# Starwood European Real Estate Finance Limited

Annual Report and Audited Consolidated Financial Statements for the period from 9 November 2012 to 31 December 2013

STARWOOD

EUROPEAN FINANCE

# Index

# Objective and Investment Policy

## Objective

The investment objective of Starwood European Real Estate Finance Limited (the “Company”), together with its subsidiaries Starfin Lux S.à r.l., Starfin Public LP and Starfin Public GP (collectively the “Group”), is to provide its shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental European markets. Whilst investment opportunities in the secondary market are considered, the Group’s main focus is to originate direct primary real estate debt investments.

The full text of the Investment Policy is set out on page 17. What follows is a summary only.

## Summary of Investment Policy

The Group’s investment policy is to invest in a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental Europe. Whilst investment opportunities in the secondary markets will be considered from time to time, the Group’s predominant focus is to be a direct primary originator of real estate debt investments on the basis that this approach is expected to deliver better pricing, structure and execution control and a client facing relationship that may lead to further investment opportunities.

The Group attempts to limit downside risk by focusing on secured debt with both quality collateral and contractual protections.

The typical loan term will be between three and seven years. Whilst the Group retains absolute discretion to make investments for either shorter or longer periods at least 75% of total loans by value will be for a term of seven years or less.

The Group will pursue investments across the commercial real estate debt space. At the time of the Initial Public Offering (“IPO”) the initial provisional allocation was set as:

- Senior and whole loans (targeted at 40 to 50% of the portfolio);
- Subordinated loans and mezzanine loans (targeted at 40 to 50% of the portfolio); and
- Bridge loans, selected loan-on-loan financings and other debt instruments (targeted at 0 to 20% of the portfolio).

The Group may originate loans which are either floating or fixed rate.

The Group will typically seek to originate debt where the effective loan to real estate value ratio (“LTV”) of any investment is between 60% and 80% at the time of origination or acquisition.

The Group may seek to enhance the returns of selected loan investments through the economic transfer of the most senior portion of such loan investments which may be by way of syndication, sale, assignment, sub-participation or other financing (including true sale securitisation) to the same maturity as the original loan (i.e. “matched funding”) while retaining a significant proportion as a subordinate investment. It is anticipated that where this is undertaken it would generate a positive net interest rate spread and enhance returns for the Group. It is not anticipated that, under current market conditions, these techniques will be deployed with respect to any mezzanine or other already subordinated loan investments. The proceeds released by such strategies will be available to the Group for investment in accordance with the investment policy.

## Diversification

The Group expects to maintain a diversified portfolio by geography, real estate sector type, loan type and counterparty. The portfolio, once fully invested, will comply, as at each date an investment is made by the Group, with the following restrictions set out at IPO:

- Pure development loans will not, in aggregate, exceed 25% of the Group’s Net Asset Value calculated at the time of investment;
- No more than 20% of the Group’s Net Asset Value, calculated at the time of investment, will be exposed to any one borrower legal entity;
- No more than 20% of the Group’s Net Asset Value, calculated at the time of investment, will be in loans relating to residential for sale;
- No single investment or aggregate investments secured on a single property or group of properties will exceed 20% of the Group’s Net Asset Value, calculated at the time of investment;
- An absolute maximum LTV at the time of investment of any loan of 85%;

## Objective and Investment Policy (continued)

- The Group will not originate investments in Portugal, Spain, Italy and Greece and any investment in those countries in the future would require shareholder approval to amend the investment policy; and
- The Group will not invest more than 50% of the Group's Net Asset Value (calculated at the time of investment) in any single country save in relation to the UK, where such limit will be 75%.

In addition, the Group will aim to satisfy the following guideline criteria for the portfolio:

- A blended portfolio LTV of no more than 75% (based on the initial valuations at the time of loan origination or participation acquisition) once full invested;
- Investments in student accommodation and residential for sale are expected to be limited to the UK; and
- Multi-family investments are expected to be limited primarily to the UK, Germany and Scandinavia.

The Group is proposing a number of changes to the Investment Policy (subject to shareholder approval). These are discussed further within the Chairman's Statement on page 5.

# Financial Highlights

## Key Highlights

| | As at 31 December 2013 |
|---|---|
| Net Asset Value per ordinary share | 99.13 p |
| Share Price | 100.75 p |
| NAV total return | 1.95% |
| Share Price total return | 1.55% |
| Total Net Assets | £236.0 m |
| Loans advanced (including interest receivables) | £156.4 m |
| Cash and Cash Equivalents | £79.7 m |
| Dividends per share(1) | 1.9 p |
| Portfolio yield(2) | 9.2% |
| Ongoing charges percentage | 0.5% |
| Weighted average portfolio LTV to Group first £(3) | 14% |
| Weighted average portfolio LTV to Group last £(3) | 57% |

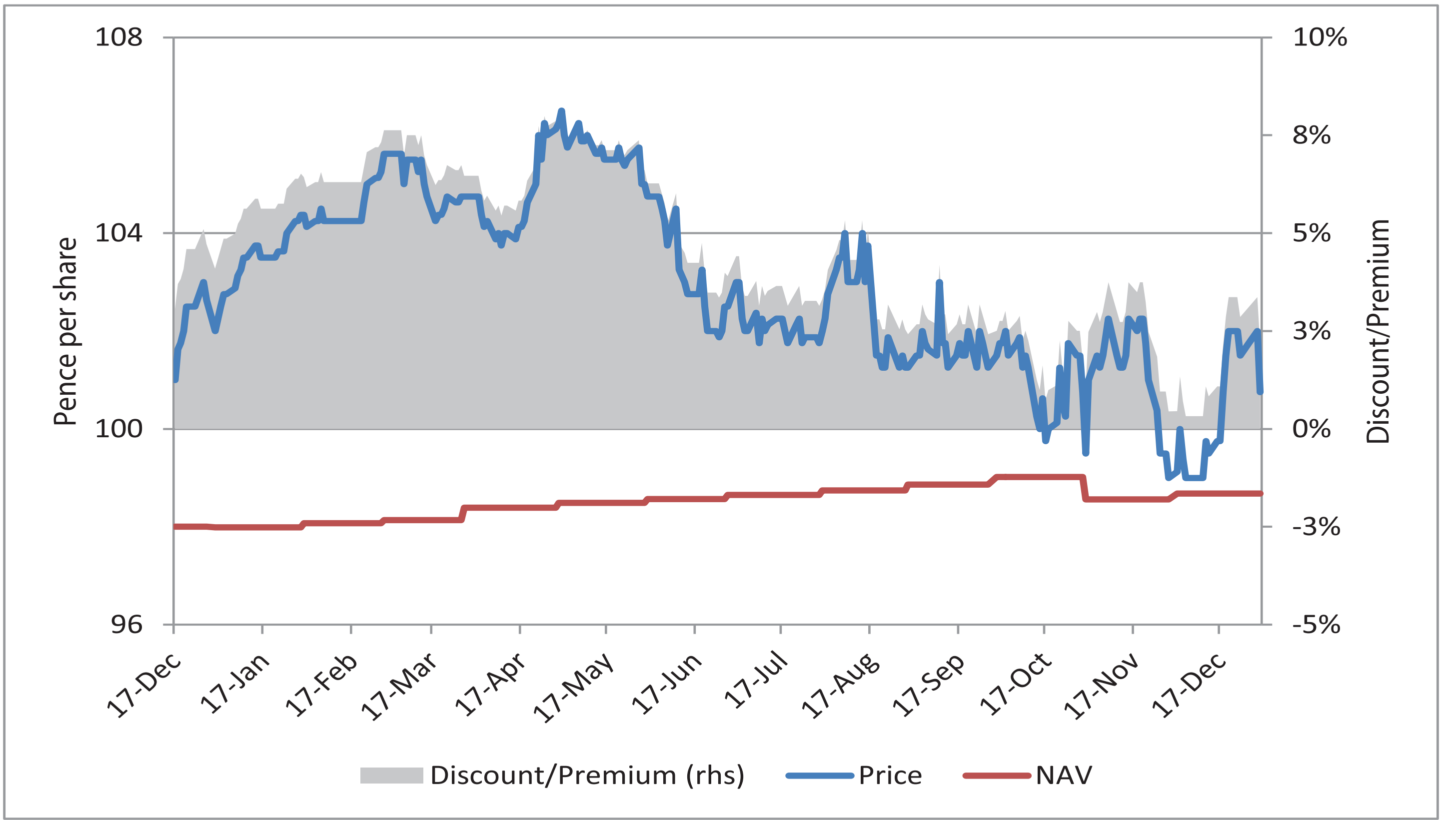
(1) Dividends declared and paid in the period were 0.8 pence per share. A final dividend of 1.1 pence was declared on 29 January 2014 and paid on 28 February 2014.

(2) Calculated assuming all loans are outstanding for the full term. Four of the loans are floating rate and returns are based on an assumed profile for future LIBOR or EURIBOR but the actual rate received may be higher or lower. Calculated only on loans closed to date and excluding cash uninvested.

(3) LTV to Group last £ means the percentage which the total loan advanced by the Group (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last valuation. LTV to first Group £ means the starting point of the loan to value range of the loan advanced by the Group (when aggregated with any other indebtedness ranking senior to it). For ground-up development (Lifecare Residences) the calculation includes the total facility available and the expected market value on completion of the project. Where the loan relates to a redevelopment project with facilities currently undrawn (Centre Point) the calculation includes current debt drawn against the lower of current-use market value and vacant possession value. Upon commencement of development, the loan to value will be tested by reference to loans drawn plus available loans against a value assuming completion of the development. This calculation will therefore change as the other facilities are drawn. LTVs are calculated for each loan and weighted by the Group's investment in each loan.

## Share Price Performance

As at 31 December 2013 the Net Asset Value ("NAV") was 99.13 pence per ordinary share and the share price was 100.75 pence.



# Chairman's Statement

## Overview

The Company's initial public offering (the "IPO"), completed on 17 December 2012, resulted in 228,500,000 ordinary shares of the Company, with an issue price of 100 pence, being admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange.

Shortly after the IPO the Company issued a further 9,600,000 shares in order to meet market demand, principally following the Company's inclusion in the FTSE UK Index Series and to manage the higher share price premium over the net asset value per share at that time. These issues are detailed on page 16.

The pace of investment activity during the year was slower than anticipated, but picked up as we approached the calendar year end. The Group had anticipated being substantially fully invested within twelve months. At 31 December 2013 the Group was 66.3% invested through seven investments. One further loan has been committed since the year end and, after scheduled amortisation and prepayments that took place in January 2014, the Group is now 70% invested (based on 31 December 2013 NAV).

The Group is today capable of delivering a net portfolio yield of approximately 5.3% (prior to any prepayments and taking reasonable estimates of Group costs) and expects to be substantially fully invested on the basis of completing two to three additional transactions as soon as practicable within the second quarter of 2014.

## Results

At launch, the Company had targeted a dividend of 3.5 pence per ordinary share in respect of the period from Admission (17 December 2012) to the first financial year end (31 December 2013) and 7.0 pence per ordinary share in subsequent financial periods. This was predicated on the assumption that 50% of the Company's available cash would be invested within six months of the IPO and the remainder within twelve months.

The Company has declared and paid the following dividends to its shareholders since inception:

| Period | Date declared | Payment date | Amount per share |
|---|---|---|---|
| 9 November 2012 to 30 September 2013 | 24 October 2013 | 29 November 2013 | 0.80 pence |
| 1 October to 31 December 2013 | 29 January 2014 | 28 February 2014 | 1.10 pence |

Earnings per share for the year were 1.73 pence and as such the dividends were not fully covered by reported earnings. However this was due to mismatches in the accounting treatment between currency hedges and the loans being hedged. As the hedges are economically matched with the asset and the dividend was covered by cash earnings (generated during the year plus interest accrued at the period end and received in January 2014), the directors elected to pay a final dividend that was cash covered as described above but was in excess of the reported earnings.

During the period, the share price rose from 100 pence per share at IPO to end the year at 100.75 pence, representing a premium of 1.65% to Net Asset Value. For much of the first half of 2013, the shares traded at a substantial premium to Net Asset Value, reflecting in part the Company's inclusion in the FTSE UK Index Series in March. The second half of 2013 saw the shares trade at a more modest premium to Net Asset Value.

## Investment Activity

Since the IPO, the board has worked closely with Starwood European Finance Partners Limited (the "Investment Manager") and Starwood Capital Europe Advisers, LLP (the "Investment Adviser") both strategically and on a deal by deal basis. The investment deployment has been slower than anticipated at the time of the IPO with 66.3% of net assets committed at the year end. Most of this investment took place during the second half of the financial period.

The overall risk profile of the investments made to date has been more conservative than anticipated without compromising the expected returns. The Group targeted a risk return strategy delivering a maximum portfolio LTV of 75%. The Group currently has weighted average portfolio LTV attachment points of 14-57%, comfortably below this threshold and significantly lower attachment points than targeted at IPO. As a result the Group has a high quality portfolio of loans expected to deliver gross returns of 9.2%, within the targeted range of 9-10% per annum.

The board is satisfied with the progress made by the Investment Manager and Investment Adviser during the period and believes that the continued appointment of the Investment Manager is in the interests of shareholders. Whilst market conditions have changed since the IPO, the Investment Adviser and Investment Manager, working in close collaboration with the board, have maintained a disciplined and rigorous approach to investment and continue to operate within the risk parameters set out within the prospectus.

# Chairman’s Statement (continued)

**Alternative Investment Fund Managers Directive (“AIFMD”)**

Under the AIFMD, the Company becomes an Alternative Investment Fund and is required to appoint a manager who has the necessary regulatory approval to act as the Company’s Alternative Investment Fund Manager (“AIFM”) under the new AIFMD requirements. The Company has appointed the Investment Manager, Starwood European Finance Partners Limited, as its AIFM. No changes of significance are envisaged in the management arrangements for the Company as a result of AIFMD.

**Outlook**

Based on detailed projections, as at the date of this statement, the Company remains comfortable that once fully invested it would be able to meet its dividend target of 7.0 pence per annum.

The board regularly reviews the development and strategic direction of the Group and believes that the investment policy remains broadly effective. However as we approach full investment, we believe that now is an opportune moment to extend the geographic scope to include investments in Spain and Italy and to increase the maximum allocation for residential for sale from 20% to 30%, although we anticipate that any future residential for sale opportunities will be outside London. The board believes that this is justified in light of improving market conditions, the fact that opportunities have arisen which the Group has been unable to participate in notwithstanding that the transaction would be acceptable on a risk/reward basis and the increased liquidity in the market which offers greater certainty of a successful realisation. Such changes are focussed on the period following full investment and contain an element of future proofing for additional capital raises.

Alongside these changes, the board believes it is necessary to clarify the scope and intent of the restrictions on the Group’s corporate borrowings. The board does not believe it is appropriate to take account of foreign exchange hedging facilities within the restriction on corporate borrowings and recommends the clarification of the investment policy accordingly. With these adjustments, for which we intend to request shareholder approval at an Extraordinary General Meeting to be called, the board feels the Group is well placed to continue to raise and prudently deploy additional capital.

The board will continue to update you on progress by way of the quarterly fact sheets and investment updates when deals are signed. On behalf of the board, I would like to close by thanking shareholders for your commitment and I look forward to updating you on the Group’s progress later this year.

**Stephen Smith**
*Chairman*

20 March 2014

# Strategic Report

The Strategic Report describes the business of the Group and details the principal risks and uncertainties associated with its activities. These are amplified in the Investment Highlights section.

### Objective, Investment Policy and Business Model

The Objective and Investment Policy set out on page 17 also describes the Group's strategy and business model.

The Investment Manager during the period was Starwood European Finance Partners Limited, a company incorporated in Guernsey with registered number 55819 and regulated by the GFSC. The Investment Manager has appointed Starwood Capital Europe Advisers, LLP ("the Investment Adviser"), an English limited liability partnership authorised and regulated by the Financial Conduct Authority, to provide investment advice, pursuant to an Investment Advisory Agreement.

### Current and Future Development

A review of the year and outlook is contained in the Chairman's Statement, the Investment Highlights and Portfolio Review.

### Performance

A detailed review of performance is contained in the Investment Highlights and Portfolio Review.

