Starwood European Real Estate Finance Limited

Interim Financial Report and Unaudited Condensed Consolidated Financial Statements for the six month period from 1 January 2015 to 30 June 2015

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Corporate Summary

Principal Activities and Investment Objective

The investment objective of Starwood European Real Estate Finance Limited ("the Company"), together with its subsidiaries Starfin Public GP Limited ("the GP"), Starfin Public LP ("the Partnership") and Starfin Lux S.à.r.l. ("Luxco") (together "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 the wider European Union's internal market, focusing on Northern and Southern Europe. 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 per cent of total loans by value are for a term of seven years or less.

The Group aims to be appropriately diversified by geography, real estate sector, 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 a registered closed-ended investment company. The Company's ordinary shares were first 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. Further issues took place in March 2013, April 2013 and July 2015. 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 of which Starfin Public GP Limited 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. References to the "Group" refer to the Company, the GP, the Partnership and Luxco.

The Investment Manager during the period was Starwood European Finance Partners Limited ("the Investment Manager"), 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.

Chairman’s Statement

Dear Shareholder,

I am delighted to present the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements of Starwood European Real Estate Finance Limited for the six months from 1 January 2015 to 30 June 2015.

Investment

As at 30 June 2015, the Group was fully invested with investments and commitments of £247.3 million, partly funded by £8 million drawn on the Group’s revolving credit facility. Since the year end, the Group made additional loan advances of £38.2 million. The Group made a tap issue of shares on 23 July 2015 for a total of £24 million to fund future investments.

Pipeline and Placement Program

Going into the second half of the year the Group's investment pipeline remains robust and of a size such that the Board is considering the publication of a prospectus in order to implement a 12 month placing programme that would allow the Company to raise additional equity capital as needed for further investments and to do so incrementally to limit cash drag.

Outlook

The Company is encouraged to note that market activity is growing, but is alert to the increased competition amongst lenders that improving conditions have stimulated. In the medium term the increased competition will lead to a choice of greater risk or an acceptance of slightly lower returns; the Company would always favour a transaction with a slightly lower return than a higher risk, with a resulting impact on dividends. In the short term, and on the basis of the current portfolio, the Company continues to target a dividend at an annualised rate of 7.0 pence per Ordinary Share and has declared a dividend of 1.75 pence per Ordinary Share (7.0 pence annualised) for each of the first two quarters of 2015. Whilst it is difficult to predict the timing of any changes in the returns from new investment, the Company considers that the 7.0 pence targeted dividend rate may not be sustainable in the longer term without increasing the risk profile of the portfolio and, accordingly the Company believes for 2016 onwards the dividend target should be set 0.50 pence lower per Ordinary Share at 6.5 pence per annum.

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.

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 and having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements.

The Company 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 Company’s progress early next year.

Stephen Smith
Chairman
26 August 2015

Investment Deployment

As at 30 June 2015, the Group had investments and commitments of £247.3 million (sterling equivalent at quarter end exchange rates) as follows:

	Sterling Balance as at 30 June 2015	Sterling Unfunded Commitments	Sterling Total (Drawn and Unfunded)
Maybourne Hotel Group, London	£11.2 m	£0.0 m	£11.2 m
West End Development, London	£10.0 m	£0.0 m	£10.0 m
Lifecare Residences, London	£13.7 m	£0.8 m	£14.5 m
Salesforce Tower, London	£13.3 m	£0.0 m	£13.3 m
Centre Point, London	£45.0 m	£0.0 m	£45.0 m
5 Star Hotel, London	£6.9 m	£0.0 m	£6.9 m
Aldgate Tower, London	£38.9 m	£6.1 m	£45.0 m
Total Sterling Loans	**£139.1 m**	**£6.8 m**	**£145.9 m**
Retail Portfolio, Finland	£26.3 m	£0.0 m	£26.3 m
Industrial Portfolio, Netherlands	£14.2 m	£0.0 m	£14.2 m
Office Netherlands	£10.0 m	£0.0 m	£10.0 m
W Hotel, Netherlands	£11.9 m	£5.8 m	£17.7 m
Total Euro Loans	**£62.4 m**	**£5.8 m**	**£68.2 m**
Industrial Portfolio, Denmark	£27.9 m	£5.2 m	£33.1 m
Total Danish Krona Loan	**£27.9 m**	**£5.2 m**	**£33.1 m**
TOTAL	**£229.4 m**	**£17.9 m**	**£247.3 m**

Since 31 December 2014, the following significant investment activity has occurred (included in the table above):

FC200 Repayment: On 11 June 2015 the FC200 loan of £10.1 million was repaid following a sale of the property.

Industrial Portfolio, Denmark: On 26 June 2015, the Group committed to provide two facilities for a total of DKK 350.3 million (c. £33.1 million) for a portfolio of light industrial assets throughout Denmark. The first facility is a mezzanine facility to refinance a portfolio already owned by the sponsor. The second facility is a whole loan to support the acquisition of a new portfolio. The facilities were partially drawn on 26 June 2015, with a further drawdown made on 15 July 2015. The final drawdown is expected during the third quarter of 2015.

The following loans were committed after 30 June 2015 (not included in the table above):

Retail & Residential Portfolio, Ireland: On 21 July 2015, the Group committed to provide a €6.1m loan on a portfolio of retail and residential rental properties in the Republic of Ireland. The loan was drawn on 24 July 2015.

5 Star Hotel, London: On 24 July 2015, the Group committed to increase its existing loan on the 5 Star London Hotel by £6.2 million. The loan was fully drawn by 31 July 2015.

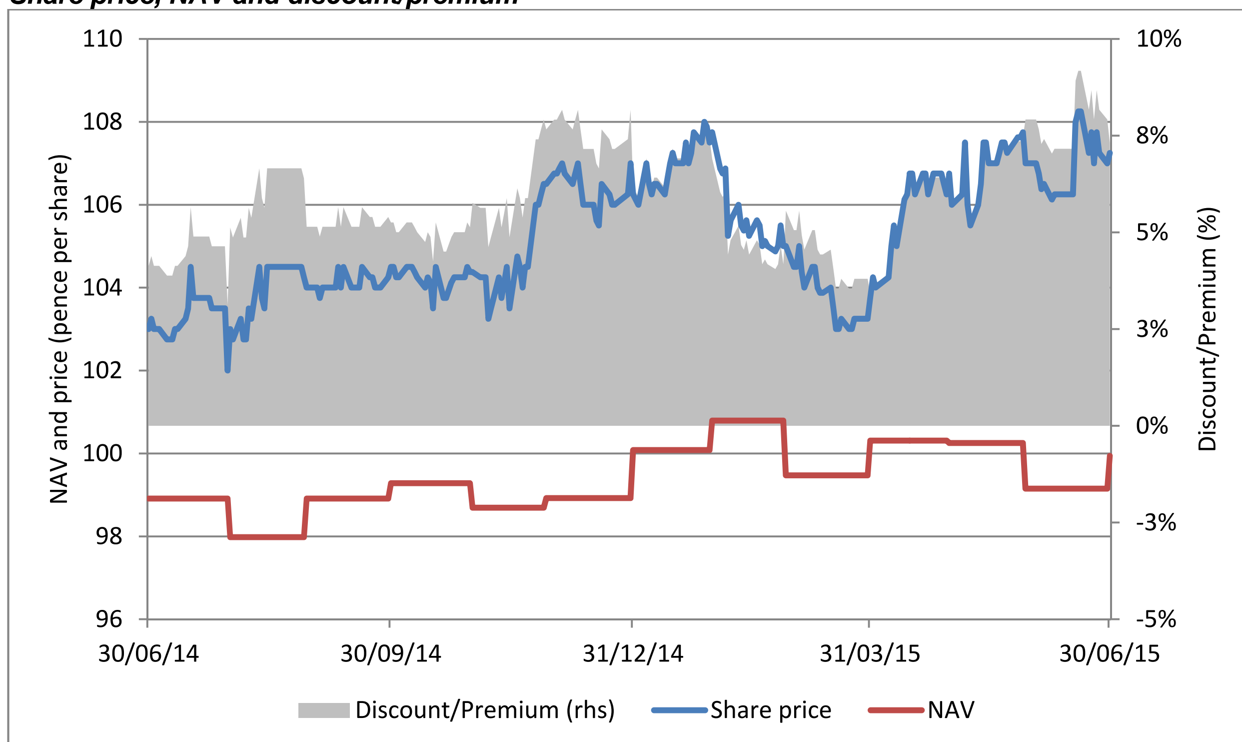
Center Parcs B notes: On 30 July 2015, the Group purchased £8 million of the £560 million Class B2 Fixed Rate Secured Notes issued by CPUK Finance Limited following the acquisition of the Center Parcs group by a fund managed by Brookfield.

