EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

INTERIM FINANCIAL RESULTS FOR THE QUARTER ENDED 31 MARCH 2007

Eurocastle Investment Limited owns and invests primarily in German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT". Eurocastle's objective is to build long-term value for its shareholders and to pay out stable and growing dividends. Eurocastle is managed by an affiliate of Fortress Investment Group LLC. For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com.

Highlights

First Quarter 2007

- Dividend declared for the first quarter 2007 is €0.45 per share. This compares to the first quarter 2006 dividend of €0.30 per share and fourth quarter 2006 dividends totalling €0.43 per share.
- Completed €2.2 billion of commercial property purchases, including the acquisition of 56 German commercial property assets ("the Mars portfolio") announced in December 2006.
- Signed 76 new leases for approximately 24,500 square meters.
- Entered into an agreement to sell a portfolio of 78 non-core assets for €324.5 million at a 9% premium to 2006 year end carrying value. The transaction is expected to be completed in the second and third quarter.

Key Performance Indicators

First Quarter 2007

- Net profit after tax of €54.4 million for the first quarter 2007, compared to €92.9 million for the first quarter 2006 and €9.7 million for the fourth quarter 2006.
- Earnings per ordinary share of €0.85 or €0.82 per diluted share, for the first quarter 2007, compared to €2.47 per ordinary share or €2.37 per diluted share for the first quarter 2006, and €0.19 per ordinary share or €0.18 per diluted share for the fourth quarter 2006.
- Funds from operations ("FFO", see Key Financial Information) increased by 101% to €27.9 million for the first quarter 2007 from €13.9 million for the first quarter 2006. Compared to the fourth quarter 2006, FFO increased by €6.0 million or 27%.
- FFO of €0.44 per ordinary share, or €0.42 per diluted share for the first quarter 2007 compared to FFO of €0.37 per ordinary share, or €0.35 per diluted share for the first quarter 2006 and €0.43 per ordinary share, or €0.41 per diluted share for the fourth quarter 2006.
- FFO return on average invested capital* was 7.66% for the first quarter 2007.
- Increased equity book value per share by 3.5% from €24.73 at the end of the fourth quarter 2006 to €25.58 at 31 March 2007.

* Invested capital represents capital and reserves less hedging reserves, fair value of interest rate swaps and net unrealised gains on available-for-sale securities, real estate fund units and investment properties (net of attributable deferred taxation).

Commenting on the results, Bruce Snider, Managing Director of Eurocastle's Manager, said:

"Our first quarter results of €0.44 of FFO per share reflect a partial contribution for the quarter from the €2.2 billion of German commercial property acquisitions completed at the end of February.

We are pleased with our continued success in leasing vacant space and expect that through a combination of improving rental markets and active asset management we will reach our portfolio occupancy targets. During the quarter, our new leases signed represented over 50% of our total for all of 2006 and rents achieved were approximately 10% higher than our 2006 average.

Although it is still early in the year, deal flow in Germany remains strong and we are confident of meeting our target of new German commercial property acquisitions during 2007. The sale of non-core assets announced in March will boost FFO by approximately €26 million in the second and third quarters and will be available for reinvestment or distribution in future quarters."

Key Financial Information

FUNDS FROM OPERATIONS ("FFO") (Unaudited)

(in €'000, except per share data)	Three Months Ended 31 March 2007	Year Ended 31 December 2006	Three Months Ended 31 March 2006
Reconciliation of FFO to net profit after taxation			
Net profit after taxation	54,356	143,819	92,902
(Increase) in fair value of investment properties	(41,268)	(78,119)	(77,236)
(Increase)/decrease in fair value of interest rate swaps	(2,315)	425	-
(Increase)/decrease in fair value of real estate fund units	(3,346)	5,217	(2,023)
Deferred tax charge on investment properties	20,503	3,366	222
Funds from operations (FFO)	27,930	74,708	13,865
FFO per weighted average basic share	0.44	1.66	0.37
FFO per weighted average diluted share	0.42	1.60	0.35

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 incentive compensation to the Manager. FFO, as defined by Eurocastle, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties net of attributable deferred taxation, changes in the fair value of interest rate swaps that are taken to the income statement and mark-to-market fluctuations in real estate fund units. The Group considers gains and losses on resolution of its investments to be a normal part of its recurring operations and therefore does 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. Eurocastle's calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

INCOME STATEMENT DATA (Unaudited)

(in €'000, except per share data)	Three Months Ended 31 March 2007	Year Ended 31 December 2006	Three Months Ended 31 March 2006
Interest income	33,599	95,970	20,420
Rental income	66,054	152,454	23,809
Service charge income	11,856	31,903	1,528
Real estate fund unit interest income	3,756	18,636	4,730
Increase in fair value of investment properties	41,268	78,119	77,236
Increase/(decrease) in fair value of real estate fund units	3,346	(5,217)	2,023
Interest expense	(60,603)	(150,282)	(26,543)
Other operating expenses	(8,715)	(26,023)	(5,280)
Service charge expense	(14,725)	(41,237)	(1,994)
Operating profit before taxation	74,955	147,557	93,248
Operating profit after taxation	54,356	143,819	92,902
Earnings per weighted average basic share	0.85	3.20	2.47
Earnings per weighted average diluted share	0.82	3.08	2.37

BALANCE SHEET DATA (Unaudited)

(in €'000, except per share data)	As of 31 March 2007	As of 31 December 2006
Cash and cash equivalents	160,696	122,699
Investment property held for sale	324,514	-
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)	1,567,603	1,560,307
Real estate loans	522,010	428,370
Real estate fund units	151,834	148,077
Investment property	5,224,410	3,308,872
Total assets	8,034,012	5,662,380
Debt obligations	6,349,463	3,966,328
Shareholders' equity	1,631,684	1,570,719
Book value per ordinary share	25.58	24.73

	Three Months Ended 31 March 2007	Year Ended 31 December 2006	Three Months Ended 31 March 2006
Weighted Average Ordinary Shares Outstanding			
Basic	63,601,040	44,956,083	37,644,978
Diluted	66,178,979	46,760,626	39,241,008
Ordinary Shares Outstanding	**63,776,528**	**63,519,083**	**45,604,099**

Conference Call

Management will conduct a conference call today, 17 May 2007, to review the Group's financial results for the quarter ended 31 March 2007. The conference call is scheduled for 3:00 P.M. London time (10:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-800-811-8824 (from within the U.S.) or +1-913-981-4903 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle First Quarter Earnings Call".

A webcast of the conference call will be available to the public on a listen-only basis at www.eurocastleinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. A replay of the webcast will be available for three months following the 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 Thursday, 24 May 2007, by dialing +1-888-203-1112 (from within the U.S.) or +1-719-457-0820 (from outside of the U.S.); please reference access code "5512421".

First Quarter Dividend

Eurocastle aims to pay out substantially all of its funds from operations over time in the form of quarterly dividends to shareholders. The Board of Directors has declared a quarterly cash dividend of €0.45 per share for the first quarter ended 31 March 2007. The dividend is payable on 1 June 2007 to holders on record of Eurocastle's shares on 17 May 2007.

Portfolio Review

During the first quarter, Eurocastle grew its real estate investment portfolio by €2.2 billion from €3.5 billion to €5.7 billion. At the end of February 2007, the Group completed the acquisition of two portfolios of German commercial properties, for all-in purchase prices of €2.15 billion (the "Mars portfolio") and €53 million (the "HUK portfolio"), respectively.

The Mars portfolio contains 56 commercial properties and was purchased from the open-ended fund DB Grundbesitz Invest. The properties, totalling approximately 840,000 square meters of lettable space, consist primarily of high quality class A office space and approximately 88% of rent is derived from assets located in or around the five major German markets of Frankfurt, Munich, Berlin, Hamburg and Dusseldorf. Approximately 84% of the portfolio is currently occupied, or subject to rental guarantees, with an average remaining lease term of approximately 5 years. The initial annual passing rent amounted to €119.6 million and includes a rental guarantee of €19.9 million per annum on approximately 91,000 square meters of currently vacant space. The rental guarantee will be paid until the space is let, subject to a maximum total payment of €40 million (including service charge income) or three years. The occupancy and lease expiry information in the tables below reflect the benefit of the guarantee. The initial NOI* yield on the portfolio is approximately 5.3%.

The HUK portfolio contains 8 commercial properties located in West Germany. The properties, totalling approximately 30,600 square meters are mainly let to HUK-Coburg, an insurance company, on long term leases. The initial NOI* yield on the portfolio is 6.4%.

The Group continues to see opportunities to acquire high quality office and retail property, particularly in the major metropolitan markets in Germany.

The asset management team in Germany has started the new year where it ended 2006, signing 76 new leases during the quarter for approximately 24,500 square meters. Since the first quarter end, a further 39 leases have been signed for approximately 12,000 square meters.

As previously announced, the Group is now reporting property information by geographical location and use, rather than by portfolio name. This is consistent with the way it manages its real estate portfolio. In addition, as Eurocastle disposes of non-core assets, reporting property information by portfolio name will become less meaningful.

Real Estate Investment Portfolio

As at 31 March 2007, Eurocastle owned a €5.7 billion portfolio of real estate investments, comprising investment properties of €5.5 billion (including cumulative unrealised fair value gains of €121 million as at 31 March 2007) and real estate fund units of €152 million (including cumulative unrealised fair value gains of €6.2 million as at 31 March 2007).

Real Estate Investment Portfolio Overview**

(in €'000, except for percentages)	As at 31 March 2007 (Unaudited)	As at 31 December 2006
Investment properties at fair value***	5,548,924	3,308,872
Real estate fund units	151,834	148,077
Total investment in real estate investments	**5,700,758**	**3,456,949**
Weighted average NOI* yield on cost	5.65%	5.90%
Weighted average liability cost	4.58%	4.41%
Weighted average net spread	1.06%	1.49%

* Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses on an annualised basis.
** Investment property portfolios defined in Note 2.
*** The investment value above includes €26.6 million (31 December 2006: €25.8 million) relating to finance leases on the head leases (Note 15). This balance has not been included in the property valuations shown in the following table headed Investment Property – Valuation Data. Also included are investment properties held for sale amounting to €324.5 million.

