STARWOOD
EUROPEAN REAL ESTATE FINANCE

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 December 2017

CONTENTS

Objective and Investment Policy

INVESTMENT OBJECTIVE

The investment objective of Starwood European Real Estate Finance Limited (the "Company"), together with its wholly owned subsidiaries Starfin Public Holdco 1 Limited, Starfin Public Holdco 2 Limited, Starfin Lux S.à.r.l, Starfin Lux 3 S.à.r.l, and Starfin Lux 4 S.à.r.l, (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 the wider European Union's internal market.

INVESTMENT POLICY

The Company invests in a diversified portfolio of real estate debt investments (including debt instruments) in the UK and the wider European Union's internal market. Whilst investment opportunities in the secondary markets will be considered from time to time, the Company'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 Company will attempt 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 per cent 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 will pursue 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 will be 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 per cent of the portfolio, subordinated and mezzanine loans approximately 40-50 per cent and other loans (whether whole loans or subordinated loans) between 0-20 per cent (including bridge loans, selected loan-on-loan financings and other debt instruments). Pure development loans will not, in aggregate, exceed 25 per cent of the Company's Net Asset Value ("NAV") calculated at the time of investment. The Company may originate loans which are either floating or fixed rate.

The Company 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 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.

Loan to Value ("LTV")

The Company will typically seek to originate debt where the effective loan to real estate value ratio of any investment is between 60 per cent and 80 per cent at the time of origination or acquisition. In exceptional circumstances that justify it, the ratio may be increased to an absolute maximum of 85 per cent. In any event, the Company will typically seek to achieve a blended portfolio LTV of no more than 75 per cent (based on the initial valuations at the time of loan origination or participation acquisition) once fully invested.

Geography

The Company's portfolio will be originated from the larger and more established real estate markets in the European Union's internal market. UK exposure is expected to represent the majority of the Company's portfolio. Outside of the UK, investment in the European Union's internal market will mainly be focussed on Northern and Southern Europe. Northern European markets include Germany, France, Scandinavia, Netherlands, Belgium, Poland, Switzerland, Ireland, Slovakia and the Czech Republic. Southern European markets include Italy and Spain. The Company may however originate investments in other countries in the European Union's internal market to the extent that it identifies attractive investment opportunities on a risk adjusted basis.

The Company will not invest more than 50 per cent of the Company's NAV (calculated at the time of investment) in any single country save in relation to the UK, where there shall be no such limit.

When the United Kingdom ceases to be a member of the European Union or in the event that any other member state ceases to be a member of the European Union's internal market, it will not automatically cease to be eligible for investment.

Real Estate Sector and Property Type

The Company's portfolio will focus on lending into commercial real estate sectors including office, retail, logistics, light industrial, hospitality, student accommodation, residential for sale and multi-family rented residential. Investments in student accommodation and residential for sale are expected to be limited primarily to the UK, while multi-family investments are expected to be limited primarily to the UK, Germany and Scandinavia. Further, not more than 30 per cent, in aggregate, of the Company's NAV, calculated at the time of investment, will be invested in loans relating to residential for sale. No more than 50 per cent of the Company's NAV will be allocated to any single real estate sector of the UK, except for the UK office sector which is limited to 75 per cent of the Company's NAV.

Counterparty and Property Diversification

No more than 20 per cent of the Company's NAV, calculated at the time of investment, will be exposed to any one borrower legal entity.

No single investment, or aggregate investments secured on a single property or group of properties, will exceed 20 per cent of the Company's Net Asset Value, calculated at the time of investment.

Corporate Borrowings

Company or investment level recourse borrowings may be used from time-to-time on a short term basis for bridging investments, financing repurchases of Shares or managing working capital requirements, including foreign exchange hedging facilities and on a longer term basis for the purpose of enhancing returns to Shareholders and/or to facilitate the underwriting of whole loans with a view to syndication at a later point. In this regard, the Company is limited to aggregate short and long term borrowings at the time of the relevant drawdown in an amount equivalent to a maximum of 30 per cent of NAV but longer term borrowings will be limited to 20 per cent of NAV in any event.

Hedging

The Company will not enter into derivative transactions for purely speculative purposes. However, the Company's investments will typically be made in the currency of the country where the underlying real estate assets are located. This will largely be in Sterling and Euros. However, investments may be considered in other European currencies, and the Company may implement measures designed to protect the investments against material movements in the exchange rate between Sterling, being the Company's reporting currency, and the currency in which certain investments are made. The analysis as to whether such measures should be implemented will take into account periodic interest, principal distributions or dividends, as well

Objective and Investment Policy

as the expected date of realisation of the investment. The Company may bear a level of currency risk that could otherwise be hedged where it considers that bearing such risk is advisable. The Company will only enter into hedging contracts, such as currency swap agreements, futures contracts, options and forward currency exchange and other derivative contracts when they are available in a timely manner and on terms acceptable to it. The Company reserves the right to terminate any hedging arrangement in its absolute discretion.

The Company may, but shall not be obliged to, engage in a variety of interest rate management techniques, particularly to the extent the underlying investments are floating rate loans which are not fully hedged at the borrower level (by way of floating to fixed rate swap, cap or other instrument). Any instruments chosen may seek on the one hand to mitigate the economic effect of interest rate changes on the values of, and returns on, some of the Company's assets, and on the other hand help the Company achieve its risk management objectives. The Company may seek to hedge its entitlement under any loan investment to receive floating rate interest.

Cash Strategy

Cash held by the Company pending investment or distribution will be held in either cash or cash equivalents, or various real estate related instruments or collateral, including but not limited to money market instruments or funds, bonds, commercial paper or other debt obligations with banks or other counterparties having a A- or higher credit rating (as determined by any reputable rating agency selected by the Company), Agency RMBS (residential mortgage backed securities issued by government-backed agencies) and AAA rated CMBS (commercial mortgage-backed securities).

Transactions with Starwood Capital Group or Other Accounts

Without prejudice to the pre-existing co-investment arrangements described below, the Company may acquire assets from, or sell assets to, or lend to, companies within the Starwood Capital Group or any fund, company, limited partnership or other account managed or advised by any member of the Starwood Capital Group ("Other Accounts"). In order to manage the potential conflicts of interest that may arise as a result of such transactions, any such proposed transaction may only be entered into if the independent Directors of the Company have reviewed and approved the terms of the transaction, complied with the conflict of interest provisions in the Registered Collective Investment Scheme Rules 2015 issued by the Guernsey Financial Services Commission (the "Commission") under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and, where required by the Listing Rules, Shareholder approval is obtained in accordance with the listing rules issued by the UK Listing Authority. Typically, such transactions will only be approved if: (i) an independent valuation has been obtained in relation to the asset in question; and (ii) the terms are at least as favourable to the Company as would be any comparable arrangement effected on normal commercial terms negotiated at arms' length between the relevant person and an independent party, taking into account, amongst other things, the timing of the transaction.

Co-investment Arrangements

Starwood Capital Group and certain Other Accounts are party to certain pre-existing co-investment commitments and it is anticipated that similar arrangements may be entered into in the future. As a result, the Company may invest alongside Starwood Capital Group and Other Accounts in various investments.

Where the Company makes any such co-investments they will be made at the same time, and on substantially the same economic terms, as those offered to Starwood Capital Group and the Other Accounts.

