EUROCASTLE INVESTMENT LIMITED

FINANCIAL REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2005

First Quarter 2005 Highlights

- Total assets amounted to €1,624.3 million at the quarter end.
- Equity book value total of €209.7 million, or €11.36 per share.
- Net earnings of €6.5 million for the quarter, or €0.34 per diluted share.
- First quarter dividend of €0.33 per share, payable on 6 May 2005.
- Return on average invested capital during the quarter was 12.96%.

Selected Financial Data (amounts in €'000, except share data and supplemental data) Operating Data	**Three Months Ended 31 March 2005**	**Three Months Ended 31 March 2004**
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%
Number of securities	87

* 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 €6.5 million or €0.34 per diluted share. As of 31 March 2005, the Company's shareholders' equity was €209.7 million or €11.36 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 €45.8 million of asset backed securities and €24.4 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 €38 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 €0.33 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 €70.2 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 €10.7 million with an average spread of 0.97% and average rating of BBB. RMBS purchases amounted to €25.3 million with an average spread of 1.82% and average rating of BBB-. Other ABS purchases amounted to €9.8 million with an average spread of 1.82% and average rating of BBB. Real estate related loans amounted to €24.4 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 €32.1 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 €400 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 Ended 31 March 2005 €'000	Three Months Ended 31 March 2004 €'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 €'000	31 December 2004 €'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 €'000	Three Months Ended 31 March 2004 €'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 €'000	Other Reserves €'000	Net Unrealised Gains/ (Losses) €'000	Hedging Reserves €'000	Accumulated Profit (Loss) €'000	Total Equity €'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 €'000	Other Reserves €'000	Net Unrealised Gains/ (Losses) €'000	Hedging Reserves €'000	Accumulated Profit (Loss) €'000	Total Equity €'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

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 à responsabilité limitée. Longwave and Shortwave each own German companies which have been used to hold one or several of the investment properties. These companies were established as special purpose vehicles limited to holding the single or multiple real estate investment properties acquired at the end of December 2004. Longwave has 60 subsidiaries and Shortwave has 2 subsidiaries. Luxgate owns all of the ordinary share capital of Eurobarbican which in turn owns all of the share capital of Longwave and Shortwave.

Financial Instruments

Classification

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

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

Recognition

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

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

Measurement

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

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

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

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

Impairment

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

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

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

Hedge accounting

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

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

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

Repurchase Agreements

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, as well as cash held by the trustees of the CDO I securitisation as a reserve for future trustee expenses. As such, these funds are not available for use by the Group.

Investment Properties

Investment properties comprise land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment property acquired at the end of December 2004 has been recognised at cost, being the fair value of the consideration given, including real estate transfer taxes, professional advisory fees and other acquisition costs. After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the consolidated income statement.

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

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

Deferred Financing Costs

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

Interest-Bearing Loans and Borrowings

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

Minority Interests

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

Revenue Recognition

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

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

Rental income is recognised on an accruals basis.

Income Tax

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

The Company's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation provision for the quarter ended 31 March 2005 relates to these subsidiaries.

Foreign Currency Translation

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

Share-Based Payments

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

3. OTHER OPERATING EXPENSES

	Unaudited Three Months Ended 31 March 2005 €'000	Three Months Ended 31 March 2004 €'000
Professional fees	456	168
Management fees	1,475	236
Other	786	34
	2,717	438

4. AVAILABLE-FOR-SALE SECURITIES

The following is a summary of the Company's available-for-sale securities at 31 March 2005.

			Gross Unrealised			Weighted Average			
	Current Face Amount	Amortised Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon	Yield	Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	172,110	171,876	2,445	(40)	174,281	BBB+	3.93%	3.98%	3.49
Other ABS	208,116	207,863	3,187	(262)	210,788	BBB+	4.22%	4.29%	3.97
	380,226	379,739	5,632	(302)	385,069	BBB+	4.09%	4.15%	3.75
Portfolio II									
CMBS	93,683	92,961	935	(18)	93,878	BBB	3.76%	3.89%	5.51
Other ABS	107,244	107,575	1,045	(11)	108,609	BBB	4.13%	4.06%	5.07
	200,927	200,536	1,980	(29)	202,487	BBB	3.96%	3.98%	5.28
Portfolio III									
CMBS	118,232	118,558	1,783	(166)	120,175	BBB+	4.55%	4.52%	3.74
Other ABS	99,700	99,019	1,501	(297)	100,223	BBB+	4.22%	4.83%	3.14
	217,932	217,577	3,284	(463)	220,398	BBB+	4.40%	4.66%	3.47
Total Portfolio	**799,085**	**797,852**	**10,896**	**(794)**	**807,954**	**BBB+**	**4.14%**	**4.25%**	**4.06**
Other Securities									
CMBS	137,779	137,175	595	(443)	137,327	AA-	3.33%	3.57%	2.44
Other ABS	68,560	68,567	760	-	69,327	A	3.20%	3.12%	5.04
	206,339	**205,742**	**1,355**	**(443)**	**206,654**	**A+**	**3.29%**	**3.42%**	**3.30**
	1,005,424	**1,003,594**	**12,251**	**(1,237)**	**1,014,608**	**BBB+**	**3.97%**	**4.08%**	**3.90**
Short Term Investments									
Asset backed commercial paper	200,000	199,490	-	-	199,490	A-1+	n/a	2.12%	0.16
Total	**1,205,424**	**1,203,084**	**12,251**	**(1,237)**	**1,214,098**				
Restricted Cash					**22,517**				
Total Asset Backed Securities (including cash to be invested)					**1,236,615**				

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

The securities within Portfolio I are encumbered by the CDO I securitisation (Note 8). The securities within 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.

