EUROCASTLE INVESTMENT LIMITED

FINANCIAL REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

Nine Months 2005 Highlights

- Share offer completed in June 2005, raising net proceeds of €95 million
- Increased dividend by 12.1% from €0.33 per share in Q1 to €0.37 per share in Q3
- Completed two further non-recourse term financings for target real estate debt portfolios of £200 million and €400 million
- Net profit after taxation of €29.6 million for the nine months, or €1.39 per diluted share
- Funds from operations (“FFO”) of €22.0 million for the nine months, or €1.04 per diluted share
- FFO return on average invested capital was 12.7%

Third Quarter 2005 Highlights

- Total assets amounted to €1,927.7 million at the quarter end
- Equity book value total of €306.2 million, or €12.65 per share
- Net profit after taxation of €16.4 million for the quarter, or €0.65 per diluted share
- FFO of €9.3 million, or €0.37 per diluted share
- Third quarter dividend of €0.37 per share, to be paid on 11 November 2005
- FFO return on average invested capital during the quarter was 12.5%

Selected Financial Data (amounts in €’000, except share data and supplemental data) Operating Data	**Three Months Ended 30 September 2005**	**Nine Months Ended 30 September 2005**	**Nine Months Ended 30 September 2004**
Net profit after taxation	16,352	29,567	6,970
Earnings per diluted share	0.65	1.39	0.49
FFO	9,298	22,000	6,970
FFO per diluted share	0.37	1.04	0.49
Weighted average number of shares outstanding, diluted	25,046,485	21,206,023	14,302,043

Balance Sheet Data	**As of 30 September 2005**	**As of 31 December 2004**
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)	1,203,752	1,264,484
Real estate loans (includes loans pledged under repurchase agreements)	99,632	21,938
Investment property	398,042	318,514
Real estate fund units	181,992	-
Cash and cash equivalents	17,500	10,293
Total assets	1,927,734	1,627,619
Debt obligations	1,550,281	1,154,310
Shareholders’ equity	306,237	206,420

Reconciliation of Funds from Operations (FFO) to net profit after taxation	Three Months Ended 30 September 2005	Nine Months Ended 30 September 2005	Nine Months Ended 30 September 2004
Net profit after taxation	16,352	29,567	6,970
Decrease/(increase) in fair value of investment properties	68	(445)	-
Increase in fair value of real estate fund units	(7,122)	(7,122)	-
Funds from operations (FFO)	9,298	22,000	6,970

FFO is an appropriate measure of the underlying operating performance of real estate companies because it provides investors with information regarding our ability to service debt and make capital expenditures. Furthermore, FFO is used to compute our incentive compensation to our manager. FFO, for our purposes, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties and mark to market fluctuations in real estate fund units. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and therefore do not exclude such gains and losses when arriving at FFO. FFO does not represent cash generated from operating activities in accordance with IFRS and therefore should not be considered an alternative to cash flow as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs. Our calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

Supplemental Total Real Estate and Other ABS Securities and Real Estate Loans Data

	As of 30 September 2005	As of 31 December 2004
Total debt investments (excluding restricted cash)	1,278,683	1,023,218
Weighted average asset yield	4.06%*	4.18%
Weighted average liability cost	2.72%	2.73%
Weighted average net spread	1.34%	1.45%
Weighted average credit rating	BBB+	BBB+
Weighted average asset credit spread (above Euribor)	1.95%*	1.99%
Percentage investment grade of securities portfolio	92%	93%
Number of securities and loans	106	87

* includes assets and liabilities referenced under a total return swap

Supplemental Total Credit Leased Real Estate Data

	As of 30 September 2005	As of 31 December 2004
Investment properties at fair value	398,042	318,514
Real estate fund units	181,992	-
Total investment in credit leased real estate assets	580,034	318,514
Weighted average asset yield	7.99%	7.10%
Weighted average liability cost	4.78%	4.56%
Weighted average net spread	3.21%	2.54%

CHAIRMAN'S STATEMENT

Overview

Eurocastle Investment Limited (LSE: ECT) reports net profit after taxation for the quarter ended 30 September 2005 of €16.4 million, or €0.65 per diluted share, as compared to €3.2 million, or €0.17 per diluted share, for the third quarter of 2004. The Company also reports net profit after taxation for the nine months ended 30 September 2005 of €29.6 million, or €1.39 per diluted share, as compared to €7.0 million, or €0.49 per diluted share, for the first nine months of 2004. Funds from operations (or FFO) amounted to €22.0 million and €9.3 million, respectively, for the nine months and quarter ended 30 September 2005. This amount excludes a €7 million increase in the fair value of the Company's credit-leased real estate classified as investment properties and real estate fund units. Eurocastle generated an FFO return on average invested common equity of 12.5% for the quarter, and 12.7% for the nine months, ended 30 September 2005. As of 30 September 2005, the Company's shareholders' equity was €306.2 million or €12.65 per outstanding share, as compared to €203.3 million, or €11.01 per outstanding share, as of 30 September 2004.