A number of performance measures are considered by the board and the Investment Manager and Investment Adviser in assessing the board's success in achieving its objectives. The Key Performance Indicators ("KPIs") used to measure the progress and performance of the Group are established industry measures and are as follows:

- The portfolio yield;
- The movement in net asset value per ordinary share;
- The movement in share price and the discount/premium to NAV;
- On-going charges as a percentage of undiluted net asset value; and
- Weighted average loan to value for the portfolio.

Details of the KPIs are shown on page 3.

### Risk Management

It is the role of the board to review and manage all risks associated with the Group, mitigating these either directly or through the delegation of certain responsibilities to the audit committee, Investment Manager and Investment Adviser. The board performs a review of a risk matrix at each board meeting.

The board considers that the following risks are principal risks and has identified the mitigating actions in place to manage them.

***Target Portfolio Returns and Dividend***

The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment has and may be slower than expected, or principal may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. As a result the level of dividends and other distributions to be paid by the Company may fluctuate and there is no guarantee that any such distributions will be paid.

The Investment Adviser provides the Investment Manager and the board with a weekly report on pipeline opportunities, which includes analysis of the returns available. The directors also regularly receive information on the performance of the existing loans which includes analysis of the likelihood of any early repayments which may impact returns.

***Long-term Strategic Risk***

The Company is subject to the risk that its long-term strategy and its level of performance fail to meet the expectations of its shareholders. The shares may trade at a discount to NAV per share and shareholders may be unable to realise their investments through the secondary market at NAV per share. The board monitors the level of premium or discount of share price to NAV per share.

While the directors may seek to mitigate any discount to NAV per share through the discount management mechanisms set out in the Prospectus, there can be no guarantee that they will do so or that such mechanisms will be successful and the directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount or premium. Please see page 18 for further information on the discount management mechanisms.

The board monitors investment strategy and performance on an on-going basis and regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders.

***Interest Risk***

The Group is subject to the risk that the loan income and income from the cash and cash equivalents will fluctuate due to movements in LIBOR or EURIBOR.

The loans in place at 31 December 2013 have been structured so that 51.2% of the loans are fixed rate which provides protection from interest rate movements to the overall portfolio. In addition whilst the remaining 48.8% is classified as floating, 30.2% are subject to LIBOR or EURIBOR floors such that the interest cannot drop below a certain level which provides significant additional protection against downward interest risk. When reviewing future investments the Investment Manager will continue to review such opportunities to protect against downward interest risk.

***Credit Risk***

The Group's investments are subject to risk of default where a borrower is unable or does not pay interest or principal as it becomes due. In the event of a default the Group is generally entitled to enforce security, but the process may be expensive and lengthy and the outcome is dependent on sufficient capital being available to meet the borrower's obligations. Some of the investments made would rank behind senior debt tranches for repayment in the event that a borrower defaults, with the consequence of greater risk of partial or total loss. In addition, repayment of loans could be subject to the availability of refinancing options, including the availability of senior and subordinated debt and is also subject to the underlying value of the real estate collateral at the date of maturity.

The Investment Adviser undertakes detailed due diligence on each loan. Whilst the precise scope of due diligence will depend on the proposed investment, such diligence will typically include independent valuations, building and measurement and environmental surveys, legal reviews of property title and key leases, where necessary mechanical and engineering surveys, accounting and tax reviews and know your customer checks. The loan is first taken to the Investment Adviser's Investment Committee for consideration and if approved is then presented to the Investment Manager for consideration.

The loan investments made are secured by way of a standard security package depending on the type of asset and jurisdiction. This will generally include, but not be limited to, a first ranking charge or mortgage over the property (or in the case of any mezzanine participations a second ranking entitlement or second ranking charge) and a charge or pledge over all other assets of the borrower accompanied, usually, by security over the shares of the borrower.

The Investment Adviser, Investment Manager and board also manages these risks by ensuring a diversification of investments in terms of geography, market and type of loan. The Investment Manager and Investment Adviser operate in accordance with the guidelines, investment limits and restrictions policy determined by the board. The directors review the investment of the portfolio against these guidelines, limits and restrictions on a regular basis. The Investment Manager provides the board with management information including performance data on each individual loan in the underlying portfolio. The directors monitor the implementation and results of the investment process with the Investment Manager at each board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

***Liquidity Risk***

The Group's investments primarily consist of loans secured on real estate assets. Such investments are often illiquid and may be difficult for the Group to sell, particularly at times of market stress, and the price achieved on any such realisation is likely to be at a discount to the face value of the relevant loan.

The Group currently has sufficient cash to manage any liquidity issues. In addition, the Group has the ability to borrow up to 20 per cent. of NAV in order to manage any liquidity issues that may arise. The Company is currently engaged with two lenders with a view to arranging such a facility.

***Valuation Risk***

Real estate valuation is inherently subjective and uncertain. In addition, the value of underlying real estate and the rental income it produces may fluctuate as a result of factors which are outside the Group's control. The Group is and will be exposed to the residential and commercial real estate markets and if those markets enter a downturn it could materially adversely affect the Group's business and financial condition. Commercial mortgage loans are subject to the ability of the property owner to generate net income from operating the property/ies as well as the risk of delinquency and financial difficulty of the tenants. A major occupier or tenant of a property financed by the Group could default and/or seek to renegotiate terms during the course of a tenancy, which would lower the value of that property and may impact on the income to service the related loans provided by the Group. Loans on residential for sale are subject to the ability of the developer to complete the development and sell the individual residential units. If the developer is unable to sell the units at the price anticipated this may impact on the borrower's ability to repay the loan.

The Investment Adviser meets with all Borrowers on a regular basis to monitor developments in respect of each loan and reports to the Investment Manager and the board periodically and on an ad hoc basis where considered necessary.

The Group's loans are held at amortised cost and are reviewed quarterly for signs of impairment by the Investment Adviser. The results of the impairment review are discussed with the Investment Manager and the board. The valuation of investments in accordance with International Financial Reporting Standards ("IFRS") requires considerable judgement and is explained on pages 39 and 40.

### Community, Social, Employee, Human Rights and Environmental Issues

In carrying out its activities and in its relationship with the community, the Group aims to conduct itself responsibly, ethically and fairly, including in relation to social and human rights issues. The Group has no employees and the board is composed entirely of non-executive directors. As an investment company, the Group has no direct impact on the environment. However, the Group believes that it is in the shareholders' interest to consider environmental, social and ethical factors when selecting and retaining investments.

The Group believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. In the forthcoming year, it is planned to adopt a more integrated approach to assessing and reporting corporate social responsibility risks. Sustainability risk will be included within the Group's risk management framework and it is intended that further integration will be evident in the reporting of these risks in future reports. This work will be conducted in conjunction with the audit committee to create a group assurance framework.

### Board Diversity

The board considers that its members have a balance of skills, qualifications and experience which are relevant to the Company. The board supports the recommendations of the Davies Report and believes in the value and importance of diversity in the boardroom but it does not consider it is appropriate or in the interest of the Company and its shareholders to set prescriptive targets for gender or nationality on the board.

The Company has no employees and therefore has no disclosures to make in this regard.

**Stephen Smith**
*Chairman*

20 March 2014

# Investment Manager's Report – Investment Highlights

The Investment Manager during the period was Starwood European Finance Partners Limited, a company incorporated in Guernsey with registered number 55819 and regulated by the GFSC. The Investment Manager has been appointed pursuant to the Investment Management Agreement, which is summarised in note 4 of the financial statements. The Investment Manager has appointed Starwood Capital Europe Advisers, LLP ("the Investment Adviser"), an English limited liability partnership authorised and regulated by the Financial Conduct Authority, to provide investment advice, pursuant to an Investment Advisory Agreement which is summarised in note 4 of the financial statements.

The Investment Manager and Investment Adviser are both part of the Starwood Capital Group, a leading global real estate investment group.

### Portfolio Statistics

The board considers that the Group is engaged in a single segment of business, being the provision of a diversified portfolio of real estate backed loans. The analysis presented in this report is presented to demonstrate the level of diversification achieved within that single segment. The board does not believe that its investments constitute separate operating segments.

As at 31 December 2013, the portfolio was invested in line with the Group's investment policy and is summarised below. The position as at 19 March 2014 is also shown (as a percentage of NAV at 31 December 2013) as one further investment has been committed since 31 December 2013.

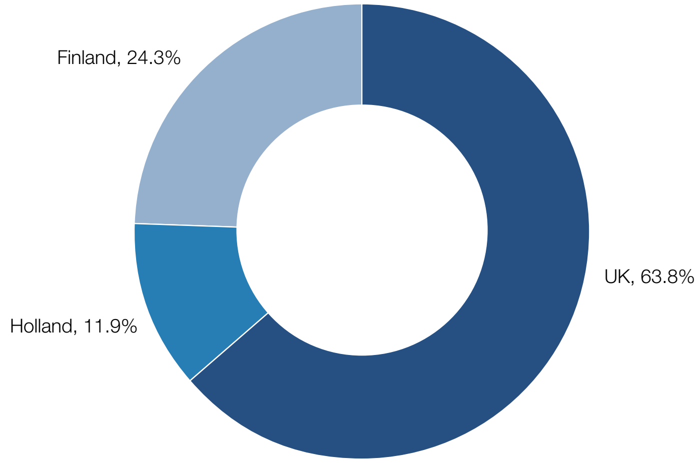
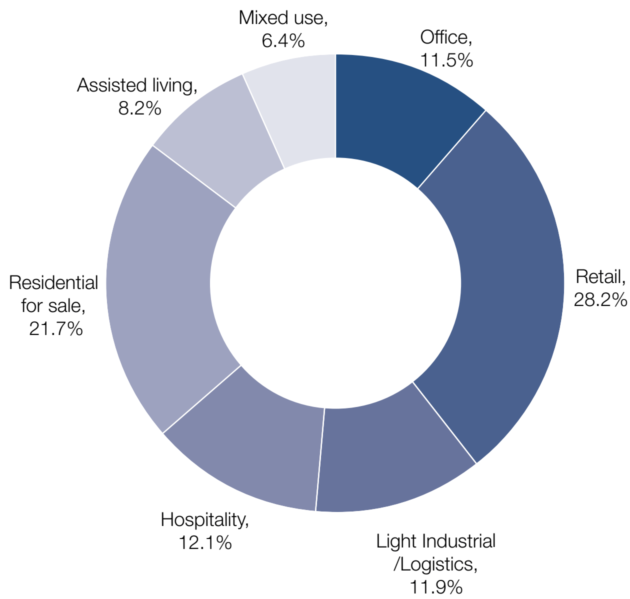
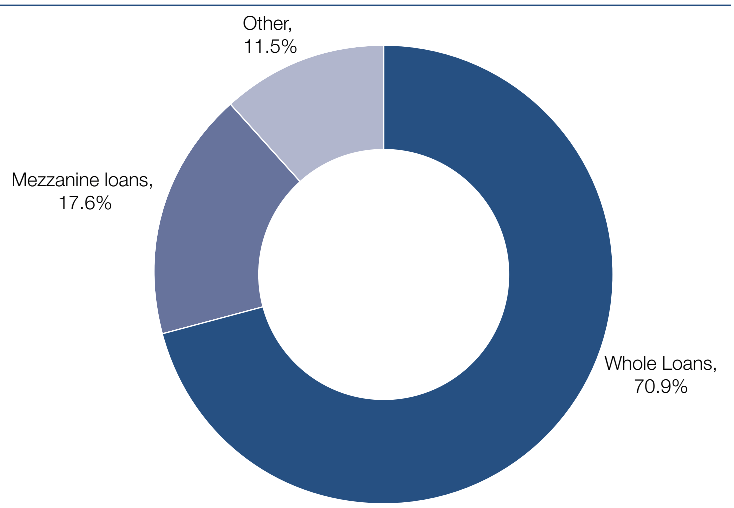
| | 31 December 2013 | 19 March 2014 |
|---|---|---|
| Number of borrowers | 7 | 8 |
| Number of investments | 7 | 8 |
| Number of industries | 7 | 7 |
| Invested Loan Portfolio annualised total return(1) | 9.2% | 9.1% |
| Weighted average portfolio LTV – to Group first £(2) | 14% | 13% |
| Weighted average portfolio LTV – to Group last £(2) | 57% | 58% |
| Average loan term | 4 years | 4.1 years |
| Percentage of net assets in cash | 33.7% | 29.7% |
| Percentage of net assets committed to senior and whole loans | 47.0% | 51.3% |
| Percentage of net assets committed to second lien and mezzanine loans | 11.7% | 11.7% |
| Percentage of net assets committed to other debt instruments | 7.6% | 7.3% |
| Percentage invested in GBP | 63.8% | 59.8% |
| Percentage invested in Euro | 36.2% | 40.2% |
| Percentage of invested portfolio in floating rate investments | 48.8% | 45.0% |

(1) Calculated assuming all loans are outstanding for the full term. Four of the loans are floating rate and returns are based on an assumed profile for future LIBOR or EURIBOR but the actual rate received may be higher or lower. Calculated only on loans closed to date and excluding cash uninvested.

(2) LTV to Group last £ means the percentage which the total loan advanced by the Group (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last valuation. LTV to first Group £ means the starting point of the loan to value range of the loan advanced by the Group (when aggregated with any other indebtedness ranking senior to it). For ground-up development (Lifecare Residences) the calculation includes the total facility available and the expected market value on completion of the project. Where the loan relates to a redevelopment project with facilities currently undrawn (Centre Point) the calculation includes current debt drawn against the lower of current-use market value and vacant possession value. Upon commencement of development, the loan to value will be tested by reference to loans drawn plus available loans against a value assuming completion of the development. This calculation will therefore change as the other facilities are drawn. LTVs are calculated for each loan and weighted by the Company's investment in each loan

### Implementation of IPO Messages

It has now been a year since the Company's IPO and it is appropriate to review how the Group, Investment Manager and Investment Adviser have met their objectives to date. At IPO the Group emphasised its desire for diversification and the transactions that have closed to date provide geographical, sector and loan type diversification as shown in the graphs below.

| Target | To Date |
|---|---|
| Geographical diversification:<br>• 50-60% United Kingdom<br>• 20% Germany<br>• Remainder Northern Europe | <br><br>Germany is unlikely to offer the opportunities originally envisaged. Holland, Ireland and Scandinavia offer better risk adjusted returns. |
| Sector diversification:<br>• Achieve broad range of sector exposure | <br> |
| Loan type diversification:<br>• Whole loans 45%<br>• Mezzanine 40%<br>• Other 15% | <br><br>During 2013, the Group found whole loan origination to be more fruitful than pure mezzanine and delivered substantially greater senior exposure. |

# Investment Manager's Report – Investment Highlights (continued)

### Future Strategy and Investment Outlook

The Group continues to benefit from a good pipeline of opportunities, the majority of which are whole loans. Over £1 billion of opportunities in which the Group can participate are being actively pursued and, in addition, we have been involved in discussions about follow-on transactions for loans that the Group has already made or committed to. These opportunities will meet the Group's target return requirements.

The pipeline is geographically spread and we expect Ireland, the Netherlands and Scandinavia to remain strong areas of focus in addition to the UK. Indeed, the origination orientation is moving slightly away from the UK as some of the risks associated with Continental Europe start to recede and we start to see increased activity. The board propose to add Spain and Italy to the permitted geography (subject to shareholder approval) as it is felt they offer attractive opportunities, albeit on a careful and considered basis. Whilst the Group's pipeline includes some larger transactions, there remains a continued focus on delivering smaller bilateral positions.

The Group is aiming to be substantially fully invested on the basis of completing two to three additional transactions as soon as practicable within the second quarter of 2014.

Upon substantially full investment, the Group is likely to be focussed on a growth strategy that envisages minimal cash drag by utilising short term borrowing facilities that can be repaid from further equity raisings and by the creation of a pipeline in advance of such raisings. The Group is currently positively engaged with two lenders to provide the permitted short term working capital facility (capped at 20% of NAV).