The tables below show the split of real estate property investments by portfolio name, use, and geographical location as at 31 March 2007.

At the quarter end, the investment property portfolio comprised 625 properties with approximately 2.5 million square meters of lettable space. The portfolio had a total occupancy of 86.8%, and stable cash flows with weighted average remaining lease term of 6.4 years.

Concentration in the top five markets is 65%, compared to 52% at 31 December 2006. The increased concentration in the top five markets is consistent with Eurocastle's focus on high quality class A office space in those markets and, together with the shorter lease terms, means that Eurocastle is well positioned to benefit from the expected improvements in the related rental markets.

INVESTMENT PROPERTY – RENTAL DATA

By Use

			Passing Rent*		
Use	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Office	1,474,291	84.4%	194.8	61%	13.04
Retail	406,910	94.1%	53.2	16%	11.58
Bank Hall	150,050	94.2%	26.5	8%	15.59
Other	470,030	85.7%	48.8	15%	10.08
Total Portfolio	**2,501,281**	**86.8%**	**323.3**	**100%**	**12.40**

By Location

			Passing Rent*		
Location	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Frankfurt	587,382	92.8%	109.7	34%	16.76
Berlin	169,989	76.3%	20.7	6%	13.29
Hamburg	130,862	98.6%	22.2	7%	14.33
Düsseldorf	109,390	93.6%	18.8	6%	15.28
Munich	230,544	84.4%	37.2	12%	15.91
Subtotal – Top 5 Markets	**1,228,167**	**89.6%**	**208.6**	**65%**	**15.78**
Remaining West	957,269	87.9%	93.1	28%	9.23
Remaining East	315,845	72.8%	21.6	7%	7.85
Total Portfolio	**2,501,281**	**86.8%**	**323.3**	**100%**	**12.40**

* Passing rent is defined as the annual gross rental income at the period end, excluding the net effects of straightlining for lease incentives.

INVESTMENT PROPERTY – LEASE EXPIRY DATA

By Use

Use	Average Lease Term	Passing Rent on Expiring Leases				
		Yr 1 €m	Yr 2-3 €m	Yr 4-6 €m	Yr 7-10 €m	Yr 10+ €m
Office	5.5	13.5	55.2	59.5	33.9	32.6
Retail	6.8	3.2	9.8	9.4	19.3	11.5
Bank Hall	6.8	0.2	6.4	5.3	10.2	4.4
Other	9.5	3.9	9.0	10.2	7.4	18.3
Total Portfolio	**6.4**	**20.8**	**80.4**	**84.4**	**70.8**	**66.8**

By Location

Location	Average Lease Term	Passing Rent on Expiring Leases				
		Yr 1	Yr 2-3	Yr 4-6	Yr 7-10	Yr 10+
Frankfurt	6.3	6.9	23.8	35.8	17.0	26.1
Berlin	4.3	2.5	7.9	4.4	4.9	1.1
Hamburg	6.5	1.3	9.0	3.5	1.0	7.4
Düsseldorf	9.3	0.5	1.9	7.0	0.5	8.9
Munich	7.0	3.9	11.6	10.8	3.1	7.6
Subtotal – Top 5 Markets	**6.5**	**15.1**	**54.2**	**61.5**	**26.5**	**51.1**
Remaining West	6.5	4.0	19.7	19.6	35.7	14.1
Remaining East	5.4	1.7	6.5	3.3	8.6	1.6
Total Portfolio	**6.4**	**20.8**	**80.4**	**84.4**	**70.8**	**66.8**

INVESTMENT PROPERTY - VALUATION DATA

Markets	Properties	Lettable Space sqm	Property Valuation €m*	Property Cost €m	% of Portfolio	Gross Rental Income €m	Net Operating Income €m	Net Operating Income yield on cost %
Top 5 Markets								
Frankfurt	56	587,382	1,884	1,863	34%	110.5	102.3	5.5%
Berlin	13	169,989	409	408	8%	20.7	19.3	4.7%
Hamburg	16	130,862	396	405	8%	22.8	20.9	5.2%
Düsseldorf	8	109,390	361	354	7%	19.0	17.5	4.9%
Munich	18	230,544	700	686	13%	37.4	34.9	5.1%
Subtotal – Top 5 Markets	**111**	**1,228,167**	**3,750**	**3,716**	**70%**	**210.4**	**194.9**	**5.2%**
Remaining West	393	957,269	1,466	1,405	25%	93.7	84.2	6.0%
Remaining East	121	315,845	307	281	5%	21.6	19.1	6.8%
Total Portfolio	**625**	**2,501,281**	**5,523**	**5,402**	**100%**	**325.7**	**298.2**	**5.5%**

* The above valuation does not include €26.1 million relating to head leases.

Real Estate Fund Units

As at 31 March 2007, Eurocastle had a total interest of approximately €152 million (including cumulative unrealised fair value gains of €6.2 million since acquisition) in a real estate investment fund that owns a portfolio of approximately 400 Italian properties. The properties are let to Italian government agencies. The original term of the lease agreement is 9 years (approximately 7 years remaining), with an extension option for a further 9 years. The properties are 100% occupied.

Debt Investment Portfolio

Overview of Real Estate and Other ABS Securities and Real Estate Loans

	31 March 2007 (Unaudited)	31 December 2006
Total debt investments (excluding restricted cash) (€'000)	**1,994,614**	1,967,969
Weighted average asset margin (above Euribor)*	**1.84%**	1.88%
Weighted average liability spread*	**0.48%**	0.56%
Weighted average net spread*	**1.36%**	1.32%
Weighted average credit rating	**BBB-**	BBB-
Percentage investment grade of debt investment portfolio	**62%**	66%
Number of securities and loans	**170**	158

* Includes assets and liabilities referenced under total return swaps.

Portfolio

As of 31 March 2007, Eurocastle's total debt investment portfolio totaled approximately €2.0 billion and included current face of €737 million of CMBS, €733 million of other asset backed securities (including €346 million of RMBS) and €525 million of real estate loans. The debt investment portfolio is well diversified with 170 securities and loans and an average life of approximately 4.50 years; approximately 99% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 49% in the UK, 12% in Italy, 21% in Germany, 6% Pan European, 5% in France and 7% in other European countries. The average credit quality of the debt investment portfolio is BBB- and approximately 62% of the investments are rated investment grade. The portfolio's weighted average asset margin was approximately 1.84% as at 31 March 2007.

Eurocastle's debt investment portfolio has continued to perform well. As of 31 March 2007, none of the Group's securities or loans had defaulted, and there have been no principal losses to date. Within Eurocastle's debt investment portfolio, the Group 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.

Acquisitions

In the three months ended 31 March 2007, Eurocastle purchased approximately €231 million of real estate related securities and loans. The securities and loans purchased have an average credit rating of BB and a weighted average asset margin of 2.16%.

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 three months was €27.3 million. The carrying amount of real estate related securities and real estate related loans was approximately €2.0 billion at 31 March 2007 with an average credit rating of BBB-.

Financing

The Group financed the Mars portfolio within the first quarter, with a term loan of €1,029 million at a fixed interest rate of 4.66% and a floating loan of €550 million at a floating interest rate of Euribor 3M + 0.75%. After allowing for upfront fees and costs and an interest rate swap on €220 million of the floating rate loan, the weighted average funding cost of the total debt of €1,579 million is 4.71% as at 31 March 2007. The fixed and floating rate loans mature on 20 July 2014 and 20 July 2008, respectively. Under the terms of financing, the Group is also required to draw a capital reserve line of €60 million prior to the securitisation of the loan by the lender expected to happen within 12 months of the facility signing date, 31 January 2007. In the interim, a commitment fee of 0.75% is payable in connection with the capital reserve.

During the quarter, the Group also borrowed to finance a €48.8 million acquisition of 8 commercial assets from the HUK-Coburg insurance company. The acquisition was financed with a 7 year non-recourse fixed loan at a funding cost of approximately 4.51% for the quarter ended 31 March 2007 and a go forward rate of 4.93% effective from the 7th of May 2007.

Eurocastle continues to finance its core real estate portfolio with fixed rate term loans, which has substantially eliminated its exposure to increased interest rates. This is consistent with the objective of locking in the spread between the yield on our investments and the cost of financing those investments.

Forward-Looking Statements

This release contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, availability of attractive investment opportunities, methods of funding portfolios, timing of completion of acquisitions, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including the risk that Eurocastle will be unable to exploit opportunities to acquire high quality office and retail property in Germany, or reach agreement or suitable final terms with respect to any sale of non-core assets or achieve its targets regarding operational growth particularly any increase in leasing of vacant space on acceptable terms.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying consolidated balance sheet of Eurocastle Investment Limited and its subsidiaries, as of 31 March 2007 and the related consolidated income statement, statement of changes in equity and statement of cash flows for the three months then ended, and summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards ("IFRS"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of quarter end financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards ("IFRS").