Eurocastle's core business strategy is to invest in and manage a diverse portfolio consisting primarily of European credit-leased real estate and European real estate related debt. Based on current opportunities, we see the increased emphasis on investment in the credit-leased real estate side of our business continuing. The Company's objective is to deliver stable and growing dividends and attractive risk-adjusted returns to shareholders by optimizing the difference between the yield on investments and the cost of financing these investments. Since Eurocastle's IPO in June 2004, the Company's annualized dividend to shareholders has increased by approximately 23% from €1.20 to €1.48 per share.

Eurocastle was very active on the investment side during the third quarter and has built a strong pipeline of accretive investments for the near term. Substantially all of the proceeds from Eurocastle's equity capital raise in June 2005 have been invested or committed to investment. Accordingly, Eurocastle expects to be back shortly to raise additional capital.

Third Quarter 2005 Dividend

Eurocastle aims to pay out substantially all of its funds from operations in the form of quarterly dividends to shareholders. On 18 October 2005, the Board of Directors declared a dividend of €0.37 per share for the quarter ended 30 September, an increase of €0.02 per share from the prior quarter. The record date for this increased dividend was 28 October 2005 and the payment date is 11 November 2005.

Investment Activity

Credit-Leased Real Estate Investment Portfolio

Eurocastle has made significant progress in growing its European credit-leased real estate investment portfolio, which comprises investment properties and real estate fund units. During the third quarter, the Company purchased approximately €254 million of credit leased real estate investments in Germany and Italy. These purchases, which are described below, brought directly or indirectly Eurocastle's total credit-leased real estate investments to €580 million at 30 September 2005, or 31% of the Company's total investment portfolio.

i) Investment Properties

During the third quarter, the Company purchased 30 recently developed German retail stores for approximately €79 million. The stores are well-located throughout Germany and are leased on a long-term basis to a number of leading German grocery retailers. In addition, Eurocastle has agreed to acquire or received letters of intent from vendors to sell 47 other German retail properties for approximately €134 million. These transactions are expected to close in the fourth quarter 2005, increasing Eurocastle's credit-leased real estate investment portfolio to approximately €700 million.

ii) Real Estate Fund Units

In July 2005, Eurocastle purchased a €175 million interest (net of accrued income) in a real estate investment fund that owns a portfolio of 394 properties in Italy. The properties are 100% occupied under long-term lease agreements with Italian government agencies.

Real Estate Debt Portfolio

In the nine months ended 30 September 2005, Eurocastle purchased approximately €391 million of real estate related securities and €77 million of real estate related loans, with approximately €240 million in face amount of real estate related securities and real estate loans having been purchased during the quarter ended 30 September 2005. The securities purchased during the quarter had an average credit rating of BBB and an average credit spread above Euribor of 1.15%. Purchases of CMBS in the third quarter amounted to €66.6 million, with an average spread of 1.19% and average rating of BBB. RMBS purchases in the third quarter amounted to €84.0 million, with an average spread of 0.87% and average rating of BBB+. Other ABS purchases in the third quarter amounted to €35.5 million, with an average spread of 1.78% and average rating of BB+. Real estate related loans purchased amounted to €53.5 million with an average spread of 2.66%.

After allowing for sales of securities and principal redemptions, the net increase in face amount of real estate related securities and real estate related loans during the third quarter was €155.7 million, raising the amount of these investments from €1.1 billion at the last quarter end to approximately €1.3 billion at 30 September 2005, an increase of approximately 14%.

The European real estate debt markets remain strong with record-level new issuances. The Company expects this growth to continue to provide significant accretive investment opportunities in real estate related debt. Attractive opportunities to invest in the B-Note and mezzanine loan markets are increasing as this market expands in Europe and we were able to grow the portfolio of these loans by 111% in the third quarter. Eurocastle has developed a robust pipeline of these securities and loan investments for the near term.

Capital Markets

During the second quarter, Eurocastle successfully completed a public offering of 5,740,000 shares resulting in gross proceeds to the Company of approximately €99 million (net proceeds €95 million).

On 14 July 2005, Eurocastle established a €400 million three year extendable revolving credit facility. This facility was used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements, and is being used to acquire further real estate debt. At 30 September 2005, approximately €161.9 million had been drawn under this facility.