### Market Summary

In recent months, market interest in lending has substantially increased. Well documented macroeconomic factors underpin this trend, as well as excess liquidity hunting yield. The broader economy welcomes such increased lending as a stimulus for growth. A reasonable proportion of new lending is being undertaken by broader generalists as opposed to specialist and experienced parties and this, in itself, contains some warning signals. The banking community is also active but the impending Asset Quality Reviews, Basel 2.5 compliance in 2015 and strict credit control means the return of the "old guard" banking universe is not dominating the market, leading to a genuinely more diverse lending universe. In generic terms, almost any sensible project is financeable at a price.

Regulatory oversight is not diminishing and indeed representatives from the Bank of England have recently observed that further consideration should be given to the use of longer term "sustainable" valuations as opposed to spot "market values", the aim being to reduce volatility.

The demand for debt is still increasing, especially on the Continent as economies start to grow. The UK and London in particular remain a huge market and a continued safe haven for capital. In Western Europe, there has been an acceleration in finally addressing problem loans which adds to the need for debt alongside new asset deals.

This is the market the Group is participating in. Increasingly, the Group will look to generate attractive returns through underwriting whole loans and selling senior strips to generate mezzanine positions. This will rebalance the overall book towards the loan mix set out at IPO whilst maintaining high single digit gross returns.

# Investment Manager's Report – Portfolio Review

**Summary as at 31 December 2013**

As at 31 December 2013 the Group was 66.3% committed (as a percentage of Net Asset Value) through the following investments:

| Investment | Committed | Drawn as at 31 December 2013 |
|---|---|---|
| Maybourne Hotel Group, London | £19,000,000 | £19,000,000 |
| West End Development, London | £10,000,000 | £10,000,000 |
| Lifecare Residences, London | £12,830,542 | £11,052,985 |
| Heron Tower, London | £17,950,000 | £17,950,000 |
| Centre Point, London | £40,000,000 | £40,000,000 |
| **Total Sterling Loans** | **£99,780,542** | **£98,002,985** |
| Retail Portfolio, Finland | €45,000,000 | €45,000,000 |
| Industrial Portfolio, Netherlands | €21,810,000 | €21,810,000 |
| **Total Euro Loans** | **€66,810,000** | **€66,810,000** |

Further information on each investment is outlined below.

***Maybourne Hotel Group, London:*** the Group together with Starwood Property Trust, Inc. ("STWD") acted as one of the three partners for the £147m mezzanine component of the £547m refinancing of the Maybourne Hotel Group. The 5 year refinancing is secured on three five-star luxury London hotels being Claridge's, the Connaught and the Berkeley and consists of a £400m senior loan and £147m of mezzanine of which the Group committed £19m. The Group's investment has been undertaken on an attractive loan to value in the low 50s and the Group will earn a double digit yield in line with its investment criteria.

***West End Development, London:*** the Group has provided £10m out of a £55.75m three year term loan to a very strong opportunistic property investor secured by a well located transitional asset in the Tottenham Court Road area of the West End. The Borrower intends to obtain a mixed use planning consent which would then facilitate a refurbishment process at which time the loan would be repaid. The initial loan-to-value is 50% and the loan is expected to generate approximately a solid single digit return. The Group remains interested in participating in the next stage of the project but has no obligation to do so.

***Lifecare Residences, London:*** the Group provided a facility to the LifeCare Residences group to fund £8.5m of a £16.75m mezzanine loan and £4.3m of a £40m senior loan together to finance the development of a prime London retirement village. LifeCare Residences is a leading developer and operator of retirement care villages in both the United Kingdom and New Zealand. The Group was the mezzanine loan arranger. This investment has been undertaken on a mid-60s loan to gross development value and the Group will earn a blended double digit yield in line with its investment criteria.

***Heron Tower, London:*** the Group provided a £17.95m participation in a £288m five year refinancing facility for the Heron Tower, a single office property located in the EC2 district of the City of London. The remainder of the facility was provided by STWD. The Group expects to earn a solid single digit return in line with its investment criteria.

***Centre Point, London:*** the Group, together with STWD participated in a £220m facility secured on Centre Point, one of London's most iconic towers. The facility refinanced the existing loan at Centre Point and will finance the comprehensive refurbishment of the property. The Borrower has secured planning consent to transform Centre Point into a world class mixed use scheme. The Group participated in £40m of the facility and expects to earn a solid single digit return in line with its investment criteria.

***Retail Portfolio, Finland:*** the Group, together with STWD, provided a €95m medium term facility to an entity sponsored by Tristan Capital Partners and AEW Europe. The facility refinanced 225 retail hypermarket and convenience stores located in Finland. The Group has invested €45m in the facility which has a low-60 loan to value. The Group expects to earn a solid single digit return in line with its investment criteria. The portfolio will be divested over the coming years, with reasonably rapid loan repayment expected.

***Industrial Portfolio, Netherlands:*** the Group provided a €21.8m whole loan to finance the acquisition of an industrial and office portfolio in the Netherlands. The Group expects to earn a single digit return in line with its investment criteria.

### Post Year end Transactions

The Group provided a €14.3m facility for the acquisition of an office building in Amsterdam occupied by UPC Nederland. The Group expects to earn a solid single digit return in line with its investment criteria. The loan is expected to be fully drawn in March.

In addition to the above transaction, scheduled amortisation of £705,894 was made under the Heron Tower facility and a prepayment of €2,054,235 was made under the Retail Portfolio, Finland facility. Following the above transactions the Company has committed approximately £165.7m of IPO proceeds and is 70.2% invested (based on the NAV as at 31 December 2013).

**Starwood European Finance Partners Limited**
*Investment Manager*

20 March 2014

# Board of Directors

**Stephen Smith *(non-executive chairman – chairman of the board)***

Stephen is currently a director of Gatehouse Bank Plc (appointed in June 2013) and a director of Tritax Big Box REIT Plc, which floated on the London Stock Exchange in December 2013. Previously, he was the Chief Investment Officer of British Land Company PLC, the FTSE 100 real estate investment trust from January 2010 to March 2013 with responsibility for the group's property and investment strategy, leaving at the end of June 2013. He was formerly Global Head of Asset Management and Transactions at AXA Real Estate Investment Managers, where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Prior to joining AXA in 1999 he was Managing Director at Sun Life Properties for five years. Stephen is a UK resident.

**Jonathan Bridel *(non-executive director – management engagement committee chairman)***

Jonathan is currently a non-executive chairman or director of listed and unlisted companies comprised mainly of investment funds and investment managers, including Alcentra European Floating Rate Income Fund Limited, Aurora Russia Limited, DP Aircraft I Limited and The Renewables Infrastructure Group Limited. He was previously Managing Director of Royal Bank of Canada's investment business in the Channel Islands. Prior to this, after working at Price Waterhouse Corporate Finance in London, Jonathan served in senior management positions in the British Isles and Australia in banking, specialising in credit and in private businesses as Chief Financial Officer. Graduating from the University of Durham with a degree of Master of Business Administration in 1988, Jonathan also holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jonathan is a Chartered Marketer and a member of the Chartered Institute of Marketing, the Institute of Directors and Chartered Fellow of the Chartered Institute for Securities and Investment. Jonathan is a resident of Guernsey.

**John Whittle *(non-executive director – audit committee chairman)***

John is a chartered accountant and holds the Institute of Directors Diploma in Company Direction. He is a non-executive director of International Public Partnerships Limited (FTSE 250), India Capital Growth Fund Limited, Globalworth Real Estate Investments Limited and Advance Frontier Markets Fund Limited (all listed on AIM) and also acts as non-executive director to several other Guernsey investment funds. He was previously Finance Director of Close Fund Services, a large independent fund administrator, where he successfully initiated a restructuring of client financial reporting services and was a key member of the business transition team. Prior to moving to Guernsey he was at Price Waterhouse in London before embarking on a career in business services, predominantly telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail) and was directly responsible for the strategic shift into retail distribution and its subsequent implementation; he subsequently worked on the £20m private equity acquisition of Ora Telecom. John is also a resident of Guernsey.

# Report of the Directors

### Principal Activities and Investment Objective

The investment objective of the Group is to provide its shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental European markets. Whilst investment opportunities in the secondary market are considered, the Group's main focus is to originate direct primary real estate debt investments.

The Group attempts to limit downside risk by focusing on secured debt with both quality collateral and contractual protection. The typical loan term is between three and seven years and at least 75% of total loans by value will be for a term of seven years or less.

Once fully invested the Group intends to be appropriately diversified by geography, real estate sector and loan type and counterparty. The Group pursues investments across the commercial real estate debt asset class through senior loans, subordinated loans and mezzanine loans, bridge loans, selected loan-on-loan financings and other debt instruments.

### Structure

The Company was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended, on 9 November 2012 with registered number 55836, and has been authorised by the Guernsey Financial Services Commission ("GFSC") as an authorised closed-ended investment company. The Company's ordinary shares were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange as part of its initial public offering which completed on 17 December 2012. The issued capital during the period comprises the Company's ordinary shares denominated in Sterling.

The Company makes its investments through Starfin Lux S.à.r.l ("Luxco"), an indirect wholly-controlled subsidiary not subject to regulation in Luxembourg or elsewhere. The Company's interest in Luxco is held through a Guernsey limited partnership, Starfin Public LP ("the Partnership") of which Starfin Public GP Limited ("the GP") is the general partner. The GP is wholly owned and controlled by the Company. Starfin Carry LP ("The Special Limited Partner") is the only other limited partner of the Partnership and is majority owned by the Starwood Capital Group ("Starwood") and has no control over the GP (see related party transactions). References to the "Group" refer to the Company, the GP, the Partnership and Luxco.

### Dividend Policy

At launch, the Company had targeted a dividend of 3.5 pence per ordinary share in respect of the period from Admission, 17 December 2012, to the first financial year end, 31 December 2013, and 7.0 pence per ordinary share in subsequent financial periods, based on quarterly dividend payments. This was predicted on the assumption that 50% of the Company's available cash would be invested within six months from Admission and the remainder within 12 months. Changing market conditions, however, resulted in slower than anticipated investments, therefore in the second half of 2013, the Company advised its shareholders that it was expecting to be able to pay a dividend up to 1.9 pence for the period to 31 December 2013, based on the completed investments at that date and deals in the pipeline at that time. This revised amount has been met for the period.

### Dividend Proceeds

The Company has declared and paid a total of £1,904,800 during the period (0.8 pence per ordinary share).

### Business Review

The Group's performance during the period to 31 December 2013, its position at that date and the Group's future developments are detailed in the Chairman's Statement, the Strategic Report, the Investment Highlights and the Portfolio Review on pages 4 to 13.

### Capital

As part of the Company's initial public offering (the "IPO"), completed on 17 December 2012, 228,500,000 ordinary shares of the Company, with an issue price of 100 pence per share, were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange.

Shortly after the IPO and in order to meet market demand, principally following the Company's inclusion in the FTSE UK Index Series and to manage the higher share price premium over the NAV per share at that time, the Company issued additional shares within the limits imposed by the Prospectus Rules. The following shows the shares issued during the period:

| Ordinary shares | Number | £ |
|---|---|---|
| Balance at start of the period | – | – |
| Shares issued on 17 December 2012 ("IPO") | 228,500,000 | 228,500,000 |
| Shares issued on 21 March 2013 | 8,000,000 | 8,340,000 |
| Shares issued on 09 April 2013 | 1,000,000 | 1,045,000 |
| Shares issued on 12 April 2013 | 600,000 | 624,000 |
| **Balance at end of the period** | **238,100,000** | **238,509,000** |

Following these issues, the Company currently has issued share capital consisting of 238,100,000 ordinary shares.

Details of the Company's capital are provided in more detail in note 14 on page 45 of the consolidated financial statements.

### Substantial Interests

As of 4 March 2014, the Company is aware of the following material shareholdings:

| Investor | No. of ordinary shares | % holding of Issued Share Capital |
|---|---|---|
| BlackRock | 27,109,316 | 11.39 |
| Russell Investments | 20,600,000 | 8.65 |
| Quilter Cheviot Investment Management | 20,245,319 | 8.50 |
| Rathbones | 12,978,400 | 5.45 |
| SG Private Banking | 11,086,832 | 4.66 |
| Premier Asset Management | 11,005,000 | 4.62 |
| East Riding of Yorkshire | 10,000,000 | 4.20 |
| Thames River Capital | 9,600,000 | 4.03 |
| Starwood Property Trust | 9,140,000 | 3.84 |
| Schroder & Co, Zurich (PB) | 8,709,800 | 3.65 |
| Smith & Williamson | 8,505,368 | 3.57 |

### Directors' Interests in Shares

The directors' interests in shares are shown below:

| Name | Ordinary shares at Company's Launch | Ordinary shares purchased | Ordinary shares at 31 December 2013 |
|---|---|---|---|
| Stephen Smith | 40,000 | – | 40,000 |
| John Whittle | – | 7,000 | 7,000 |
| Jonathan Bridel and Spouse | – | 7,000 | 7,000 |

The directors have adopted a code of directors' dealings in ordinary shares, which is based on the Model Code for Directors' dealings contained in the Listing Rules (the "Model Code"). The board is responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the directors, and review the Code on a regular basis.

### Post-Balance Sheet Events

The Group provided a €14.3m facility for the acquisition of an office building in Amsterdam occupied by UPC Nederland. The Group expects to earn a solid single digit return in line with its investment criteria. The loan is expected to be fully drawn in March.

The Company and Goldman Sachs International entered into an international forward exchange master agreement dated 7 February 2014 pursuant to which the parties can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between sterling and other currencies. The agreement is governed by the laws of England and Wales.

### Independent Auditor

The board of directors elected to appoint PricewaterhouseCoopers CI LLP as auditors to the Company at the inaugural meeting of the Company on 22 November 2012. PricewaterhouseCoopers CI LLP has indicated their willingness to continue as auditors.

### Investment Manager and Service Providers

The Investment Manager during the period was Starwood European Finance Partners Limited (the "Investment Manager"), incorporated in Guernsey with registered number 55819 and regulated by the Guernsey Financial Services Commission ("GFSC").

The Investment Manager has appointed Starwood Capital Europe Advisers, LLP ("the Investment Adviser"), an English limited liability partnership authorised and regulated by the Financial Conduct Authority ("FCA"), to provide investment advice pursuant to an Investment Advisory Agreement.

The administration of both the Company and Investment Manager was delegated to Ipes (Guernsey) Limited (the "Administrator") during the period.

### Investment Objective and Policy

As per the Prospectus dated 28 November 2012, the current investment objective and policy are as follows:

The investment objective of the Company is to provide shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental European markets.

The Company seeks to invest in a diversified portfolio of real estate debt investments in the UK and Continental Europe. Whilst investment opportunities in the secondary market are considered, the Company's main focus is to originate direct primary real estate debt investments. The Company attempts to limit downside risk by focusing on secured debt with both quality collateral and contractual protection. The Company anticipates that the typical loan term will be between three and seven years. Whilst the Company retains absolute discretion to make investments for either shorter or longer periods, at least 75% of total loans by value will be for a term of seven years or less.

The Company's portfolio is intended to be appropriately diversified by geography, real estate sector type, loan type and counterparty. The Company pursues investments across the commercial real estate debt asset class through senior loans, subordinated loans and mezzanine loans, bridge loans, selected loan-on-loan financings and other debt instruments. The split between senior, subordinated and mezzanine loans is determined by the Investment Manager in its absolute discretion having regard to the Company's target return objectives. However, it is anticipated that whole loans will comprise approximately 40-50% of the portfolio, subordinated and mezzanine loans approximately 40-50%, and other loans between 0 and 20% (including bridge loans, selected loan-on-loan financings and other debt instruments). Pure development loans will not, in aggregate, exceed 25% of the Company's Net Asset Value calculated at the time of investment. The Company may originate loans which are either floating or fixed rate.

The Company seeks to enhance the returns of selected loan investments through the economic transfer of the most senior portion of such loan investments which would be by way of syndication, sale, assignment, sub-participation or other financing (including true sale securitisation) to the same maturity as the original loan (i.e. "matched funding") while retaining a significant proportion as a subordinate investment. It is anticipated that where this is undertaken it would generate a positive net interest rate spread and enhance returns for the Company. It is not anticipated that, under current market conditions, these techniques will be deployed with respect to any mezzanine or other already subordinated loan investments. The proceeds released by such strategies will be available to the Company for investment in accordance with the investment policy.