Ernst and Young LLP
London
16 May 2007

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Operating income			
Interest income	3	33,599	20,420
Rental income	4	66,054	23,809
Service charge income	5	11,856	1,528
Real estate fund unit interest income		3,756	4,730
Realised gain on disposal of asset backed securities, available-for-sale		230	281
Increase in fair value of investment properties	15	41,268	77,236
Increase in fair value of real estate fund units	14	3,346	2,023
Increase in fair value of interest rate swaps		2,315	-
Increase in fair value of total return swaps		-	40
Total operating income		162,424	130,067
Operating expenses			
Interest expense	6	60,603	26,543
Losses on foreign currency contracts/currency translation		723	481
Service charge expenses	5	14,725	1,994
Property operating expenses	4	2,703	2,521
Other operating expenses	7	8,715	5,280
Total operating expenses		87,469	36,819
Operating profit before taxation		**74,955**	**93,248**
Taxation expense - current	8	96	112
Taxation expense - deferred	8	20,503	234
Net profit after taxation		**54,356**	**92,902**
Earnings per ordinary share			
Basic	21	0.85	2.47
Diluted	21	0.82	2.37
Weighted average ordinary shares outstanding			
Basic	21	63,601,040	37,644,978
Diluted	21	66,178,979	39,241,008

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	31 March 2007 (Unaudited) €'000	31 December 2006 €'000
Assets			
Cash and cash equivalents	9	160,696	122,699
Other assets	12	60,593	69,537
Investment property held for sale	15	324,514	-
Asset backed securities, available-for-sale (includes cash to be invested)	10	1,490,418	1,481,661
Asset backed securities, pledged under repurchase agreements	10	77,185	78,646
Real estate related loans	11	522,010	428,370
Real estate fund units	14	151,834	148,077
Derivative assets	13	19,986	22,690
Investment property	15	5,224,410	3,308,872
Intangible assets	16	2,366	1,828
Total assets		**8,034,012**	**5,662,380**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised, 63,776,528 shares issued and outstanding at 31 March 2007	22	1,444,649	1,439,517
Accumulated profit		133,885	88,458
Net unrealised gain on asset backed securities, available-for-sale	10	1,693	1,882
Hedging reserve	23	34,137	23,542
Other reserves	22	17,320	17,320
Minority interest		6	6
Total equity		**1,631,690**	**1,570,725**
Liabilities			
Trade and other payables	20	208,544	93,299
CDO bonds payable	17	1,207,854	1,210,275
Bank borrowings	18	4,859,030	2,680,563
Repurchase agreements	19	74,035	75,490
Derivative liabilities		178	212
Finance lease payable	15	26,066	25,800
Current taxation payable	8	636	539
Deferred taxation payable	8	25,979	5,477
Total liabilities		**6,402,322**	**4,091,655**
Total equity and liabilities		**8,034,012**	**5,662,380**

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Cash flows from operating activities		
Operating profit before taxation	74,955	93,248
Adjustments for:		
Unrealised loss on foreign currency contracts	723	(481)
Accretion of (discounts)/premiums on securities	(142)	(228)
Amortisation of borrowing costs	1,329	710
Realised (gain) on disposal of asset backed securities, available-for-sale	(230)	(281)
Amortisation of intangibles	130	33
Revaluation (gain) on real estate fund units	(3,346)	(2,023)
Revaluation (gain) on investment properties	(41,268)	(77,236)
Revaluation (gain) on total return swap	-	(40)
Revaluation (gain) on interest rate swap	(2,315)	-
Decrease in other assets	15,344	23,482
Increase in trade and other payables	105,993	50,342
Net cash flows from operating activities	**151,173**	**87,526**
Cash flows from investing activities		
Purchase of investment property	(2,198,784)	(2,047,909)
Disposal of asset backed securities, available-for-sale	172,483	-
Purchase of asset backed securities, available-for-sale	(184,653)	(35,758)
Purchase of securities pledged under repurchase agreements	1,479	298
Increase in real estate related loans	(118,214)	-
Repayment of real estate related loans	24,574	1,408
Purchase of intangible assets	(668)	(111)
Net cash flows used in investing activities	**(2,303,783)**	**(2,082,072)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	5,248	534,690
Costs related to issuance of ordinary shares	(116)	(11,128)
Repayments under repurchasing agreements	(1,455)	(988)
Increase of bank borrowings	2,195,859	1,554,212
Dividends paid to shareholders	(8,929)	(8,958)
Net cash flows from financing activities	**2,190,607**	**2,067,828**
Net increase in cash and cash equivalents	**37,997**	**73,282**
Cash and cash equivalents, beginning of period	**122,699**	**13,640**
Cash and cash equivalents, end of period	**160,696**	**86,922**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit/(loss) €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2006	**24,209,670**	**286,801**	**1,020**	**4,703**	**(12,100)**	**18,442**	**2**	**298,868**
Net unrealised loss on available-for-sale securities	-	-	-	(3,633)	-	-	-	(3,633)
Issuance of shares	21,394,429	534,690	-	-	-	-	-	534,690
Costs related to issue of shares	-	(11,128)	-	-	-	-	-	(11,128)
Realised losses reclassified to the income statement	-	-	-	28	-	-	-	28
Net unrealised gain on hedge instruments	-	-	-	-	25,980	-	-	25,980
Cost related to issue of options on follow on share issue	-	(6,917)	6,917	-	-	-	-	-
Net gains not recognised in the income statement	-	-	7,937	1,098	13,880	-	-	22,915
Net profit for the quarter	-	-	-	-	-	92,902	-	92,902
Total income and expense for the quarter	-	-	6,917	(3,605)	25,980	92,902	-	122,194
Dividends paid	-	-	-	-	-	(8,958)	-	(8,958)
At 31 March 2006 (Unaudited)	**45,604,099**	**803,446**	**7,937**	**1,098**	**13,880**	**102,386**	**2**	**928,749**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit/(loss) €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 April 2006	**45,604,099**	**803,446**	**7,937**	**1,098**	**13,880**	**102,386**	**2**	**928,749**
Net unrealised gain on available-for-sale securities	-	-	-	783	-	-	-	783
Issuance of shares	17,837,838	660,000	-	-	-	-	-	660,000
Costs related to issue of shares	-	(15,429)	-	-	-	-	-	(15,429)
Share options issued	71,146	711	-	-	-	-	-	711
Costs related to issue of options on follow on shares	-	(9,383)	9,383	-	-	-	-	-
Ordinary shares issued to Directors	6,000	172	-	-	-	-	-	172
Realised losses reclassified to the income statement	-	-	-	1	-	-	-	1
Net unrealised gain on hedge instruments	-	-	-	-	9,071	-	-	9,071
Amortisation of novated swaps	-	-		-	591	-	-	591
Movement in minority interest	-	-	-	-	-	-	4	4
Net gains not recognised in the income statement	-	-	9,383	784	9,662	-	4	19,833
Net profit for the nine months	-	-	-	-	-	50,917	-	50,917
Total income and expense for the nine months	-	-	9,383	784	9,662	50,917	-	70,746
Dividends paid	-	-	-	-	-	(64,845)	-	(64,845)
At 31 December 2006	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit/(loss) €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2007	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**
Net unrealised (loss) on available-for-sale securities	-	-	-	(461)	-	-	-	(461)
Share options exercised during the period	257,445	5,248	-	-	-	-	-	5,248
Additional costs related to Dec share issue	-	(116)	-	-	-	-	-	(116)
Realised gain reclassified to the income statement	-	-	-	272	-	-	-	272
Net unrealised gain on hedge instruments	-	-	-	-	10,024	-	-	10,024
Amortisation of novated swaps	-	-	-	-	571	-	-	571
Net gains/(losses) not recognised in the income statement	-	-	-	(189)	10,595	-	-	10,406
Net profit for the quarter	-	-	-	-	-	54,356	-	54,356
Total income and expense for the quarter	-	-	-	(189)	10,595	54,356	-	64,762
Dividends paid	-	-	-	-	-	(8,929)	-	(8,929)
At 31 March 2007 (Unaudited)	**63,776,528**	**1,444,649**	**17,320**	**1,693**	**34,137**	**133,885**	**6**	**1,631,690**

1. BACKGROUND

Eurocastle Investment Limited (the "Group") 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 Euronext Amsterdam (formerly listed on the London Stock Exchange). The activities of the Group include the investing in, financing and managing of European real estate assets and European real estate related debt.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 (interim financial statements). 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 2006 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the Group, because the Group conducts its business predominantly in euros.

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.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Group's management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Where such judgements are made they are indicated within the accounting policies below.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the three months ended 31 March 2007. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 31 March 2007, the Group's subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

Eurocastle Funding Limited ("EFL"), Eurocastle CDO I PLC ("CDO I"), Eurocastle CDO II PLC ("CDO II"), Eurocastle CDO III PLC ("CDO III"), Eurocastle CDO IV PLC ("CDO IV"), Duncannon CRE CDO I PLC (Duncannon) and FECO SUB SPV PLC (Feco) are all limited companies incorporated in Ireland. The ordinary share capital of these vehicles is held by outside parties and the Group has no voting rights. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation – Special Purpose Entities, the Group consolidates EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and Feco as it retains control over these entities and retains the residual risks of ownership of these entities.

The Group owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg, Germany and Ireland, as disclosed in Note 28, which are consolidated into these financial statements.

Eurocastle's investment in real estate fund units are held by Finial Sàrl ("FIP"), a Luxembourg limited company, which is 100% owned by Luxgate Sàrl. The Group owns 100% of Luxgate Sàrl.

Financial Instruments

Classification

Financial assets and liabilities measured at fair value through the consolidated income statement are principally those instruments that the Group holds for the purpose of short-term profit taking. These include total return swaps, real estate fund units, interest rate swaps and forward foreign exchange contracts that are not designated as effective hedging instruments.

Available-for-sale assets and restricted short term investments are financial assets that are not classified as instruments held at fair value through the income statement, loans and advances, or held to maturity. Available-for-sale instruments include real estate loans and other asset backed securities.

Recognition

The Group recognises financial assets that are classified as held at fair value through the income statement 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 Group 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 the income statement, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all instruments that are classified as held at fair value through the consolidated income statement 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 calculated using pricing models or discounted cash flow techniques, as applicable.

Where discounted cash flow techniques are used, expected future cash flows are based on our Manager'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 calculated at the amount that the Group 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 instruments that are classified as held at fair value through the income statements 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 of financial assets and liabilities

Financial Assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Impairment

The Group 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 calculated future cash flows of the financial asset or group of financial assets that can be reliably measured.

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 the income statement, is removed from equity and recognised in the income statement.