During the third quarter, Eurocastle financed its credit-leased real estate investment purchases with fixed rate term loans, which has eliminated exposure to increased interest rates. This is consistent with our objective of locking in the spread between the yield on our investments and the cost of financing those investments.

Investment Portfolio

Credit-Leased Real Estate Investment Portfolio

As of 30 September 2005, Eurocastle owned an approximately €580 million portfolio of credit-leased real estate investments, comprising investment properties of €398 million and real estate fund units of €182 million. This portfolio represents 30% of the Company's total assets.

i) Investment Properties

The credit-leased real estate portfolio included €318 million of German bank properties purchased in December 2004 and €80 million of German retail stores. The German bank investment consists of 96 properties, or approximately 295,000 square meters of office space, which is leased primarily to Deutsche Bank for an average of 6.4 years. Since acquiring the portfolio in December 2004, Eurocastle has added 16 new leases, bringing the total occupancy of this portfolio to approximately 76%. The Company also owns 30 recently developed German retail properties. These properties are located in popular sites throughout Germany and are leased to some of the country's largest grocery retailers for an average term of approximately 11 years.

ii) Real Estate Fund Units

Eurocastle has a €182 million interest in a real estate investment fund that owns a portfolio of 394 Italian properties. The properties are let to Italian government agencies. The original term of the Lease Agreement is 9 years, automatically renewable for a further 9 years. The properties have a total occupancy of 100%.

Real Estate Debt Portfolio

As of 30 September 2005, Eurocastle's total real estate debt portfolio of approximately €1.3 billion, which represents approximately 68% of the Company's total assets, included €604.8 million of CMBS, €574.2 million of other asset backed securities, €99.6 million of loans and €24.7 million of cash held pending investment in additional real estate related debt. The real estate debt portfolio is well diversified with 106 securities and loans and an average life of approximately 4.06 years; approximately 96% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 52% in the UK, 13% in Italy, 13% in Germany, 11% Pan European and 5% in France. The average credit quality of the securities portfolio is BBB+ and approximately 92% of the securities are rated investment grade. The portfolio's weighted average credit spread was approximately 1.95% as of 30 September 2005.

CHAIRMAN'S STATEMENT (cont'd)

Eurocastle's real estate debt portfolio has continued to perform well. As of 30 September 2005, none of the Company's securities or loans have defaulted, and there have been no principal losses to date. Eurocastle continues 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 a Euro-denominated Guernsey closed-end investment company listed on the London Stock Exchange as a property investment company. The Company invests in and manages a diverse portfolio consisting primarily of European credit-leased real estate and real estate related debt. 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. For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com.

Conference Call

Management will conduct a conference call on Wednesday, 2 November 2005 to review the Company's financial results for the quarter ended 30 September 2005. The conference call is scheduled for 1:00 P.M. London time (8:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-866-323-3742 (from within the U.S.) or +1-706-643-0550 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle Third 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 18 November 2005 by dialing +1-800-642-1687 (from within the U.S.) or +1-706-645-9291 (from outside of the U.S.); please reference access code "1596968."

INDEPENDENT REVIEW REPORT TO EUROCASTLE INVESTMENT LIMITED

Introduction

We have been instructed by the Company to review the financial information for the nine months ended 30 September 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 18. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' responsibilities

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

Review work performed

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

Review conclusion

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

Ernst & Young LLP
London

01 November 2005

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	**Unaudited Three Months Ended 30 September 2005 €'000**	**Unaudited Nine Months Ended 30 September 2005 €'000**	Unaudited Three Months Ended 30 September 2004 €'000	Unaudited Nine Months Ended 30 September 2004 €'000
Operating income					
Interest income		16,970	47,408	9,020	11,784
Rental income		6,408	19,063	-	-
Unrealised gain on securities portfolio contract		-	-	84	4,140
Real estate fund unit interest income		3,607	3,607	-	-
Realised gain on disposal of available-for-sale securities		380	2,233	-	-
Realised gain on disposal of investment properties		731	731	-	-
(Decrease)/Increase in fair value of investment properties		(68)	445	-	-
Increase in fair value of real estate fund unit		7,122	7,122	-	-
Increase in fair value of total return swap		428	428	-	-
Total operating income		35,578	81,037	9,104	15,924
Operating expenses					
Interest expense		14,876	40,371	4,512	6,320
Losses on foreign currency contracts/currency translation		314	1,473	230	280
Property expenses		917	2,120	-	-
Other operating expenses	3	2,529	6,629	1,179	2,354
Total operating expenses		18,636	50,593	5,921	8,954
Profit on ordinary activities before taxation		16,942	30,444	3,183	6,970
Taxation expense	4	590	877	-	-
Net profit after taxation		16,352	29,567	3,183	6,970
Earnings per ordinary share (adjusted for share consolidation)					
Basic	14	0.68	1.45	0.17	0.49
Diluted	14	0.65	1.39	0.17	0.49
Weighted average ordinary shares outstanding (adjusted for share consolidation)					
Basic	15	24,209,670	20,443,707	18,463,670	14,140,801
Diluted	15	25,046,485	21,206,023	18,943,733	14,302,043