Industrial Portfolio, UK: On 5 August 2015 the Group provided a £32.5 million whole loan to refinance a portfolio of industrial properties throughout the UK.

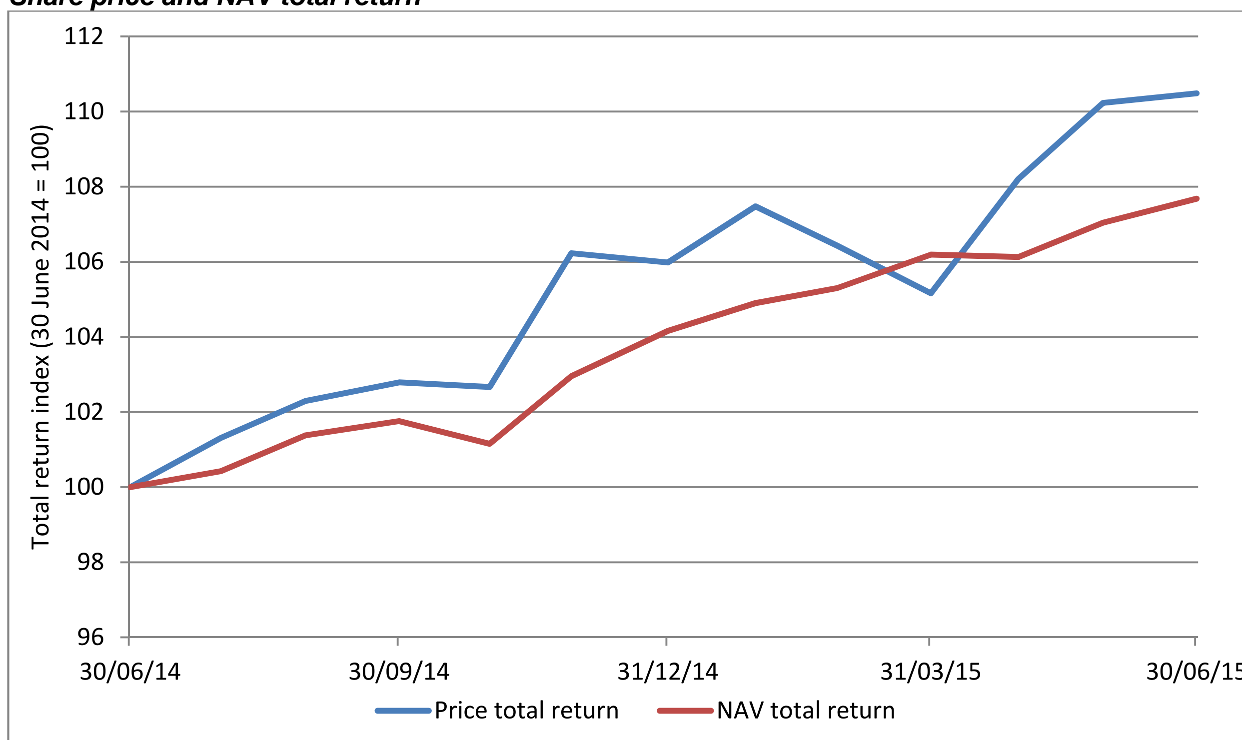
The Group had £2.6 million of cash at 30 June 2015 with £8 million drawn on the revolving credit facility. In order to fund the new deals committed after 30 June 2015 and the remaining drawdowns on the Danish Industrial Portfolio, the Group has fully utilised the £24 million proceeds of the tap issue in July 2015 and has drawn further funds on the revolving credit facility.

Company Performance for the year to 30 June 2015

Share price, NAV and discount/premium



Share price and NAV total return



As at 30 June 2015, the Net Asset Value ("NAV") was 99.94 pence per Ordinary Share and the share price was 107.25 pence.

Portfolio Statistics

As at 30 June 2015, the portfolio was invested in line with the Group's investment policy and is summarised below.

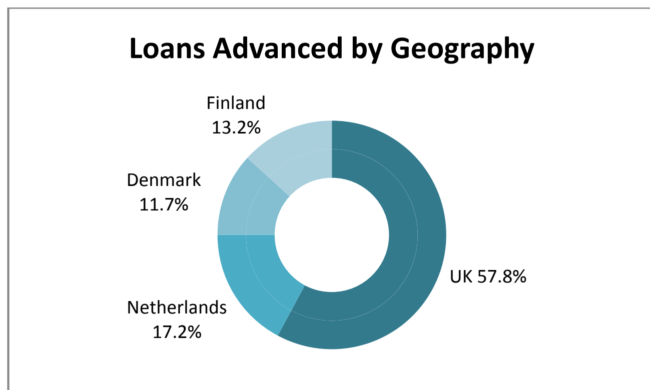
The Board considers that the Group is engaged in a single segment of business, being the provision of a diversified portfolio of real estate backed loans. The analysis presented in this report is presented to demonstrate the level of diversification achieved within that single segment. The Board does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

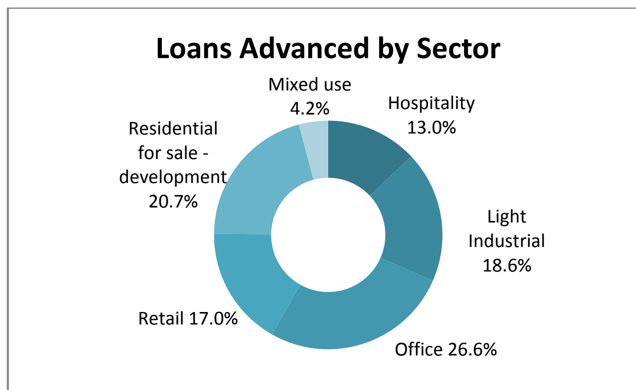
	30 June 2015
Number of investments	12
Percentage of portfolio currently invested in floating rate loans (1)	50.3%
Invested Loan Portfolio annualised total return (2)	8.8%
Weighted average portfolio LTV – to Group first £ (3)	12.8%
Weighted average portfolio LTV – to Group last £ (3)	61.7%
Average loan term	3.6 years
Cash	£2.6 m
Amount drawn on revolving credit facility	£8.0 m