UK Listing Authority Investment Restrictions

The Company currently complies with the investment restrictions set out below and will continue to do so for so long as they remain requirements of the UK Listing Authority:

- neither the Company nor any of its subsidiaries will conduct any trading activity which is significant in the context of its group as a whole;
- the Company will avoid cross-financing between businesses forming part of its investment portfolio;
- the Company will avoid the operation of common treasury functions as between the Company and investee companies;
- not more than 10 per cent, in aggregate, of the Company's NAV will be invested in other listed closed-ended investment funds; and
- the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the published investment policy. The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. As required by the Listing Rules, any material change to the investment policy of the Company will be made only with the approval of shareholders.

Financial Highlights

Key Highlights	Year ended 31 Dec 2017	Year ended 31 Dec 2016
NAV per Ordinary Share	102.17 p	101.58 p
Share Price	109.50 p	109.00 p
NAV total return	7.2%	8.0%
Share Price total return	7.6%	6.8%
Total Net Assets	£383.1 m	£381.0 m
Loans Advanced at amortised cost (including accrued income)	£370.0 m	£359.9 m
Investments at fair value through profit or loss	£22.1 m	-
Cash and Cash Equivalents	£11.8 m	£31.0 m
Amount drawn under Revolving Credit Facility	£13.3 m	-
Dividends per Ordinary Share	6.5 p	6.5 p
Invested Loan Portfolio unlevered annualised total return (1)	7.5%	8.5%
Invested Loan Portfolio levered annualised total return (2)	7.7%	N/A
On-going charges percentage (3)	1.0%	1.0%
Weighted average portfolio LTV to Group first £ (4)	14.5%	26.7%
Weighted average portfolio LTV to Group last £ (4)	63.2%	66.0%

(1) Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 13 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 at the reporting date and excluding committed amounts and cash un-invested. The calculation excludes the origination fee payable to the Investment Manager.

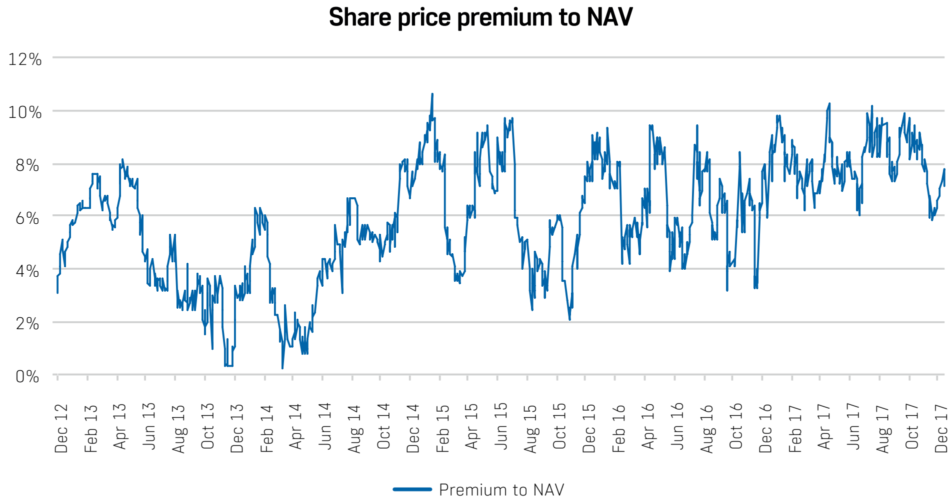
(2) The levered annualised total return is calculated as per the unlevered return but takes into account the amount of leverage in the Group and the cost of that leverage at current LIBOR/ EURIBOR.

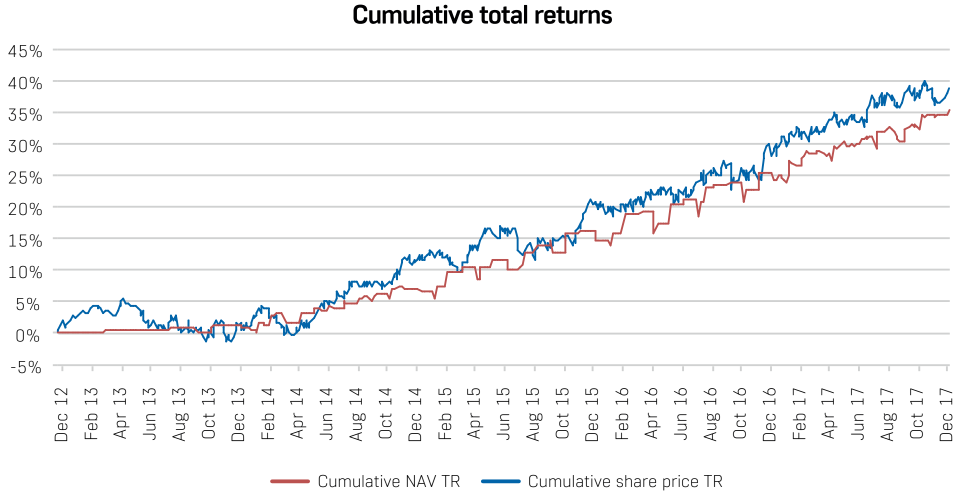
(3) Prepared in accordance with the AIC's recommended methodology.

(4) 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 reporting date. 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 Centre Point, the Irish School, Dublin and the Mixed Use Development, South East UK, the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

SHARE PRICE PERFORMANCE

As at 31 December 2017 the NAV was 102.17 pence per Ordinary Share (2016: 101.58 pence) and the share price was 109.50 pence (2016: 109.00 pence).





Source: Thomson Reuters

Chairman's Statement

STEPHEN SMITH | Chairman
26 March 2018

Dear Shareholder,

It is my pleasure to present the Annual Report and Audited Consolidated Financial Statements of Starwood European Real Estate Finance Limited for the year ended 31 December 2017.

OVERVIEW

The Group had a strong year in 2017 with record levels of origination and a net increase in investments, despite receiving substantial repayments. Notwithstanding this significant turnover in the loan book, we achieved our dividend objectives and continued to deliver on our investment strategy. The Group declared an aggregate dividend for the year of 6.5 pence per Ordinary Share. The Group's NAV for the year remained very stable with its NAV total return (including dividends) 7.2 per cent and share price total return across the financial year was 7.6 per cent.

As at 31 December 2017, the Group had investments and commitments of £399.5 million (of which £11.4 million was unfunded at the year end). The average maturity of the Group's loan book was 3.1 years with £11.8 million of cash and substantial liquidity lines of £100.7 million, available to use for new lending. The gross annualised levered total return of the invested loan portfolio is 7.7 per cent. The Net Asset Value ("NAV") was £383.1 million, being 102.17 pence per Ordinary Share.

With £245.8 million of new lending commitments, 2017 was the most successful origination year since launch. 2017 was also a very significant year for repayments, with £213.1 million received, and so the net position was one of relatively modest growth in the overall loan book.

The table below shows the loan commitments and repayment profile over the last five years.