See notes to the consolidated interim financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 September 2005 €'000	31 December 2004 €'000
Assets			
Cash and cash equivalents		17,500	10,293
Restricted cash		1,879	2,812
Asset backed securities, available-for-sale (includes cash to be invested)	5	1,143,354	796,522
Asset backed securities pledged under repurchase agreements	5	60,398	467,962
Real estate related loans	6	63,328	21,938
Real estate related loans pledged under repurchase agreements	6	36,304	-
Real estate fund units	8	181,992	-
Investment property	9	398,042	318,514
Other assets	7	24,937	9,578
Total assets		1,927,734	1,627,619
Equity and Liabilities			
Capital and Reserves			
Issued capital, no par value, unlimited number of shares authorised, 24,209,670 shares issued and outstanding at 30 September 2005	15	286,814	192,309
Net unrealised gain on available-for-sale securities	5	7,070	6,604
Hedging reserve	5,16	(5,976)	713
Accumulated profit		17,309	6,394
Other reserves	15	1,020	400
Total equity		306,237	206,420
Minority Interests		2	2
Liabilities			
CDO bonds payable	10	863,055	347,877
Bank borrowings	11	602,463	608,849
Repurchase agreements	12	84,763	197,584
Taxation payable	4	877	-
Trade and other payables	13	70,337	266,887
Total liabilities		1,621,495	1,421,197
Total equity and liabilities		1,927,734	1,627,619

See notes to the consolidated interim financial statements

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Nine Months to 30 September 2005 €'000	Unaudited Nine Months to 30 September 2004 €'000
Cash Flows From Operating Activities		
Net profit before taxation	30,444	6,970
Adjustments for:		
Gain on disposal of investment properties	(731)	-
Unrealised (gain)/loss on foreign currency contracts	(106)	(918)
Accretion of discounts on securities	(3,561)	(480)
Amortisation of borrowing costs	(382)	121
Gain on disposal of available-for-sale securities	(2,233)	-
Shares granted to Directors	108	72
Gain on revaluation of real estate fund units	(7,122)	-
Revaluation (gain) on investment properties	(445)	-
Net change in operating assets and liabilities:		
Decrease/(Increase) in restricted cash	933	(2,273)
Increase in other assets	(15,966)	(5,591)
Increase in trade and other payables	51,525	10,930
Net cash flows used in operating activities	52,464	8,831
Cash Flows From Investing Activities		
Securities portfolio contract deposit	-	(59,000)
Repayment of securities portfolio contract deposit	-	119,388
Repayment of security principal	-	9,106
Additions to investment property	(79,542)	-
Proceeds from disposal of investment property	1,190	-
Acquisition of real estate fund units	(174,870)	-
Net purchase of available-for-sale securities/loans	(392,494)	(866,044)
Proceeds from sale of available-for-sale-securities	127,741	-
Net cash flows used in investing activities	(517,975)	(796,550)
Cash Flows From Financing Activities		
Proceeds of issuance of ordinary shares	99,015	138,488
Costs related to issuance of ordinary shares	(3,998)	(4,745)
Proceeds from issuance of bonds	520,083	351,000
Costs related to issuance of bonds	(4,523)	(3,342)
Borrowings under repurchase agreements	(112,821)	146,683
Repayments under warehouse borrowing facility	(350,843)	159,564
Net movement of bank borrowings	344,457	-
Dividends paid to shareholders	(18,652)	-
Net cash flows from financing activities	472,718	787,648
Net Increase/(Decrease) in Cash and Cash Equivalents	7,207	(71)
Cash and Cash Equivalents, Beginning of Period	10,293	1,690
Cash and Cash Equivalents, End of Period	17,500	1,619