Asset backed securities, available for sale at fair value of €405.1 million have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005, these securities have been reclassified as pledged securities as follows:

	Unaudited 31 March 2005 €'000	**31 December 2004 €'000**
Asset backed securities, available for sale (includes cash to be invested)	831,492	796,522
Asset backed securities pledged under repurchase agreements	405,123	467,962
Total asset backed securities	**1,236,615**	**1,264,484**

Net unrealised gains on available for-sale-securities and hedge instruments recognised in the statement of changes in equity were as follows:

	Unaudited 31 March 2005 €'000	**31 December 2004 €'000**
Unrealised gains on available-for-sale securities	12,251	7,833
Unrealised losses on available-for-sale securities	(1,237)	(1,229)
Unrealised (loss)/gain on hedge instruments (Note 14)	(759)	713
	10,255	**7,317**

5. REAL ESTATE LOANS

			Gross Unrealised			Weighted Average			
	Current Face Amount	Amortised Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon	Yield	Maturity (Years)
	€'000	€'000	€'000	€'000	€'000				
Real estate loans	46,682	46,356	-	-	46,356	*	6.82%	8.07%	4.51

* Included in real estate loans are loans with a total current face amount of €23,844,000 and with an average rating of BB from Standard and Poors.

Real estate loans with a carrying value of €23.8 million have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005, these loans have been reclassified as pledged assets as follows:

	Unaudited 31 March 2005 €'000	**31 December 2004 €'000**
Real estate loans	22,512	21,938
Real estate loans pledged under repurchase agreements	23,844	-
Total real estate loans	**46,356**	**21,938**

6. OTHER ASSETS

	Unaudited 31 March 2005 €'000	31 December 2004 €'000
Interest receivable	9,262	7,800
Rent receivable	461	344
Deferred financing costs	217	217
Prepaid insurance	75	227
Derivative assets	-	990
Other assets	387	-
	10,402	9,578

Deferred financing costs represent costs associated with the issuance of a collateralised debt obligation and will be offset against the proceeds of the issuance.

7. INVESTMENT PROPERTIES

The table below shows the items aggregated under investment property in the consolidated balance sheet:

EUR '000 (unaudited)	Land & Buildings	Leasehold Property	Total
At 1 January 2004	303,480	15,034	318,514
Additions	9	-	9
At 31 March 2005	303,489	15,034	318,523

The property portfolio consists of 96 office and retail assets located throughout metropolitan and regional Germany, predominantly in western Germany. The properties were acquired from Deutsche Bank, which remains the largest occupant of the portfolio, occupying approximately 52% of the portfolio by area. Deutsche Bank's weighted average unexpired lease term is 7.0 years. Additions during the period represent additional purchase costs capitalised in respect of existing properties.

A summary of the location and proportionate value of each property in the portfolio is as follows:

Location	Number of Properties	Proportionate Value
Nordrhein-Westfalen	30	33.71%
Baden-Württemberg	20	23.91%
Hesse	9	8.56%
Lower Saxony	8	9.66%
Bayern	7	7.30%
Rhineland-Palatinate	6	4.54%
Saxony-Anhalt	3	4.45%
Thuringia	5	2.68%
Saxony	2	1.63%
Schleswig-Holstein	1	1.33%
Hamburg	1	0.99%
Bremen	1	0.43%
Mecklenburg-West Pomerania	2	0.51%
Brandenburg	1	0.30%
	96	100.00%

Fair values for the properties have been assessed by the company to be in line with the initial cost of the properties including acquisition costs, and as such, no profit or loss arising from changes in value has been brought to account in the current period.

8. BONDS PAYABLE

CDO Bonds

As at 31 March 2005 (unaudited)

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	347,973	2.78%	7.1

As at 31 December 2004

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*	*347,877*	*2.78%*	*7.3*

None of the CDO bonds are due to be repaid within one year of the balance sheet date.

9. BANK BORROWINGS

The bank borrowings comprises of:

		31 March 2005 €'000	31 December 2004 €'000
Warehouse borrowing	(Note 9.1)	371,873	350,843
Term finance	(Note 9.2)	243,865	244,006
Revolving credit facility	(Note 9.3)	27,000	14,000
		642,738	608,849

The amounts drawn under the revolving credit facility (€27,000,000) and the warehouse borrowing facility (€371,873,000) are due for repayment within one year of the balance sheet date.