	2013	2014	2015	2016	2017
New loans to borrowers (commitment)	£139.0m	£143.2m	£118.7m	£175.9m	£245.8m
Loan repayments and amortisation	-	-£48.8m	-£49.0m	-£129.3m	-£213.1m
Net Investment	**£139.0m**	**£94.4m**	**£69.7m**	**£46.6m**	**£32.7m**

The Company's strategy will continue to focus on equity issuance when appropriate and the use of credit facilities where appropriate in order to expand the loan book and to limit the cash drag impact of repayments. This was achieved in 2017 as £245.8 million of new investments exceeded repayments of £213.1 million; the Group was able to deploy these repayments into markets where they are currently seeing attractive opportunities. Whilst the Group held significant volumes of cash during the year, a number of loans repaid during the year benefitted from prepayment protection, sustaining the Company's income during the protected period. This income further mitigates cash drag while the Group reinvests repayments and is a key component of the terms the Group seeks to achieve on new loans.

SHARE ISSUANCE AND SHARE PRICE PERFORMANCE

The year-end share price was 109.50 pence reflecting a 7.2 per cent premium to NAV and throughout 2017 the Ordinary Shares consistently traded at a premium to NAV.

The Company will be closely monitoring potential repayments and will continue to evaluate the impact of these when considering future growth.

During the year the new EU Prospectus Regulations came into force, permitting companies to issue a further 20 per cent of their share capital without having to publish a prospectus. The previous regulations set the prospectus exemption at 10 per cent. In order to take advantage of this increased flexibility and to reduce the cost of new issuance, the Company held an EGM on 29 September 2017 to seek approval for authority to disapply Pre-Emption Rights on the allotment of equity securities, increasing the limit from 10 per cent to 20 per cent of the Ordinary Shares in issue. I am pleased to confirm that this approval was granted by Shareholders.

This authority supplements that obtained at the last AGM which permits the company to issue up to 300 million shares pursuant to a placing programme (for which a prospectus is required).

The Directors believe that it is advantageous for the Company to be able to issue new Shares to investors, particularly when the Company is presented with attractive investment opportunities where the Company does not have existing funds available from its credit facilities to finance these opportunities. Often these potential investments require that the Company is able to execute a transaction within a short time frame which would leave insufficient time to convene a separate meeting of shareholders to approve the resolutions required for an issue of new Shares.

The Directors believe that having access to capital within a short time frame is important to maintaining access to attractive investment opportunities while at the same time ensuring that the Company does not unnecessarily incur cash drag by raising equity in advance of deployment opportunities (which could negatively impact the Company's dividend target).

The Directors believe that such access to capital will also have the following benefits for the Company and the shareholders:

- to enable the Company to pursue larger investment opportunities and hence broaden the range of lending that can be undertaken;
- to enable the Company to further increase the diversification of the Company's portfolio of investments;
- increasing the size of the Company should help to make the Company more attractive to a wider investor base;
- having a greater number of Shares in issue is likely to provide shareholders with increased secondary market liquidity; and
- the Company's fixed running costs would be spread across a larger equity capital base, thereby reducing the Company's on-going expenses per Share.

In order to take advantage of such opportunities, the Directors believe it is appropriate for the Company to renew these existing authorities at the forthcoming AGM, in respect of issuance of up to 10 per cent of the Ordinary Shares in issue, and at a separate EGM, to be convened for shortly after the AGM, in respect of further equity issuance. Any new Shares issued will be issued at a minimum issue price equal to the prevailing NAV per ordinary Share at the time of allotment together with a premium intended to cover the costs and expenses of the relevant issue.

The explanation of the advantages for the Company and its shareholders of granting such authorities is set out in the Notice of the AGM and in a notice of EGM which is intended to be published shortly.

Chairman's Statement

DIVIDENDS

Total dividends of 6.5 pence per Ordinary Share were declared in relation to the year ended 31 December 2017.

Period	Dividend declared	Payment date	Amount per share
1 January 2017 to 31 March 2017	24 Apr 2017	18 May 2017	1.625p
1 April 2017 to 30 June 2017	25 Jul 2017	25 Aug 2017	1.625p
1 July 2017 to 30 September 2017	19 Oct 2017	17 Nov 2017	1.625p
1 October 2017 to 31 December 2017	26 Jan 2018	23 Feb 2018	1.625p
Total			**6.5p**

CREDIT FACILITIES

The Group has a £50 million revolving credit facility which has been an important tool in liquidity management, ensuring new investments can be warehoused in the short term while loan repayments are absorbed. During the year the Group entered into a new £64 million secured borrowing facility. The new arrangement, which provides greater flexibility and optionality for the Group to implement its investment strategy, is a five-year revolving credit facility allowing term financing of whole loans and additional capacity to bridge syndication strategies. To enable the new facility to be implemented, the Group's subsidiary companies were reorganised and the new structure is outlined in the Investment Manager's report on page 16.

REALISATION VOTE AND INVESTMENT MANAGEMENT AGREEMENT

At the time of the Initial Public Offering (the "IPO"), the Company set out mechanisms to deal with discount control which included the possibility of a Realisation Offer and, in certain circumstances, a realisation vote to be held no later than 28 February 2018. If Shareholders voted in favour of such resolution, then the Company would ensure that a Realisation Offer would be put to Shareholders. If Shareholders did not vote for the realisation then the Company would continue in existence as currently constituted.

During the year the Company proposed the deferral of the Realisation Offer and realisation vote mechanisms by five years, subject to a five year rolling basis thereafter. These proposals were approved by Shareholders.

A number of changes to the Investment Management Agreement were proposed and approved which were outlined in the circular dated 7 September 2017, available on the Company's website, and are reflected in the relevant disclosures in this Annual Report.

OUTLOOK

The strategy to grow the overall size of the Group, to minimise cash drag from repayments and to use the revolving credit facility where appropriate will continue to be our focus during 2018.

We anticipate that we will build on the successes of 2017 and the Directors remain optimistic about the prospects and opportunities for the Group in the year ahead.

The Board will continue to inform you of progress by way of the quarterly fact sheets and investment updates as deals are signed. On behalf of the Board, I would like to close by thanking Shareholders for your commitment and I look forward to briefing you on the Group's progress later this year.

Strategic Report

The Strategic Report describes the business of the Group and details the principal risks and uncertainties associated with its activities. These are detailed more fully in the Investment Manager's Report as set out on pages 15 to 19.

OBJECTIVE, INVESTMENT POLICY AND BUSINESS MODEL

The Objective and Investment Policy set out on pages 2 to 5 describes the Group's strategy and business model.

The Investment Manager is Starwood European Finance Partners Limited, a Company incorporated in Guernsey with registered number 55819 and regulated by the Guernsey Financial Services Commission (the "Commission"). 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 Investment Highlights and Portfolio Review sections of the Investment Manager's Report and also within the Chairman's Statement.

PERFORMANCE

A review of performance is contained in the Investment Highlights and Portfolio Review sections of the Investment Manager's Report.

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

- The portfolio yield, both levered and unlevered;
- The payment of targeted dividends;
- The movement in NAV per Ordinary Share;
- The movement in share price and the discount / premium to NAV;
- On-going charges as a percentage of undiluted NAV; and
- Weighted average loan to value for the portfolio.

Details of the KPIs are shown on page 6.

RISK MANAGEMENT

It is the role of the Board to review and manage all risks associated with the Group, both those impacting the performance and the prospects of the Group and those which threaten the ongoing viability. It is the role of the Board to mitigate these either directly or through the delegation of certain responsibilities to the Audit Committee and Investment Manager. The Board performs a review of a risk matrix at each Board meeting.

The Board considers the following principal risks could impact the performance and prospects of the Group but do not threaten its ability to continue in operation and meet its liabilities. As a consequence, it has put in place mitigation plans to manage those identified risks.