Subsequent increases in the fair values of both debt instruments classified as available-for-sale and financial assets measured at amortised cost, 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.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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, short-term deposits and restricted cash 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. In addition, restricted cash comprises cash held as part of the minimum liquidity requirement for ECTGPROP1 (formerly known as Dresdner Grund Fonds). 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 properties are measured initially at cost, including transaction costs, and recognised when the customary conditions precedent under the relevant purchase agreement have been satisfied and the purchase price is paid to the vendor. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Properties held under operating leases are accounted for as investment property when they meet the definition of investment property. In such cases the operating leases are accounted for as if they were finance leases with an associated liability representing the present value of future minimum lease payments included in finance lease liabilities on the balance sheet.

Finance Leases

The determination of whether an arrangement is, or contains a finance lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

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 recognised in the income statement as it accrues, taking into account the effective yield of the real estate fund units.

Intangible Assets

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. These software costs are recognised in the consolidated income statement through amortisation of the capitalised software costs on a straight line basis over their expected useful life of 5 years.

Interest-Bearing Loans and Borrowings

All loans and borrowings, including the Group'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 Group's consolidated subsidiaries.

Revenue Recognition

The Group considers revenue to comprise interest income and rental income as its principal business is investing in, financing and management of European real estate and other asset backed securities and other real estate related assets.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 arising from operating leases on investment properties is recognised on a straight-line basis over the lease term. Incentives given to enter into lease agreements are spread evenly over the lease term as a reduction of rental expense, even if the payments are not made on such a basis.

Service Charges

The Group acts as a principal bearing the risk of over/under charging of service costs to its tenants. The service income earned from the tenants and the service costs incurred are shown separately in the consolidated income statement.

Service Income

Service income represents service costs recoverable from tenants and is recognised on the basis of services being provided.

Service Costs

Service costs represent service contracts entered into for the operation of the property, and are expensed on an accrual basis.

Property Expenses

Property expenses are expenses that are incurred on the property portfolio that are not able to be recovered from tenants. Property expenses are recognised on an accruals basis in the consolidated income statement.

Income Tax

The Group is a Guernsey, Channel Islands limited company and is not subject to taxation. The Group's subsidiaries, EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and Feco, 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 Group's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the period ended 31 March 2007 includes a provision relating to these subsidiaries.

The Group's subsidiaries Bastion, Belfry, Truss, Bridge, Turret, Mars and HUK are also subject to German income tax on rental income net of interest and other expense deductions. A small taxable income has been generated, within these entities, which has generated a small tax accrual, which includes deferred tax, for the period ended 31 March 2007.

The Group's investment in the underlying properties in relation to the Drive portfolio and the Real Estate Fund Units is by way of units in an open-ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in these units.

Certain Luxembourg subsidiaries are subject to Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolio.

Deferred Taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Foreign Currency Translation

The functional and presentation currency of the Group 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. The fair value is calculated by reference to an option pricing model. The fair value of the share options granted in relation to capital raises has been fully recognised (vested) on the date of grant as a cost relating to the issue of shares with a corresponding increase to other reserves.

Shares granted to Directors are recognised in the income statement over the period that the services are received.

3. INTEREST INCOME

Interest income for the three months ended 31 March 2007 of €33.6 million (31 March 2006: €20.4 million) is primarily interest income earned on the asset backed securities, available-for-sale and asset backed securities pledged under repurchase agreements.

4. RENTAL INCOME AND PROPERTY OPERATING EXPENSES

Rental income for the three months ended 31 March 2007 of €66.1 million (31 March 2006: €23.8 million) represents rental income earned on investment properties.

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income during the year for the three months ended 31 March 2007 was €2.7 million (2006: €2.5 million).

5. SERVICE CHARGE INCOME AND EXPENSE

Service charge income for the three months ended 31 March 2007 of €11.9 million (31 March 2006: €1.5 million) represents the service costs recoverable from tenants.

Service charge expense for the three months ended 31 March 2007 of €14.7 million (31 March 2006: €2.0 million) represents the costs relating to the service contracts entered into for the operation of the properties.

6. INTEREST EXPENSE

Interest expense for the three months ended 31 March 2007 of €60.6 million (31 March 2006: €26.5 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements.

7. OTHER OPERATING EXPENSES

	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Professional fees	1,091	1,697
Management fees	5,394	2,384
Incentive fees	-	307
Amortisation of intangible assets	130	33
Other*	2,100	859
	8,715	**5,280**

* Included within other operating expenses for the period are reimbursement of property related asset management services of €1.43 million (2006: €0.7 million) to FIG LLC.

8. TAXATION EXPENSE

	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Current tax		
Germany	-	22
Luxembourg	96	90
Total current tax	**96**	**112**
Deferred tax		
Germany	20,503	234
Total deferred tax	**20,503**	**234**
Total tax expense	**20,599**	**346**

Reconciliation of the total tax expense

The tax expense in the consolidated income statement for the period is higher than the standard rate of corporation tax in Guernsey of 0%. The difference is reconciled below:

	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Net profit before taxation	74,955	93,248
Profit on ordinary activities based on Guernsey tax of 0 % (2006: 0%)	-	-
Overseas taxation (current and deferred)	20,599	346
Total tax expense reported in the Income Statement	**20,599**	**346**

Analysis of deferred tax:

	Three months ended 31 March 2007 (Unaudited) €'000	Three months ended 31 March 2006 (Unaudited) €'000
Tax losses carried forward	(714)	(193)
Short term timing differences		
Loan expense	(68)	(45)
Tenant improvements and leasing commissions	(6)	-
Long term timing differences		
Accelerated capital allowance*	1,352	553
Revaluation of investment properties*	19,903	(80)
Acquisition expense	36	-
Other	-	(1)
Deferred tax expense	**20,503**	**234**

* This represents deferred tax on the difference between the fair value and the German tax book value of the investment properties, except the Drive portfolio. The Group's investment in the underlying properties in relation to the Drive portfolio is by way of units in an open ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in the Drive portfolio. This has resulted in a higher effective tax rate in the current period compared with the three months ended 31 March 2006.

Deferred tax on revaluation of investment properties:

Portfolio	Three months ended 31 March 2007 Unrealised gain/(loss) (Unaudited) €'000	Three months ended 31 March 2007 Deferred tax (Unaudited) €'000	Three months ended 31 March 2006 Unrealised gain/(loss) (Unaudited) €'000	Three months ended 31 March 2006 Deferred tax (Unaudited) €'000
Mars	(53,539)	-	-	-
Drive	23,222	-	77,863	-
Wave	62,923	16,588	(304)	(80)
HUK	(335)	-	-	-
Bridge	680	1,076	-	-
Retail	8,317	2,239	(323)	-
	41,268	**19,903**	**77,236**	**(80)**

Movement in taxation payable:

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Opening tax payable	6,016	2,278
Tax paid	-	-
Tax expense for the period	20,599	3,738
Closing taxation payable	**26,615**	**6,016**
Split between:		
Current tax	636	539
Deferred tax	25,979	5,477
Closing taxation payable	**26,615**	**6,016**

The taxation expense for the period ended 31 March 2007 relates to the Group's Luxembourg and German subsidiary companies as described in Note 2. The German tax charge is based on German tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The Luxembourg tax charge is based on Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolios.

9. CASH AND CASH EQUIVALENTS

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Cash on hand and balances with banks	115,146	77,613
Restricted cash – ECTGPROP1 liquidity requirement	45,550	45,086
Cash and cash equivalents	**160,696**	**122,699**

There is a minimum liquidity requirement of 5% of the value of ECTGPROP1 (formerly known as Dresdner Grund-Fonds), the subsidiary through which the Drive portfolio is held, in accordance with German Investment Companies Act requirements. At 31 March 2007, the liquidity requirement of 5% has been invested in high grade debt securities of short duration.

10. ASSET BACKED SECURITIES AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 31 March 2007.

			Gross unrealised			Weighted average			
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating*	Coupon	Margin	Maturity (years)
Portfolio I									
CMBS	114,057	114,057	504	(44)	114,517	BBB	5.21%	1.44%	3.92
Other ABS	239,623	240,084	1,266	(211)	241,139	BBB	5.64%	1.74%	4.02
	353,680	354,141	1,770	(255)	355,656	BBB	5.50%	1.64%	3.98
Portfolio II									
CMBS	219,610	219,762	313	(251)	219,824	BBB	5.18%	1.36%	5.25
Other ABS	191,040	191,393	235	(345)	191,283	BBB	5.15%	1.25%	4.08
	410,650	411,155	548	(596)	411,107	BBB	5.17%	1.31%	4.70
Portfolio III									
CMBS	242,899	242,907	337	(331)	242,913	BBB-	5.14%	1.69%	5.18
Other ABS	218,583	218,704	591	(183)	219,112	BBB	5.22%	1.33%	4.03
	461,482	461,611	928	(514)	462,025	BBB	5.18%	1.52%	4.64
Portfolio IV									
CMBS	27,916	27,790	33	(83)	27,740	BBB-	5.77%	3.10%	4.86
Other ABS	25,749	25,736	10	(291)	25,455	A-	5.22%	1.50%	4.00
	53,665	53,526	43	(374)	53,195	BBB	5.51%	2.33%	4.76
Portfolio V									
CMBS	99,681	99,748	146	(47)	99,847	BBB	5.11%	1.23%	5.02
Other ABS	13,582	13,584	16	(10)	13,590	BBB-	5.05%	1.14%	6.69
	113,263	113,332	162	(57)	113,437	BBB	5.10%	1.22%	5.22
Total portfolio	**1,392,740**	**1,393,765**	**3,451**	**(1,796)**	**1,395,420**	**BBB**	**5.26%**	**1.50%**	**4.54**
Other securities									
CMBS	32,646	32,646	38	-	32,684	AA+	4.17%	0.37%	7.73
Other ABS	44,500	44,500	-	-	44,500	AAA	4.74%	0.90%	0.49
	77,146	**77,146**	**38**	**-**	**77,184**	**AAA**	**4.50%**	**0.67%**	**3.55**
	1,469,886	**1,470,911**	**3,489**	**(1,796)**	**1,472,604**	**BBB**	**5.22%**	**1.45%**	**4.49**

Restricted cash – cash to be invested	**94,999**
Total asset backed securities (including cash to be invested)	**1,567,603**

* Ratings are based on the minimum public or private rating obtained from Fitch, Moody's or S&P ratings agencies.
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 17).