No single investment, or aggregate investments secured on a single property or group of properties, will exceed 20% of the Company's Net Asset Value, calculated at the time of investment. No more than 20% of the Company's Net Asset Value, calculated at the time of investment, will be exposed to any one borrower legal entity.

## Discount Management Strategy

The Discount Management Strategy, which has three elements, is summarised as follows:

- A discount-triggered realisation mechanism that would apply if the ordinary shares trade at an average discount of 5% or more during the last six months of the financial year ending 31 December 2017 and would provide for the realisation of up to 75% of the outstanding ordinary share capital by means of the orderly realisation over time of the relevant proportion of the Company's assets and related phased distributions of capital to shareholders who make the relevant election;
- Save where the discount-triggered realisation mechanism has been activated, a realisation vote by no later than 28 February 2018 to implement a realisation of up to 75% of the outstanding capital on substantially the same basis as described above; and
- Share repurchase powers that allow the Company to repurchase ordinary shares in the market up to 14.99% of the share capital, subject to annual renewal of the shareholder authority.

By order of the board

**Ipes (Guernsey) Limited**
*Company Secretary*

20 March 2014

# Directors' Remuneration Report

### Remuneration Policy & Components

The board endeavours to ensure the remuneration policy reflects and supports the Company's strategic aims and objectives throughout the period under review. It has been agreed that, due to the small size and structure of the Company, a separate remuneration committee would be inefficient; therefore the board as a whole is responsible for discussions regarding remuneration. No external remuneration consultants were appointed during the period under review.

As per the Company's articles of association, all directors are entitled to such remuneration as is stated in the Company's Prospectus or as the Company may determine by ordinary resolution; to not exceed the aggregate overall limit of £128,500 for the first period to 31 December 2013 and £200,000 in future periods. Subject to this limit, it is the Company's policy to determine the level of directors' fees, having regard for the level of fees payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of responsibilities related to the board and audit committee and the time dedicated by each director to the Company's affairs. Base fees are set out below. As per the Prospectus dated 28 November 2012, the audit committee chairman will be entitled to receive an additional fee of £2,500 per annum from 2014.

| Base Fees | 2013<br>£ |
|---|---|
| Chairman | 45,000 |
| Audit Committee Chairman | 32,500 |
| Non-executive director | 32,500 |
| **Total directors' Fees** | **110,000** |

As outlined in the Articles of Association, the directors may also be paid for all reasonable travelling, accommodation and other out-of-pocket expenses properly incurred in the attendance of board or committee meetings, general meetings, or meetings with shareholders or debentures of the Company or otherwise in discharge of their duties; and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as directors of the Company.

No director has any entitlement to pensions, paid bonuses or performance fees, been granted share options or been invited to participate in long-term incentive plans. No loans have been taken on behalf of a director by the Company.

None of the directors has a service contract with the Company. Each of the directors has entered into a letter of appointment with the Company dated 22 November 2012, subject to election at the first Annual General Meeting, or as determined in line with the Company's Articles, and re-election at subsequent Annual General Meetings in accordance with the Company's Articles and all due regulations and provisions. The directors do not have any interests in contractual arrangements with the Company or its investments during the period under review, or subsequently. Each appointment can be terminated in accordance with the Company's Articles and without compensation. As outlined in the letters of appointment, each appointment can be terminated at the will of both parties with one month's notice either by (i) written resignation; (ii) unauthorised absences from board meetings for 12 months or more; (iii) written request of the other directors; or (iv) a resolution of the shareholders.

Directors' and Officers' liability insurance cover is maintained by the Company but is not considered a benefit in kind nor constitutes a part of the directors' remuneration. The Company's Articles indemnify each director, secretary, agent and officer of the Company, former or present, out of assets of the Company in relation to charges, losses, liabilities, damages and expenses incurred during the course of their duties, in so far as the law allows and provided that such indemnity is not available in circumstances of fraud, wilful misconduct or negligence.

### Directors' Emoluments

The directors received the following fees during the period under review, with a total of £128,334:

| Director | Period under<br>Review £ |
|---|---|
| Stephen Smith | 52,500 |
| John Whittle | 37,917 |
| Jonathan Bridel | 37,917 |
| **Aggregate emoluments** | **128,334** |

By order of the board

**Ipes (Guernsey) Limited**
*Company secretary*

20 March 2014

# Corporate Governance Statement

As a regulated Guernsey incorporated company with a Premium Listing on the Official List of the UKLA, the Company is required to comply with the principles of the UK Corporate Governance Code dated September 2012 ("UK Code").

As an AIC member, the board has also considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues of specific relevance to the Company. The AIC Code was updated in 2013 to include the new provisions of the UK Code announced in 2012, and has been endorsed by the Financial Reporting Council as ensuring investment company boards fully meet their obligations to the UK Code and LR 9.8.6 of the Listing Rules. Having adopted the AIC Code with effect from Admission (17 December 2012), the board has therefore assessed itself, the committees and performance of the directors against the parameters and principles outlined within the AIC Code on a regular basis throughout 2013.

The board is of the view that throughout the period ended 31 December 2013, the Company has been fully compliant with the AIC Code's provisions. Key issues affecting the Company's corporate governance responsibilities, how they are addressed by the board and application of the AIC Code are presented below. An explanation is provided in the event that certain provisions have not been complied with.

## Chairman

Appointed to the permanent position of chairman of the board on 22 November 2012, Stephen Smith is responsible for leading the board in all areas, including determination of strategy, organising the board's business and ensuring the effectiveness of the board and individual directors. He also endeavours to produce an open culture of debate within the board.

Prior to the chairman's appointment, a job specification was prepared which included an assessment of the time commitment anticipated for the role. Discussions were undertaken to ensure the chairman was sufficiently aware of the time needed for his role, and agreed to upon signature of his letter of appointment. Other significant business commitments of the chairman were disclosed to the Company prior to appointment to the board, and were publicly disclosed in the Company's Prospectus dated 28 November 2012. Any subsequent changes have been declared. Certain of these commitments, and their subsequent changes, can be identified in his biography on page 14.

The effectiveness and independence of the chairman is evaluated on an annual basis as part of the board's performance evaluation; the audit committee chairman is tasked with collating feedback and discussing with the chairman on behalf of the rest of the board.

As per the Company's Articles all directors, including the chairman, must disclose any interest in a transaction that the board and committees will approve. To ensure all board decisions are independent, the said conflicted director is not entitled to vote in respect of any arrangement connected to the interested party.

## Board

### *Independence and Disclosure*

The board and chairman confirm that they were selected prior to the Company's launch and were able to assume all responsibilities at an early stage, independent of the Investment Manager and Investment Adviser.

The board is composed entirely of non-executive directors, who meet as required without the presence of the Investment Manager or service providers to scrutinise the achievement of agreed goals and objectives, and monitor performance. Through the audit committee and the management engagement committee they are able to ascertain the integrity of financial information and confirm that all financial controls and risk management systems are robust, and analyse the performance of the Investment Manager and other service providers on a regular basis.

Following the annual performance evaluation, it was deemed that the directors had been proven to challenge the Investment Manager and Investment Adviser throughout the period under review, as minuted and recorded, therefore for the purposes of assessing compliance with the AIC Code, the board as a whole considers that each director is independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of his independent judgment. If required, the board is able to access independent professional advice. The Investment Manager is also requested to declare any potential conflicts surrounding votes, share dealing and soft commissions on an annual basis to the board to help with the assessment of investments.

Open communication between the Investment Manager and the board is facilitated by regular board meetings, to which the Investment Manager is invited to attend and update the board on the current status of the Company's investments, along with ad hoc meetings as required.

Coming to mutual agreement on all decisions, it was agreed the board had acted in the best interests of the Company to the extent that, if deemed appropriate that a director abstain or have his objection noted, it is minuted.

Similar to the process outlined above for the appointment of the chairman, a job specification was prepared for each directorship which included an assessment of the time commitment anticipated for the role to ensure each director was aware of the time commitment needed for the role. The directors' other significant business commitments were disclosed to the Company prior to appointment to the board, and were publicly disclosed in the Company's Prospectus dated 28 November 2012. Any subsequent changes have been declared. Certain of these commitments can be identified in each director's biography on page 14. Details of the skills and experience provided by each director can also be found in their biographies, alongside identification of the role each director currently holds in the Company.

The terms and conditions of appointment for non-executive directors are outlined in their letters of appointment, and are available for inspection by any person at the Company's registered office during normal business hours and at the AGM for fifteen minutes prior to and during the meeting.

There is no executive director function in the Company; all day-to-day functions are outsourced to external service providers.

***Development***

The board believes that the Company's directors should develop their skills and knowledge through participation at relevant courses. The chairman is responsible for reviewing and discussing the training and development of each director according to identified needs. Upon appointment, all directors participate in discussions with the chairman and other directors to understand the responsibilities of the directors, in addition to the Company's business and procedures. The Company also provides regular opportunities for the directors to obtain a thorough understanding of the Company's business by regularly meeting members of the senior management team from the Investment Manager, Investment Adviser and other service providers, both in person and by phone.

***Balance of the board and Diversity Policy***

It is perceived that the board is well-balanced, with a wide array of skills, experience and knowledge that ensures it functions correctly and that no single director may dominate the board's decisions. Having three directors appointed ensures that during any transition period, there are at least two directors to provide stability.

The board's position on diversity can be seen in the Strategic Report on page 8.

All directors currently sit on all the committees; each director also fills one chairmanship post only.

***Annual Performance Evaluation***

The board's balance is reviewed on a regular basis as part of a performance evaluation review. Using a pre-determined template based on the AIC Code's provisions as a basis for review, the board undertook an evaluation of its performance, in addition an evaluation focusing on individual commitment, performance and contribution of each director was conducted. The chairman then met with each director to fully understand their views of the Company's strengths and to identify potential weaknesses. If appropriate, new members are proposed to resolve the perceived issues, or a resignation sought. Following discussions and review of the chairman's evaluation by the other directors, the audit committee chairman reviewed the chairman's performance. Training and development needs are identified as part of this process, thereby ensuring that all directors are able to discharge their duties effectively.

Given the Company's size and the structure of the board, no external facilitator or independent third party was used in the performance evaluation.

***Re-election and Board Tenure***

There is currently no nominations committee for the Company as it is deemed that the size, composition and structure of the Company would mean the process would be inefficient and counter-productive. The board therefore undertakes a thorough process of reviewing the skill set of the individual directors, and proposes new, or renewal of current, appointments to the board.

Each director is required to be elected by shareholders at the Annual General Meeting following his appointment by the board, and to submit for re-election every three years thereafter. Any director who has served on the board for longer than nine years will be subject to annual re-election. Stephen Smith, John Whittle and Jonathan Bridel have all served on the board throughout the period under review; therefore all are submitting themselves for election at the Annual General Meeting on 2 May 2014.

The audit committee chairman and chairman of the board confirm that the directors submitting themselves for election have proven their ability to fulfil all legal responsibilities and to provide effective independent judgment on issues of strategy, performance, resources and conduct. The board therefore has no hesitation in recommending to shareholders that each director be elected.

### *Appointment Process*

As no new director has been appointed since the Company's launch and the board believes there is no gap that currently needs to be filled, no appointment process has been formalised. It is anticipated, however, that the process will involve identifying gaps and needs in the board's composition, then reviewing the skill set of potential candidates. For renewal of current appointments, all directors except the individual in question are entitled to vote at the meeting. Similarly, no new nominations have been made for the role of chairman of the board since prior to launch.

## Board and committees

### *Board*

Matters reserved for the board include review of the Company's overall strategy and business plans; approval of the Company's half-yearly and annual report; review and approval of any alteration to the Group's accounting policies or practices and valuation of investments; approval of any alteration to the Company's capital structure; approval of dividend policy; appointments to the board and constitution of board committees; observation of relevant legislation and regulatory requirements; and performance review of key service providers. The board also retains ultimate responsibility for committee decisions; every committee is required to refer to the board, who will make the final decision.

Terms of reference that contain a formal schedule of matters reserved for the board of directors and its duly authorised committee for decision has been approved and can be reviewed at the Company's registered office.

The board met eleven times during 2013 (2012: two); the meeting attendance record is displayed on page 23 of the Corporate Governance statement. The company secretary acts as the secretary to the board.

### *Audit committee*

The board has established an audit committee composed of all the independent members of the board. The Chairman of the board is included as a committee member to enable a full understanding of the issues facing the Company, but cannot be audit committee chairman. The audit committee, its membership and its terms of reference are kept under regular review by the board, and it is perceived all members have sufficient financial skills and experience. John Whittle is audit committee chairman.

The audit committee met twice during 2013 (2012: nil); the meeting attendance record is displayed on page 23. The company secretary acts as the secretary to the audit committee.

Owing to the size and structure of the Company, there is no internal audit function. The audit committee has reviewed the need for an internal audit function, and perceived that the internal financial and operating control systems in place within the Company and its service providers, as evidenced by the internal control reports provided by the administrator, give sufficient assurance that a sound system of internal control is maintained that safeguards shareholders' investment and Company assets.

The audit committee is intended to assist the board in discharging its responsibilities for the integrity of the Company's financial statements, as well as aiding the assessment of the Company's internal control effectiveness and objectivity of the external auditors. Further information on the audit committee's responsibilities is given in the report of the audit committee on page 26.

Formal terms of reference for the audit committee are available at the registered office, and are reviewed on a regular basis.

### *Management engagement committee*

The Company has established a management engagement committee which comprises all the directors, with Jonathan Bridel as the chairman of the committee. The management engagement committee's main function is to review and make recommendations on any proposed amendment to the Investment Management Agreement and keep under review the performance of the Investment Manager; and undertake an assessment of the Investment Manager's scope and responsibilities as outlined in the service agreement and prospectus on a formal basis every year. Discussions on Investment Manager performance are also conducted regularly throughout the period by the board. Reviews of engagements with other service providers to ensure all parties are operating satisfactorily are also undertaken by the management engagement committee so as to ensure the safe and accurate management and administration of the Company's affairs and business and that they are competitive and reasonable for shareholders.

Formal terms of reference for the management engagement committee are available at the registered office, and are reviewed on a regular basis.

The management engagement committee met once during 2013 (2012: nil); the meeting attendance record is displayed on page 23. The company secretary acts as the secretary to the management engagement committee.

***Board and committee meeting attendance***

Individual attendance at board and committee meetings is set out below:

| | Scheduled board | Ad hoc board | Audit Committee | Management Engagement |
|---|---|---|---|---|
| Stephen Smith[1] | 3 | – | 2 | 1 |
| John Whittle | 3 | 8 | 2 | 1 |
| Jonathan Bridel | 3 | 8 | 2 | 1 |
| **Total Meetings for Period** | **3** | **8** | **2** | **1** |

[1] The ad hoc board meetings are convened at short notice to deal with administrative matters. It is not therefore always logistically feasible for the chairman of the board to attend such meetings.

In addition to the scheduled quarterly and additional ad hoc meetings, the directors and the Investment Manager have been provided with a number of telephone and face to face investment briefings by the Investment Adviser in order to keep the directors and the Investment Manager fully appraised and up to date with the current investment status and progress.

## Board Remuneration

As outlined in the Prospectus, directors are paid in accordance with agreed principles aimed at focusing on long-term performance of the Company. Further information can be found in the directors' Remuneration Report on page 19.

## Company secretary

Reports and papers, containing relevant, concise and clear information, are provided to the board and committees in a timely manner to enable review and consideration prior to both scheduled and ad hoc specific meetings. This ensures that directors are capable of contributing to, and validating, the development of Company strategy and management. The regular reports also provide information that enables scrutiny of the Company's, Investment Manager's and other service providers' performance. When required, the board has sought further clarification of matters with the Investment Manager and other service providers, both by means of further reports and in-depth discussions, in order to make more informed decisions for the Company.

Under the direction of the chairman, the company secretary facilitates the flow of information between the board, committees, Investment Manager and other service providers through the development of comprehensive, detailed meeting packs, agendas and other media. These are circulated to the board and other attendees in sufficient time to review the data.