Long Term Strategic Risk

The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies and, as a consequence, the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment has in the past and may in the future be slower than expected or the principal on loans may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. Furthermore, if repayments are not promptly re-invested this may result in cash drag which may lower portfolio returns. As a result, the level of dividends to be paid by the Company may fluctuate and there is no guarantee that any such dividends will be paid. The shares may, therefore, 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 Investment Adviser provides the Investment Manager and the Board with a weekly report on pipeline opportunities, which includes an analysis of the strength of the pipeline and the returns available. The Directors also regularly receive information on the performance of the existing loans, including the performance of the underlying assets and the likelihood of any early repayments which may impact returns.

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 this Annual Report, there can be no guarantee that they will do so or that such mechanisms will be successful. Please see page 23 for further information on the discount management mechanisms.

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

Interest Rate 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 interbank rates.

The loans in place at 31 December 2017 have been structured so that 24.8 per cent of the loans are fixed rate which provides protection from downward interest rate movements to the overall portfolio (but also prevents the Group from benefitting from any interbank rate rises on these positions). In addition, whilst the remaining 75.2 per cent is classified as floating, all of these loans are subject to interbank rate floors such that the interest cannot drop below a certain level, which offers some protection against downward interest rate risk. When reviewing future investments, the Investment Manager will continue to review such opportunities to protect against downward interest rate risk.

The Board considers that the following principal risks could impact both the performance and prospects of the Group and could also threaten its ability to continue its operations and meet its liabilities but has identified the mitigating actions in place to manage them.

Foreign Exchange Risk

The Group has some investments in Euros. The Group is subject to the risk that the exchange rates move unfavourably and that a) foreign exchange losses on the loan principal are incurred and b) that interest payments received are lower than anticipated when converted back to Sterling and therefore returns are lower than the underwritten returns.

The Group manages this risk by entering into forward contracts to hedge the currency risk. All non-Sterling loan principal is hedged back to Sterling to the maturity date of the loan. Interest payments are hedged for the period for which prepayment protection is in place. However, the risk remains that loans are repaid earlier than anticipated and forward contracts need to be broken early. In these circumstances the forward curve may have moved since the forward contracts were placed which can impact the rate received. In addition, if the loan repays after the prepayment protection, interest after the prepayment protected period may be received at a lower rate than anticipated leading to lower returns for that period. Conversely the rate could have improved and returns may increase.

As a consequence of the hedging strategy employed as outlined above, the Group is subject to the risk that it will need to post cash collateral against the mark to market on foreign exchange hedges which could lead to liquidity issues or leave the Group unable to hedge new non-Sterling investments.

The Company had approximately £199.3 million of hedged notional exposure with two UK banks at 31 December 2017 (converted at 31 December 2017 FX rates).

As at 31 December 2017 the hedges with one of the counterparties were out of the money in an amount of £6.7 million. If at any time this mark to market exceeds £15 million, the Company is required to post collateral, subject to a minimum transfer amount of £1 million. This situation is monitored closely, however, and as at 31 December 2017, the Company had sufficient available liquidity and credit available on the revolving credit facility to meet any cash collateral requirements.

As at 31 December 2017 the hedges with the other hedging counterparty were out of the money in an amount of £18,064 which was significantly lower than the threshold amount.

Market Deterioration Risk

The Group's investments are comprised principally of debt investments in the UK, and the wider European Union's internal market and it is therefore exposed to economic movements and changes in these markets. Any deterioration in the global, UK or European economy could have a significant adverse effect on the activities of the Group and may result in significant loan defaults or impairments.

In the event of a loan default in the portfolio, the Group is generally entitled to accelerate the loan and enforce security, but the process may be expensive and lengthy and the outcome is dependent on sufficient recoveries being made to repay the borrower's obligations and associated costs. Some of the investments held 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 by the borrower at maturity 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.

In mitigation, the average weighted loan to value of the portfolio is 63 per cent. Therefore, the portfolio should be able to withstand a significant level of deterioration before credit losses are incurred.

The Investment Adviser also mitigates the risk of credit losses by undertaking 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, measurement and environmental surveys, legal reviews of property title and key leases, and, where necessary, mechanical and engineering surveys, accounting and tax reviews and know your customer checks.

The Investment Adviser, Investment Manager and Board also manage 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 portfolio against these guidelines, limits and restrictions on a regular basis.

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.

Strategic Report

The Group's loans are held at amortised cost and there is one investment held at fair value through profit or loss at the reporting period end. All loans 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.

Risk of Default Under the Revolving Credit Facility

The Group is subject to the risk that a borrower could be unable or unwilling to meet a commitment that it has entered into with the Group as outlined above under market deterioration risk. As a consequence of this, the Group could breach the covenants of its revolving credit facilities, and fall into default itself.

A number of the measures the Group takes to mitigate market deterioration risk as outlined above, such as portfolio diversification and rigorous due diligence on investments and monitoring of borrowers, will also help to protect the Group from the risk of default under the revolving credit facility as this is only likely to occur as a consequence of borrower defaults or loan impairments.

The Board regularly reviews the balances drawn under the credit facilities against commitments and pipeline and reviews the performance under the agreed covenants. The loan covenants are also stress tested to test how robust they are to withstand default of the Group's investments.

ASSESSMENT OF PROSPECTS

The Group's strategy is central to an understanding of its prospects, and details can be found on pages 12 to 14.

The Group's focus is particularly on managing expected repayments in order to minimise any potential for cash drag and continuing to grow the Group by sourcing investments with good risk adjusted returns. The Group's prospects are assessed primarily through its strategic review process which the Board participates fully in. The Directors' have assessed the prospect of the Group over a period of three years which has been selected because the strategic review covers a three-year period and this is also the approximate average remaining loan term.

The Group updates its plan and financial forecasts on a monthly basis and detailed financial forecasts are maintained and reviewed by the Board regularly.

ASSESSMENT OF VIABILITY

Although the strategic plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact. These scenarios are based on aspects of the following selected principal risks, which are detailed on pages 12 to 14, and as described below:

- Foreign Exchange Risk;
- Market deterioration risk; and
- Risk of default under the revolving credit facility.

These scenarios represent 'severe but plausible' circumstances that the Group could experience. The scenarios tested included:

- A very high level of loan default meaning that the Group stopped receiving interest on a substantial part of the portfolio; and
- An analysis of the robustness of the covenants under the revolving credit facility to withstand default of the underlying investments.

The results of this stress testing showed that the Group would be able to withstand a very high level of underlying loan default or impairment resulting from either of the risks identified over the period of the financial forecasts.

VIABILITY STATEMENT

Based on the assessment of prospects and viability as set out above, the Directors confirm they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2020 which is also the approximate average remaining loan term.

In connection with the viability statement the Board confirm that they have carried out a robust assessment of the principal risks facing the company, including those which would threaten its business model, future performance, solvency or liquidity.

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 shareholders' interests to consider environmental, social and ethical factors when selecting and retaining investments.

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

26 March 2018

Investment Manager's Report – Investment Highlights

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

PORTFOLIO STATISTICS

The Investment Manager and the Board of the Company 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.

As at 31 December 2017, the portfolio was invested in line with the Group's investment policy and is summarised below.