The following is a summary of the Group's available-for-sale securities at 31 December 2006.

	Current face amount	Amortised cost basis	Gross unrealised Gains	Gross unrealised Losses	Carrying value	Weighted average S&P rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	140,407	140,391	687	(71)	141,007	BBB	5.19%	1.58%	3.83
Other ABS	259,885	260,404	1,329	(356)	261,377	BBB	5.46%	1.82%	4.25
	400,292	400,795	2,016	(427)	402,384	BBB	5.37%	1.74%	4.10
Portfolio II									
CMBS	222,651	222,738	364	(252)	222,850	BBB	4.98%	1.39%	5.34
Other ABS	199,197	199,581	316	(376)	199,521	BBB	4.98%	1.29%	4.32
	421,848	422,319	680	(628)	422,371	BBB	4.98%	1.34%	4.86
Portfolio III									
CMBS	244,209	244,307	564	(303)	244,568	BBB	5.58%	1.96%	5.25
Other ABS	227,747	227,883	549	(186)	228,246	BBB	5.09%	1.39%	3.86
	471,956	472,190	1,113	(489)	472,814	BBB	5.34%	1.69%	4.58
Portfolio IV									
CMBS	99,477	99,223	334	(57)	99,500	BBB	4.88%	1.63%	3.45
Other ABS	64,583	64,564	35	(715)	63,884	BBB	5.15%	1.70%	5.25
	164,060	163,787	369	(772)	163,384	BBB	4.99%	1.66%	4.16
Total portfolio	**1,458,156**	**1,459,091**	**4,178**	**(2,316)**	**1,460,953**	**BBB**	**5.20%**	**1.60%**	**4.48**
Other securities									
CMBS	34,126	34,126	20	-	34,146	AA+	4.02%	0.37%	8.03
Other ABS	44,500	44,500	-	-	44,500	AAA	4.74%	0.90%	0.73
	78,626	**78,626**	**20**	**-**	**78,646**	**AAA**	**4.42%**	**0.67%**	**3.90**
	1,536,782	**1,537,717**	**4,198**	**(2,316)**	**1,539,599**	**BBB**	**5.16%**	**1.55%**	**4.45**

Restricted cash – cash to be invested	**20,708**
Total asset backed securities (including cash to be invested)	**1,560,307**

* Ratings are based on the minimum public or private rating obtained from Fitch, Moody's or S&P ratings agencies.
CMBS – Commercial Mortgage Backed Securities
Other ABS – Other Asset Backed Securities

Asset backed securities, available-for-sale at fair value of €77.2 million (31 December 2006: €78.7 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:

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Asset backed securities, available-for-sale (includes cash to be invested)	1,490,418	1,481,661
Asset backed securities pledged under repurchase agreements	77,185	78,646
Total asset backed securities	**1,567,603**	**1,560,307**

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

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Unrealised gains on available-for-sale securities	3,489	4,198
Unrealised losses on available-for-sale securities	(1,796)	(2,316)
	1,693	**1,882**

11. REAL ESTATE RELATED LOANS

The following is a summary of the Group's real estate loans at 31 March 2007 (Unaudited).

			Gross unrealised				Weighted average		
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating	Coupon	Margin	Maturity (years)
Real estate loans	525,159	522,010	-	-	522,010	B*	6.58%	2.92%	4.56

* 67% of the Real Estate loan portfolio has ratings based on the minimum public or private ratings obtained from Fitch, Moody's or Standard & Poor's (S&P) ratings. 33% of the Real Estate loans have been assigned an internal credit rating of B- in anticipation of a formal rating, which is currently being sought from S&P, Fitch and Moody's.

As at 31 December 2006:

			Gross unrealised				Weighted average		
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating	Coupon	Margin	Maturity (years)
Real estate loans	430,988	428,370	-	-	428,370	B+**	6.38%	2.88%	4.78

** 57% of the Real Estate loan portfolio has ratings based on the minimum public or private ratings obtained from Fitch Moody's or Standard and Poors (S&P) ratings. 43% of the Real Estate loans have been assigned an internal credit rating in anticipation of a formal rating, which is currently being sought from S&P, Fitch and Moody's.

12. OTHER ASSETS

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Interest receivable	18,100	16,872
Rent receivable	13,896	5,551
Prepaid expenses	792	736
Service charge receivable	9,969	2,632
Deposit fee	-	14,360
Fund income receivable	3,756	7,900
Other accounts receivable	14,080	21,486
	60,593	**69,537**

13. DERIVATIVE ASSETS

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Derivative assets	19,986	22,690
	19,986	**22,690**

13.1 Derivative Assets

Derivative assets represent the fair value of interest rate swaps, total return swaps and foreign exchange forward contracts.

13.2. Total Return Swaps

Included in the Derivative Assets are two total return swaps, the fair value of which as at 31 March 2007 is €43,755 (31 December 2006: €288,313) and the collateral deposit posted is €4.75 million (31 December 2006: €4.75 million). These total return swaps have been recorded as Derivative Assets and are treated as trading assets that are not designated as an Effective Hedging Instrument for accounting purposes and any gain or loss arising from the change in fair value of the assets is recognized through profit and loss.

Total Return Swap 1

In March 2007, a subsidiary entered into a total return swap with a major investment bank, whereby it receives a sum of all interest (at EURIBOR + 2.50%) and any positive changes in value from a referenced term loan with an initial notional amount of €32.50 million and pays interest (at EURIBOR + 0.45%) on the notional amount plus any negative change in value amounts from such loan. Under the contract, the parent is required to post an initial collateral deposit equivalent to 10% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 2

In November 2006, the Eurocastle entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 2.50%) and any positive changes in value from a referenced term loan with an initial notional amount of €10.70 million, and pays interest (at EURIBOR + 0.75%) on the notional amount plus any negative change in value amounts from such loan. Under the contract, the parent is required to post an initial collateral deposit equivalent to 14% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 3
In December 2005, a subsidiary entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 4.00%) and any positive change in value from a referenced term loan with an initial notional amount of €25.85 million, and pays interest (at EURIBOR + 0.40%) on the notional amount plus any negative change in value amounts from such loan. In May 2006, the subsidiary increased its holding in the existing total return swap by €6.6 million. Under the contract, the parent is required to post an initial collateral deposit equivalent to 10% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan. In March 2007, the subsidiary sold 100% of its interest in this total return swap.

14. REAL ESTATE FUND UNITS

Between July and October 2005, the Group purchased an interest in 1,500 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 (a public entity established by the Italian Ministry of Finance), with 12 months prior notice. The properties have a total occupancy of 100%. On 12 September 2006, 300 real estate fund units were sold.

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
At 1 January	148,077	189,591
Additional capital expenditure	411	2
Sale of units	-	(36,299)
Increase/(decrease) in fair value	3,346	(5,217)
Closing balance	**151,834**	**148,077**

15. INVESTMENT PROPERTY

Total investment property consists of:

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Investment property held for sale	324,514	-
Investment property	5,224,410	3,308,872
Closing balance	**5,548,924**	**3,308,872**

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

	Freehold land & buildings €'000	Leasehold property €'000	31 March 2007 Total (Unaudited) €'000	31 December 2006 Total €'000
Opening balance	3,182,130	126,742	3,308,872	463,540
Additions	2,181,612	16,906	2,198,518	2,744,365
Increase in minimum payments under head lease	266	-	266	22,848
Increase in fair value	13,328	27,940	41,268	78,119
Total	**5,377,336**	**171,588**	**5,548,924**	**3,308,872**

The value of investment properties incorporates 32 properties that are held by the Group 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.

Investment properties are stated at fair value, which has been determined based on valuations performed by industry specialists in valuing these types of properties. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods and relettability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

Lease arrangements over the land on which the 32 investment properties are built have unexpired terms ranging from 9 years to 86 years.

A reconciliation of investment property valuations to the balance sheet carrying value of property is shown below:

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Investment property at market value	5,522,858	3,283,072
Minimum payments under head leases separately included in trade and other payables on the balance sheet.	26,066	25,800
Balance sheet carrying value of investment property	**5,548,924**	**3,308,872**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 March 2007 (Unaudited) €'000	Present value 31 March 2007 (Unaudited) €'000	Total value 31 December 2006 €'000	Present value 31 December 2006 €'000
Under 1 year	1,415	1,301	1,375	1,281
From 2 to 5 years	5,899	4,721	5,736	4,650
More than 5 years	100,733	20,044	99,423	19,869
Total	**108,047**	**26,066**	**106,534**	**25,800**

Additional Information

The tables below provide additional information for various portfolios within the group at 31 March 2007:

Portfolio	Property cost* €'000	Property valuation €'000	Term financing €'000	Term financing to property cost %	Term financing to property valuation %
Drive	1,973,174	2,093,331	1,511,954	76.6%	72.2%
Mars	2,144,318	2,091,516	1,553,719	72.5%	74.3%
Bridge	501,871	496,800	373,897	74.5%	75.3%
Wave	320,656	395,491	239,262	74.6%	60.5%
HUK	53,035	52,700	39,741	74.9%	75.4%
Retail	408,527	419,086	311,194	76.2%	74.3%
Total	**5,401,581**	**5,548,924**	**4,029,767**	**74.6%**	**72.6%**

* Property cost is the purchase price plus capitalised costs

The tables below provide additional information for various portfolios within the group at 31 December 2006:

Portfolio	Property cost €'000	Property valuation €'000	Term financing €'000	Term financing to property cost %	Term financing to property valuation %
Drive	1,972,206	2,069,744	1,511,443	76.6%	73.0%
Bridge	501,886	496,120	373,856	74.5%	75.4%
Wave	320,181	332,186	240,397	75.1%	72.4%
Retail	408,769	410,822	311,944	76.3%	75.9%
Total	**3,203,042**	**3,308,872**	**2,437,640**	**76.1%**	**73.7%**

Investment Properties Held for Sale

On 29 March 2007, the Group entered into an agreement with a counterparty to sell a portfolio of 78 properties from its Drive and Wave portfolios, covering 254,000 square meters of lettable space for a total price of approximately €325 million which is reflected in the fair value of the properties held for sale at 31 March 2007. The sale price exceeds the Group's carrying value at 31 December 2006 by approximately 9% and will also exceed the book value (original purchase price plus capitalised costs) by approximately €26 million, net of costs and associated taxes. These properties have been included in the above property analysis in this note.