Full access to the advice and services of the company secretary is available to the board; in turn, the company secretary is responsible for advising on all governance matters through the chairman. The Articles and schedule of matters reserved for the board indicate the appointment and resignation of the company secretary is an item reserved for the full board. A review of the performance of the company secretary is undertaken by the board on a regular basis.

## Financial and Business Information

An explanation of the directors' role and responsibility in preparing the Annual Report and Accounts for the period ended 31 December 2013 is provided in the Statement of directors' responsibilities on page 29.

For the purposes solely of the audit of the financial statements, the auditors have reviewed the Company's compliance with the AIC Code's provisions, the UK Listing Authority's Listing Rules and other applicable rules of the Financial Conduct Authority as reported on pages 30 to 31. This is in compliance with International Standards of Auditing ("ISAs").

Further information enabling shareholders to assess the Company's performance, business model and strategy can be sourced in the Chairman's Statement on pages 4 and 5, the Strategic and Business Review on pages 6 to 13 and the Report of the Directors on pages 15 to 18.

## Going Concern

The board regularly reviews cash flow projections and is of the opinion that the Group possesses sufficient resources to continue its operational activities for the foreseeable future and will be able to meet all its liabilities as they fall due. The board is therefore of the opinion that the going concern basis should be adopted in the preparation of the Consolidated Financial Statements. Furthermore, as per the prospectus, the Company is subject to a five year realisation vote on the ordinary shares redeemable at no par value.

## Risk Management and Risk Control

The board is required annually to review the effectiveness of the Company's key internal controls such as financial, operational and compliance controls and risk management. The controls are designed to ensure that the risk of failure to achieve business objectives is minimised, and are intended to provide reasonable assurance against material misstatement or loss. This is not absolute assurance that all risks are eliminated. Through regular meetings and meetings of the audit committee, the board seeks to maintain full and effective control over all strategic, financial, regulatory and operational issues. The board maintains an organisational and committee structure with clearly defined lines of responsibility and delegation of authorities.

As part of the compilation of the risk register for the Company, appropriate consideration has been given to the relevant control processes and that risk is considered, assessed and managed as an integral part of the business. The Company's system of internal control includes *inter alia* the overall control exercise, procedures for the identification and evaluation of business risk, the control procedures themselves and the review of these internal controls by the audit committee on behalf of the board. Each of these elements that make up the Company's system of internal financial and operating control is explained in further detail as follows:

***(i) Control environment***

The Company is ultimately dependent upon the quality and integrity of the staff and management of its Investment Manager, its Investment Adviser and its Fund Administration & Company Secretarial service provider, Ipes (Guernsey) Limited. In each case, qualified and able individuals have been selected at all levels. The staff of both the Investment Manager and Administrator are aware of the internal controls relevant to their activities and are also collectively accountable for the operation of those controls. Appropriate segregation and delegation of duties is in place.

The audit committee undertakes a review of the Company's internal financial and operating controls on a regular basis. The auditors of the Company, PricewaterhouseCoopers CI LLP, considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design their audit procedures, but not for the purpose of expressing an audit opinion on the effectiveness of the Company's internal controls.

In its role as a third-party fund administration services provider, the Ipes Group, of which Ipes (Guernsey) Limited is a part, produces an annual AAF 01/06 Assurance Report on the internal control procedures in place within the Ipes Group, and this is subject to review by the audit committee and the board.

***(ii) Identification and evaluation of business risks***

Another key business risk is the performance of the Company's investments. This is managed by the Investment Manager, which undertakes regular analysis and reporting of business risks in relation to the loan portfolio, and then proposes appropriate courses of action to the board for their review.

***(iii) Key procedures***

In addition to the above, the audit committee's key procedures include a comprehensive system for reporting financial results to the board regularly, as well as quarterly impairment reviews of loans (including reports on the underlying investment performance).

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's system is designed to assist the directors in obtaining reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Company, given its size, does not have an internal audit function. It is the view of the board that the controls in relation to the Company's operating, accounting, compliance and IT risks performed robustly throughout the year. In addition, all have been in full compliance with the Company's policies and external regulations, including:

- Investment policy, as outlined in the IPO documentation;
- Personal Account Dealing, as outlined in the Model Code;
- Whistleblowing Policy;
- Anti-Bribery Policy;
- Applicable Financial Conduct Authority Regulations;
- Listing Rules, and Disclosure and Transparency Rules;
- Treatment and handling of confidential information;
- Conflicts of interest;
- Compliance policies; and
- Anti-Money Laundering Regulations.

There were no protected disclosures made pursuant to the Company's whistleblowing policy, or that of service providers in relation to the Company, during the period to 31 December 2013.

In summary, the board considers that the Company's existing internal financial and operating controls, coupled with the analysis of risks inherent in the business models of the Company and its subsidiaries, continue to provide appropriate tools for the Company to monitor, evaluate and mitigate its risks.

### Dialogue with shareholders

The directors place a great deal of importance on communication with shareholders. The Company's chairman, Investment Manager and the brokers, Jefferies International Limited and Dexion Capital plc, aim to meet with large shareholders at least annually, together with the Investment Adviser, and calls are undertaken on a regular basis with shareholders. The board also receives regular reports from the Brokers on shareholder issues. Publications such as the Annual Report and Financial Statements, quarterly factsheets and interim management statements, are reviewed and approved by the board prior to circulation, and are widely distributed to other parties who have an interest in the Company's performance, and are available on the Company's website.

All directors are available for discussions with the shareholders, in particular the chairman and the audit committee chairman, as and when required.

### Constructive Use of AGM

The Notice of AGM included within the Annual Report and Financial Statements is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions to the board or Investment Manager, either formally at the Company's Annual General Meeting, informally following the meeting, or in writing at any time during the year via the company secretary. The company secretary is available to answer general shareholder queries at any time throughout the year.

By order of the board

**Ipes (Guernsey) Limited**
*Company secretary*

20 March 2014

# Report of the audit committee

The board is supported by the audit committee, which comprised all the directors during the period under review (including the Chairman of the board, to enable his greater understanding of the issues facing the Company). The board has considered the composition of the audit committee and are satisfied it has sufficient recent and relevant skills and experience.

### Role and Responsibilities

The primary role and responsibilities of the audit committee are outlined in the audit committee's terms of reference, available at the registered office, including:

- Monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained within said statements and announcements;
- Reviewing the Company's internal financial controls, and the Company's internal control and risk management systems;
- Monitoring the need for an internal audit function annually;
- Monitoring and reviewing the independence, objectivity and effectiveness of the external auditors, taking into consideration relevant regulatory and professional requirements;
- Making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and approving their remuneration and terms of engagement, which in turn can be placed before the shareholders for their approval at the Annual General Meeting;
- Development and implementation of the Company's policy on the provision of non-audit services by the external auditors, as appropriate;
- Reviewing the arrangements in place to enable directors and staff of service providers to, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- Providing advice to the board on whether the annual financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- Reporting to the board on how the Committee discharged all relevant responsibilities at each board meeting.

The Committee met twice during the period under review; individual attendance of directors is outlined on page 23. The main matters discussed at those meetings were:

- Detailed review of the Half Year Report and Accounts and recommendation for approval by the board;
- Discussion of reports from the external auditors following their interim review;
- Review and approval of the annual audit plan of the external auditors;
- Discussion and approval of the fee for the external audit;
- Review and approval of the interim review plan of the external auditors;
- Assessment of the effectiveness of the auditors as described below;
- Assessment of the independence of the external auditors;
- Review of the Company's key risks and internal controls; and
- Consideration of the 2012 UK Corporate Governance Code, Guidance on audit committees and other regulatory guidelines, and the subsequent impact upon the Company.

The Committee has also reviewed and considered the whistleblowing policy in place for the Administrator and other service providers, and is satisfied the relevant staff can raise concerns in confidence about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company.

### Significant Issues in Relation to the Financial Statements

During the period, the audit committee identified a number of significant issues and areas of key audit risks in respect of the Annual Report and Accounts. The audit committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Company had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the Accounts as a whole would be free of material misstatements. The table below sets out the audit committee's view of the key areas of risk and how they have addressed the issues.

| Significant Issues | Actions to Address Issue |
| --- | --- |
| Possible impairment to the carrying values of loan investments. | The audit committee reviewed the investment process and associated documentation, as well as the effective interest models and impairment reviews used by the Investment Manager. The audit committee also regularly discusses and challenges the Investment Adviser and Investment Manager on proposed and current investments to ascertain the due diligence, analysis, deal sourcing and assumptions on returns. The audit committee considered the estimated cash flows and repayments outlined in the models provided by the Investment Manager. Furthermore, regular reports are received and reviewed by the board. |
| Management override of controls – potential management override by Investment Manager and Administrator to perpetrate fraud as a result of the ability to manipulate accounting records that otherwise appear to be operating effectively. | The audit committee also reviews the AAF 01/06 Assurance Report produced each year by the Administrator on the internal procedures within the Ipes Group. The audit committee reviews the risk and overall control environment in place, including regular interaction with the Investment Manager and service providers to ensure all relevant risks are identified. The business rationale behind reports and documents, alongside a review of accounting estimates used in the development of financial statements ensures that the Committee is comfortable that the financial statements are supported by evidence and a clear, justifiable rationale. |

### Review of External Audit Process Effectiveness

The audit committee communicated regularly with the Investment Manager, Investment Adviser and Administrator to obtain a good understanding of the progress and efficiency of the audit process. Similarly, feedback in relation to the efficacy of the Investment Manager, Investment Adviser and other service providers in performing their relevant roles was sought from relevant involved parties, including the audit partner and team. The external auditor is invited to attend the audit committee meetings at which the semi-annual and annual accounts are considered, also enabling the auditors to meet and discuss any matters with the audit committee without the presence of the Investment Manager or the Administrator.

During the period, the audit committee reviewed the external auditors' performance, considering a wide variety of factors including:

- The quality of service, the auditors' specialist expertise, the level of audit fee, identification and resolution of any areas of accounting judgement, and quality and timeliness of papers analysing these judgements;
- Review of the audit plan presented by the auditors, and when tabled, the final auditors report;
- Meeting with the auditors regularly to discuss the various papers and reports in detail;
- Furthermore, interviews of appropriate staff in the Investment Manager, Investment Adviser and Administrator to receive feedback on the effectiveness of the audit process from their perspective; and
- Compilation of a checklist with which to provide a means to objectively assess the auditors' objectives.

The audit committee is satisfied with the auditors' effectiveness, and therefore does not consider it necessary to require the auditors to tender for the audit work.

### Auditor Tenure and Objectivity

The Company intends to develop an audit tender policy which the board will consider this after five years from the appointment date of the current auditor. A review of policy will therefore occur in the second half of 2017, subject to regular reviews by the board and shareholder approval.

The Company's current auditors, PricewaterhouseCoopers CI LLP, have acted in this capacity since the Company's inaugural meeting on 22 November 2012. The committee reviews the auditor's performance on a regular basis to ensure the Company receives an optimal service. Subject to annual appointment by shareholder approval at the Annual General Meeting, the appointment of the auditor is formally reviewed by the audit committee on an annual basis. The auditors are required to rotate the audit partner every five years, and the current partner has been in place since the Company's launch.

PricewaterhouseCoopers CI LLP regularly updates the audit committee on the rotation of audit partners, staff, level of fees, details of any relationships between the auditor, the Company and its loan portfolio, and also provides overall confirmation of its independence and objectivity. There are no contractual obligations that restrict the Company's choice of auditors.

The auditor provided the Company with non-audit services during the period under review in relation to the financial reporting procedures memorandum prior to the Company's launch. All non-audit work is reviewed by the audit committee and approved by the audit committee Chairman prior to the auditors undertaking any work, if the fees are over £12,500. This threshold is reviewed periodically to ensure it is set at an appropriate value.

As a result of its review, the audit committee is satisfied that PricewaterhouseCoopers CI LLP is independent of the Company, the Investment Manager and other service providers and recommends the continuing appointment of the auditors by the board.

### Conclusions in Respect of the Financial Statements

The production and the audit of the Company's Annual Report and Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion on whether the Company's financial statements are fair, balanced and understandable, as required under the UK Corporate Governance Code dated September 2012, the board has requested that the audit committee advise on whether it considers that the Annual Report and Financial Statements fulfils these requirements. In outlining its advice, the audit committee has considered the following:

- The comprehensive documentation that is in place outlining the controls in place for the production of the Annual Report, including the verification processes in place to confirm the factual content;
- The detailed reviews undertaken at various stages of the production process by the Investment Manager, Investment Adviser, Administrator, auditors and the audit committee that are intended to ensure consistency and overall balance;
- Controls enforced by the Investment Manager, , Investment Adviser, Administrator and other third party service providers to ensure complete and accurate financial records and security of the Company's assets; and
- The existence and content of a satisfactory control report produced by the Ipes Group that has been reviewed and reported upon by the Administrator's external auditors to verify the effectiveness of the internal controls of the Administrator, such as the Audit and Assurance Faculty (AAF) Report.

As a result of the work performed, the Committee has concluded and reported to the board that the Annual Report for the period ended 31 December 2013, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 29.

**John Whittle**
*Audit committee chairman*

20 March 2014

# Statement of Directors' Responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with applicable laws and regulations, of the state of affairs of the Company and of the profit and loss of the Company for that period.

Company law requires the directors to prepare financial statements for each financial year. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The maintenance and integrity of the Company's website is the responsibility of the directors; the work conducted by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they are initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors confirms that, to the best of their knowledge:

- They have complied with the above requirements in preparing the financial statements;
- There is no relevant audit information of which the Company's auditors are unaware;
- All directors have taken the necessary steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of said information;
- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- The Chairman's Statement, Strategic and Business Review, Report of the directors and Corporate Governance Statement include a fair review of the development and the position of the Company, together with a description of the principal risks and uncertainties that they face.

The 2012 UK Corporate Governance Code, as adopted through the AIC Code by the Company, also requires directors to ensure that the Annual Report and Accounts are fair, balanced and understandable. In order to reach a conclusion on this matter, the board has requested that the audit committee advise on whether it considers that the annual report and Accounts fulfils these requirements. The process by which the committee has reached these conclusions is set out in the report of the audit committee on pages 26 to 28. Furthermore, the board believes that the disclosures set out on pages 4 to 13 of the annual report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Having taken into account all the matters considered by the board and brought to the attention of the board during the period ended 31 December 2013, as outlined in the Corporate Governance Statement, Strategic Report and the Report of the audit committee, the board has concluded that the Annual Report and Accounts for the period ended 31 December 2013, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

**For Starwood European Real Estate Finance Limited**

**Stephen Smith**
*Chairman*

20 March 2014

# Independent Auditors' Report to the Members of Starwood European Real Estate Finance Limited

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements (the "financial statements") of Starwood European Real Estate Finance Limited which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of Guernsey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2013, and of the financial performance and cash flows of the Group for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

## Report on other Legal and Regulatory Requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the other items listed in the Index to the Annual Report.

In our opinion:

- the information given in the Report of the Directors is consistent with the financial statements and;
- the information given in the Corporate Governance Statement set out on pages 23 to 25 with respect to internal control and risk management systems is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Independent Auditors’ Report to the Members of Starwood European Real Estate Finance Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters which we are required to review under the Listing Rules:

- the directors’ statement set out on page 23 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company’s compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors’ remuneration.

### Other matter

As explained in note 20 to the financial statements, in addition to our responsibility to audit and express an opinion on the financial statements in accordance with International Standards on Auditing and Guernsey law we have been requested by the directors to express an opinion on the financial statements in accordance with auditing standards generally accepted in the United States of America as issued by the AICPA, in order to meet the requirements of Rule 206(4)-2 under the Investment Advisors Act (the “Custody Rule”). We have reported separately in this respect on page 32.