	31 Dec 2017	31 Dec 2016
Number of investments	16	16
Percentage of invested portfolio in floating rate loans [1]	75.2%	67.3%
Invested Loan Portfolio unlevered annualised total return [2]	7.5%	8.5%
Invested Loan Portfolio levered annualised total return [3]	7.7%	N/A
Weighted average portfolio LTV – to Group first £[4]	14.5%	26.7%
Weighted average portfolio LTV – to Group last £[4]	63.2%	66.0%
Average loan term (stated maturity at inception)	4.2 years	4.7 years
Average remaining loan term	3.1 years	3.3 years
Net Asset Value	£383.1 m	£381.0 m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	-£13.3 m	-
Loans advanced at amortised cost (including accrued income)	£370.0 m	£359.9 m
Investments at fair value through profit or loss	£22.1 m	-
Cash	£11.8 m	£31.0 m
Other net assets (including the value of FX hedges)	-£7.5 m	-£9.9 m

[1] Calculated on principal amounts only, excluding accrued / deferred income.

[2] Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 13 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 at the reporting date and excluding committed amounts and cash un-invested. The calculation excludes the origination fee payable to the Investment Manager.

[3] The levered annualised total return is calculated as per the unlevered return but takes into account the amount of leverage in the Group and the cost of that leverage at current LIBOR/EURIBOR.

[4] 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 reporting date. 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 Centre Point, the Irish School, Dublin and the Mixed Use Development, South East UK, the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

PORTFOLIO DIVERSIFICATION

Country	% of invested assets
UK – Regional England	32.4
Spain	18.5
Hungary	12.9
Republic of Ireland	10.9
UK – Central London	9.6
Channel Islands	6.9
France	6.0
Czech Republic	2.8

Loan type	% of invested assets
Whole loans	73.8
Mezzanine	20.6
Other debt instruments	5.6

Sector	% of invested assets
Hospitality	30.0
Light Industrial	22.7
Retail	12.1
Office	9.6
Residential for sale	6.8
Healthcare	6.4
Education	4.3
Logistics	3.7
Residential for rent	3.1
Other	1.3

Loan currency	% of invested assets
Sterling	49.0
Euro	51.0

* The currency split refers to the underlying loan currency; however the capital and interest during protected periods on all non-sterling exposure is hedged back to sterling.

Investment Manager's Report – Investment Highlights

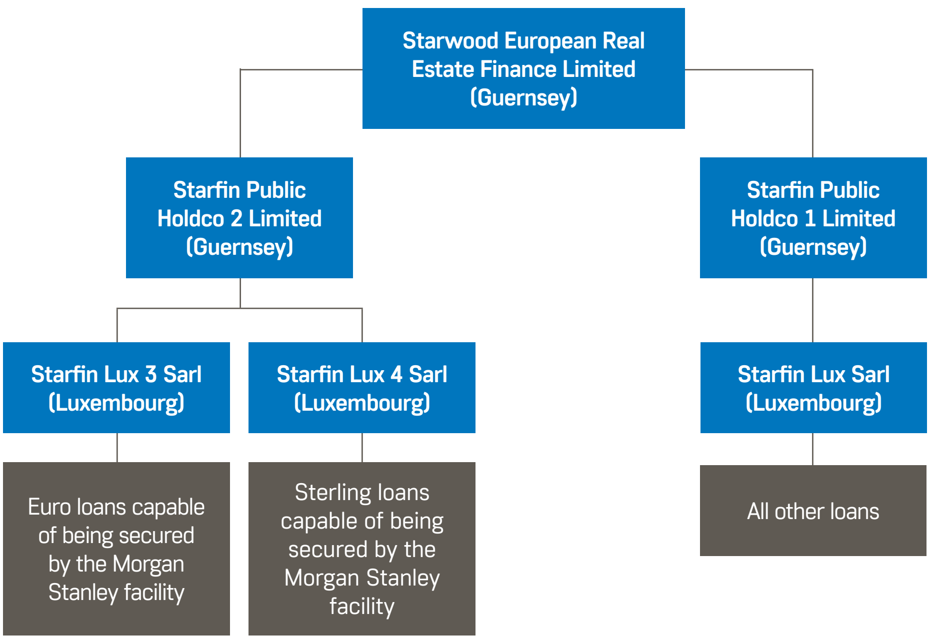
RESTRUCTURE AND CREDIT FACILITIES

On 18 December 2017, the Group entered into a new £64 million secured borrowing facility with Morgan Stanley (the "Secured Facility"). The Secured Facility provides for additional flexibility and optionality for the Group to implement its investment strategies. The Secured Facility is a five-year revolving credit facility allowing both for term financing of whole loans and additional capacity to bridge syndication strategies.

Previously the Group used its £50 million revolving credit facility with Lloyds to manage new investments, loan repayments and equity raising. Whilst this facility continues to be extremely useful, the Secured Facility will provide additional investment and operational flexibility. The longer term nature of the Secured Facility will allow the Group to flexibly apply longer-term leverage to enhance returns on whole loans which would otherwise generate returns lower than the Group's targets, without the cost and time requirements of syndicating a senior note.

Alternatively, the facility may be used to provide a backstop financing to a senior note syndication where the Group is underwriting a whole loan with the intention of syndicating a senior note. This allows time to effect a sale without suffering from reduced returns in the interim period. The Secured Facility may also be used in conjunction with the Lloyds facility to manage liquidity and repayment risk and also as a bridge to an equity raise.

To facilitate the arrangement of the Secured Facility, the Group structure was re-organised on 6 October 2017 and, as part of the reorganisation, the Group also extended the maturity of its £50 million revolving credit facility with Lloyds to 6 October 2018. As a result of the re-organisation Starfin Public GP Limited and Starfin Public LP were liquidated, two new 100% wholly-owned subsidiaries were set up in Guernsey, Starfin Public Holdco 1 Limited and Starfin Public Holdco 2 Limited, and two new 100% wholly-owned sub-subsidiaries established in Luxembourg, Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l. The Group structure at the end of the year is as shown below:



FOREIGN EXCHANGE

The Group continues to recognise unrealised foreign exchange gains or losses relating to investment activity. The Group has fully hedged the principal of each individual non-sterling denominated loan with forward contracts, together with interest receipts during the period of prepayment protection. If the loans repay at their scheduled repayment date, the Group would expect that this policy would be effective in protecting against realising FX losses on capital invested.

However, the accounting treatment for the non-sterling loans is to value the loan at the foreign exchange rate at the relevant valuation date, and to value the hedge based on the market forward rates at the valuation date to the maturity date of the relevant hedge (discounted back to present value). As a result of this accounting treatment, whilst the loan principal is economically fully hedged (if held to loan maturity), unrealised foreign exchange gains or losses are recognised in the accounts during the life of the loan due to changes in the shape of the relevant forward curves. For this reason, the Group disregards unrealised foreign exchange gains and losses when declaring dividends.

It is important to note that should any of the non-sterling denominated loans repay early, and the Group has no alternative use for the funds repaid and therefore breaks the hedges early, foreign exchange gains or losses could be realised at that point. The size of this will depend on the shape of the relevant forward curve at the point at which the relevant hedge is broken. In general, a steeper curve would result in greater gains/losses.

DIVIDEND POLICY

The Company declared dividends of 6.5 pence per Ordinary Share in respect of the year ended 31 December 2017 (2016: 6.5 pence per Ordinary Share). These dividends are recognised in the Consolidated Statement of Changes in Equity when declared, which is usually within one month after the end of the financial period to which they relate. Dividends are usually paid within one month of the declaration date.