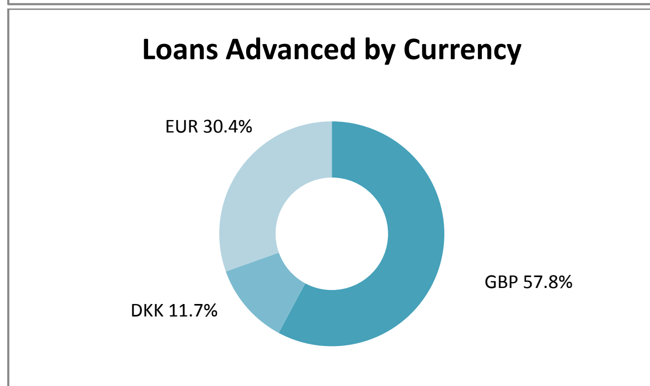
(1) Calculated on loans currently drawn using the exchange rates applicable when the loans were funded.

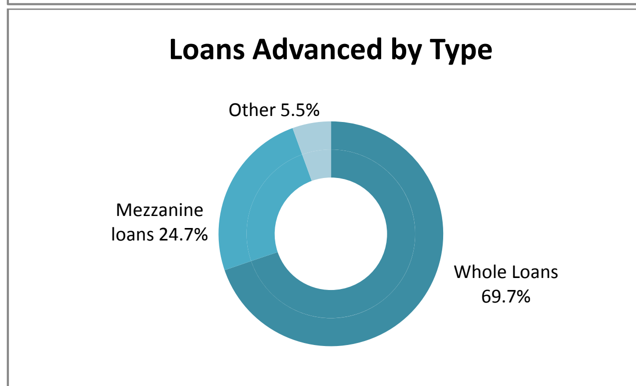
(2) Calculated on amounts currently outstanding, excluding undrawn commitments, and assuming all currently drawn loans are outstanding for the full contractual term. Eight of the loans are floating rate (partially or in whole and some with floors) and returns are based on an assumed profile for future interbank rates but the actual rate received may be higher or lower. Calculated only on amounts funded to date and excluding committed amounts and cash uninvested. The calculation excludes the origination fee payable to the Investment Manager and commitment fees on undrawn funds.

(3) LTV to Group last £ means the percentage which the total loan commitment less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the date of publication of these financial statements. LTV to first Group £ means the starting point of the loan to value range of the loan commitments (when aggregated with any other indebtedness ranking senior to it). For Lifecare, W Hotel and Centre Point the calculation includes the total facility available and is calculated against the market value on completion of the project. For Aldgate, the calculation includes the total facility available against the stabilised value of the property.









Investment Outlook

It is expected that some of the loans originated early in the life of the Group may repay over the coming year and the Group is continuously focussed on the need to promptly re-invest any repayment proceeds to avoid material cash drag.

Going into the second half of the year the Group's investment pipeline remains robust. We continue to see a variety of opportunities which will allow the Group to achieve good risk adjusted returns from whole loans as well as mezzanine loans.

In the first half of the year we closed loans in Denmark and Ireland which are two new jurisdictions for the Group. There has been a significant investment of origination effort in Ireland in particular and as a result Ireland features strongly in the current pipeline.

There has also continued to be a significant investment of time in Spain and Italy and we would expect to close our first loan in one of these countries in the second half of the year.

Another growing theme for the Group has been assisting borrowers whose loans are with lenders that have exited the lending market or lenders who have sold loan portfolios to private equity or hedge funds. Examples include a number of borrowers in Scandinavia with performing loans from international lenders who are unable to roll those loans due to these lenders pulling out of from the region to their home markets. There are also many opportunities arising from non-performing loan ("NPL") books that banks have sold. The owners of these NPLs have often bought the NPL at a price that allows them to offer a significant discount to the borrower which allows the borrower to refinance at an appropriate level with a new lender. These situations are often complex and therefore can create opportunities for the Group to achieve good risk adjusted returns. Initially many of the NPL opportunities have been in the UK and Ireland, however we would expect that to widen if banks continue to divest loan portfolios in other jurisdictions.

Market Summary

The effect of the 2007-8 financial crisis

In the years following the 2007-8 financial crisis, regulators launched a series of initiatives to reform the banking regulatory framework to address the impact of significantly weakened financial institutions. This led to proposals such as Basel III and the European Banking Association's recommendation to re-capitalise banks and decrease their levels of leverage. Certain of these proposals have started to come into force and there has also been market pressure to address some of the underlying structural weaknesses. The initial result of these initiatives and proposals was to lead banks to fundamentally reduce the amount of loans they provided. The repair of balance sheets and the general increased availability of liquidity for most banks has somewhat encouraged the return of lending potential.

One of the sectors most affected by the above circumstances was the European commercial real estate (**CRE**) sector. Historically, this sector had relied almost entirely on banks for debt financing (up to 95 per cent. of debt is provided by banks, when covered bonds are included, according to some estimates), and CRE has therefore been particularly vulnerable to a contraction in supply of bank debt. In contrast, the US CRE sector sources only approximately half of its debt financing from banks, with the balance provided by non-banking institutions. As a result of changes in the banking regulatory framework, it became less attractive for banks to provide CRE loans. These loans weigh more heavily on banks' capital adequacy ratios, require longer-dated funding that is more expensive, and typically offer the banks little by way of ancillary business opportunities. This erodes banks' profitability margins, lowering returns and incentivising banks to re-allocate capital from CRE to elsewhere.

In addition, the primary European commercial mortgage-backed securities (**CMBS**) market - an alternative source of debt financing for CRE - has seen its volume levels reduce significantly since the peak years of 2006-07. CMBS deals are undergoing a slight recovery, with around £10.5 billion issued since 2013 and approximately £5 billion issued in to the UK. These deals remain muted compared to the pre-crisis volumes where over £18 billion of UK CMBS issuance occurred in 2006 alone.

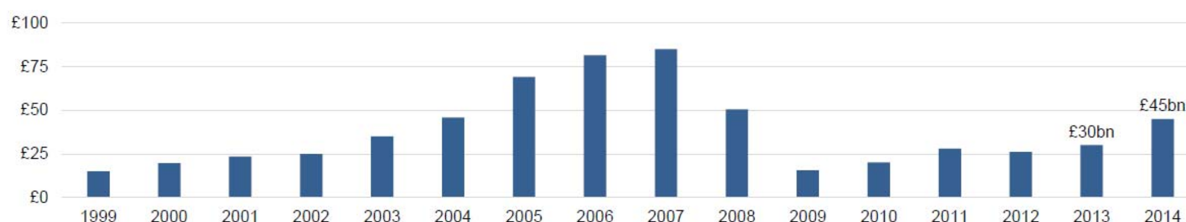
The current market

United Kingdom

In the UK at year-end 2014, there was an estimated approximate total of £206.8 billion of outstanding debt secured by commercial property, including CMBS and excluding the value of relevant loans held by Ireland's National Asset Management Agency. This compares with £232.5 billion recorded at year-end 2013, and the reduction reflected the overall deleveraging in the market.