**John Patrick Roche**
For and on behalf of PricewaterhouseCoopers CI LLP
*Chartered Accountants and Recognised Auditor*
Guernsey, Channel Islands

20 March 2014

# Independent Auditors' Report to the Member of Starwood European Real Estate Finance Limited (continued)

We have audited the accompanying consolidated financial statements of Starwood European Real Estate Finance Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Starwood European Real Estate Fund Limited and its subsidiaries at 31 December 2013, and the results of their operations, changes in their net assets, and their cash flows for the period then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other items listed in the Index to the Annual Report are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

**PricewaterhouseCoopers CI LLP**
Guernsey, Channel Islands

20 March 2014

# Consolidated Statement of Comprehensive Income

For the period from incorporation on 9 November 2012 to 31 December 2013

| | Notes | 9 November 2012 to 31 December 2013 £ |
|---|---|---|
| **Income** | | |
| Income from loans advanced | | 5,336,230 |
| Income from cash and cash equivalents | | 635,797 |
| **Total income from investments** | | **5,972,027** |
| | | |
| **Expenses** | | |
| Investment management fees | 4(a) | 417,951 |
| Directors' fees and travel expenses | 5 | 132,267 |
| Administration fees | 4(c) | 225,071 |
| Auditors' fees | 6 | 88,150 |
| Broker's fees | | 104,110 |
| Legal and professional fees | | 130,341 |
| Insurance | | 61,205 |
| Net foreign exchange losses | | 639,461 |
| Other expenses | | 86,656 |
| **Total operating expenses** | | **1,885,212** |
| **Operating profit for the period before tax** | | **4,086,815** |
| Taxation | 19 | 2,718 |
| **Operating profit for the period and total comprehensive income after tax** | | **4,084,097** |
| | | |
| Weighted average number of shares in issue | 7 | 235,655,145 |
| Basic and diluted earnings per ordinary share (pence) | 7 | 1.73 |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

## For the period from incorporation on 9 November 2012 to 31 December 2013

| | Notes | 31 December 2013 £ |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 8 | 79,706,084 |
| Other receivables and prepayments | 9 | 287,470 |
| Loans advanced | 10 | 156,381,277 |
| Financial assets at fair value through profit and loss | 11 | 87,180 |
| **Total assets** | | **236,462,011** |
| **Liabilities** | | |
| Trade and other payables | 12 | 439,552 |
| **Total liabilities** | | **439,552** |
| **Net assets** | | **236,022,459** |
| **Capital and reserves** | | |
| Share capital | 14 | 233,843,162 |
| Retained earnings | | 2,179,297 |
| **Total equity** | | **236,022,459** |
| Number of ordinary shares in issue | | 238,100,000 |
| Net asset value per ordinary share (pence) | | 99.13 |

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 March 2014, and signed on its behalf by:

**Stephen Smith**
*Chairman*

**John Whittle**
*Director*

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity
## For the period from incorporation on 9 November 2012 to 31 December 2013

| | Notes | Share capital £ | Retained earnings £ | Total equity £ |
|---|---|---|---|---|
| Balance at 9 November 2012 | | – | – | – |
| Issue of share capital | 14 | 238,509,000 | – | 238,509,000 |
| Costs of issues | 14 | (4,665,838) | – | (4,665,838) |
| Dividends paid | 15 | – | (1,904,800) | (1,904,800) |
| Operating profit and total comprehensive income | | – | 4,084,097 | 4,084,097 |
| **Balance at 31 December 2013** | | **233,843,162** | **2,179,297** | **236,022,459** |

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows
## For the period from incorporation on 9 November 2012 to 31 December 2013

| | 9 November 2012 to 31 December 2013 £ |
|---|---|
| **Operating activities:** | |
| Operating profit for the period and total comprehensive income | **4,084,097** |
| **Adjustments for non-cash items:** | |
| Net interest income | (5,972,027) |
| Increase in prepayments and receivables | (287,470) |
| Increase in other payables and accrued expenses | 439,552 |
| Net gain on financial instruments held at fair value through profit and loss | (87,180) |
| Total net foreign exchange losses | 726,641 |
| Other non-cash items | 205,237 |
| | **(891,150)** |
| Loans advanced[1] | (152,864,924) |
| Origination fees paid | (1,171,890) |
| Origination expenses | (75,413) |
| Interest income from loans advanced | 2,140,736 |
| **Net cash outflow from operating activities** | **(152,862,641)** |
| **Cash flows from investing activities** | |
| Interest income from cash and cash equivalents | 627,065 |
| **Net cash inflow from investing activities** | **627,065** |
| **Cash flows from financing activities** | |
| Net share issue proceeds received[2] | 234,878,549 |
| Costs of share issues | (1,035,387) |
| Dividends paid | (1,904,800) |
| **Net cash inflows provided by financing activities** | **231,938,362** |
| **Net increase in cash and cash equivalents** | 79,702,786 |
| Cash and cash equivalents at start of the period | – |
| Net foreign exchange gain on cash and cash equivalents | 3,298 |
| **Cash and cash equivalents at the end of the period** | **79,706,084** |

1 Net of arrangement fees of £1,674,212 withheld.

2 Gross share issue proceeds net of fees and expenses of £3,630,451 withheld by brokers.

The accompanying notes form an integral part of these consolidated financial statements.

## 1. General Information

Starwood European Real Estate Finance Limited ("the Company") was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended, on 9 November 2012 with registered number 55836, and has been authorised by the GFSC as an authorised closed-ended investment company. The registered office and principal place of business of the Company is 1, Royal Plaza, Royal Avenue, St Peter Port, Guernsey, Channel Islands, GY1 2HL.

On 12 December 2012, the Company announced the results of its initial public offering, which raised net proceeds of £223.9 million. The Company's ordinary shares were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange as part of its initial public offering which completed on 17 December 2012. A further £9.9 million of net proceeds was raised via tap issues throughout the period.

The consolidated financial statements comprise the financial statements of the Company, Starfin Public GP Limited (the "GP"), Starfin Public LP (the "Partnership") and Starfin Lux S.à.r.l ("Luxco") (together "the Group") as at 31 December 2013.

The Company's investment objective is to provide its shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Continental European markets. To pursue its investment objective, the Company, through the Partnership, will invest in the Luxco through both equity and profit participation instruments or other funding instruments. The Luxco will then grant or acquire loans (or other debt instruments) to borrowers in accordance with the Group's investment policy. Some investments may be made via special purpose vehicles wholly owned by the Luxco or the Company. The Group expects all of its investments to be debt obligations of corporate entities domiciled or with significant operations in the United Kingdom and Continental Europe.

The Company has appointed Starwood European Finance Partners Limited as the Investment Manager ("the Investment Manager"), a company incorporated in Guernsey and regulated by the GFSC. The Investment Manager has appointed Starwood Capital Europe Advisers, LLP ("the Investment Adviser"), an English limited liability partnership authorised and regulated by the Financial Conduct Authority, to provide investment advice pursuant to an Investment Advisory Agreement. The administration of the Company is delegated to Ipes (Guernsey) Limited ("the Administrator").

## 2. Going Concern

Under the UK Corporate Governance Code and applicable regulations, the directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern.

Note 16 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of financial instruments and exposure to credit risk and liquidity risk. The directors have undertaken a rigorous review of the Group's ability to continue as a going concern including reviewing the on-going cash flows and the level of cash balances as of the reporting date as well as taking forecasts of future cash flows into consideration.

After making enquiries of the Investment Manager and the Administrator, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt a going concern basis in preparing these consolidated financial statements.

## 3. Basis of Preparation and Principal Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

### *a) Statement of compliance*

The Company has prepared its consolidated financial statements in accordance with The Companies (Guernsey) Law, 2008 (as amended) and International Financial Reporting Standards ("IFRS") as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Boards ("IASB") together with the interpretations of the International Accounting Standards and Standards Interpretations Committee ("IFRIC") as approved by the International Accounting Standards Committee ("IASC") which remain in effect. The directors of the Company have taken the exemption in Section 244 of The Companies (Guernsey) Law, 2008 (as amended) and have therefore elected to only prepare consolidated financial statements for the period.

Standards and Interpretations in issue and not yet effective:

| New Standards | | Effective date |
|---|---|---|
| IFRS 9 | Financial Instruments – Classifications and Measurement | 1 January 2018 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2013 |
| IFRS 11 | Joint Arrangements | 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| **Revised and amended standards** | | |
| IAS 28 | Investments in Associates and Joint Ventures (revised) | 1 January 2013 |
| IFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities (amended) | 1 January 2013 |
| IFRS 8 | Aggregation of Segments and Reconciliation of Segment Assets | 1 July 2014 |
| IFRS 10 | Amendments for Investment Entities | 1 January 2014 |
| IFRS 12 | Amendments for Investment Entities | 1 January 2014 |
| IFRS 13 | Scope of Portfolio Exception (amended) | 1 July 2014 |
| IAS 24 | Management Entities (amended) | 1 July 2014 |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities (amended) | 1 January 2014 |
| IFRS 7/9 | Mandatory Effective Date and Transition Disclosure (amended) | 1 January 2018 |

The Company has elected to adopt the new standards IFRS 10, IFRS 11, IFRS 12 and IFRS 13 early, but the directors do not anticipate that the adoption of these and other standards and interpretations will have a significant impact on the consolidated financial statements of the Company. Unless stated otherwise the directors do not consider the changes to have a material impact.

### *b) Basis of preparation*

These consolidated financial statements have been prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain assets and liabilities to fair value.

*Critical accounting judgements and key sources of estimation uncertainty*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements relate to:

- the impairment of financial assets held as loans advanced, the key area of judgement being, as to whether there is any indication that a loan may be impaired (see note 3(g));
- the functional currency of subsidiary undertakings of the Company, which is considered by the directors to be Sterling (see notes 3(d) and 3(j));
- the operating segments, of which the directors are currently of the opinion that the Company and its subsidiaries are engaged in a single segment of business, which is based on the loans advanced as at the reporting date (see note 3(e)); and
- the receipt of unscheduled pre-payments of loans advanced and its impact on liquidity risk (see note 16).

### *c) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings) made up to the statement of financial position date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits directly from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company also assesses existence of control where it does not have more than 50 per cent. of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

| Subsidiary undertakings | Date of Control | Ownership % | Country of Incorporation | Principal place of business |
|---|---|---|---|---|
| Starfin Public GP Limited | 20 November 2012 | 100 | Guernsey | Guernsey |
| Starfin Public LP | 22 November 2012 | 100 | Guernsey | Guernsey |
| Starfin Lux S.à.r.l | 30 November 2012 | 100 | Luxembourg | Luxembourg |

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. No consideration, other than for the par value of any share capital or capital contributions, has been paid in respect of the acquisition of subsidiary undertakings. The Company acquired the subsidiaries at the time of their initial establishment and hence they had no net assets at the date of the acquisition.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiary undertakings are consistent with the policies adopted by the Group.

***d) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group of is considered to be Sterling for the following reasons:

– the share capital of all members of the Group is denominated in Sterling;
– the majority of loans advanced are denominated in Sterling; and
– Euro transactions represent only a small proportion of transactions in the Luxembourg entity.

The consolidated financial statements for the Company are presented in Sterling, which is the Group's presentation currency.

***e) Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board, as the Board makes strategic decisions. The directors, after having considered the way in which internal reporting is provided to them, are of the opinion that the Company and its subsidiaries are engaged in a single segment of business, being the provision of a diversified portfolio of real estate backed loans. Equally, based on the internal reporting provided, the directors do not analyse the portfolio based on geographical segments.

***f) Financial assets***

*Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise derivatives not designated as hedges.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise secured loans advanced, trade and other receivables and cash and cash equivalents.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method less provisions for any impairments.

### *g) Impairment of financial assets*

Impairment for specific bad and doubtful debts are made against loans and receivables, by an evaluation of the exposure on a case-by-case basis. An assessment is made, on a quarterly basis, as to whether there is any indication that a loan may be impaired; if any such indication exists and where the carrying value exceeds the estimated recoverable amount based on revised future cash flows, the loan will be reduced by the estimated impairment loss. The impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective interest rate, and the loan's current carrying value. The amount of any impairment loss is recorded in the consolidated statement of comprehensive income.

### *h) Cash and cash equivalents*

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### *i) Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

### *j) Foreign currency translation*

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents and all other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "net foreign exchange gains/(losses)".

*Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting exchange differences are recognised in other comprehensive income.

### *k) Interest income*

Interest income on loans advanced is recognised using the effective interest rate method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Interest on cash and cash equivalents is recognised on an accruals basis.

### *l) Origination, exit and loan arrangement fees*

Origination, exit and direct loan arrangement fees paid or received will be recognised using the effective interest rate method under loans advanced and amortised over the lifetime of the related financial asset through income from loans advanced in the consolidated statement of comprehensive income.

### *m) Expenses*

All other expenses are included in the consolidated statement of comprehensive income on an accruals basis.

### *n) Taxation*

The Company is a tax-exempt Guernsey limited liability company as it is domiciled and registered for taxation purposes in Guernsey where it pays an annual exempt status fee under The Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 (as amended). Accordingly, no provision for Guernsey tax is made.

The Partnership is transparent for both Guernsey and Luxembourg tax purposes, and therefore no provision for taxes has been made.

The Luxco is subject to the applicable general tax regulations in Luxembourg and taxation is provided based on the results for the period (see note 19).

***o) Other receivables***

Trade and other receivables are amounts due in the ordinary course of business. They are classified as assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

***p) Other payables***

Trade and other payables are obligations to pay for services that have been acquired in the ordinary course of business. They are classified as liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

***q) Dividend distributions***

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are declared by the Board of Directors.

## 4. Material Agreements

***a) Investment Management Agreement***

The Company and the Investment Manager have entered into an investment management agreement, dated 28 November 2012 (the "Investment Management Agreement"), pursuant to which the Investment Manager has been given overall responsibility for the discretionary management of the Company's assets (including uninvested cash) in accordance with the Company's investment objectives and policy.

The Investment Manager is entitled to a management fee which is calculated and accrued monthly at a rate equivalent to 0.75 per cent. per annum of Net Asset Value (excluding any cash balances until such time as 75 per cent. of the Net Issue Proceeds are invested). The management fee is payable quarterly in arrears.

In addition, the Investment Manager is entitled to an asset origination fee of 0.75 per cent. of the value of all new loan investments made or acquired by the Company (see note 21). The asset origination fee to be paid by the Company is expected to be paid upon receipt by the Company of loan arrangement fees received on the deployment of the Company's funds.

The Investment Management Agreement is terminable by either the Investment Manager or the Company giving to the other not less than 12 months' written notice, such notice not to be given before the fourth anniversary of Admission (17 December 2016).

The Investment Manager has appointed Starwood Capital Europe Advisers, LLP ("the Investment Adviser"), an English limited liability partnership authorised and regulated by the Financial Conduct Authority, to provide investment advice pursuant to an Investment Advisory Agreement.

***b) Partnership Agreement***

As per the Amended and Restated Limited Partnership Agreement relating to Starfin Public LP, dated 28 November 2012, the Company commits substantially all of the Net Issue Proceeds to the Partnership. That commitment is drawn down as required by the GP for the funding of investments. 0.01 per cent. of the Company's commitment was paid as a capital contribution shortly after admission to trading on the London Stock Exchange ("Admission") and the balance of 99.99 per cent., is committed and is paid over when requested by the GP.

Each amount of income and capital proceeds received by the Partnership will be distributed in the following order of priority:

- First, to the GP until the GP has received distributions equal to the GP's Share, the GP will be entitled to receive and there will be allocated to the GP in each accounting period a sum of £1,000;
- Second, to the extent of any excess, to the Company until the Company has achieved the hurdle total return; and
- Third, 20 per cent. of the excess to Starfin Carry LP ("the Special Limited Partner") (further information in Related Party Transactions) and 80 per cent. of the excess to the Company.

The hurdle total return will be achieved when the Net Asset Value ("NAV") of the Company, plus the total of all dividends declared and paid to ordinary shareholders, is equal to the NAV of the Company as at Admission as increased by 8 per cent. per annum, on a simple interest basis (but excluding actual carried interest accrued and deemed as a creditor on the balance sheet). To the extent that the Company makes further issues of ordinary shares, the hurdle total return will be adjusted accordingly, by reference to the issue prices of such further issues and dividends declared subsequent to such issues.

### *c) Administration Agreement*

The Company has engaged the services of Ipes (Guernsey) Limited ("the Administrator") to act as administrator and company secretary. Under the terms of the administration agreement dated 28 November 2012, the Administrator is entitled to a fee of no less than £135,000 per annum with an additional amount chargeable of 0.035 per cent. per annum on the amount by which the Company's Net Asset Value exceeds £140,000,000 and further amounts as may be agreed in relation to any additional services provided by the Administrator. The Administrator is, in addition, entitled to recover third party expenses and disbursements.

