19 May 2014

Starwood European Real Estate Finance Limited
Unaudited Interim Management Statement for the First Half of the Financial Year ending 31 December 2014

Starwood European Real Estate Finance Limited (the "Company") is publishing this Interim Management Statement in accordance with DTR 4.3 of the FCA Handbook. The statement relates to the period from 1 January 2014 to 19 May 2014.

Unless otherwise noted herein, the financial information provided in this Interim Management Statement is as at 31 March 2014 and is unaudited. Terms used but not defined in this Interim Management Statement shall have the same meaning as defined in the Company's prospectus dated 28 November 2012.

Background information

The Company is registered with the Guernsey Financial Services Commission as a closed-ended collective investment scheme. The Company's ordinary share capital is listed on the Official List of the UK Listing Authority and admitted to trading on the main market of the London Stock Exchange, under the ticker "SWEF". The Company is managed by the Guernsey-incorporated Starwood European Finance Partners Limited, which has delegated certain functions to the Investment Adviser, Starwood Capital Europe Advisers, LLP. Both the Investment Manager and the Investment Adviser are indirectly wholly-owned subsidiaries of Starwood Capital Group Global, L.P..

The Company's share capital consists of Ordinary Shares denominated in Sterling.

Investment Objective

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

Market Summary & Outlook

The following commentary is extracted from the Company's factsheet for the first quarter ended on 31 March 2014 without amendment.

We had previously commented that market interest in lending had substantially increased. Well documented macroeconomic reasons underpin this, principally excess liquidity hunting for yield. The broader economy welcomes such increased lending as a necessity for growth. Demand for debt has also visibly risen as confidence returns and for most opportunities competition exists but not to a level that leads to crowding out. The banking community has returned 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 remotely dominating, leading to a genuinely more diverse lending universe. In generic terms, almost any sensible project is financeable at a price. Regulatory oversight is also not wavering and indeed representatives from the Bank of England have recently commented and positively encourage recent industry initiatives addressing "bubble" risk through education, diversification and longer term approaches to values. That is not to say one does not see the start of questionable lending activity but for the moment the amounts and crucially the parties are not systematically important.

The demand for debt is also still increasing, especially on the Continent as economies start to grow. The UK and London in particular remain a huge market and a continued haven. 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 not a comment simplistically applied to the southern countries rather a general observation of the entire Eurozone as the banking sector prepares to come under the regulation of the ECB in September 2014 and experience the Asset Quality Review in advance of this.

Portfolio Summary – Key Statistics

	As at 19 May 2014
Number of borrowers	8
Number of investments	8
Percentage of currently invested portfolio in floating rate loans	48.1%
Invested Loan Portfolio annualised total return (1)	8.9%
Weighted average portfolio LTV – to Group first £ (2)	12.1%
Weighted average portfolio LTV – to Group last £ (2)	57.3%
Average loan term	4.2 years
Percentage of net IPO proceeds uncommitted	22.7%
Percentage of net IPO proceeds committed to senior and whole loans	57.2%
Percentage of net IPO proceeds committed to second lien and mezzanine loans	12.4%
Percentage of net IPO proceeds committed to other debt instruments	7.7%
Percentage currently invested in GBP	56.1%
Percentage currently invested in Euro	43.9%

(1) Calculated based on the current balance (except for ground up development where the total facility is included) assuming all loans are outstanding for the full term. Where loans are floating rate, 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 uninvested cash.

(2) LTV to Group last £ means the percentage which the total current balance on the 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) the calculation includes the total facility available and the 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 SEREF's investment in each loan

Non-sterling loan principal is fully hedged by way of forward currency contracts. In addition, interest on those loans is generally hedged by way of forward currency contracts for the period under which prepayment protection exists.

Portfolio News

Between 1 January 2014 to 19 May 2014, the following transactions were closed:

Office, Amsterdam: The Group provided a €14.3 million financing facility for the acquisition of an office building in Amsterdam fully occupied by UPC Nederlands, BV. The Group expects to earn a solid single digit return in line with its investment criteria. The loan was fully drawn in the middle of April 2014.

Industrial Portfolio, Netherlands: The Group increased the existing €21.8 million whole loan facility provided in October 2013 by an additional €13.5 million of proceeds. This facilitated the acquisition of 7 light-industrial and office properties in the Netherlands taking the overall portfolio to 19 assets. The loan was fully drawn in early May and is expected to earn a single digit return in line with the Company's investment criteria.

Following the closure of these loans, the Group has made investments representing approximately 77% of net IPO Proceeds and the Company is capable of delivering an annualised net portfolio yield of approximately 5.5 per cent on deals funded to date (after scheduled amortisation but prior to any other prepayments).

Since 31 December 2013 the Group has also received a €2.9m prepayment on the Retail Portfolio, Finland and scheduled amortisation on the Heron loan of £1.5m.

Following the investment activity outlined above and as at 19 May 2014 the Company was invested / committed as shown below:

	Commitment	Balance as at 19 May 2014
Maybourne Hotel Group	£19.0 m	£19.0 m
West End Development	£10.0 m	£10.0 m
Lifecare Residences (including capitalised interest commitment)	£14.5 m	£12.8 m
Heron Tower, London	£18.0 m	£16.5 m
Centre Point, London	£40.0 m	£40.0 m
Total Sterling Loans	**£101.5 m**	**£98.3 m**
Retail Portfolio – Finland	€45.0 m	€42.1 m
Industrial Portfolio, Netherlands	€35.3 m	€35.3 m
Office, Netherlands	€14.3 m	€14.3 m
Total Euro Loans	**€94.6 m**	**€91.7 m**

Pipeline

The following commentary is extracted from the Company's factsheet for the first quarter ended on 31 March 2014 without amendment.