Notwithstanding the overall deleveraging referred to above, £45.2 billion of loan originations, acquisition finance and refinancing on commercial terms, were recorded by De Montfort University as having been undertaken in the UK in 2014. This represents a 51 per cent. increase to the £29.9 billion similarly reported at year-end 2013.

Value of UK loan originations

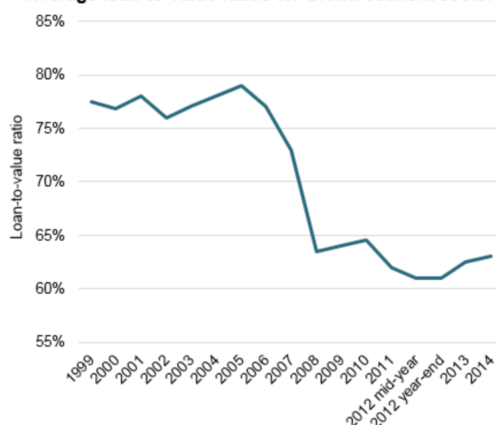


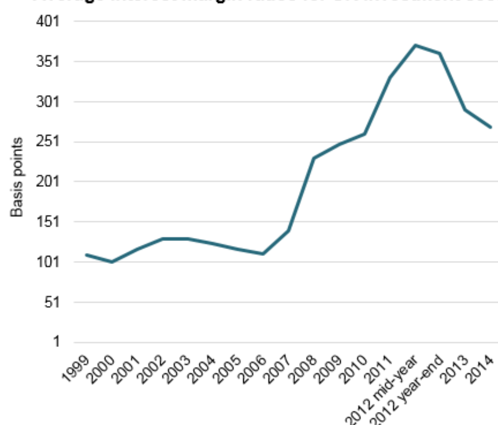
Source: De Montfort University UK Commercial Property Lending Report 2014

Despite the increasing lending activity in the UK, De Montfort University reported that average senior debt loan-to-value ratios for loans secured by UK commercial property increased slightly during 2014 but remained near the middle of the 60-65 per cent. range that has prevailed since the crisis and well below the levels seen in the late 1990s. This indicates that loan activity remains focussed on the prime markets, sectors and projects. Lending activity outside this area is still subdued, with low LTVs, and provides an opportunity for lenders to earn an attractive premium for the additional risk taken.

Average interest margins for the UK investment sector, as reported by De Montfort University, have declined each year since mid-2012 and this has been reflected in the Company's updated dividend target described in the Chairman's Statement. The average margin for prime office financing offered by UK lenders according to the De Montford Lending Survey stood at 219 basis points over LIBOR at the end of 2014, having peaked at 335 basis points over LIBOR in mid-2012.

The charts below illustrate the movements referred to above in average LTVs and interest margins in the UK investment sector.





Source: De Montfort university UK Commercial Property Lending Report 2014. Average of all sub-sectors

In light of LTVs remaining lower than the historical averages, and margins still significantly higher, the Company considers that this is a healthy market that is not becoming overheated.

The Company has observed areas where the market is very competitive. Prime office financing for large lot sizes continues to see tightening spreads across Europe, with London now in the low 100s basis point margins for 65 per cent LTV on interest-only senior debt. In addition, widely marketed mezzanine loans of large lot sizes are also subject to a high level of competition on pricing.

Europe ex-United Kingdom

The Investment Manager considers that the rest of Europe is also entering a different stage of the CRE lending market where availability of finance has become generally better. This increased interest in lending across Europe is highlighted in a recent Cushman & Wakefield report that indicates a 123 per cent. year on year increase in tracked new investment and development lending in 2014, and a 55 per cent. increase in overall loan origination, when refinance lending is included.

Markets such as Spain, Italy and the Netherlands have emerged from the post-crisis conservatism of 50 per cent. LTV levels with increased LTVs of up to 60 per cent. for certain sponsors and assets.

The emergence of non-bank lenders

In the UK and in Europe as a whole, non-bank lenders are becoming a more important source of debt capital for CRE. In the UK, over 25 per cent. by value of all loan originations in 2014 (23 per cent. in 2013) were provided by insurance companies and other non-banks. In Europe, where Cushman tracked and monitored 186 active lenders in 2014, non-bank lenders accounted for 47 per cent. by number (45 per cent. in 2013).

As discussed above, the Company believes that banks will continue to focus their CRE lending on core assets. Any lending opportunity that involves moderately higher leverage, assets in "transition" that require more active management, certain sectors or geographical locations may find debt harder to obtain. This may be relatively little influenced by how attractive the underlying risk/return metrics might be and provides an opportunity for non-bank lenders in particular to earn an attractive premium for the risk taken. The Company has always sought to exploit these niches to earn attractive returns for the risks taken.

Loan sales

A total of €80.6 billion of closed European commercial real estate loan sales and "real estate owned" sale transactions were tracked by Cushman in 2014,[1] more than twice the figure for 2013. Of this amount, the UK and Ireland accounted for €29.8 billion and €22.4 billion respectively, with sales also taking place in Spain, Denmark, Austria and Romania.

The area of non-performing loans presents opportunities when the individual loan positions are resolved and the underlying real estate requires refinancing on sustainable terms. These transactions are often complex and this complexity can reduce competition between lenders, providing an opportunity for the lender of the new loan to earn an additional premium return. The Company has already lent on such opportunities and believes this is a growth area for its business.

CRE loan terms

The senior debt in the capital structure of a real estate investment usually constitutes the largest part of the capital structure. It also provides the greatest level of security as its mortgage ranks first against the underlying properties. It is furthermore protected by the equity and junior debt tranches in the capital structure which would be first to absorb any losses.

The junior debt tranche, also called mezzanine debt, sits between senior debt and equity. Because its recovery entitlements rank behind the senior tranche, mezzanine debt carries a higher rate of interest than the senior debt to compensate for the higher risk. Mezzanine debt is usually subject to detailed arrangements to govern the relationship between the debt classes and benefits from protective features which often include a second-ranking mortgage on properties and the capital buffer provided by the equity tranche in the capital structure.

The Company is typically seeking to earn "high yield returns" (considered to be returns of approximately 6.5 per cent. to 10 per cent.) either from the direct provision of mezzanine or providing "whole loans" (i.e. senior/mezzanine combined) on harder-to-finance projects that can deliver similar style returns. In the

[1] "Real estate owned" refers to real estate that has been repossessed by a lender and has not yet been sold.

Investment Manager's experience, the typical average return in the EMEA region is now at 7.5-10 per cent. for average LTVs at 75 per cent.

Investment characteristics

The maturity of European CRE senior and mezzanine loans is typically five years. Senior or whole loans generally require amortization over their term. Typically however, loans are refinanced one to two years prior to maturity, either because of prudent financing management by the borrower or because the asset is sold. The repayment is at par, and, provided that the borrower is solvent, is therefore independent of the asset's capital appreciation or depreciation.