### *d) Registrar's Agreement*

The Company and Computershare Investor Services (Guernsey) Limited ("the Registrar") entered into a registrar agreement dated 28 November 2012, pursuant to which the Company appointed the Registrar to act as registrar of the Company for a minimum annual fee payable by the Company of £7,500 in respect of basic registration.

### *e) IPO Sponsor's and Placing Agreement*

In connection with the IPO, the Company engaged the services of Dexion Capital plc ("Dexion") and Jefferies International Limited ("Jefferies") (collectively "the Joint Bookrunners") to act as joint global co-ordinators, bookrunners, placement agents, arrangers and sponsors in connection with the issue of the ordinary shares ("the Issue") and the application for Admission.

The total expenses of the Issue paid by the Company (including customary commissions and expenses payable to the Joint Bookrunners, certain fees, costs and expenses of Starwood Capital Group Management, LLC and its affiliates ("Starwood")) relating to the establishment of the Company and the fees of all other advisers and services providers to the Company and the Joint Bookrunners are equal to 2 per cent. of the gross Sterling proceeds of the Issue and were capped at this level.

The Sponsor and Placing Agreement is governed by the laws of England and Wales.

On 5 February 2013, the Company appointed Dexion and Jefferies as joint brokers to the Group. Dexion and Jefferies are each entitled to receive a fee of £50,000 per annum plus expenses.

### *f) Licence Agreement*

The Company and Starwood Capital Group Management, LLC ("the Licensor") have entered into a trade mark licence agreement dated 28 November 2012 ("the Licence Agreement"), pursuant to which the Licensor has agreed to grant to the Company a royalty-free, non-exclusive worldwide licence for the use of the "Starwood" name for the purposes of the Company's business.

Under the terms of the Licence Agreement, it may be terminated by the Licensor; (i) if the Investment Management Agreement or any other similar agreement between the Company and the Investment Manager (or either of their respective affiliates) is terminated for any reason whatsoever or expires: (ii) if the Company suffers an insolvency event or breaches any court order relating to the Licence Agreement; or (iii) upon two months' written notice without cause.

### *g) Lock up Agreement*

The Company, the Joint Bookrunners, Starwood and Starwood Property Trust Inc ("STWD") entered into a lock up agreement dated 28 November 2012 ("the Lock Up Agreement"), pursuant to which (i) STWD agreed not to transfer, dispose of or grant any options over any of the ordinary shares acquired by STWD under the Placing; and (ii) Starwood has agreed to procure that any Starwood personnel to whom any ordinary shares are transferred by Starwood do not transfer, dispose of or grant any options over any of the ordinary shares to be acquired by Starwood under the Placing, in each case for a period of 6 months following Admission.

### *h) Hedging Master Agreement*

The Company and Lloyds TSB Bank plc entered into an international forward exchange master agreement dated 5 April 2013 ("the Hedging Master Agreement"), pursuant to which the parties can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between Sterling and other currencies. The Hedging Master Agreement is governed by the laws of England and Wales.

## 5. Directors' emoluments

Directors' remuneration is shown on page 19, the total paid and accrued during the period was £128,334.

### 6. Auditors' remuneration

During the period PricewaterhouseCoopers CI LLP earned total fees payable of £88,150 with regard to audit related activities. Additional fees of £9,750 were payable in the period in relation to non audit related activities.

### 7. Earnings Per Share and Net Asset Value Per Share

The calculation of basic earnings per ordinary share is based on the operating profit of £4,084,097 and on the weighted average number of ordinary shares in issue during the period of 235,655,145 ordinary shares.

The calculation of net asset value per ordinary share is based on a net asset value of £236,022,459 and the actual number of ordinary shares in issue at 31 December 2013 of 238,100,000.

### 8. Cash and Cash Equivalents

Cash and cash equivalents comprise as follows:

| | 31 December 2013 £ |
|---|---|
| Fixed deposits of one month | 50,853,621 |
| Cash at bank | 28,852,463 |
| | **79,706,084** |

Cash and cash equivalents comprises cash held by the Group and short term deposits held with various banking institutions with original maturities of three months or less. The carrying amount of these assets approximates their fair value. For further information and the associated risks refer to note 16.

### 9. Other Receivables and Prepayments

| | 31 December 2013 £ |
|---|---|
| Bank interest receivable | 8,732 |
| Prepayments | 73,501 |
| Loan interest receivable | 205,237 |
| | **287,470** |

### 10. Loans Advanced

The Group's accounting policy on the measurement of financial assets is discussed in note 3(f).

| | 31 December 2013 £ |
|---|---|
| **UK** | |
| Maybourne Hotel Group, London | 19,594,651 |
| West End Development, London | 10,140,091 |
| Lifecare Residences, London | 11,215,462 |
| Heron Tower, London | 18,420,006 |
| Centre Point, London | 40,211,361 |
| **Netherlands** | |
| Industrial Portfolio | 18,245,998 |
| **Finland** | |
| Retail Portfolio | 38,553,708 |
| | **156,381,277** |

No element of loans advanced are past due or impaired. For further information and the associated risks see the Strategic and Business Review and note 16.

The table below reconciles the movement of the carrying value of loans advanced in the period.

| | £ |
|---|---|
| **Loans advanced at start of the period** | **–** |
| Loans advanced | 154,539,136 |
| Arrangement fees earned | (1,674,212) |
| Commitment fees earned | (16,085) |
| Origination fees paid | 1,171,890 |
| Origination expenses paid | 75,413 |
| Effective interest earned | 5,336,230 |
| Interest payments received/ accrued | (2,345,973) |
| Foreign exchange losses | (705,122) |
| **Loans advanced at end of the period** | **156,381,277** |
| **Loans advanced at fair value** | **165,736,511** |

## 11. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss comprise currency forward contracts which represent contractual obligations to purchase domestic currency and sell foreign currency on a future date at a specified price. The underlying instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations of foreign exchange relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments held are set out below:

| | Notional contract amount[1] | Fair values | |
|---|---|---|---|
| | | Assets | Liabilities |
| | £ | £ | £ |
| **Foreign exchange derivatives** | | | |
| Currency forwards | 62,758,485 | 225,453 | (138,273) |
| **Total** | **62,758,485** | **225,453** | **(138,273)** |

[1] Euro amounts translated at period end exchange rate.

## 12. Trade and other payables

| | 31 December 2013 £ |
|---|---|
| Investment management fees | 255,107 |
| Administration and company secretarial fees | 67,700 |
| Audit fees | 33,417 |
| Legal fees | 19,205 |
| Broker fees | 29,110 |
| Other expenses | 35,013 |
| | **439,552** |

## 13. Commitments

The Company and the GP (acting in its capacity as General Partner of the Partnership) entered into a loan agreement ("the loan") dated 17 December 2012 committing the principal amount of £223,930,000 to the Partnership. The arrangement is based on the understanding that the commitment will be used primarily to fund the advancing of loans, and as such the commitment will only be drawn down once loans have been approved for issue by the Investment Manager.

As at 31 December 2013 £152,411,756 had been drawn by the GP (acting in its capacity as General Partner of the Partnership under the loan agreement).

As at 31 December 2013 the Company had outstanding commitments in respect of loans not fully drawn of £1,372,169.

As at 31 December 2013 the Company had outstanding commitments in respect of the forward contracts entered into under the Hedging Master Agreement of €75,096,907 (£62,758,485 translated at period end exchange rate).

## 14. Share Capital

The share capital of the Company consists of an unlimited number of redeemable ordinary shares of no par value which upon issue the directors may classify into such classes as they may determine. The ordinary shares are redeemable at the discretion of the Board.

As at 31 December 2013 the Company had issued and fully paid up share capital as follows:

| | 31 December 2013 |
|---|---|
| **Ordinary shares of no par value** | |
| Issued and fully paid | 238,100,000 |

***Rights attached to shares***

The Company's share capital is denominated in Sterling. At any general meeting of the Company each ordinary share carries one vote. The ordinary shares also carry the right to receive all income of the Company attributable to the ordinary shares, and to participate in any distribution of such income made by the Company, such income shall be divided pari passu among the holders of ordinary shares in proportion to the number of ordinary shares held by them.

***Significant share movements***
***9 November 2012 to 31 December 2013***

| Ordinary Shares | Number | £ |
|---|---|---|
| Balance at start of the period | – | – |
| Shares issued on 17 December 2012 | 228,500,000 | 228,500,000 |
| Shares issued on 21 March 2013 | 8,000,000 | 8,340,000 |
| Shares issued on 09 April 2013 | 1,000,000 | 1,045,000 |
| Shares issued on 12 April 2013 | 600,000 | 624,000 |
| **Balance at end of the period** | **238,100,000** | **238,509,000** |

During the period the Company issued 238,100,000 shares, raising total proceeds of £238,509,000. The proceeds net of issue costs of £4,665,838 amounted to £233,843,162.

## 15. Dividends

Dividends will be declared by the directors and paid in compliance with the solvency test prescribed by Guernsey law.

Subject to market conditions, the financial position of the Company and the investment outlook, it is the directors' intention to pay quarterly dividends to shareholders (for more information see Chairman's Statement).

The Company paid the following dividends in the period to 31 December 2013:

| Period to: | Dividend rate per Share (pence) | Net dividend payable (£) |
|---|---|---|
| 30 September 2013 | 0.80 | 1,904,800 |

The directors declared after the end of the period a final dividend in respect of the financial period ended 31 December 2013 of 1.1 pence per share payable on 28 February 2014 to Shareholders on the register on 7 February 2014.

## 16. Risk Management Policies and Procedures

The Group through its investment in whole loans, subordinated loans and mezzanine loans, bridge loans, loan-on-loan financings and other debt instruments is exposed to a variety of financial risks, including market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

It is the role of the Board to review and manage all risks associated with the Company, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee, Investment Manager and Investment Adviser.

The Board of Directors has established procedures for monitoring and controlling risk. The Group has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

In addition, the Investment Manager monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Further details regarding these policies are set out below:

***Market risk***

Market risk includes market price risk, currency risk and interest rate risk. If a borrower defaults on a loan and the real estate market enters a downturn it could materially and adversely affect the value of the collateral over which loans are secured. However this risk is considered by the Board to constitute credit risk as it relates to the borrower defaulting on the loan and not directly to any movements in the real estate market. As such the directors do not consider that the Group is subject to market price risk. The Investment Manager moderates market risk through a careful selection of loans within specified limits. The Group's overall market position is monitored by the Investment Manager and is reviewed by the Board of Directors on an on-going basis.

***Currency risk***

The Group, via the subsidiaries, operates across Europe and invests in loans that are denominated in currencies other than the functional or presentational currency of the Company. Consequently the Group is exposed to risks arising from foreign exchange rate fluctuations related to currency flows from revenues and expenses and from the translation of statement of comprehensive income and statement of financial position items which are denominated in foreign currencies. Exposure to foreign currency risk is monitored by the Investment Manager on an on-going basis and is reported to the Board accordingly.

The Company and Lloyds TSB Bank plc entered into an international forward exchange master agreement dated 5 April 2013 ("the Hedging Master Agreement"), pursuant to which the Company can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between Sterling and other currencies. The Company does not trade in derivatives but holds them to hedge specific exposures and have maturities designed to match the exposures they are hedging. The derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date and movements in the fair value are included in the statement of comprehensive income under net foreign exchange gains/(losses). The Company does not adopt hedge accounting in the financial statements. At the reporting date the Company had 27 open forward contracts.

As at 31 December 2013 the Company had the following currency exposure:

| **31 December 2013** | **Sterling £** | **Euro £** | **Total £** |
|---|---|---|---|
| **Assets** | | | |
| Loans advanced | 99,581,571 | 56,799,706 | 156,381,277 |
| Other receivables and prepayments | 287,470 | – | 287,470 |
| Cash and cash equivalents | 79,368,687 | 337,397 | 79,706,084 |
| Financial assets at fair value through profit and loss | 87,180 | – | 87,180 |
| **Liabilities** | | | |
| Trade and other payables | (404,736) | (34,816) | (439,552) |
| **Total net currency exposure** | **178,920,172** | **57,102,287** | **236,022,459** |

***Currency sensitivity analysis***

Should the exchange rate of the Euro against Sterling increase or decrease by 10 per cent. with all other variables held constant, the net assets of the Group at 31 December 2013 would increase or decrease by £5,710,229. These percentages have been determined based on potential volatility and deemed reasonable by the directors.

In accordance with the Company's policy, the Investment Manager monitors the Group's currency position, and the Board of Directors reviews this risk on a regular basis.

***Interest rate risk***

Interest rate risk is the risk that the value of financial instruments and related income from loans advanced and cash and cash equivalents will fluctuate due to changes in market interest rates.

The majority of the Group's financial assets are loans advanced, receivables and cash and cash equivalents. The Group's investments have some exposure to interest rate risk but this is limited to interest earned on cash deposits and floating LIBOR/EURIBOR-based exposure for investments designated as loans advanced. Loans advanced have been structured to include a combination of fixed and floating interest rates to reduce the overall impact of interest rate movements. Further protection is provided by including EURIBOR floors, preventing interest rates from falling below certain levels.

The following table shows the portfolio profile of the financial assets at 31 December 2013:

| | 31 December 2013 £ |
|---|---|
| **Floating rate** | |
| Loans advanced[1] | 77,408,055 |
| Cash | 28,852,463 |
| **Fixed rate** | |
| Loans advanced | 78,973,222 |
| Cash equivalents | 50,853,621 |
| **Total financial assets subject to interest rate risk** | **236,087,361** |

1 Loans advanced at floating rates include loans with EURIBOR floors.

If interest rates had changed by 100 basis points, with all other variables remaining constant, the effect on the net profit and equity would have been as shown in the table below[1]:

| | 31 December 2013 £ |
|---|---|
| Increase of 100 basis points | 1,062,605 |
| Decrease of 100 basis points | (1,062,605) |

1 The calculation assumes no Euribor floors.

These percentages have been determined based on potential volatility and deemed reasonable by the directors.

***Credit risk***

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group's main credit risk exposure is in the loan portfolio, shown as loans advanced, where the Group invests in whole loans, subordinated and mezzanine debt which rank behind senior debt for repayment in the event that a borrower defaults. There is a reduced concentration risk as at 31 December 2013 versus the interim review due to several loans being in existence. There is also credit risk in respect of other financial assets as a significant portion of the Group's assets are cash and cash equivalents or accrued interest. The banks used to hold cash and cash equivalents have been diversified to spread the credit risk to which the Group is exposed. The total exposure to credit risk arises from default of the counterparty and the carrying amounts of financial assets best represent the maximum credit risk exposure at the period end date. As at 31 December 2013, the maximum credit risk exposure was £236,301,330.

The Investment Manager has adopted procedures to reduce credit risk exposure by conducting credit analysis of the counterparties, their business and reputation which is monitored on an on-going basis. After the advancing of a loan a dedicated debt asset manager employed by the Investment Adviser monitors on-going credit risk and reports to the Investment Manager, with quarterly updates also provided to the Board The debt asset manager routinely stresses and analyses the profile of the Group's underlying risk in terms of exposure to significant tenants, performance of asset management teams and property managers against specific milestones that are typically agreed at the time of the original loan underwriting, forecasting headroom against covenants, reviewing market data and forecast economic trends to benchmark Borrower performance and to assist in identifying potential future stress points. Periodic physical inspections to assets that form part of the Group's security are also completed in addition to monitoring the identified capital expenditure requirements against actual Borrower investment.

The Group maintains its cash and cash equivalents across six different banks to diversify credit risk which have been all rated A- or higher by Moody's and this is subject to the Group's credit risk monitoring policies as mentioned above.

| | Cash £ | 1 month fixed deposit £ | Total as at 31 December 2013 £ |
|---|---|---|---|
| Barclays Bank plc | 28,261 | 25,850,000 | 25,878,261 |
| Santander UK plc | 1,789 | – | 1,789 |
| Lloyds TSB Bank plc | 7,968,672 | – | 7,968,672 |
| HSBC Bank plc | – | 25,003,621 | 25,003,621 |
| Royal Bank of Scotland International | 18,385,213 | – | 18,385,213 |
| ING Luxembourg, SA | 2,468,528 | – | 2,468,528 |
| **Total cash and cash equivalents** | **28,852,463** | **50,853,621** | **79,706,084** |

The carrying amount of these assets approximates their fair value.