The Company continues to benefit from a good pipeline of opportunities, almost all of which are whole loans.

The pipeline remains robust and is geographically spread. We expect Ireland and the Netherlands to remain strong areas of focus in addition to the UK to aid diversity in investing the final cash resources of the Company. Origination orientation has moved somewhat away from the UK as the Continent starts to see increased activity. That said the Company still receives a healthy level of UK finance requirements and leads. Whilst the Company's pipeline includes some larger transactions, there remains a continued focus on delivering smaller bilateral positions.

The Company is involved in discussions about follow-on transactions for loans that the Company has already made or committed to. Overall some of these new opportunities immediately meet the Company's target return requirements, and some will require subsequent syndication to achieve these levels.

A number of whole loan opportunities are currently in execution with several others at advance term sheet stage and based on these facts the Company remains confident of being substantially fully invested on the basis of completing two to three additional transactions within the second quarter of 2014.

Upon substantially full investment, the Company will focus on limiting cash drag by utilising short term borrowing facilities, that may be repaid from further equity raisings, and by the creation of a pipeline in advance of such raisings.

The Company will concentrate on generating attractive risk adjusted returns through underwriting whole loans and in selective cases selling senior strips to generate mezzanine positions. This will rebalance the overall book back towards the loan mix set out at IPO whilst maintaining attractive single digit gross returns.

Material Events and Transactions

The following commentary is extracted from the Company's factsheet for the first quarter ended on 31 March 2014 without amendment except for the commentary on the amendment to the Investment Management Agreement.

Investment Policy

On 2nd May 2014 the Company held its first Annual General Meeting and an Extraordinary General Meeting to approve a change to the investment policy of the Group to extend the geographic scope of the investment policy to allow investment in Spain and Italy and to increase the maximum allocation that can be made to the residential for sale sector.

The occupational real estate markets in Spain and Italy have shown tentative signs of recovery and investment demand has also significantly increased as both opportunistic and core investors have sought exposure. Whilst any investment in Spain or Italy would be approached with caution, the Board believes that the Company should have the ability on a limited and selective basis to identify balanced risk return opportunities in these countries if and when they arise. The Company's focus in these countries is expected to be the commercial property sector as opposed to the residential market.

The Company has gained attractive exposure to residential for sale within London through its investments in Centre Point and Battersea. The extended limits will potentially allow the Company to take advantage of further residential opportunities.

The Company confirms that it does not intend to use these extended investment powers until the net proceeds of the IPO are substantially fully invested. As such, the changes contain an element of "future proofing" for investing the proceeds of possible additional capital raises or loan repayments. With these adjustments, the Board believes the Company would be better placed to raise and deploy additional capital.

Alongside these changes, the Board believed it was necessary to clarify the scope and intent of the restrictions on the Company's corporate borrowings to exclude foreign exchange hedging facilities from the scope of "corporate borrowings".

The Company is pleased to confirm that these changes to the investment policy have been approved by the Company's shareholders.

Investment Management Fee
Under the terms of the Investment Management Agreement, the calculation of the management fee is based on an adjusted Net Asset Value to exclude any cash balances until the date that 75% of the net IPO proceeds are invested. The Company has now invested 77% of net IPO proceeds and the Investment Manager is therefore entitled to charge a fee on the unadjusted Net Asset Value. However, it has been proposed by the Investment Manager that, notwithstanding the provisions detailed above, the percentage above which cash balances will be included in the calculation of Adjusted Net Asset Value shall be increased from 75% to 90%. The Board has accepted this proposal.

Financial Highlights
As described in the Company's prospectus, the net asset value ("NAV") and the NAV per share are both calculated monthly by the Company's administrator.

	31 December 2013	**31 January 2014**	**28 February 2014**	**31 March 2014**
Estimated NAV per Ordinary share	99.13	98.48	98.78	99.21
Share price	100.75	103.50	101.5	99.25
Premium / (discount)	1.6%	5.1%	2.8%	0%
Market Capitalisation	£239.9m	£246.4m	£241.7m	£236.3m

Unaudited Consolidated Statement of Financial Position

As at 31 March 2014

	£ m
Assets	
Cash and cash equivalents	82.1
Other receivables and prepayments	-
Financial assets at fair value through profit and loss	0.5
Loans advanced	154.1
Total assets	**236.8**
Liabilities	
Trade and other payables	0.5
Total liabilities	**0.5**
Net assets	**236.2**
Capital and reserves	
Share capital	233.8
Retained earnings	2.4
Total equity	**236.2**

Dividends

At launch, the Company had targeted a dividend of 7.0 pence per Ordinary Share upon full investment.

On 23 April 2014 the Company declared a dividend for the period from 1 January 2014 to 31 March 2014 of 1.25 pence per share.

As noted above, the Company is now capable of delivering an annualised net portfolio yield of approximately 5.5 per cent on deals funded to date (after scheduled amortisation but prior to any other prepayments).

Based on detailed projections, the Company remains comfortable that when fully invested it will be able to meet its dividend target of 7.0 pence per annum.

The Directors will declare and pay dividends in compliance with the solvency test prescribed by Guernsey law.

Reports and Accounts

The Company's next interim report and accounts will be for the period ending 30 June 2014 and will be made public within two months following the period end.

The Company's next annual report and accounts will be for the financial year ending 31 December 2014 and will be made public within four months following the period end.

The Board is not aware of any other significant events or transactions that have occurred since 31 December 2013 and the publication date of this interim management statement which would have a material impact on the financial position of the Company.

Starwood European Real Estate Finance Limited

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