Interest payments are typically paid quarterly in cash, except for mezzanine loans where some interest may be accrued for a bullet payment at loan maturity. Interest payments on senior and mezzanine loans typically have priority over some other property expenditures and therefore offer a higher level of payment certainty.

CRE loans almost always benefit from a mortgage claim on the underlying property assets, first or second ranking for senior or junior loans respectively. In addition, this form of lending usually benefits from a comprehensive approach to security which will include shares in the borrowing entity being provided as collateral along with a charge over the rental income, insurance proceeds (to the extent available to the borrower), bank accounts, hedging and other receivables. This means that if the borrower is in default, lenders have the ability to accelerate their debt claim and seek recovery through the enforcement of the security held over the assets of the borrower (and the shares in the borrower itself). The claim of the subordinated lenders for satisfaction of their debt ranks after those of the senior lenders. Asset characteristics, advance rate, lending terms and structure and borrower type, therefore, are important factors for assessing the quality of the loan.

Relative to real estate equity investment, debt provides substantial downside protection in a flat or falling market. For example (based on certain assumptions, including that interest is paid on schedule) on a simple five year 75 per cent. LTV structure, an amortising whole loan could sustain more than a 50 per cent. decline in the underlying property value and the junior debt could sustain a 35 per cent. value decline before total returns are at break-even level. This is in contrast to equity where the decline required to break even would be *de minimis* on a similarly leveraged investment. Such terms are indicative only.

Principal Risks for the Remaining Six Months of the year to 31 December 2015

The principal risks assessed by the board relating to the Group were disclosed in the Annual Report and Audited Consolidated Financial Statements for the period to 31 December 2014. The Board and Investment Manager do not consider these risks to have changed. Therefore, the following are the principal risks assessed by the Board and the Investment Manager as relating to the Group for the remaining six months of the year to 31 December 2015.

- A number of the loans originated early in the life of the Group may repay in the near future. Principal may be repaid earlier than anticipated, causing the return on certain investments to be less than expected. In addition, the Group may be unable to re-invest repayment proceeds at the same returns and there may be a delay in reinvesting funds which could lead to cash drag;

- The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, including but not limited to the risk that loan income will fluctuate due to movements in interbank rates. The actual rate of return may therefore be materially lower than the targeted returns. 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 Company hedges currency exposures in a prudent manner. However, the currency hedging strategies may not eliminate all currency risk due to, among other things, uncertainties in the timing and / or amount of payments received on the related investments. Additionally the Company may be required under certain circumstances to collateralise its currency hedges for the benefit of the hedge counterparty, which could adversely affect its liquidity;

- The Group's investments are subject to risk of default where a borrower is unable or does not pay interest 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;

- 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; and

- Real estate valuation is inherently subjective and uncertain. In addition, the value of the real estate underlying the Group's portfolio of loans, 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.

Related Party Transactions

Related party disclosures are given in note 13 to the financial statements.

Starwood European Finance Partners Limited
Investment Manager
26 August 2015

Board of Directors

Stephen Smith (non-executive Director – 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. These include Alcentra European Floating Rate Income Fund Limited, The Renewables Infrastructure Group Limited and Sequoia Economic Infrastructure Income Fund Limited, which are listed on the main market of the London Stock Exchange and Aurora Russia Limited, DP Aircraft I Limited and Fair Oaks Income Fund 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 holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow and 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, Advance Frontier Markets Fund Limited (all listed on AIM), Toro Ltd (listed on SFM) 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 £20 million private equity acquisition of Ora Telecom. John is also a resident of Guernsey.

Statement of Directors’ Responsibilities

To the best of their knowledge, the directors of Starwood European Real Estate Finance Limited confirm that:

1. The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as adopted by the European Union; and

2. The Interim Financial Report, comprising of the Chairman’s Statement and the Investment Manager’s Report, meets the requirements of an interim management report and includes a fair review of information required by DTR 4.2.4 R:

   (i) DTR 4.2.7R of the UK Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months and their impact on the Unaudited Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
   (ii) DTR 4.2.8R of the UK Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months and that have materially affected the financial position or performance of the Company during that period, and any material changes in the related party transactions disclosed in the last Annual Report.

By order of the Board

For Starwood European Real Estate Finance Limited

Stephen Smith
Chairman
26 August 2015

John Whittle
Director
26 August 2015

Independent Review Report to Starwood European Real Estate Finance Limited

Introduction

We have been engaged by Starwood European Real Estate Finance Limited ("the Company") to review the Unaudited Condensed Consolidated Financial Statements in the Interim Financial Report for the half year ended 30 June 2015, which comprises the Unaudited Condensed Consolidated Statement of Comprehensive Income, the Unaudited Condensed Consolidated Statement of Financial Position, the Unaudited Condensed Consolidated Statement of Changes in Equity, the Unaudited Condensed Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Unaudited Condensed Consolidated Financial Statements.

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Unaudited Condensed Consolidated Financial Statements included in this Interim Financial Report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the Unaudited Condensed Consolidated Financial Statements in the Interim Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in producing this report, 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.

Scope of Review

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

Independent Review Report to Starwood European Real Estate Finance Limited

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Unaudited Condensed Consolidated Financial Statements in the Interim Financial Report for the half year ended 30 June 2015 are not prepared, in all material respects, in accordance with International Accounting Standard 34, ''Interim Financial Reporting'' as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers CI LLP
Chartered Accountants

Guernsey, Channel Islands

26 August 2015

Publication of Interim Financial Report

The maintenance and integrity of the Starwood European Real Estate Finance Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Unaudited Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2015

	Notes	1 January 2015 to 30 June 2015 £ (unaudited)	1 January 2014 to 30 June 2014 £ (unaudited)	1 January 2014 to 31 December 2014 £ (audited)
Income				
Income from loans advanced	6	9,793,289	7,011,394	16,050,220
Income from cash and cash equivalents		22,811	102,377	130,311
Total income from investments		**9,816,100**	**7,113,771**	**16,180,531**
Expenses				
Investment management fees	13	881,192	636,764	1,528,333
Directors' fees and travel expenses	13	58,261	57,929	115,283
Administration fees		121,090	112,554	220,999
Auditors' fees		80,507	103,123	157,619
Broker's fees		50,000	49,786	97,736
Legal and professional fees		60,471	66,806	112,691
Insurance		6,265	27,583	60,564
Net foreign exchange losses / (gains)		349,388	938,645	(881,125)
Revolving credit facility commitment fees		159,963	-	25,278
Revolving credit facility amortised		115,405	-	16,990
Revolving credit facility interest		3,298	-	-
Other expenses		35,742	46,457	80,344
Total operating expenses		**1,921,582**	**2,039,647**	**1,534,712**
Operating profit for the period / year before tax		**7,894,518**	**5,074,124**	**14,645,819**
Taxation	12	1,856	3,967	2,662
Operating profit for the period / year and total comprehensive income		**7,892,662**	**5,070,157**	**14,643,157**
Weighted average number of shares in issue	3	238,100,000	238,100,000	238,100,000
Basic and diluted earnings per Ordinary Share (pence)	3	3.31	2.13	6.15

The accompanying notes form an integral part of these Unaudited Condensed Consolidated Financial Statements.