***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to meet its liabilities as they fall due. The Group's loans advanced are illiquid and may be difficult or impossible to realise for cash at short notice.

Liquidity risks arising in respect of other financial liabilities of the Group are those due to counterparties. The Group manages its liquidity risk through long term cash flow forecasts to ensure it is able to meet its obligations. In addition, the Company can borrow up to 20 per cent. of NAV and is in the process of setting up a borrowing facility. However, at 31 December 2013, there was sufficient liquidity in the form of cash and cash equivalents to satisfy the Company's obligations.

The table below shows the maturity of the Group's non-derivative financial assets and liabilities arising from the advancement of loans by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed are contractual, undiscounted cash flows and may differ from the actual cash flows received in the future as a result of early repayments:

| **31 December 2013** | **Up to 3 months £** | **Between 3 and 12 months £** | **Between 1 and 5 years £** | **Total £** |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans advanced | 705,894 | 2,311,579 | 150,818,628 | 153,836,101 |
| Loan interest receivables | 3,236,256 | 9,654,250 | 38,143,119 | 51,033,625 |
| **Liabilities** | | | | |
| Loans payable | (1,372,169) | – | – | (1,372,169) |
| | **2,569,981** | **11,965,829** | **188,961,747** | **203,497,557** |

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position. The amounts disclosed are the contractual undiscounted cash flows:

| **Derivatives held for trading** | **Up to 3 months £** | **3 months to 1 year £** | **More than 1 year £** | **Total as at 31 December 2013 £** |
|---|---|---|---|---|
| Foreign exchange derivatives | | – | – | – |
| – Outflow[1] | 1,330,494 | 2,514,683 | 58,913,308 | 62,758,485 |
| – Inflow | 1,346,805 | 2,553,602 | 60,402,519 | 64,302,926 |

[1] Euro amounts translated at period end exchange rate.

***Capital management policies and procedures***

The Group's capital management objectives are:

- To ensure that the Group will be able to continue as a going concern; and
- To maximise the income and capital return to equity shareholders through an appropriate balance of equity capital and long-term debt.

The capital of the Company is represented by the net assets attributable to the holders of the Company's shares.

In accordance with the Group's investment policy, the Group's principal use of cash (including the proceeds of the IPO) has been to fund investments in the form of loans sourced by the Investment Adviser and the Investment Manager, as well as initial expenses related to the issue, on going operational expenses and payment of dividends and other distributions to shareholders in accordance with the Company's dividend policy.

The Board with the assistance of the Investment Manager monitors and reviews the broad structure of the Company's capital on an on-going basis.

The Company has no imposed capital requirements.

The Company's capital at 31 December 2013 comprises:

| | 31 December 2013 £ |
|---|---|
| **Equity** | |
| Equity share capital | 233,843,162 |
| Retained earnings and other reserves | 2,179,297 |
| | **236,022,459** |

### 17. Fair Value Measurement

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflect the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates)or other market corroborated inputs (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy the Group's financial assets and liabilities (by class) measured at fair value for the period ended 31 December 2013:

| | Level 1 £ | Level 2 £ | Level 3 £ | Total £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative assets | – | 87,180 | – | 87,180 |
| **Total** | **–** | **87,180** | **–** | **87,180** |

There have been no transfers between levels for the year ended 31 December 2013.

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2013 but for which fair value is disclosed:

| | Level 1 £ | Level 2 £ | Level 3 £ | Total fair values £ | Total carrying amount £ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | – | 79,706,084 | – | 79,706,084 | 79,706,084 |
| Other receivables and prepayments | – | 287,470 | – | 287,470 | 287,470 |
| Loans advanced | – | – | 165,736,511 | 165,736,511 | 156,381,277 |
| **Total** | **–** | **79,993,554** | **165,736,511** | **245,730,065** | **236,374,831** |

| | Level 1 £ | Level 2 £ | Level 3 £ | Total fair values £ | Total carrying amount £ |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Trade and other payables | – | 439,552 | – | 439,552 | 439,552 |
| **Total** | **–** | **439,552** | **–** | **439,552** | **439,552** |

The carrying values of the assets and liabilities included in the above table are considered to approximate their fair values, except for Loans advanced. The fair value of Loans advanced has been determined by discounting the expected cash flows using a discounted cash flow model.

Cash and cash equivalents include cash in hand and fixed deposits held with banks. Other receivables and prepayments include the contractual amounts and obligations due to the Group and consideration for advance payments made by the Group. Trade and other payables represent the contractual amounts and obligations due by the Group for contractual payments.

## 18. Controlling Party

In the opinion of the directors, on the basis of shareholdings advised to them, the Company has no immediate or ultimate controlling party.

## 19. Taxation

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 for which it pays an annual fee of £600.

The Luxembourg indirect subsidiary of the Company is subject to the applicable tax regulations in Luxembourg. The table below analyses the tax charges incurred at Luxembourg level:

| | 31 December 2013<br>£ |
|---|---|
| **Current tax** | |
| Current tax on profits for the year | 2,718 |
| **Total current tax** | **2,718** |

The Luxco had no operating gain on ordinary activities before taxation and was therefore subject to the Luxembourg minimum corporate income taxation at €3,210 for the period ended at 31 December 2013. The Company is also subject to the Luxembourg Net Wealth Tax at a minimum of €25 per year.

## 20. Reconciliation of IFRS to US GAAP

To meet the requirements of Rule 206(4)-2 under the Investment Advisors Act 1940 (the "Custody Rule") the consolidated financial statements of the Company have also been audited in accordance with Generally Accepted Auditing Standards applicable in the United States ("US GAAS"). As such two independent auditors' reports are included on pages 36 to 39, one under International Standards on Auditing as required by the Crown Dependencies Audit Rules and the other under US GAAS. Compliance with the Custody Rule also requires a reconciliation of the operating profit and net assets under IFRS to US GAAP.

The principal differences between International Financial Reporting Standards and US GAAP relate to accounting for financial assets that are carried at amortised cost. Under US GAAP the calculation of the effective interest rate is based on contractual cash flows over the asset's contractual life. International Financial Reporting Standards, however, base the effective interest rate calculation on the estimated cash flows over the expected life of the asset. In addition, expenses in relation to loans acquired are expensed instead of amortised over the contractual life.

A reconciliation of the operating profit according to IFRS versus US GAAP is as follows:

| | Period ended<br>31 December 2013<br>£ |
|---|---|
| Operating profit before tax in accordance with IFRS | 4,086,815 |
| Difference on income from loans advanced | (117,176) |
| Difference on treatment of loan related expenses | (72,415) |
| **Operating profit before tax in accordance with US GAAP** | **3,897,224** |

A reconciliation of the net asset value according to IFRS versus US GAAP is as follows:

| | Period ended<br>31 December 2013<br>£ |
|---|---|
| Net asset value in accordance with IFRS | 236,022,459 |
| Difference on interest accrued from loans advanced | (117,176) |
| Difference on treatment of loan related expenses | (72,415) |
| **Net asset value in accordance with US GAAP** | **235,832,868** |

## 21. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Details on the Investment Manager and other related party transactions are included in note 4 to the consolidated financial statements. For further related party disclosure see also notes 5, 13 and 18.

### *Fees, expenses and other payments*

| | Outstanding £ | As at 31 December 2013 Total £ |
|---|---|---|
| **Directors' fees and expenses paid** | | |
| Stephen Smith | – | 52,500 |
| John Whittle | – | 37,917 |
| Jonathan Bridel | – | 37,917 |
| Expenses paid | – | 3,933 |
| **Investment Manager** | | |
| Investment management fees earned | 255,107 | 417,951 |
| Origination fees earned | – | 1,171,890 |
| Expenses paid | 14,259 | 58,625 |
| **StarConsult S.à.r.l**[1] | | |
| Administrative services | – | 15,929 |
| Expenses paid | – | 4,611 |
| **Starwood** | | |
| IPO related costs paid | – | 244,098 |
| Fees received from Joint Bookrunners[2] | – | 171,735 |

1 StarConsult S.à.r.l is a company managed by Thierry Drinka, who is also a director of Luxco.

2 Under the Sponsor and Placing Agreement, and as disclosed in the Prospectus, the Joint Bookrunners were entitled to pay part of the commissions received by them to certain investors, including Starwood and its Affiliates. These fees are part of the initial expenses incurred on listing and included in the 2 per cent. fee cap.

### *Shareholdings and dividends paid*

| | Dividends paid £ | As at December 2013 Number of shares |
|---|---|---|
| Starwood | 73,120 | 9,140,000 |
| SCG Starfin Investor LP | 18,280 | 2,285,000 |
| Stephen Smith | 320 | 40,000 |
| John Whittle | – | 7,000 |
| Jonathan Bridel | – | 7,000 |

### *Other*

The Group participated in a number of loans in the period in which STWD acted as a co-lender. The details of these loans are shown on page 12.

## 22. Post Balance Sheet Events

On 29 January 2014 the directors declared a final dividend in respect of the period from admission on 17 December 2012 to 31 December 2013 of 1.1 pence per Share (see note 15).

The Company and Goldman Sachs International entered into an international forward exchange master agreement dated 7 February 2014 pursuant to which the parties can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between sterling and other currencies. The agreement is governed by the laws of England and Wales.

The Group committed to a €14.3m facility for the acquisition of an office building in Amsterdam occupied by UPC Nederland. The Group expects to earn a solid single digit return in line with its investment criteria. The loan is expected to be fully drawn in March.

# Corporate Information

## Directors
Stephen Smith *(Non-executive chairman)*
Jonathan Bridel *(Non-executive director)*
John Whittle *(Non-executive director)*

(all care of the registered office)

## Registered Office
1, Royal Plaza, Royal Avenue
St Peter Port, Guernsey,
Channel Islands, GY1 2HL

## Investment Manager
Starwood European Finance Partners Limited
1, Royal Plaza, Royal Avenue
St Peter Port, Guernsey,
Channel Islands, GY1 2HL

## Investment Adviser
Starwood Capital Europe Advisers, LLP
2 Harewood Place
4th Floor
London, W1S 1BX
United Kingdom

## Solicitors to the Company (as to English law and U.S. securities law)
Norton Rose Fulbright LLP
3 More London Riverside
London, SE1 2AQ
United Kingdom

## Advocates to the Company (as to Guernsey law)
Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey, GY1 4HP

## Reporting Accountant
Ernst & Young LLP
Royal Chambers
St Julians Avenue
St. Peter Port
Guernsey, GY1 4AF

## Independent Auditor
PricewaterhouseCoopers CI LLP
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey, GY1 4ND

## Registrar
Computershare Investor Services (Guernsey) Limited
3rd Floor
Natwest House
Le Truchot
St Peter Port
Guernsey, GY1 1WD

## Principal Bankers
Barclays Private Clients International Limited
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

## Joint Broker
Dexion Capital plc
1 Tudor Street
London, EC4Y 0AH
United Kingdom

## Joint Broker
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London, EC4V 3BJ
United Kingdom

## Administrator, Designated Manager and Company Secretary
Ipes (Guernsey) Limited
1, Royal Plaza, Royal Avenue
St Peter Port, Guernsey,
Channel Islands, GY1 2HL

# Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of Starwood European Real Estate Finance Limited will be held at 12 noon on Friday 2 May 2014 at 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey, GY1 2HL for the purposes set out below:

### Ordinary Business

1. To receive the Annual Report and Audited Consolidated Financial Statements for the period ended 31 December 2013, together with the reports of the Directors and auditors therein.
2. To approve the Directors' Remuneration Report for the period ended 31 December 2013, contained within the Annual Report and Audited Consolidated Financial Statements.
3. To elect as a Director of the Company Stephen Smith.
4. To elect as a Director of the Company John Whittle.
5. To elect as a Director of the Company Jonathan Bridel.
6. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
7. To authorise the Directors to agree the remuneration of the Auditors.

### Special Business

As Special Business, to consider and, if thought fit, to pass the following Resolutions as Special Resolutions:

8. **Authority to allot:**

THAT the Directors be generally and unconditionally authorised for the purposes of section 292 of the Companies (Guernsey) Law, 2008, as amended, (the "Law"), (such authority superseding and revoking any previous authority to the extent unused) to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for, or convert any security into, shares in the Company up to an aggregate amount of 79,366,666 shares of no par value (being approximately equal to one-third of the issued share capital as at the date of this Notice of Annual General Meeting).

The authority hereby conferred on the Directors shall expire at the conclusion of the annual general meeting of the Company following the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to be granted, after such expiry and the Directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

9. **Authority to disapply Pre-Emption Rights**

THAT subject to the passing of Resolution 8 above and in substitution for all subsisting authorities to the extend unused, the Directors be empowered pursuant to article 7.7 of the articles of incorporation of the Company (the "Articles") to allot equity securities of the Company for cash pursuant to the authority conferred by Resolution 8 as if Article 7.2 did not apply to any such allotment or sale, provided that the power conferred by this Resolution shall be limited to:

i. the allotment of equity securities for cash in connection with or pursuant to an offer of or invitation to acquire equity securities in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

ii. the allotment (otherwise than under paragraph (i) of this Resolution 9 of equity securities up to a maximum number of 23,810,000 ordinary shares (equal to approximately 10 per cent. of the ordinary shares in issue as at the date of this notice of annual general meeting)

and provided further that the power conferred shall expire at the conclusion of the annual general meeting of the Company following the passing of this resolution (or, if earlier, on 30th June 2015), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

10. **Purchase of own shares by the Company**

That the Company be and is hereby generally and unconditionally authorised in accordance with section 315 of the Companies (Guernsey) Law, 2008, as amended, (the "Law") to make market purchases (as defined in Section 316 of the Law) of ordinary shares (which may be cancelled or held as treasury shares), provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is equal or lesser than 14.99 per cent. of the total number of ordinary shares in issue as at the date of the passing of this resolution;

(ii) the minimum price which may be paid for an ordinary share shall be 1 pence;

(iii) the maximum price (exclusive of expenses) that the Company may pay for each ordinary share is the higher of (i) an amount equal to 105 per cent. of the average of the mid-market quotations for the ordinary shares of the Company as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately before the day on which such ordinary share is contracted to be purchased and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out; and

(iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting in 2015 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the board of directors

**Ipes (Guernsey) Limited**
*Company secretary*

20 March 2014

**Notes:**

a. A shareholder entitled to attend and vote at the meeting may appoint a proxy to attend, speak and vote instead of him/her. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the meeting provided that such proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder.

b. Form(s) of proxy is (are) included for use by shareholders to complete, sign and return. Completion and return of the form(s) of proxy will not prevent a shareholder from subsequently attending the meeting (or any adjournments) and voting in person if he/she so wishes.

c. To appoint more than one proxy to vote in relation to different shares within your holding you may photocopy the form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed.

d. Form(s) of proxy, duly completed together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with Computershare Investor Services (Guernsey) Limited, C/o The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, not less than 48 hours before the time fixed for the meeting or any adjournment thereof, or in the case of a poll taken more than 48 hours after it was demanded, 24 hours before the time appointed for the taking of the poll.

e. No shareholder will be entitled to be present or vote at the meeting (or any adjournment) either personally or by proxy unless their name appears on the register of members of the Company as at 6.00 p.m. on 30 April 2014. Changes to the entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting (or any adjournments). This record time is being set for voting at the meeting (and any adjournments) because the procedures for updating the register of members in respect of shares held in uncertificated form require a record time to be set for the purpose of determining entitlements to attend and vote at the meeting.

f. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

g. A copy of the notice of this meeting, including these explanatory notes, is available on the Company's website: www.starwoodeuropeanfinance.com.

h. As at close of business on 20 March 2014 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 238,100,000 shares of no par value. Each Share carries the right to one vote at a general meeting of the Company and therefore the total voting rights in the Company as at close on 20 March 2014 is 238,100,000.

Perivan Financial Print 231783