9.1 Warehouse Borrowings

In July 2004, through its subsidiaries CDO II and CDO III, the Company exercised its option to purchase 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 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 securitisation transactions. The Company completed the securitisation of CDO III on 28 April 2005 and expects to complete the securitisation of CDO II on 5 May 2005 as described in Note 17 (Subsequent Events).

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 weighted average financing cost was 2.83% at 31 March 2005.

9.2 Term Financing for Investment Properties

On 23 December 2004, in order to finance the acquisition of investment properties the Company's subsidiaries entered into a €246.5 million term loan facility with a major real estate lending bank. The facility is secured in the customary manner for German real estate lending, granting security over, inter alia, all the real estate purchased as well as over rental streams and bank accounts. The term of the facility is 8.3 years with final maturity in April 2013. The interest rate on the loan is Euribor + 1.18% p.a, payable quarterly.

9.3 Revolving Credit Facility

In December 2004, the Company entered into a revolving €35 million credit facility with a major investment bank as a means of securing access to temporary working capital. The facility is secured by receivables flowing from CDO I, CDO II, CDO III and EFL and with security assignments of the Company's rights under its management agreement with Fortress Investment Group LLC. The facility contains a number of financial covenants including a maximum leverage ratio and a minimum interest cover ratio. The interest rate on drawn amounts is Euribor + 2.5% p.a., while on undrawn amounts it is 0.5% p.a.

10. REPURCHASE AGREEMENTS

In 2004, the Company's consolidated subsidiary EFL entered into a master repurchase agreement with certain major investment banks to finance the purchase of available-for-sale securities. The obligations under those agreements are guaranteed by the Company. 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 €403.2 million and 2.28%, respectively at 31 March 2005.

11. TRADE AND OTHER PAYABLES

	31 March 2005 €'000	31 December 2004 €'000
Security deposit	5,006	5,000
Unsettled security purchases	2,625	254,051
Interest payable	4,690	2,283
Accrued expenses	3,099	2,264
Due to affiliates – Manager	964	237
Derivative liabilities	1,235	-
Finance & operating lease payable	2,926	2,925
Other payables	-	127
	20,545	266,887

12. 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 potential ordinary shares during the period.

The Company's potential ordinary shares 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.

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

	Three Months Ended 31 March 2005	Three Months Ended 31 March 2004
Weighted average number of ordinary shares, outstanding basic	18,463,670	11,857,670
Dilutive effect of ordinary share options	710,424	10,480
Weighted average number of ordinary shares outstanding, diluted	19,174,094	11,868,150

13. SHARE CAPITAL AND RESERVES

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. At the same time, the Company issued 5,000 shares to Paolo Bassi and 1,000 shares to Keith Dorrian in their capacity of Directors of the Company. The shares issued to the Directors were non-cash shares, and were issued with nil proceeds.

Under the Company's Articles of Association, the Directors have the authority to affect the issuance of additional ordinary shares or to create new classes of shares as they deem necessary.

Other Reserves

Other reserves represent the fair value of share options at the grant date, granted to the Manager in December 2003 and June 2004.

14. HEDGE ACCOUNTING – CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is only applied to cash flow hedges of interest rate risk exposures. Interest rate swaps under which the Company pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowing.

The gain or loss on measurement of the fair value of the interest rate swaps has been recognised in the statement of changes in equity to the extent that the swaps are effective.

The details of interest rate swaps entered into by the Company are as follows:

	31 March 2005 €000	**31 December 2004 €000**
Nominal amount	210,000	210,000
Pay rate	3.47%	3.47%
Receive rate	3 Month Euribor	3 Month Euribor
Remaining life	8.0 years	8.3 years
Fair value of swaps (liabilities)/assets	(759)	713

15. 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). The fair value of the options at the date of grant was €0.2 million and was estimated by reference to an option pricing model.

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

In June 2004 following the IPO, the Manager was granted an additional 660,000 options at an exercise price of €12 per share. The fair value of the additional options at the date of grant was €0.2 million and was also estimated by reference to an option pricing model. 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.

The fair value at the date of grant of options granted to the Manager has been offset against the proceeds from issuance of ordinary shares as the grant of options is a cost of capital.

16. DIVIDENDS PAID & PROPOSED

	2005 **€000**
Paid during the 3 months ended 31 March 2005:	
Equity dividends on ordinary shares:	
Fourth quarter dividend for 2004: €0.33 (2003: nil)	6,093
	6,093
Dividend declared on 19 April 2005 (not recognised as a liability at 31 March 2005)	
Equity dividends on ordinary shares:	
First quarter dividend for 2005: €0.33 (2004: nil)	6,095

No dividends were declared and/or paid during the three months ended 31 March 2004.

17. SUBSEQUENT EVENTS

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 €400 million financing which was issued by Eurocastle CDO III PLC on 28 April 2005 to purchase euro investments.