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
Second capital call on existing shares	-	59,288	-	-	-	-	59,288
Issuance of ordinary shares on IPO	6,600,000	79,200	-	-	-	-	79,200
Effect of adoption of IFRS 2 – fair value of share options	-	-	200	-	-	-	200
Costs related to issuance of ordinary shares on IPO (including €200k relating to adoption of IFRS 2)	-	(4,945)	-	-	-	-	(4,945)
Issuance of ordinary shares to Directors	6,000	72	-	-	-	-	72
Net unrealised loss on available for sale securities	-	-	-	3,601	-	-	3,601
Net profit	-	-	-	-	-	6,970	6,970
At 30 September 2004 (restated) (unaudited)	18,463,670	192,442	400	3,601	-	6,872	203,315
At 1 October 2004 (restated)	18,463,670	192,442	400	3,601	-	6,872	203,315
Costs related to issuance of ordinary shares on IPO	-	(133)	-	-	-	-	(133)
Net unrealised gain on available for sale securities	-	-	-	3,003	-	-	3,003
Net unrealised gain on hedge instruments	-	-	-	-	713	-	713
Net gains not recognised in the income statement	-	-	400	6,604	713	-	7,717
Net profit for the period	-	-	-	-	-	5,159	5,159
Total income and expense for the year	-	-	400	6,604	713	12,031	19,748
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	-	-	-	2,247	-	-	2,247
Issuance of shares – June 2005	5,740,000	99,015	-	-	-	-	99,015
Costs related to issue of shares – June 2005	-	(3,998)	-	-	-	-	(3,998)
Issuance of ordinary shares to Directors	6,000	108	-	-	-	-	108
Realised losses reclassified to the income statement	-	-	-	2	-	-	2
Realised gains reclassified to the income statement	-	-	-	(1,783)	-	-	(1,783)
Net unrealised loss on hedge instruments	-	-	-	-	(6,689)	-	(6,689)
Cost related to issue of options on follow on share issue	-	(620)	620	-	-	-	-
Net gains not recognised in the income statement	-	-	1,020	7,070	(5,976)	-	2,114
Net profit for the period	-	-	-	-	-	29,567	29,567
Total income and expense for the period	-	-	-	466	(6,689)	29,567	23,344
Dividends paid and declared	-	-	-	-	-	(18,652)	(18,652)
At 30 September 2005 (unaudited)	24,209,670	286,814	1,020	7,070	(5,976)	17,309	306,237

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND

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

The Company is externally managed by its manager, Fortress Investment Group LLC (the "Manager"). The Company has entered into a management agreement (the "Management Agreement") under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company's Board of Directors. The Company has no direct employees. For its services, the Manager receives an annual management fee (which includes a reimbursement for expenses) and incentive compensation, as described in the Management Agreement. The Company has no ownership interest in the Manager.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement - Asset backed securities, available for sale at fair value of €60 million (31 December 2004: €468.0 million) and real estate loans of €36 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 nine months ended 30 September 2005. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company.

At 30 September 2005, the Company's subsidiaries consisted of Eurocastle Funding Limited ("EFL"), Eurocastle CDO I PLC ("CDO I"), Eurocastle CDO II PLC ("CDO II"), Eurocastle CDO III PLC ("CDO III") and Eurocastle CDO IV PLC ("CDO IV"), 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, CDO III and CDO IV as it retains control over these entities and retains the residual risks of ownership of these entities.

Eurocastle acquired its German bank branch and office portfolio of 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.

Eurocastle acquired retail property in Germany through two German partnerships Bastion Gmbh & Co. KG ("Bastion") and Belfry Gmbh & Co. KG ("Belfry"). These two partnerships hold 9 and 21 assets respectively as at 30 September 2005. Each of the two German partnerships are 100% owned by two Luxembourg limited partners set up as sociétés à responsabilité limitée (Sàrl), each such pair being held fully by a further Luxembourg Sàrl, which in turn is 100% owned by Eurocastle's principal direct real estate holding entity, Luxgate Sàrl, a subsidiary of Eurocastle Investment Limited.

Eurocastle's investment in real estate fund units are held by Finial Sàrl, a Luxembourg limited company, which is 100% owned by Luxgate Sàrl.

Financial Instruments

Classification

Financial assets and liabilities measured at fair value through the profit and loss account are those instruments that the Company principally holds for the purpose of short-term profit taking. These include securities portfolio contracts, total return swaps, real estate fund units 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 the fair value of the assets are recognised.

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

Measurement

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

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

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

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

Derecognition

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

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

Impairment

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

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

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

Hedge accounting

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

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

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

Repurchase Agreements

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

Cash and Cash Equivalents

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

Restricted Cash

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

Investment Properties

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

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

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

Real Estate Fund Units

Real estate fund units are recorded at fair value in the consolidated balance sheet, with any change in fair value recognised in the consolidated income statement. The interest income is recognized in the income statement as it accrues, taking into account the effective yield of the real estate fund units.

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, CDO III and CDO IV 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 accrual for the nine months ended 30 September 2005 relates to these subsidiaries.

The German subsidiaries Bastion GmbH & Co KG and Belfry GmbH & Co KG are also subject to German income tax on rental income net of interest and other expense deductions. No taxable income has been generated in these entities and therefore no tax accrual has been made for the nine months ended 30 September 2005.