The Company may pay dividends provided that the Board of Directors is satisfied on reasonable grounds that the Company will, immediately after payment, satisfy the solvency test (as defined in the Companies (Guernsey) Law, 2008, as amended), and satisfy any other requirement in its memorandum and articles.

INVESTMENT OUTLOOK AND MARKET SUMMARY

2017 was generally seen as a year of two halves for commercial real estate lending activity, with market participants reporting a lower volume of lending prior to the summer break followed by a very active final quarter. According to Real Estate Capital, commercial real estate loan syndication volumes were down in the first half of the year by 25 per cent year on year, despite underlying investment market volumes being up. Sentiment changed after the summer and during the final quarter of the year: we frequently heard that borrowers were struggling to get traction on new loans because lenders were loaded up with existing transactions in execution and so they had little further capacity to take on more lending mandates. We also saw issues with capacity amongst financing lawyers, valuers and other advisers to cope with the requests in the market. The Group had a good start to the year with £115.5 million of new investments by 30 June 2017, making it the highest first half origination volume for the Group. We saw a similar pattern to the market in the second half of the year reflected in our origination. An additional four new loans, with a total commitment of £130.3 million, were all made in the period from the end of November to end of December, also making it the largest new origination volume for the full year for the Group.

On the underlying commercial real estate market side, despite the continuing Brexit uncertainties, there was increased volume in the UK market with a total of £26 billion of London commercial real estate transactions in 2017 versus £22 billion in 2016 and £62 billion versus £52 billion for the UK as a whole, according to PropertyData. According to Savills, London still tops the table for global office investment at $26 billion in 2017 with the next largest contributor of Hong Kong at only $16 billion and Manhattan next at $12 billion. The average yield is also down by 28bps for the UK as a whole and 19bps for London. Recent data on London office leasing activity has also been strong: according to Savills 2017 was the second highest year of take-up for the West End and the fourth highest take-up for the City since 2000.

There has been an increase in the number of participants in the loan brokerage market and the number of brokered loans. Loan brokers have traditionally been a large part of the market in the U.S. but until recently have been a small part of the market in Europe. We believe this growth reflects a more diverse lender universe where it is harder for borrowers, especially those who access the market less frequently, to understand the market and so they are increasingly using brokers to help navigate the market to source debt. One example is HFF, a large player in the U.S. who set up in Europe at the end of 2016. The Group was the lender to their first European loan. We are also seeing increased volume coming through from the second tier brokerage teams at both established real estate services firms and from an increasing group of smaller, often one-man brokers.

We continue to see anomalies in loan pricing and terms around Europe. An example from CBRE European debt map is that Prague prime office is more competitive than Oslo and London. This is both from a higher LTV at 70 per cent versus 60 per cent and 55 per cent respectively and pricing of 100-125bps versus 150bps and 140bps respectively. On the face of it, this is counterintuitive given a lower country credit rating and a smaller, less liquid market. There are, however, many dynamics, including the size and regulatory environment for banks, the level of cross-border lending and currency considerations, which create these anomalies.

Overall, the more fragmented market and the market dynamics highlighted above continue to offer the Group good opportunities with our flexible mandate between jurisdictions, real estate asset classes and capital structure. The UK, Ireland and Spain remain the jurisdictions that provide the most interesting opportunities for the Group. It has been a strong start to 2018 with 5 loans totalling £135 million of commitments closed already and we expect to continue to see a robust pipeline of opportunities in line with the Group's Investment Policy and target dividend.

Investment Manager's Report – Portfolio Review

INVESTMENT DEPLOYMENT

As at 31 December 2017 the Group had investments and commitments of £399.5 million (Sterling equivalent at year end exchange rates) as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment
Centre Point, London	£25.4m	-
Industrial Portfolio, UK	£25.5 m	-
Hospitals, UK	£25.0 m	-
Hotel, Channel Islands	£26.9 m	-
Varde Partners Mixed Portfolio, UK	£9.2 m	-
Mixed Use Development, South East UK	£10.5 m	£2.7 m
Regional Hotel Portfolio, UK	£45.9m	-
Credit Linked Notes, UK Real Estate	£21.8 m	-
Total Sterling Loans	**£190.2 m**	**£2.7 m**
Residential Portfolio, Cork, Ireland	£5.3 m	-
Residential Portfolio, Dublin, Ireland	£6.8 m	-
Logistics, Dublin, Ireland	£13.1 m	-
Hotel, Barcelona, Spain	£40.9 m	-
School, Dublin, Ireland	£16.8 m	-
Industrial Portfolio, Central and Eastern Europe	£60.9 m	-
Shopping Centres, Spain	£31.0 m	£8.7 m
Office Building, Paris, France	£23.1 m	-
Total Euro Loans	**£197.9 m**	**£8.7 m**
Total Portfolio	**£388.1 m**	**£11.4 m**

[1] Euro balances translated to Sterling at year end exchange rates.

With £245.8 million of new commitments made to borrowers, 2017 was the most successful origination year since launch. During the financial year, the following new loans were originated:

Industrial Portfolio, Central and Eastern Europe: On 30 March 2017, the Group committed to provide a €68.5 million whole loan for a portfolio of industrial assets located across Central and Eastern Europe. The 3-year floating rate loan represents the opportunity to further diversify geographically and support a strong sponsor with a proven track record. €26.5 million of the loan was funded on 30 March 2017 with the remaining commitment drawn on 31 May 2017.

School, Dublin, Ireland: On 31 March 2017, the Group advanced a €18.85 million 3-year floating rate whole loan to support the acquisition and repositioning of a South Dublin office building in the Republic of Ireland. The building will be converted to educational use with a new lease to a premium global education company. The sponsor, Barry O'Callaghan, is a highly regarded local investor with deep experience in the education sector.

Hotel, Barcelona, Spain: On 31 March 2017, the Group advanced a €46.0 million 4-year floating rate whole loan to finance the acquisition of a 4-star, 240-key hotel in central Barcelona's 22@ district. The borrower is a partnership between institutional-quality investors with track records of successful hotel acquisitions throughout Europe. The hotel is well-positioned to benefit from the sponsors' active asset management strategy in a Barcelona market with appealing hospitality performance metrics and high barriers to entry.

Shopping Centres, Spain: On 24 November 2017, the Group closed a €44.63 million, five-year floating rate whole loan secured by three shopping centres in Spain. The loan was made available to fund an initial acquisition advance along with capex funding to support the sponsors' proven retail repositioning capability to make further investment in the properties. The properties are well-anchored, dominate their catchment areas and are positioned to benefit from the sponsors' active asset management strategy.

Regional Hotel Portfolio, UK: On 20 December 2017, the Group closed on a £45.87 million mezzanine loan secured by a well-invested portfolio of geographically diversified mid-range hotels in strong regional UK cities.

Credit Linked Notes, UK Real Estate Loans: On 22 December 2017, the Group acquired £21.77 million junior notes linked to the performance of a portfolio of high quality UK real estate loans owned by a major commercial bank. The underlying reference loan pool is secured by an institutional quality, well-diversified pool of commercial real estate assets with an average LTV of less than 50 per cent.

Office Building, Paris, France: On 22 December 2017, the Group subscribed to a senior €26 million note issuance, the proceeds of which were used to finance an office building in suburban Paris.