16. INTANGIBLE ASSETS

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Cost		
Balance at 1 January	1,981	551
Additions	668	1,430
Balance at 31 March 2007	**2,649**	**1,981**
Amortisation		
Balance at 1 January	(153)	(9)
Charge for the period	(130)	(144)
Balance at 31 March 2007	**(283)**	**(153)**
Carrying amount		
At 1 January	**1,828**	**542**
At 31 December	**2,366**	**1,828**

Intangible assets represent capitalised computer software costs.

17. CDO BONDS PAYABLE

As at 31 March 2007 (Unaudited):

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO I	A and B notes	AAA/AA	351,000	348,778	4.48%	0.59%	5.1
CDO II	A, B and C notes	AAA/AA/A	403,393	400,185	4.52%	0.46%	8.3
CDO III	A, B and C notes	AAA/AA/A	462,500	458,891	4.36%	0.47%	8.3
Total			**1,216,893**	**1,207,854**	**4.45%**	**0.50%**	**7.4**

As at 31 December 2006:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO I	A and B notes	AAA/AA	351,000	348,676	4.29%	0.59%	5.4
CDO II	A, B and C notes	AAA/AA/A	406,278	402,879	4.33%	0.47%	8.5
CDO III	A, B and C notes	AAA/AA/A	462,500	458,720	4.17%	0.47%	8.5
Total			**1,219,778**	**1,210,275**	**4.26%**	**0.51%**	**7.5**

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

18. BANK BORROWINGS

The bank borrowings comprise:

		As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Term finance	(Note 18.1)	4,536,544	2,534,024
Revolving credit facility	(Note 18.2)	183,188	-
Other bank financing – under 1 year	(Note 18.3)	79,160	79,488
Other bank financing – over 1 year	(Note 18.3)	60,138	67,051
		4,859,030	**2,680,563**

18.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**As at 31 March 2007 (Unaudited)**	**As at 31 December 2006**	**As at 31 March 2007 (Unaudited)**	**As at 31 December 2006**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	112,695	-	112,583	-	4.40%	
Duncannon	Feb 2007	297,788	-	297,788	-	4.42%	
		410,483	**-**	**410,371**	**-**	**4.41%**	
Investment property							
Wave	Dec 2004	241,570	242,803	239,262	240,397	4.88%	Apr 2013
Belfry	Aug 2005	56,240	56,240	55,452	55,433	4.85%	Oct 2015
Bastion	Sep 2005	26,500	26,500	25,268	25,211	4.44%	Sep 2012
Truss	Dec 2005	85,280	85,280	84,555	84,537	4.93%	Feb 2016
Turret	May 2006	147,556	147,556	145,919	146,763	4.93%	May 2016
Drive	Feb 2006	1,525,000	1,525,000	1,511,954	1,511,443	4.20%	Jan 2013
Bridge	Oct 2006	372,090	372,090	373,897	373,856	4.74%	Jan 2014
Mars - fixed	Jan 2007	1,249,465	-	1,230,035	-	4.73%(1)	July 2014
Mars - floating	Jan 2007	329,911	-	323,684	-	4.81%	July 2008
HUK	Feb 2007	39,896	-	39,741	-	4.93%(2)	May 2014
		4,073,508	**2,455,469**	**4,029,767**	**2,437,640**	**4.49%**	
Real estate fund units							
FIP units	Jul 2005	97,500	97,500	96,406	96,384	5.53%	Jul 2018
Total		**4,581,491**	**2,552,969**	**4,536,544**	**2,534,024**		

(1) This is the rate of the loan that is effective as from 20 July 2007 until maturity after the novation and effect of interest rate swaps. The effective interest rate that applied during the quarter was 4.69%.

(2) This is the fixed rate of the loan that is effective as from 7 May 2007 until maturity. The effective interest rate that applied during the quarter was 4.51%.

Real Estate Debt

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank. This facility was previously used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements, and is currently being used 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 Group 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 31 March 2007, there was €112.7 million drawn on the warehousing facility (31 December 2006: nil).

The Group, through two major US banks, entered into a €700 million 1 year extendable warehouse facility, under which the first drawdown was made in February 2007. The facility is currently being used to build and finance a portfolio of primarily commercial mortgage backed securities and real estate related loans. The facility is secured over, inter alia, the collateral making up the portfolio. The lenders will finance up to 85% of the cost of the portfolio at a margin of 0.65% over Libor.

As at 31 March 2007, €297.8 million was drawn on the facility.

Investment Properties

In order to finance the investment property portfolios, the Group entered into non-recourse loan facilities as described in the table on Page 34. These facilities are secured in the customary manner for German real estate lending; granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the Borrower. Interest in respect of these facilities is payable quarterly.

In December 2004, the Group financed the Wave Portfolio with a €246.5 million facility of which €241.6 million had been drawn down at 31 March 2007. The facility is for 8.4 years from the date of signature and, after allowing for an interest rate swap on €210 million, the average funding cost was 4.88%.

The Drive Portfolio is financed with a 7 year (at signing) €1,525 million facility consisting of a senior and junior loan of €840 million and €685 million respectively. €50 million of the junior loan bears interest at Euribor + 1.13% to match a liquidity reserve maintained by ECTGPROP1, whereas the remaining portion bears a fixed rate. The senior loan has a weighted average funding cost of 3.83% and the junior loan has a weighted average funding cost of 4.64%.

The Bridge Portfolio is financed with a 7 year (at signing) €372 million term loan at an effective interest cost of 4.74%.

The Belfry Portfolio is financed with a 10 year (at signing) non-recourse €56.2 million term loan at an effective interest rate cost of 4.85%.

The Bastion Portfolio is financed with a 7 year (at signing) non-recourse €26.5 million term loan at an effective interest rate cost of 4.44%.

The Truss Portfolio is financed with a 10 year (at signing) non-recourse €85.3 million term loan which bears a fixed interest rate of 4.93%.

The Turret Portfolio is financed with a 10 year (at signing) non-recourse €147.6 million term at an effective interest rate cost of 4.93%.

The Mars Portfolio is currently financed with a non-recourse €1,579 million term loan at an effective interest rate cost of 4.75% (go forward rate). The loan comprises a 7.4 year (at signing) fixed rate loan of €1,029 million and a 1.4 year (at signing) floating rate loan of €550 million. The floating rate loan has been partially hedged with an interest rate swap on €220 million. In addition to this, the Group is required to draw a capital reserve line of €60 million prior to securitisation of the loan by the lender, expected to happen within 12 months of the facility signing date. In the interim, a commitment fee of 0.75% is payable in connection with the capital reserve.

The HUK Portfolio is financed with a 7.3 year (at signing) non-recourse €39.9 million term loan at an effective interest rate cost of 4.93% (go forward rate).

Real Estate Fund Units

On 22 July 2005, the Group 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 Group acquired a further 50 Class A Units through the same facility. On 20 September 2006, the Group sold 300 Class A Units (20% of the total holdings), resulting in a pro-rated repayment of the finance facility.

18.2 Revolving Credit Facility

In December 2004, the Group entered into a revolving €35 million bank credit facility 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, as well as from the Group’s Luxembourg subsidiaries representing income from the investment properties and real estate fund units, and with security assignments of the Group’s rights under its management agreement with FIG 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 + 1.5% p.a., while on undrawn amounts it is 0.4% p.a. The facility was increased to €50 million on 26 May 2005. On 15 May 2006, the facility was further increased to €150 million. In October 2006, the facility was increased to €300 million until maturity in October 2007.

As at 31 March 2007, the amount drawn on the facility was €183.2 million (31 December 2006: nil).

18.3 Other Bank Financing

In May 2006, in order to finance the participation in certain B note loans, the Group entered into a 3 year revolving credit facility with Deutsche Bank. The facility contains a number of financial covenants. Its mark to market exposure is determined by the Investment manger, based on market quotations. Interest rates on drawn amounts depend upon the loan to value and collateral quality of the underlying lender with draw-downs currently bearing rates between 0.75% to 1.75% above Libor and Euribor. The security facility is backed by a security assignment over the financed asset. As at 31 March 2007, this facility was drawn in an amount of €60.1 million (31 December 2006: €67.1 million).

In August 2006, in order to finance the sub-participation in a real estate loan secured on properties leased to a leading German retailer, the Group entered into an €80 million, 364 day credit facility with Lehman Brothers. The facility contains a number of financial covenants including a requirement to deliver cash collateral to the lender equal to the excess of any mark to market decline over €200,000. Interest rates on the drawn amounts are 1.50% above Euribor. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €79.2 million at 31 March 2007 (31 December 2006: €79.5 million).

19. REPURCHASE AGREEMENTS

The Group’s consolidated subsidiary EFL has entered into master repurchase agreements with certain major investment banks to finance the purchase of available-for-sale securities. The obligations under those agreements are guaranteed by the Group. 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, quarterly or semi-annually, with the corresponding security coupon payment dates, plus an applicable spread.

As at 31 March 2007, the Group’s carrying amount and weighted average financing cost of these repurchase agreements was approximately €74.0 million (31 December 2006: €75.5 million) and 3.94% (31 December 2006: 3.84%) respectively.