Unaudited Condensed Consolidated Statement of Financial Position

as at 30 June 2015

	Notes	As at 30 June 2015 £ (unaudited)	As at 30 June 2014 £ (unaudited)	As at 31 December 2014 £ (audited)
Assets				
Cash and cash equivalents	4	2,604,326	22,300,171	13,172,978
Other receivables and prepayments		231,685	244,445	31,962
Revolving credit facility capitalised cost	10	327,605	-	443,010
Loans advanced	6	232,143,801	211,798,229	220,954,400
Financial assets at fair value through profit and loss	7	11,395,469	2,026,618	5,023,584
Total assets		**246,702,886**	**236,369,463**	**239,625,934**
Liabilities				
Revolving credit facility	8	8,003,298	-	-
Trade and other payables		736,960	872,197	1,341,518
Total liabilities		**8,740,258**	**872,197**	**1,341,518**
Net assets		**237,962,628**	**235,497,266**	**238,284,416**
Capital and reserves				
Share capital		233,843,162	233,843,162	233,843,162
Retained earnings		4,119,466	1,654,104	4,441,254
Total equity		**237,962,628**	**235,497,266**	**238,284,416**
Number of Ordinary Shares in issue		238,100,000	238,100,000	238,100,000
Net asset value per Ordinary Share (pence)		99.94	98.91	100.08

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 August 2015, and signed on its behalf by:

Stephen Smith
Chairman

John Whittle
Director

The accompanying notes form an integral part of these Unaudited Condensed Consolidated Financial Statements.

Unaudited Condensed Consolidated Statement of Changes in Equity
for the period ended 30 June 2015

Period ended 30 June 2015	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2015	233,843,162	4,441,254	238,284,416
Dividends paid	-	(8,214,450)	(8,214,450)
Operating profit and total comprehensive income	-	7,892,662	7,892,662
Balance at 30 June 2015	**233,843,162**	**4,119,466**	**237,962,628**

Period ended 30 June 2014	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2014	233,843,162	2,179,297	236,022,459
Dividends paid	-	(5,595,350)	(5,595,350)
Operating profit and total comprehensive income	-	5,070,157	5,070,157
Balance at 30 June 2014	**233,843,162**	**1,654,104**	**235,497,266**

Year ended 31 December 2014	Share capital £ (audited)	Retained earnings £ (audited)	Total equity £ (audited)
Balance at 1 January 2014	233,843,162	2,179,297	236,022,459
Dividends paid	-	(12,381,200)	(12,381,200)
Operating profit and total comprehensive income	-	14,643,157	14,643,157
Balance at 31 December 2014	**233,843,162**	**4,441,254**	**238,284,416**

The accompanying notes form an integral part of these Unaudited Condensed Consolidated Financial Statements.

Unaudited Condensed Consolidated Statement of Cash Flows
for the period ended 30 June 2015

	1 January 2015 to 30 June 2015 £ (unaudited)	January 2014 to 30 June 2014 £ (unaudited)	January 2014 to December 2014 £ (audited)
Operating activities:			
Operating profit for the period / year and total comprehensive income	7,892,662	5,070,157	14,643,157
Adjustments			
Net interest income	(9,793,289)	(7,011,394)	(16,050,220)
Interest income on cash and cash equivalents	(22,811)	(102,377)	(130,311)
Decrease in prepayments and receivables	20,824	43,025	246,776
(Decrease) / increase in trade and other payables	(44,983)	432,645	197,394
Net gain on financial instruments held at fair value through profit and loss	(6,371,885)	(1,939,438)	(4,936,404)
Net foreign exchange losses	6,931,247	2,878,083	3,689,527
Revolving credit facility interest	3,298	-	-
Revolving credit facility amortised	115,405	-	-
Other non-cash items	(220,547)	3,338	(188,247)
	(1,490,079)	**(625,961)**	**(2,528,328)**
Loans advanced [1]	(37,557,709)	(61,351,264)	(115,070,574)
Loans repaid	21,939,143	3,956,189	49,981,644
Origination fees paid	(677,579)	(497,605)	(646,574)
Origination expenses paid	-	(5,454)	(5,454)
Interest, commitment and exit fee income from loans advanced	7,833,961	6,583,632	14,468,574
Syndication expenses paid	(133,200)	36,480	(180,690)
Net cash outflow from operating activities	**(10,085,463)**	**(51,903,983)**	**(53,981,402)**
Cash flows from investing activities			
Interest income from cash and cash equivalents	22,811	110,180	139,043
Net cash inflow from investing activities	**22,811**	**110,180**	**139,043**
Cash flows from financing activities			
Revolving credit facility cost paid	-	-	(315,064)
Revolving credit facility utilised	8,000,000	-	-
Dividends paid	(8,214,450)	(5,595,350)	(12,381,200)
Net cash outflow from financing activities	**(214,450)**	**(5,595,350)**	**(12,696,264)**
Net decrease in cash and cash equivalents	(10,277,102)	(57,389,153)	(66,538,623)
Cash and cash equivalents at the start of the period / year	13,172,978	79,706,084	79,706,084
Net foreign exchange (loss) / gain on cash and cash equivalents	(291,550)	(16,760)	5,517
Cash and cash equivalents at the end of the period / year	**2,604,326**	**22,300,171**	**13,172,978**

[1] Net of arrangement fees of £ 654,984 (30 June 2014: £ 1,152,830; 31 December 2014: £ 2,184,680)

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

1. General Information

The Company is a close-ended investment company incorporated in Guernsey. The Unaudited Condensed Consolidated Financial Statements comprise the financial statements of the Company, the GP, the Partnership and the Luxco (together "the Group") as at 30 June 2015.

2. Basis of Preparation and Principal Accounting Policies

The Company has prepared these Unaudited Condensed Consolidated Financial Statements on a going concern basis in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. This interim financial report does not comprise statutory financial statements within the meaning of the Companies (Guernsey) Law, 2008, and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The statutory financial statements for the year ended 31 December 2014 were approved by the Board of Directors on 27 March 2015. The opinion of the auditors on those financial statements was unqualified. The accounting policies adopted in this Interim Financial Report are unchanged since 31 December 2014 except for a new policy as described in note 2.1 below. This Interim Financial Report for the period ended 30 June 2015 has been reviewed by the auditors but not audited.

Standards and Interpretations in issue and not yet effective:

New standards	Effective date
IFRS 9 Financial Instruments – Classifications and Measurement	1 January 2018
IFRS 15 Financial Instruments – Revenue from Contracts from Customers	1 January 2017

The Directors are assessing the impact of these future changes.

2.1. Financial Liabilities

Financial liabilities, including bank loans are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.

3. Earnings Per Share and Net Asset Value Per Share

The calculation of basic earnings per Ordinary Share is based on the operating profit of £7,892,662 (31 December 2014: £ 14,643,157) and on the weighted average number of Ordinary Shares in issue during the period of 238,100,000 (31 December 2014: 238,100,000) Ordinary Shares.

The calculation of NAV per Ordinary Share is based on a NAV of £237,962,628 (31 December 2014: £ 238,284,416) and the actual number of Ordinary Shares in issue at 30 June 2015 of 238,100,000 (31 December 2014: 238,100,000).

4. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	30 June 2015 £	30 June 2014 £	31 December 2014 £
Fixed deposits	-	16,200,000	8,194,296
Cash at bank	2,604,326	6,100,171	4,978,682
	2,604,326	**22,300,171**	**13,172,978**

4. Cash and Cash Equivalents (CONTINUED)

Cash and cash equivalents comprises cash 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.

5. Revolving Credit Facility Capitalised Costs

The revolving credit facility capitalised costs are directly attributable costs incurred in relation to the establishment of the £50 million loan facility.

6. Loans Advanced

	30 June 2015 £	30 June 2014 £	31 December 2014 £
UK			
Maybourne Hotel Group, London	11,238,404	19,449,353	19,430,056
West End Development, London	10,157,547	10,141,129	10,137,575
Lifecare Residences, London	13,686,114	12,934,260	13,311,980
Salesforce Tower, London	13,577,468	16,796,796	15,186,783
Centre Point, London	45,412,853	40,360,893	40,305,815
FC200, London	-	21,581,647	9,252,934
Aldgate, London	39,704,307	-	37,575,749
5 Star Hotel, London	6,901,727	-	6,871,376
Netherlands			
Office	10,034,985	11,416,703	11,104,334
Industrial	14,382,543	44,625,393	15,873,838
W Hotel	12,073,845	-	9,198,302
Finland			
Retail Portfolio	27,293,162	34,492,055	32,705,658
Denmark			
Industrial Portfolio	27,680,846	-	-
	232,143,801	**211,798,229**	**220,954,400**

No element of loans advanced are past due or impaired. For further information and the associated risks see the Investment Manager's Report.

The table below reconciles the movement of the carrying value of loans advanced in the period / year:

	30 June 2015 £	30 June 2014 £	31 December 2014 £
Loans advanced at the start of the period / year	220,954,400	156,381,277	156,381,277
Loans advanced	38,212,693	62,504,094	117,255,254
Loans repaid	(21,939,143)	(3,956,189)	(49,981,644)
Arrangement fees earned	(654,984)	(1,152,830)	(2,184,680)
Commitment fees earned	(51,081)	(17,495)	(57,413)
Exit fees earned	(126,532)	(49,277)	(75,522)
Origination fees paid	251,204	497,605	1,072,949
Syndication expenses paid / accrued	-	-	313,888
Effective interest income earned	9,793,289	7,011,394	16,050,220
Interest payments received / accrued	(7,656,348)	(6,512,173)	(14,130,402)
Foreign exchange losses	(6,639,697)	(2,908,177)	(3,689,527)
Loans advanced at the end of the period / year	**232,143,801**	**211,798,229**	**220,954,400**
Loans advanced at fair value	**241,188,965**	**216,606,020**	**231,280,183**

For further information on the fair value of loans advanced, refer to note 11.

7. 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 rates 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:

Goldman Sachs:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
30 June 2015	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	£22,354,581	2,792,273	-	2,792,273
Total	**22,354,581**	**2,792,273**	**-**	**2,792,273**

Lloyds Bank plc:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
30 June 2015	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	£78,729,378	8,603,196	-	8,603,196
Total	**78,729,378**	**8,603,196**	**-**	**8,603,196**

Total:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
30 June 2015	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	101,083,959	11,395,469	-	11,395,469
Total	**101,083,959**	**11,395,469**	**-**	**11,395,469**

7. Financial Assets at Fair Value through Profit and Loss (CONTINUED)

Goldman Sachs:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
31 December 2014	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	20,952,906	983,938	-	983,938
Total	**20,952,906**	**983,938**	**-**	**983,938**

Lloyds Bank plc:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
31 December 2014	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	52,791,971	4,039,646	-	4,039,646
Total	**52,791,971**	**4,039,646**	**-**	**4,039,646**

Total:

	Notional contract amount [1]	Fair values		
		Assets	Liabilities	Total
31 December 2014	**£**	**£**	**£**	**£**
Foreign exchange derivatives				
Currency forwards	73,744,877	5,023,584	-	5,023,584
Total	**73,744,877**	**5,023,584**	**-**	**5,023,584**

[1] Euro amounts are translated at the period / year end exchange rate

8. Revolving Credit Facility

Under the Company's investment policy, the Company is limited to borrowing an amount equivalent to a maximum of 20 per cent of its NAV at the time of drawdown. In calculating the Company's borrowings for this purpose, any liabilities incurred under the Company's foreign exchange hedging arrangements shall be disregarded. The interest rate payable will depend on how long the loan is outstanding: LIBOR plus 2.50 per cent per annum at initial draw down and increasing for loans outstanding for more than six months. The facility is secured by a pledge over the bank accounts of the Company, its interests in Starfin Public LP and the intercompany funding provided by the Company to Starfin Public LP. Starfin Public LP also acts as guarantor of the facility and has pledged its bank accounts as collateral. The undertakings and events of default are customary for a transaction of this nature. As at 30 June 2015 an amount of £8,000,000 (31 December 2014: £ nil) was drawn and interest of £ 3,298 (31 December 2014: £ nil) was accrued.

9. Dividends

Dividends will be declared by the Directors and paid in compliance with the solvency test prescribed by Guernsey law. Under Guernsey law, companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Company passed the solvency test for each dividend paid.

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 respect of the period to 30 June 2015:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2015	1.75	4,166,750	30 April 2015

After the end of the period, the Directors declared a dividend in respect of the financial period ended 30 June 2015 of 1.75 pence per share paid on 24 August 2015 to shareholders on the register on 7 August 2015.

The Company paid the following dividends in respect of the year to 31 December 2014:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2014	1.25	2,976,250	30 April 2014
30 June 2014	1.35	3,214,350	30 July 2014
30 September 2014	1.50	3,571,500	27 October 2014
31 December 2014	1.70	4,047,700	31 January 2015

10. Risk Management Policies and Procedures

The Group through its investment in whole loans, subordinated loans, 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.

10. Risk Management Policies and Procedures (CONTINUED)

The Directors monitor and measure the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activites. Even though the risks detailed in the Annual Report and Financial Statements for the year ended 31 December 2014 still remain appropriate, further information regarding these risk policies are outlined below:

i) 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.

a) Currency risk

The Group, via the subsidiaries, operates across Europe and invests in loans that are denominated in currencies other than the functional currency of the Company. Consequently the Group is exposed to risks arising from foreign exchange rate fluctuations in respect of these loans and other assets and liabilities which relate to currency flows from revenues and expenses. Exposure to foreign currency risk is hedged and monitored by the Investment Manager on an on-going basis and is reported to the Board accordingly.

b) 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 interbank rate 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 interbank rate floors, preventing interest rates from falling below certain levels.

ii) 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 and also subordinated and mezzanine debt which rank behind senior debt for repayment in the event that a borrower defaults. There is a spread concentration of risk as at 30 June 2015 due to several loans being advanced since inception. There is also credit risk in respect of other financial assets as a 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 Group also has credit risk exposure in its financial assets through profit and loss which is diversified between hedge providers in order to spread 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 year end date. As at 30 June 2015, the maximum credit risk exposure was £246,702,886 (31 December 2014: £239,625,934).