During the financial year, the Group received £213.1 million of repayments and amortisation (approximately 56 per cent of NAV). The following loans were repaid in full:

Industrial Portfolio, Denmark: On 28 February 2017, the Group received full repayment of Kr. 307 million in the Danish Industrial Portfolio loans as a result of the sale of the portfolio. A number of loans in the Group's portfolio benefit from prepayment protection in their early years, providing the Group with a level of income protection should such loans repay whilst in that protected period. The Danish loan was originated in June 2015 and benefitted from such provisions.

Industrial Portfolio, Netherlands: On 16 March 2017, the Group received full repayment of €26 million in the the Industrial Portfolio, Netherlands loan as a result of the sale of the portfolio, in line with the sponsor's business plan.

Center Parcs, UK: On 15 June 2017, the Group received full repayment of £9.5 million (notional) in relation to the Center Parcs bonds at a redemption price of 104.8%. The repayment premium was equivalent to approximately 8 months of make-whole interest.

Retail & Residential Portfolio, Ireland: On 6 June 2017, the Group received full repayment of €4 million of the loan following completion of the borrower's business plan.

Office, Netherlands: On 18 July 2017, the Group received full repayment of €13.9 million in the Office, Netherlands loan following a successful refinancing of the property by the owner.

Five Star Hotel, London: On 13 September 2017, the Group received full repayment of £13 million in the 5 Star Hotel, London loan following a successful refinancing of the property by the owner.

UK Regional Budget Hotel Portfolio: On 6 November 2017, the Group received full repayment of £75 million following a successful refinancing of the portfolio by the owner.

Significant amortisation was also received on the Centrepoint London, Industrial Portfolio, UK and the Varde Partners mixed portfolio loans during the year.

EVENTS AFTER THE REPORTING PERIOD

The following new commitments have been made since the year end, up to 26 March 2018:

	Local Currency
Student Accomodation, Dublin	€11,250,000
Shopping Centre, Spain	€17,000,000
Hotel, Dublin	€60,000,000
Residential, Dublin	€9,000,000
Hotel, Spain	€55,000,000

£655,198 has also been drawn under the outstanding commitments on the Mixed Use Development, South East UK. The Company has drawn additional funds on its credit facilities in order to fund the new investments shown above. At 26 March 2018 the amounts drawn under each facility is:

- Morgan Stanley - €34 million
- Lloyds - €41.6 million

At 26 March 2018, the Company has approximately £12.5 million of cash available for investments. The following loan amortisation (both scheduled and unscheduled) has been received since the year end up to 26 March 2018:

	Local Currency
Varde Partners Mixed Portfolio, UK	£2,673,464
Industrial Portfolio, Central and Eastern Europe	€3,807,024
Industrial Portfolio, UK	£6,883,661
Logistics, Dublin, Ireland	€38,967
Residential Portfolio, Dublin, Ireland	€58,029

The following loans have been repaid in full since the year end up to 26 March 2018:

	Local Currency
Residential Portfolio, Cork, Ireland	€5,983,437
Centre Point, London	£25,438,707

On 26 January 2018 the Company declared a dividend of 1.625 pence per Ordinary Share payable to shareholders on the register on 9 February 2018.

Starwood European Finance Partners Limited | Investment Manager

26 March 2018

Board of Directors

STEPHEN SMITH | non-executive Chairman – Chairman of the Board

Stephen is Chairman of the The PRS REIT which currently trades on the SFS of the London Stock Exchange. He is also Chairman of AEW UK Long Lease REIT plc which trades on the Main Market of the London Stock Exchange. 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. 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 The Renewables Infrastructure Group Limited (FTSE 250), Alcentra European Floating Rate Income Fund Limited, Sequoia Economic Infrastructure Income Fund Limited (FTSE 250) and Funding Circle SME Income Fund Limited which are listed on the main market of the London Stock Exchange, Phaunos Timber Fund Limited which is in wind up, 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, a Chartered Director and Fellow of the Institute of Directors and a 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 Fellow of the Institute of Chartered Accountants in England and Wales 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 (LSE), Globalworth Real Estate Investments Limited, GLI Finance Ltd and Aberdeen Frontier Markets Fund Limited (all listed on AIM), Chenavari Toro Income Fund Limited (listed on SFS), 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 PriceWaterhouse in London before embarking on a career in business services, predominantly telecoms. He co-led the business turnaround of Talkland International (which became Vodafone Retail) and was directly responsible for the strategic shift into retail distribution and its subsequent implementation; he subsequently worked on the private equity acquisition of Ora Telecom. John is also a resident of Guernsey.

Report of the Directors

PRINCIPAL ACTIVITIES AND INVESTMENT OBJECTIVE

The Principal Activities and Investment Objective are fully detailed in the Objective and Investment Policy section on pages 2 to 5.

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 as a registered 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 IPO which completed on 17 December 2012. Further issues have taken place since IPO and are listed under "Capital" below. The issued capital during the year comprises the Company's Ordinary Shares denominated in Sterling.

The Company makes its investments through Starfin Lux S.à.r.l (indirectly wholly-owned via a 100% shareholding in Starfin Public Holdco 1 Limited), Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l. (both indirectly wholly-owned via a 100% shareholding in Starfin Public Holdco 2 Limited). Starfin Public GP Limited and Starfin Public LP which previously held the investment in Starfin Lux S.à.r.l, have since been liquidated as part of the Group Restructure explained on page 16.

References to the Group refer to the Company and its subsidiaries.

DIVIDEND POLICY

The Company has a target dividend of 6.5 pence per Ordinary Share per annum, based on quarterly dividend payments.

DIVIDENDS PAID

The Company declared dividends of 1.625 pence for each of the calendar quarters of 2017. The Company paid a total of £24,376,261 in respect 2017 (6.5 pence per Ordinary share) (2016: £21,303,065: 6.5 pence per Ordinary Share).

BUSINESS REVIEW

The Group's performance during the year to 31 December 2017, its position at that date and the Group's future developments are detailed in the Chairman's Statement, the Strategic Report and the Investment Manager's Report on pages 8 to 19.

CAPITAL

As part of the Company's 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.

The following issues have been made since IPO:

Admission Date	Number of Ordinary Shares	Price (pence per Ordinary Share)
21 March 2013	8,000,000	104.25
9 April 2013	1,000,000	104.50
12 April 2013	600,000	104.00
23 July 2015	23,780,000	103.00
29 September 2015	42,300,000	102.75
12 August 2016	70,839,398	103.05

Following these issues, the Company now has issued share capital consisting of 375,019,398 Ordinary Shares. There have been no further issues during 2017.

Report of the Directors

SUBSTANTIAL INTERESTS

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules ("DTR") is published via a Regulatory Information Service and is available on the Company's website. The Company has been notified under Rule 5 of the DTR of the following holdings of voting rights in its shares as at 31 December 2017 and as at the date of this report.