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 to 30 September 2005 €'000	**Unaudited Nine Months to 30 September 2005 €'000**	Unaudited Three Months to 30 September 2004 €'000	Unaudited Nine Months to 30 September 2004 €'000
Professional fees	353	1,149	217	614
Management fees	1,088	2,537	729	1,370
Incentive fees	1,008	2,463	-	-
Other	80	480	233	370
	2,529	6,629	1,179	2,354

4. TAXATION EXPENSE

The taxation expense for the nine months ended 30 September 2005 relates to the Company's German subsidiary companies as described in Note 2. The tax charge on Longwave and Shortwave is based on German tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses, and includes tax on the gain arising from the disposal of a property during the period. Bastion and Belfry are subject to German income tax on rental income net of interest and other expense deductions. No taxable income has been generated in these entities and therefore no tax accrual has been made for the nine months ended 30 September 2005.

5. AVAILABLE-FOR-SALE SECURITIES

The following is a summary of the Company's available-for-sale securities at 30 September 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	161,781	161,671	1,992	(36)	163,627	BBB	3.95%	3.99%	3.45
Other ABS	230,319	230,706	2,955	(147)	233,514	BBB+	4.04%	4.07%	3.75
	392,100	392,377	4,947	(183)	397,141	BBB+	4.00%	4.04%	3.63
Portfolio II									
CMBS	132,185	132,009	578	(476)	132,111	BBB	3.58%	3.63%	5.21
Other ABS	145,198	145,541	509	(454)	145,596	BBB	3.54%	3.49%	5.17
	277,383	277,550	1,087	(930)	277,707	BBB	3.56%	3.56%	5.19
Portfolio III									
CMBS	128,135	128,249	975	(163)	129,061	BBB-	4.20%	4.20%	4.78
Other ABS	152,913	152,715	1,267	(169)	153,813	BBB+	3.89%	4.08%	3.50
	281,048	280,964	2,242	(332)	282,874	BBB	4.03%	4.14%	4.08
Portfolio IV									
CMBS	120,249	119,374	290	(58)	119,606	BBB+	3.78%	3.99%	4.10
Other ABS	41,173	41,295	146	(116)	41,325	BBB	3.62%	3.52%	6.09
	161,422	160,669	436	(174)	160,931	BBB+	3.74%	3.87%	4.61
Total Portfolio	**1,111,953**	**1,111,560**	**8,712**	**(1,619)**	**1,118,653**	**BBB**	**3.86%**	**3.92%**	**4.27**
Other Securities									
CMBS	60,493	60,421	82	(105)	60,398	AA	2.63%	2.78%	0.11
Other ABS	-	-	-	-	-	-	-	-	
	60,493	**60,421**	**82**	**(105)**	**60,398**	**AA**	**2.63%**	**2.78%**	**0.11**
	1,172,446	**1,171,981**	**8,794**	**(1,724)**	**1,179,051**	**BBB+**	**3.80%**	**3.86%**	**4.06**
Restricted Cash – Cash to be Invested					**24,701**				
Total Asset Backed Securities (including cash to be invested) (unaudited)					**1,203,752**				

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

The securities within Portfolio I, II and III are encumbered by CDO securitisations (Note 10).

Asset backed securities, available for sale at fair value of €60.4 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 30 September 2005 €'000	31 December 2004 €'000
Asset backed securities, available for sale (includes cash to be invested)	1,143,354	796,522
Asset backed securities pledged under repurchase agreements	60,398	467,962
Total asset backed securities	**1,203,752**	1,264,484

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

	Unaudited 30 September 2005 €'000	31 December 2004 €'000
Unrealised gains on available-for-sale securities	8,794	7,833
Unrealised losses on available-for-sale securities	(1,724)	(1,229)
Unrealised (loss)/gain on hedge instruments (Note 16)	(5,976)	713
	1,094	7,317

6. REAL ESTATE LOANS

			Gross Unrealised			Weighted Average			
	Current Face Amount €'000	Amortised Cost Basis €'000	Gains €'000	Losses €'000	Carrying Value €'000	S&P Rating	Coupon	Yield	Maturity (Years)
Real estate loans	100,165	99,632	-	-	99,632	*	5.66%	5.70%	4.03

* Included in real estate loans are loans with a total current face amount of €39.8 million and with an average rating of BB from Standard and Poors.