10. Risk Management Policies and Procedures (CONTINUED)

ii) Credit risk (CONTINUED)

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 of 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.

iii) Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient resources available 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.

The Group manages its liquidity risk through short term and long term cash flow forecasts to ensure it is able to meet its obligations. In addition, the Company is permitted to borrow up to 20 per cent of NAV and has entered into a revolving credit facility of £50million of which £8million was drawn on 25 June 2015.

As at 30 June 2015, the Group had £2,604,326 (31 December 2014: £13,172,978) available in cash and £736,960 (31 December 2014: £1,341,518) trade payables. The Directors considered this to be sufficient cash available, together with the undrawn facilities on the revolving credit facility, to meets the Group's liabilities.

11. Fair Value Measurement

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects 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).

11. Fair Value Measurement (CONTINUED)

The following table analyses within the fair value hierarchy the Group's financial assets and liabilities (by class) measured at fair value:

30 June 2015	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	11,395,469	-	11,395,469
Total	**-**	**11,395,469**	**-**	**11,395,469**

31 December 2014	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	5,023,584	-	5,023,584
Total	**-**	**5,023,584**	**-**	**5,023,584**

There have been no transfers between levels for the period ended 30 June 2015 (31 December 2014: nil).

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 30 June 2015 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Cash and cash equivalents	-	2,604,326	-	2,604,326	2,604,326
Other receivables and prepayments	-	231,685	-	231,685	231,685
Loans advanced	-	-	241,188,965	241,188,965	232,143,801
Total	**-**	**2,836,011**	**241,188,965**	**244,024,976**	**234,979,812**

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Liabilities					
Trade and other payables	-	736,960	-	736,960	736,960
Total	**-**	**736,960**	**-**	**736,960**	**736,960**

11. Fair Value Measurement (CONTINUED)

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 2014 but for which fair value is disclosed:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	£	£	£	£	£
Assets					
Cash and cash equivalents	-	13,172,978	-	13,172,978	13,172,978
Other receivables and prepayments	-	31,962	-	31,962	31,962
Loans advanced	-	-	231,280,183	231,280,183	220,954,400
Total	**-**	**13,204,940**	**231,280,183**	**244,485,123**	**234,159,340**

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	£	£	£	£	£
Liabilities					
Trade and other payables	-	1,341,518	-	1,341,518	1,341,518
Total	**-**	**1,341,518**	**-**	**1,341,518**	**1,341,518**

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. For the avoidance of doubt, the Group carries its loans advanced at amortised cost in the financial statements. In Directors' opinion, amortised cost better reflects the carrying value of loans advanced than fair value as disclosed in this

Cash and cash equivalents include cash at 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.

12. 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 £1200.

The Luxembourg indirect subsidiary of the Company is subject to the applicable tax regulations in Luxembourg, as it is incorporated under the securitization Law of 22 March 2004.

13. 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.

Fees, expenses and other payments

	Outstanding at 30 June 2015 £	For the period ended 30 June 2015 £
Directors' fees and expenses paid		
Stephen Smith	11,250	22,500
John Whittle	8,750	17,500
Jonathan Bridel	-	16,250
Expenses paid	-	2,011
Investment Manager		
Investment management fees earned	442,219	881,192
Origination fees earned	-	251,204

	Outstanding at 31 December 2014 £	For the year ended 31 December 2014 £
Directors' fees and expenses paid		
Stephen Smith	-	45,000
John Whittle	-	35,000
Jonathan Bridel	-	32,500
Expenses paid	-	2,783
Investment Manager		
Investment management fees earned	446,949	1,528,333
Origination fees earned	426,375	1,072,949
Expenses	5,216	16,010
StarConsult S.à.r.l [1]		
Administrative services	-	8,369

[1] StarConsult S.à.r.l is a Company managed by Thierry Drinka, who is also a Director of Luxco.

13. Related Party Transactions (CONTINUED)

Shareholdings and dividends paid

	Dividends paid for the period ended 30 June 2015	As at 30 June 2015
	£	Number of shares
Starwood Property Trust Inc	315,330	9,140,000
SCG Starfin Investor LP	78,833	2,285,000
Stephen Smith	1,380	40,000
John Whittle	242	7,000
Jonathan Bridel	242	7,000

	Dividends paid for the year ended 31 December 2014	As at 31 December 2014
	£	Number of shares
Starwood Property Trust Inc	475,280	9,140,000
SCG Starfin Investor LP	118,820	2,285,000
Stephen Smith	2,080	40,000
John Whittle	364	7,000
Jonathan Bridel	364	7,000

Other

The Group continues to participate in a number of loans in which Starwood Property Trust, Inc. ("STWD") and Starfin European Debt TC, L.P. ("Starfin TC") acted as a co-lender. The details of these loans are shown in the table below.

Loan	Related party co-lenders
Maybourne Hotel Group, London	STWD
Lifecare Residences, London	STWD
Salesforce Tower, London	STWD
Centre Point, London	STWD, Starfin TC
5 Star Hotel, London	Starfin TC
Aldgate Tower, London	STWD, Starfin TC
Retail Portfolio, Finland	STWD
Industrial Portfolio, Netherlands	Starfin TC
W Hotel, Netherlands	STWD, Starfin TC

Starwood Capital Europe Advisers LLP also act as Investment Adviser to Starfin GP Limited, the General Partner of Starfin European Debt TC L.P. For the period ended 30 June 2015 there were no transactions between the Group and Starfin European Debt TC L.P., but they continue to act as co-lenders as shown in the table above.

14. Events After the Reporting Period

On 23 July 2015 23,780,000 new Ordinary Shares (“Placing Shares”) were issued and admitted to the Official List of the UK Listing Authority and trading on the London Stock Exchange’s main market for listed securities. The Placing Shares were issued at a price of 103 pence per Placing Share which represented a premium to the NAV per Share as at 30 June 2015 of 3.06 per cent.

On 15 July 2015 a further drawdown was made on the Industrial Portfolio, Denmark loan. The amount of the drawdown was DKK 32.4 million and DKK 22.9 million remains undrawn as at 26 August 2015.

On 21 July 2015, the Group committed to provide a €6.1 million loan on a portfolio of retail and residential properties in the Republic of Ireland. The loan was drawn on 24 July 2015.

On 24 July 2015, the Group committed to increase its existing loan to the 5 Star London Hotel by £6.2 million. The loan was fully drawn by 31 July 2015.

On 24 July 2015 the Company declared a dividend in respect of the period from 1 April 2015 to 30 June 2015 of 1.75 pence per Ordinary Share, payable on 24 August 2015 to Shareholders on the register at 7 August 2015.

On 30 July 2015 the Group purchased £8 million of the £560 million Class B2 Fixed Rate Secured Notes issued by CPUK Finance Limited following the acquisition of the Center Parcs group by a fund managed by Brookfield.

On 5 August 2015 the Group provided a £32.5 million whole loan to refinance a portfolio of industrial properties throughout the UK.

Corporate Information

Directors
Stephen Smith *(Non-executive Chairman)*
Jonathan Bridel *(Non-executive Director)*
John Whittle *(Non-executive Director)*

(all care of the registered office)

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