1,645)	(33)
Amortisation of borrowing costs	355	-
Gain on disposal of available-for-sale securities	(921)	-
Net change in operating assets and liabilities:		
Decrease in restricted cash	1,863	-
Increase in other assets	(1,814)	(618)
Increase in trade and other payables	6,474	289
-----	-----	-----
Net cash flows used in operating activities	11,663	(685)
-----	-----	-----
Cash Flows From Investing Activities		
Refund of securities portfolio contract deposit	-	5,422
Addition to investment property	(9)	-
Net purchase of available-for-sale		

securities/loans	(279,938)	(81,878)
Proceeds from sale of available-for-sale-securities	36,314	-
-----	-----	-----
Net cash flows used in investing activities	(243,633)	(76,456)
-----	-----	-----
Cash Flows From Financing Activities		
Borrowings under repurchase agreements	205,624	75,810
Proceeds from bank borrowings	33,630	-
Dividends paid to shareholders	(6,093)	-
-----	-----	-----
Net cash flows from financing activities	233,161	75,810
-----	-----	-----
Net Increase/(Decrease) in Cash and Cash Equivalents	1,191	(1,331)
Cash and Cash Equivalents, Beginning of Period	10,293	1,690
Cash and Cash Equivalents, End of Period	11,484	359
-----	-----	-----

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary Shares (adjusted for share consolidation)	Share Capital	Other Reserves	Net Unrealised Gains/ (Losses)	Hedging Reserves	Accumulated Profit (Loss)	Total Equity
	e'000	e'000	e'000	e'000	e'000	e'000	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
-----	-----	-----	-----	-----	-----	-----	-----
Net unrealised loss on available-for-sale securities	-	-	-	(254)	-	-	(254)
Net profit	-	-	-	-	-	2,229	2,229
-----	-----	-----	-----	-----	-----	-----	-----
At 31 March 2004 (restated)	11,857,670	58,827	200	(254)	-	2,131	60,904
-----	-----	-----	-----	-----	-----	-----	-----
At 1 April 2004 (restated)	11,857,670	58,827	200	(254)	-	2,131	60,904
Second call on capital	-	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 shares options	-	-	200	-	-	-	200
Costs related to issuance of ordinary shares on IPO (including £200k relating to adoption of IFRS 2)	-	(5,078)	-	-	-	-	(5,078)
Issuance of ordinary shares to Director	6,000	72	-	-	-	-	72
Net unrealised gain on available for sale securities	-	-	-	6,858	-	-	6,858
Net unrealised gain on hedge instruments	-	-	-	-	713	-	713
-----	-----	-----	-----	-----	-----	-----	-----
Net gains not recognised in the income statement	-	-	200	6,604	713	-	7,517
-----	-----	-----	-----	-----	-----	-----	-----
Net profit for the period	-	-	-	-	-	9,802	9,802

Total income and expense for the year	-	-	200	6,604	713	12,031	19,548
Dividends paid	-	-	-	-	-	(5,539)	(5,539)
At 31 December 2004 (restated)	18,463,670	192,309	400	6,604	713	6,394	206,420

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	-	-	-	4,823	-	-	4,823
Realised gains reclassified to the income statement	-	-	-	2	-	-	2
Realised losses reclassified to the income statement	-	-	-	(415)	-	-	(415)
Net unrealised loss on hedge instruments	-	-	-	-	(1,472)	-	(1,472)
Net gain/(loss) not recognised in the income statement	-	-	-	4,410	(1,472)	-	2,938
Net profit for the period	-	-	-	-	-	6,455	6,455
Total income and expense for the period	-	-	-	4,410	(1,472)	6,455	9,393
Dividends paid	-	-	-	-	-	(6,093)	(6,093)
At 31 March 2005	18,463,670	192,309	400	11,014	(759)	6,756	209,720

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. 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 Directors consider the Company to operate in three business segments, being real estate and other asset backed securities, real estate related loans, and investment properties, 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

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.

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 reserve.

IAS 39 Financial Instruments: Recognition and Measurement - Asset backed securities, available for sale at fair value of €405.1 million (31 December 2004: €468.0 million) and real estate loans of €23.8 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 three-month period ended 31 March 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 31 March 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.

More to follow, for following part double-click [nRN1D8714L]

small e before a number denotes euros