Real estate loans with a carrying value of €36.3 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 30 September 2005 €'000	31 December 2004 €'000
Real estate loans	63,328	21,938
Real estate loans pledged under repurchase agreements	36,304	-
Total real estate loans	**99,632**	21,938

7. OTHER ASSETS

	Unaudited 30 September 2005 €'000	31 December 2004 €'000
Interest receivable	12,210	7,800
Rent receivable	583	344
Deferred financing costs	-	217
Prepaid expenses	396	227
Derivative assets	106	990
Unsettled security transactions	1,990	-
Fair value of total return swap (note 7.1)	428	-
Collateral deposit – total return swap	8,066	-
Other assets	1,158	-
	24,937	9,578

Deferred financing costs represented costs associated with the issuance of a collateralised debt obligation and were offset against the proceeds of the issuance.

7.1 Total Return Swap

In August 2005, a subsidiary entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at an average of Sterling LIBOR + 5.50%) and any positive change in value from a referenced term loan with an initial notional amount of £15 million, and pays interest (at Sterling Overnight Interbank Average - "SONIA") on the notional amount plus any negative change in value amounts from such loan. The contract has been recorded as a Derivative Asset and is treated as a trading asset that is not designated as an Effective Hedging Instrument for accounting purposes and is therefore marked to market through profit and loss. Under the contract, the subsidiary is required to post an initial collateral deposit equivalent to 36.7% of the notional amount and additional margin may be payable in the event of a decline in the referenced term loan.

8. REAL ESTATE FUND UNITS

In July 2005, the Company purchased an €184 million interest in 1,450 Class A real estate fund units backed by a portfolio of 394 properties in Italy. The original term of the Lease Agreement is 9 years, automatically renewable for a further 9 years, unless terminated by the Agenzia del Demanio, with a 12 month prior notice. The properties have a total occupancy of 100%.

	EUR '000 (unaudited)
At 1 January 2005	-
Purchase of real estate fund units	184,150
Less unit distribution	(9,280)
Increase in fair value	7,122
At 30 September 2005	**181,992**

9. 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 2005	303,480	15,034	318,514
Additions	79,542	-	79,542
Disposals	(459)	-	(459)
Increase in fair value	389	56	445
At 30 September 2005	**382,952**	**15,090**	**398,042**

The Company acquired 30 retail properties in the August and September 2005 at a cost of €79 million. These assets are located mainly in medium sized regional towns in southern Germany and are 85% occupied by national retailers on long term leases. The retail portfolio has a weighted average unexpired lease term of 10.9 years. The existing office portfolio consists of 96 office and banking hall assets located throughout metropolitan and regional Germany, predominantly in western Germany. The office portfolio was acquired from Deutsche Bank, which remains the largest tenant, occupying approximately 52% of the portfolio by area.

In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the Consolidated Income Statement. Fair values for the properties acquired during the period 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 have been brought to account in the current period. These values are supported by reference to comparable transactions in the market.

Investment properties have been valued at fair value and are determined by reference to the existing rental income and operating expenses for each property and the current market conditions in each geographical market. These values are supported by an independent valuation.

The value of investment property incorporates five properties which are considered finance or operating leases. As the Company has assumed substantially all the risks and rewards associated with these assets, these have been treated as investment property under the IAS 17 and IAS 40. These properties have been recognised at fair value in the same manner as freehold property. An associated liability representing the present value of lease payments to the freehold owner has been included in the balance sheet.

During the quarter the Company disposed of a small parcel of land in the office portfolio to the occupying tenant realising a profit on sale before tax of €0.7 million.

10. BONDS PAYABLE

CDO Bonds

As at 30 September 2005 (unaudited)

Class	Rating	Current Face Amount €'000	Carrying Amount €'000	Weighted Average Cost of Financing	Weighted Average Maturity (in years)
A,B and C Notes	AAA/AA/ A	872,257	863,055	2.70	8.5

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.

11. BANK BORROWINGS

The bank borrowings comprises of:

		Unaudited 30 September 2005 €'000	31 December 2004 €'000
Warehouse borrowing	(Note 11.1)	-	350,843
Term finance	(Note 11.2)	592,067	244,006
Revolving credit facility	(Note 11.3)	-	14,000
Other short term financing	(Note 11.4)	10,396	-
		602,463	608,849

11.1 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 subsequent securities acquired, were financed and held in a custody account by the bank. The Company used 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 the securitisation of CDO II on 5 May 2005. The proceeds of the securitisation issues allowed the CDO II and CDO III warehouse borrowings to be repaid in full during the period.

The terms of the credit facility provided for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) plus 75 basis points.