20. TRADE AND OTHER PAYABLES

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Security deposit	5,737	5,421
Unsettled security purchases	66,698	-
Interest payable	34,524	22,869
Due to Manager (note 27)	10,626	7,508
Accrued expenses & other payables*	90,959	57,501
	208,544	**93,299**

* Accrued expenses & other payables includes closing costs payable on the Mars acquisition of €23.9 million, the purchase price retention on the Mars portfolio of €12.3 million and €8.0 million relating to agreed capital expenditure within the Drive portfolio.

21. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit after taxation by the weighted average number of shares of ordinary stock outstanding during the period.

Diluted earnings per share is calculated by dividing net profit 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 Group's potential ordinary shares during the period were the share 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.

	As at 31 March 2007 (Unaudited)	As at 31 December 2006
Weighted average number of ordinary shares, outstanding, basic	63,601,040	44,956,083
Dilutive effect of ordinary share options	2,577,939	1,804,543
Weighted average number of ordinary shares outstanding, diluted	**66,178,979**	**46,760,626**

22. SHARE CAPITAL AND RESERVES

As at 31 December 2006, there were 63,519,083 shares issued and outstanding.

On 19 January 2007, 20,000 options with a strike price of €10 per share were exercised.

On 7 March 2007, 237,445 options with an average strike price of €21.26 were exercised.

As at 31 March 2007, there were 63,776,528 shares issued and outstanding.

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

Profit due to minority interest is lower than the rounding threshold and has been eliminated during the consolidation process of the financial statements.

Other Reserves

Other reserves represent the fair value of share options at the grant date, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006.

23. HEDGE ACCOUNTING

The Group's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is applied to cash flow and fair value hedges of interest rate risk exposures. Interest rate swaps under which the Group pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowings. Interest rate swaps where the Group pays a fixed rate and receives a floating rate have been used to hedge the fair value of the available-for-sale assets in Feco Sub SPV Plc.

At 31 March 2007, cumulative unrealised gains on hedge instruments were €34.1 million (31 December 2006: €23.5 million).

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, while gains and losses related to fair value hedges has been recognised in the income statement.

The details of interest rate swaps entered into by the Group in respect of certain term financing agreements are as follows:

Cash Flow Hedges

31 March 2007 (Unaudited)	Wave €'000	FIP €'000	Turret* €'000	HUK €'000	Mars €'000	E Portfolio €'000	Wentworth €'000	Unallocated Hedge* €'000
Nominal amount	210,000	97,500	-	39,586	220,000	126,196	175,402	265,000
Pay rate	3.47%	3.45%	-	4.12%	4.00%	4.20%	4.10%	4.13%
Receive rate	3 Month Euribor	6 Month Euribor	-	3 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.05	10.53	-	7.13	7.18	10.44	5.81	10.43
Fair value of swaps assets	7,454	3,065	-	(5)	2,023	239	(214)	1,890

* As at 21 January 2007, an interest rate swap agreement relating to the Turret portfolio was novated to Morgan Stanley Bank International Limited in conjunction with the loan agreement. The positive fair value of €0.9 million as at the date of novating the swap has been recorded within the hedging reserve and will be recycled through the Income Statement.

31 December 2006	Wave €'000	FIP €'000	Turret €'000	HUK €'000	Mars €'000	Unallocated Hedge* €'000
Nominal amount	210,000	97,500	58,108	39,586	1,000,000	83,324
Pay rate	3.47%	3.45%	3.96%	4.12%	3.87%	4.13%
Receive rate	3 Month Euribor	6 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.3	11.0	9.4	6.9	7.4	7.1
Fair value of swaps assets	6,411	2,812	489	(212)	10,816	(479)

* The unallocated hedge represents interest rate swaps undertaken to hedge the interest rate risk on forecasted transactions. The fair value of €1.9 million (31 December 2006: €0.5 million) on the revaluation of the €265 million (31 December 2006: €83 million) interest rate swap has been recorded within the income statement.

Fair Value Hedges

31 March 2007 (Unaudited)	Feco EURO B Notes €'000	Feco CHF B Notes CHF'000	Feco* CHF B Notes €'000	Feco GBP Notes £'000	Feco** GBP Notes €'000
Nominal amount	11,947	3,725	2,295	36,694	54,072
Pay rate	2.87%	2.00%	-	4.61%	-
Receive rate	3 Month Euribor	3 Month CHF Libor	-	3 Month Libor	-
Remaining life	3.33	3.53	-	4.19	-
Fair value of swap assets	466	80	49	1,313	1,935

* The amount stated is a Euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a Euro notional, mark-to-market equivalent of GBP swaps.

31 December 2006	Feco EURO B Notes €000	Feco CHF B Notes CHF000	Feco* CHF B Notes €000	Feco GBP Notes £000	Feco** GBP Notes €000
Nominal amount	11,947	3,725	2,315	36,694	54,459
Pay rate	2.87%	2.00%	-	4.61%	-
Receive rate	3 Months Euribor	3 Months CHF Libor	-	3 Months Libor	-
Remaining life	3.6	3.8	-	4.4	-
Fair value of swap assets	455	78	48	1,049	1,557

* The amount stated is a Euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a Euro notional, mark-to-market equivalent of GBP swaps.

24. FINANCIAL INSTRUMENTS

Risk Management

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are market risk, credit, liquidity, interest rate and foreign currency risk.

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its debt securities, property investments and real estate fund units.

The Group's securities are predominantly floating rate and as such are valued based on a market credit spread over Euribor and Libor and CHF benchmarks for euro, sterling and Swiss denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

Under the terms of the securities contract, the Group was exposed to market risk on the underlying securities as, should the intended securitisation of such assets not be consummated, the Group would be required to either purchase the securities or pay the loss realised on the disposal up to the amount of any deposits made by the Group under the contract, less any interest earned on the deposits.

The Group's investment property assets are based in Germany and Italy and are subject to general property market risks. These risks are assessed by management at the point of acquisition as well as on an ongoing basis. In addition, external valuations of the property assets are obtained during each financial year.

Credit Risk

The Group is subject to credit risk with respect to its investments in real estate and other asset backed securities and loans.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group further minimises credit risk by actively monitoring its securities portfolios and the underlying credit quality of its holdings and, where appropriate, repositioning its investments to upgrade the credit quality and yield on the investments.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. This diversification minimises the risk of capital loss. At 31 March 2007, the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BBB-.

The Group's available-for-sale asset backed securities and real estate loans portfolio was split between countries within Europe as follows:

	31 March 2007 (Unaudited)			**31 December 2006**		
	Number of securities/ loans	**Face value €'000**	**Location split**	**Number of securities/ loans**	**Face value €'000**	**Location split**
United Kingdom	76	970,923	48.7%	72	962,894	48.9%
Italy	15	248,272	12.4%	14	250,846	12.7%
Germany	33	411,303	20.6%	31	396,076	20.1%
Pan-European	9	116,840	5.9%	7	99,391	5.1%
France	11	98,388	4.9%	11	94,839	4.8%
Other	26	149,320	7.5%	23	163,724	8.4%
	170	**1,995,046**	**100%**	**158**	**1,967,770**	**100%**

The Group's hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. As a result, it is not anticipated that any of these counterparties will fail to meet their obligations.

The Group's German real estate portfolio holds the following type of real estate: office, retail, banking halls and other. As at 31 March 2007, the group derived its rental income from the following sources: Dresdner Bank, 29%, Deutsche Bank 7%, Starman Holdings, 3%, Deutsche Bahn AG 3%, Edeka 3%, and Other 55%. As at 31 March 2006, the group derived its rental income from the following sources: Dresdner Bank 61%, Deutsche Bank 12%, Eurohypo 3%, Rewe 1%, H&M 1%, and Other 22%.

The Group's Italian real estate assets comprise an investment in a real estate investment fund that owns a portfolio of 394 properties in Italy that are let to Italian government agencies.

Liquidity Risk

The Group's ability to execute its business strategy, particularly the growth of its investment portfolio, depends to a significant degree on the Group's ability to obtain additional capital.

The Group's primary source of funds for liquidity consist of net cash provided by operating activities, borrowings under loans and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash on hand and cash flow provided by operations will satisfy its liquidity needs with respect to its current investment portfolio over the next twelve months. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through additional borrowings and the liquidation, refinancing or repayment of its assets at maturity.

A significant portion of the Group's investments are financed with collateralised debt obligations, known as CDOs. If spreads for CDO liabilities widen or if demand for such liabilities ceases to exist, then the ability to execute future CDO financings will be restricted. Proceeds from the sale of real estate and other asset backed securities which serve as collateral for the Group's CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are therefore not available to fund current cash needs.

The Group's real estate securities are financed long-term and their credit status is continuously monitored; therefore, these investments are expected to generate a generally stable current return, subject to interest rate fluctuations. The Group's operating real estate is also financed long-term and primarily leased to credit tenants with long-term leases and is therefore also expected to generate generally stable current cash flows.

As described in Note 18, the Group has access to temporary working capital through a revolving €300 million credit facility.

Interest Rate Risk

The Group's primary interest rate exposures relate to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate and total return swaps. Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets.

The Group's general financing strategy focuses on the use of match-funded structures, meaning that it seeks to match the maturities of its debt obligations with the maturities of its investments to minimise the risk that the Group will have to refinance its liabilities prior to the maturities of its assets, reducing the impact of changing interest rates on its earnings. In addition, the Group match funds interest rates on its investments with like-kind debt directly or through the use of interest rate swaps. However, based on a variety of factors, the Manager finances certain assets on a short term basis, including the use of repurchase agreements.