11.2 Term Financing

Real Estate Debt

On 14 July 2005, the Company through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank in order to build and finance a portfolio of asset backed securities and real estate related loans. The lender uses a rating agency CDO model to determine the level of equity contribution the Company is required to make to support the portfolio from time to time. The facility is secured over, inter alia, the collateral making up the portfolio. The margin payable to the lender depends on the deemed rating levels of the portfolio as determined by the rating agency model. As at 30 September 2005, €169 million had been drawn under the facility at an interest rate of Euribor + 0.46% p.a.

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 remaining term of the facility is 7.8 years with final maturity in April 2013. The interest rate on the loan is Euribor + 1.18% p.a, payable quarterly.

On 17 August 2005, in order to finance the Belfry Portfolio, the Company entered into a non-recourse €56.2 million ten year loan facility. The facility is secured in the customary manner for German real estate lending, granting security over, inter alia, the real estate purchased as well as rent receivables, bank accounts and shares in the Borrower. The loan is a fixed rate loan at 10 year Euribor swap rate plus a margin of 1.40%, payable quarterly.

On 30 September 2005, in order to finance the Bastion Portfolio, the Company entered into a non-recourse €26.5 million seven year loan facility. The facility is secured in the customary manner for German real estate lending, granting security over, inter alia, the real estate purchased as well as rent receivables, bank accounts and shares in the Borrower. The interest rate on the loan is Euribor + 1.20%, payable quarterly.

Real Estate Fund Units

On 22 July 2005, the Company entered into a non-recourse 13 year loan facility to finance its acquisition of 1,450 Class A Units in Fondo Immobili Pubblici. The facility is secured over, inter alia, the 1,450 Class A Units, an assignment of receivables under the units, a pledge over bank accounts and over shares in the Borrower. The interest rate on the loan is Euribor + 1.95%, payable semi-annually. On 21 October 2005, the Company acquired a further 50 Class A Units through the same facility.

11.3 Revolving Credit Facility

In December 2004, the Company entered into a revolving €35 million credit facility with Deutsche 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. The facility was increased to €50 million on 26 May 2005.

11.4 Other Short Term Financing

In May 2005, in order to finance the participation in a loan made to SC Karanis in connection with the Coeur Defense development in Paris, the Company entered into a full recourse €11.3 million one year loan facility. The facility is backed by a security assignment over the financed asset. It also contains an obligation to ensure that loan to value remains below 75%. The loan bears a rate of Euribor + 1.85%.

12. 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 reset or roll 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 €84.8 million and 2.60%, respectively at 30 September 2005.

13. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2005 €'000	31 December 2004 €'000
Security deposit	5,086	5,000
Unsettled security purchases	41,435	254,051
Interest payable	3,900	2,283
Due to affiliates – Manager	2,814	237
Derivative liabilities	5,976	-
Finance & operating lease payable	2,886	2,925
Accrued expenses & other payables	8,240	2,391
	70,337	266,887

14. 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.

	Unaudited Nine Months Ended 30 September 2005	Unaudited Nine Months Ended 30 September 2004
Weighted average number of ordinary shares, outstanding basic	20,443,707	14,140,801
Dilutive effect of ordinary share options	762,316	161,242
Weighted average number of ordinary shares outstanding, diluted	**21,206,023**	14,302,043

15. 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 as Directors of the Company. The shares issued to the Directors were non-cash shares, and were issued with nil proceeds. In April 2005 the Company issued a further 5,000 shares to Paolo Bassi and 1,000 to Keith Dorrian in their capacity as Directors of the company for nil proceeds. On 29 June 2005 the Company made a second public offering and issued 5,740,000 ordinary shares at a price of €17.25 each. After issue costs, the secondary offering raised €95 million for the Company.

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, June 2004 and June 2005.

16. 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:

Investment Property:

	Unaudited 30 September 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	7.6 years	8.3 years
Fair value of swaps (liabilities)/assets	(4,835)	713

Real Estate Fund Units:

	Unaudited 30 September 2005 €000	31 December 2004 €000
Nominal amount	117,813	-
Pay rate	3.45%	-
Receive rate	3 Month Euribor	-
Remaining life	11.3 years	-
Fair value of swaps liabilities	(1,141)	-

17. 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.

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. In June 2005 following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of €17.25 per share. The fair value of the additional options at the date of grant was €0.6 million. The Manager's 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.

18. DIVIDENDS PAID & DECLARED

	Unaudited Nine months ended 30 September 2005 €000
Paid during the 9 months ended 30 September 2005:	18,652
Equity dividends on ordinary shares:	
Fourth quarter dividend for 2004: €0.33 (2003: nil)	6,093
First quarter dividend for 2005: €0.33 (2004: nil)	6,095
Second quarter dividend for 2005: €0.35 (2004: nil)	6,464
	18,652
Third quarter dividend declared on 20 October 2005: €0.37 (2004: nil)	8,958