The interest rate profile of the Group at 31 March 2007 and 31 December 2006 was as follows:

31 March 2007(Unaudited)

Type	Total per consolidated balance sheet €'000	Non-interest bearing assets €'000	Within 1 year Fixed %	Within 1 year Variable %	1 to 5 years Fixed %	1 to 5 years Variable %	Over 5 years Fixed %	Over 5 years Variable %
Assets								
Cash and cash equivalents	160,696	-	-	160,696	-	-	-	-
Investment property held for sale	324,514	324,514	-	-	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,490,418	-	6,279	173,376	17,868	752,097	-	540,798
Asset backed securities, pledged under repurchase agreements	77,185	-	-	44,500	-	-	-	32,685
Real estate related loans	522,010	-	-	26,121	-	261,168	-	234,721
Real estate fund units	151,834	-	151,834	-	-	-	-	-
Investment property	5,224,410	5,224,410	-	-	-	-	-	-
Intangible assets	2,366	2,366	-	-	-	-	-	-
Other assets	60,593	42,712	294	17,587	-	-	-	-
Derivative assets	19,986	-	-	-	-	-	19,986	-
Total assets	**8,034,012**	**5,594,002**	**158,407**	**422,280**	**17,868**	**1,013,265**	**19,986**	**808,204**
Liabilities								
CDO bonds payable	1,207,854	-	-	-	-	-	12,157	1,195,697
Bank loans	4,859,030	-	-	79,160	-	60,138	4,314,478	405,254
Repurchase agreements	74,035	-	-	74,035	-	-	-	-
Taxation payable	26,615	26,615	-	-	-	-	-	-
Trade and other payables	208,544	173,996	24	34,524	-	-	-	-
Derivative liabilities*	178	-	-	-	-	-	178	-
Finance lease payable	26,066	-	1,301	-	4,721	-	20,044	-
Total liabilities	**6,402,322**	**200,611**	**1,325**	**187,719**	**4,721**	**60,138**	**4,346,857**	**1,600,951**

* Net interest rate swap payable related to the cash flow hedges as described in Note 23.

31 December 2006

Type	Total per consolidated balance sheet €'000	Non-interest bearing assets €'000	Within 1 year Fixed %	Within 1 year Variable %	1 to 5 years Fixed %	1 to 5 years Variable %	Over 5 years Fixed %	Over 5 years Variable %
Assets								
Cash and cash equivalents	122,699	-	-	122,699	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,481,661	-	22,892	103,727	18,942	808,867	-	527,233
Asset backed securities, pledged under repurchase agreements	78,646	-	-	44,500	-	-	-	34,146
Real estate related loans	428,370	-	-	-	53,851	208,182	12,887	153,450
Real estate fund units	148,077	-	148,077	-	-	-	-	-
Investment property	3,308,872	3,308,872	-	-	-	-	-	-
Intangible assets	1,828	1,828	-	-	-	-	-	-
Other assets	69,537	37,961	422	31,154	-	-	-	-
Derivative assets	22,690	-	-	-	-	-	22,690	-
Total assets	**5,662,380**	**3,348,661**	**171,391**	**302,080**	**72,793**	**1,017,049**	**35,577**	**714,829**
Liabilities								
CDO bonds payable	1,210,275	-	-	-	-	-	12,244	1,198,031
Bank loans	2,680,563	-	-	79,488	-	67,051	2,451,221	82,803
Repurchase agreements	75,490	-	-	75,490	-	-	-	-
Taxation payable	6,016	6,016	-		-	-	-	-
Trade and other payables	93,299	70,406	-	22,869	-	-	24	-
Derivative liabilities*	212	-	-	-	-	-	212	-
Finance lease payable	25,800	-	1,281	-	4,650	-	19,869	-
Total liabilities	**4,091,655**	**76,422**	**1,281**	**177,847**	**4,650**	**67,051**	**2,483,570**	**1,280,834**

* Net interest rate swap payable related to the cash flow hedges as described in Note 23.

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposures relate to its sterling and Swiss franc denominated portfolio of securities and loans. Changes in the currency rates can adversely impact the fair values and earnings streams of the Group's non-euro denominated assets and liabilities. The Group has mitigated this impact through a combination of (i) sterling denominated financing and (ii) rolling forward foreign exchange contacts to hedge its net sterling equity investment.

In connection with the Group's purchase of its available-for-sale real estate and other asset backed securities and real estate loans, the foreign currency risk is covered through forward foreign currency exchange contracts.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	As at 31 March 2007 (Unaudited) Carrying value €'000	As at 31 December 2006 Carrying value €'000	As at 31 March 2007 (Unaudited) Fair value €'000	As at 31 December 2006 Fair value €'000
Financial assets				
Cash and cash equivalents	160,696	122,699	160,696	122,699
Investment property held for sale	324,514	-	324,514	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,490,418	1,481,661	1,490,418	1,481,661
Asset backed securities, pledged under repurchase agreements	77,185	78,646	77,185	78,646
Real estate related loans	522,010	428,370	522,010	428,370
Real estate fund units	151,834	148,077	151,834	148,077
Investment property	5,224,410	3,308,872	5,224,410	3,308,872
Derivative assets	19,986	22,690	19,986	22,690
Financial liabilities				
CDO bonds payable	1,207,854	1,210,275	1,207,854	1,210,275
Bank loans	4,859,030	2,680,563	4,852,463	2,674,931
Repurchase agreements	74,035	75,490	74,035	75,490
Derivative liabilities	178	212	178	212
Finance lease payable	26,066	25,800	26,066	25,800

25. SHARE OPTION PLAN

In December 2003, the Group (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 "Group 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 Group, 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 calculated 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 calculated 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 Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In February 2006, following the third public offering, the Manager was granted 1,282,300 options at €30.00 per share and, pursuant to December 2005 Board action, an additional 857,142 options at an exercise price of €18.00 per share. The fair value of the additional options at the date of grant was €2.1 million and €4.8 million respectively. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group in respect of the public and private offerings that preceded the Drive acquisition. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In December 2006, following the fourth public offering, the Manager was granted an additional 1,783,748 options at €37.00 per share. The fair value of the additional options at the date of grant was €9.4 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. 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.

Share options exercised up to 31 March 2007 are as follows:

On 8 June 2006, 71,146 share options were exercised at a strike price of €10.00 per share.

On 19 January 2007, 20,000 share options were exercised at a strike price of €10.00 per share.

On 7 March 2007, 39,600 share options were exercised at a strike price of €12.00 per share.

On 7 March 2007, 60,173 share options were exercised at a strike price of €17.25 per share.

On 7 March 2007, 59,998 share options were exercised at a strike price of €18.00 per share.

On 7 March 2007, 59.836 share options were exercised at a strike price of €30.00 per share.

On 7 March 2007, 17,838 share options were exercised at a strike price of €37.00 per share.

26. DIVIDENDS PAID & DECLARED

	As at 31 March 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Paid during the period :	8,929	73,803
Equity dividends on ordinary shares:		
Fourth quarter dividend for 2005: €0.37 (2004: €0.33)	-	8,958
First quarter dividend for 2006: €0.30 (2005: €0.33)	-	13,682
Second quarter dividend for 2006: €0.40 (2005: €0.35)	-	18,272
Third quarter dividend for 2006: €0.43 (2005: €0.37)	-	19,643
First interim dividend for fourth quarter of 2006: €0.29 (2005: €Nil)	-	13,248
Fourth quarter dividend for 2007: €0.14 (2006: €0.37)	8,929	-
	8,929	**73,803**
First quarter dividend for 2007: €0.45 (2006: €0.30)	28,711	8,958

27. MANAGEMENT AGREEMENT & RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. Pursuant to the Management Agreement, the Manager, under the supervision of the Group's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, the Group will pay the Manager an annual fee (payable monthly in arrears) of 1.5% of the gross equity of the Group, as described in the Management Agreement.

The Management Agreement provides that the Group will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Group's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Group by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the consolidated income statement.

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

At 31 March 2007, management fees, incentive fees and expense reimbursements of approximately €10.6 million (Note 20) (31 December 2006: €7.5 million) were due to the Manager. For the quarter ended 31 March 2007, management fees of €5.4 million (31 March 2006: €2.4 million), no incentive fees (31 March 2006: €0.3 million), and reimbursement fees of €1.5 million (31 March 2006: €0.7 million) were charged to the income statement.

Keith Dorrian, Paolo Bassi, Udo Scheffel and Simon Thornton each currently receive €30,000 per annum payable semi-annually in equal instalments. Wesley R. Edens and Randal Nardone do not receive any remuneration from the Group.

28. INVESTMENT IN SUBSIDIARIES

The legal entity group structure of Eurocastle is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework.

The significant operating subsidiaries, in which the Group owns directly or indirectly a 100% equity interest, which are listed by jurisdiction below:

Luxembourg:

Luxgate s.a.r.l.
Drive s.a.r.l.
Eurobarbican s.a.r.l.
Bastion Participation s.a.r.l.
Belfry Participation s.a.r.l.
Truss Participation s.a.r.l.
Finial s.a.r.l.
Turret Participation s.a.r.l.
Undercroft s.a.r.l.
Marathon s.a.r.l. (formerly Turret LP s.a.r.l3)
Mars Holdco 1 s.a.r.l.
Tannenberg s.a.r.l.
Superstella s.a.r.l.

Germany:

ECTCPROP1 (formerly known as Dresdner Grund Fonds
Shortwave Acquisition GmbH
Longwave Acquisition GmbH
Bastion GmbH & Co.KG
Belfry GmbH & Co.KG
Truss GmbH & Co.KG
Turret GmbH & Co.KG
Bridge GmbH & Co.KG

Additionally, the Group has investments in Eurocastle Funding Limited, Eurocastle CDO I PLC, Eurocastle CDO II PLC, Eurocastle CDO III PLC and Eurocastle CDO IV PLC, Duncannon CRE CDO I PLC and Feco SUB SPV PLC that it consolidates in accordance with SIC 12.

29. SUBSEQUENT EVENTS

On the 12th of April, 15,000 share options were exercised by the Manager.

On the 7th of May, 10,573 share options were exercised by the Manager.

There have been no other subsequent events since 31 March 2007.

30. COMMITMENTS

As at 31 March 2007, the Group had no commitments that were not disclosed in these financial statements.