Name	% holding of Ordinary Shares at 31 December 2017	% holding of Ordinary Shares at the date of this report
Quilter Cheviot Investment Management	9.66	9.66
SG Private Banking	8.70	9.03
Schroder Investment Management	7.59	7.57
Old Mutual Global Investors	7.36	7.32
Cazenove Capital Management	6.01	6.05
Fidelity International	5.29	5.29

DIRECTORS' INTERESTS IN SHARES

The Directors' interests in shares are shown in the opposite table:

Name	Ordinary Shares at 31 December 2017	Ordinary Shares at 31 December 2016
Stephen Smith	78,929	78,929
John Whittle	11,866	11,866
Jonathan Bridel and Spouse	11,866	11,866

The Directors have adopted a code of Directors' dealings in Ordinary Shares, which is based on EU Market Abuse Regulation ("MAR"). MAR came into effect across the EU (including the UK) on 3 July 2016. The Board is responsible for taking all proper and reasonable steps to ensure compliance with MAR by the Directors, and reviews such compliance on a regular basis.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are contained in note 23 to the consolidated financial statements.

INDEPENDENT AUDITOR

The Board of Directors elected to appoint PricewaterhouseCoopers CI LLP as Auditor to the Company at the inaugural meeting of the Company on 22 November 2012 and they have been re-appointed at each Annual General Meeting held since. PricewaterhouseCoopers CI LLP has indicated their willingness to continue as Auditor. The Directors will place a resolution before the Annual General Meeting to re-appoint them as independent Auditor for the ensuing year, and to authorise the Directors to determine their remuneration.

INVESTMENT MANAGER AND SERVICE PROVIDERS

The Investment Manager during the year was Starwood European Finance Partners Limited (the "Investment Manager"), incorporated in Guernsey with registered number 55819 and regulated by the GFSC and Alternative Investment Fund Management Directive. 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 year.

DISCOUNT CONTROL

The Company's discount management strategy has a number of elements which were amended at an Extraordinary General Meeting held on 29 September 2017 (the "EGM").

The discount-triggered realisation mechanism that would have applied in the event that the Ordinary Shares had traded at an average discount of five per cent or more during the last six months of the financial year ending 31 December 2017, has been deferred. As a result of this the realisation vote (which could have been required to be held before 28 February 2018) is no longer required.

The Company maintains the share repurchase powers that allow the Company to repurchase Ordinary Shares in the Market up to 14.99 per cent of the share capital, subject to annual renewal of the Shareholder authority. In addition the Company may raise fresh capital including through a placing programme (subject to the publication of a prospectus of the Company) and through opportunistic tap issues taking advantage of the recent implementation of the Prospectus Regulation. This now enables issuers such as the Company (subject to obtaining the requisite Shareholder authorities) to issue up to 20 per cent of the securities already listed by way of such issues over 12 months without any requirement to publish a prospectus (the previous limit having been 10 per cent).

DISCOUNT-TRIGGERED REALISATION

The position prior to the EGM provided the Directors discretion to implement a Realisation Offer if certain conditions were met or to propose a realisation vote by no later than 28 February 2018 in the event that such conditions were not met. Following the approval of the amendment to the Articles the provisions relating to the Realisation Offer will now first apply by reference to the last six months of the financial year ending 31 December 2022 and the realisation vote mechanism would apply (where the discount-triggered realisation mechanism has not been activated) by no later than 28 February 2023 and in each case on successive five year anniversaries of such dates. Consequently the Directors have been released from any requirement to exercise their discretion to convene a meeting to consider a realisation vote by no later than 28 February 2018.

REALISATION VOTE POST EGM

In the event that the discount-triggered realisation mechanism is not activated, the Directors shall exercise their discretion under the Articles to put forward a realisation vote (as an ordinary resolution) to Shareholders by no later than 28 February 2023. If Shareholders vote in favour of this resolution then the Company will procure that a Realisation Offer on substantially the same terms as that described above is offered to Shareholders. Following the receipt of all elections, if either: (i) more than 75 per cent of the Ordinary Shares then in issue were elected for realisation; or (ii) the NAV of the Company following the realisation would be less than £100 million, the Directors may exercise their discretion not to proceed with the Realisation Offer and instead put forward alternative proposals which are no less favourable to electing Shareholders and which may include the reorganisation or winding up of the Company.

If Shareholders vote against the realisation vote then the Company will continue in existence as it is then constituted without any liquidity event for Shareholders.

SHARE BUYBACKS

At the Annual General Meeting held on 11 May 2017, the Company received authority to purchase in the Market up to 14.99 per cent of the Ordinary Shares in issue on 11 May 2017 at a price not exceeding: (i) five per cent above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made; or (ii) the higher of the last independent trade or the highest current independent bid for the Ordinary Shares.

The Directors will give consideration to repurchasing Shares under this authority, but are not bound to do so, where the market price of an Ordinary Share trades at more than 7.5 per cent below the Net Asset Value per Share for more than 3 months, subject to available cash not otherwise required for working capital purposes or the payment of dividends in accordance with the Company's dividend policy.

If not previously used, this authority shall expire at the conclusion of the Company's Annual General Meeting ("AGM") in 2018. The Directors intend to seek annual renewal of this buyback authority from Shareholders each year at the Company's AGM.

John Whittle | Director

26 March 2018

Directors' Renumeration Report

REMUNERATION POLICY & COMPONENTS

The Board endeavours to ensure the remuneration policy reflects and supports the Company's strategic aims and objectives throughout the year 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.

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 £200,000. 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, Management Engagement Committee and Audit Committee and the time dedicated by each Director to the Company's affairs. Base fees are set out in the opposite table.

Director	Total Fee 2017 £	Total Fee 2016 £
Stephen Smith	47,500	47,500
John Whittle	40,000	40,000
Jonathan Bridel	35,000	35,000
Aggregate Fees	**122,500**	**122,500**
Aggregate Expenses	2,916	2,307
Total	**125,416**	**124,807**

At a Meeting of the Board of the Company held on 9 November 2017, the Board considered and approved increases in Director remuneration to take effect from 1 January 2018. The decision was taken following review of a report prepared by Optimus Group Limited which had been commissioned by the Board. Optimus Group Limited are independent consultants with no connection to the Company. The Chairman's remuneration will increase to £50,000 per annum, the Audit Committee Chairman's remuneration will increase to £45,000 per annum and Director remuneration will increase to £42,500 per annum.

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, has been granted share options or been invited to participate in long-term incentive plans. No loans have been originated by the Company for the benefit of any Director.

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 re-election every three years thereafter at the AGM. Any Director who has served on the Board for longer than nine years will be subject to annual re-election. The Directors do not have any interests in contractual arrangements with the Company or its investments during the year 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.

By order of the Board

John Whittle | Director

26 March 2018

Corporate Governance Statement

As a regulated Guernsey incorporated company with a Premium Listing on the Official List and admission to trading on the Main Market for Listed Securities of the London Stock Exchange, the Company is required to comply with the principles of the UK Corporate Governance Code dated April 2016 ("UK Code").

As an AIC member, the Board has also considered the principles and recommendations of the AIC Code of Corporate Governance dated July 2016 ("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 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 during the year.

Except as disclosed within the report, the Board is of the view that throughout the year ended 31 December 2017, the Company complied with the recommendations of the AIC Code and the relevant provisions of the UK Code. 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.

The AIC Code includes provisions relating to: the role of the chief executive; executive Directors' remuneration; and the need for an internal audit function which are not considered by the Board to be relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Guernsey Financial Services Commission Finance Sector Code of Corporate Governance ("GFSC Code") came into force in Guernsey on 1 January 2012 and was amended in February 2016. The Company is deemed to satisfy the GFSC Code provided that it continues to conduct its governance in accordance with the requirements of the UK Code.

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 20.

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 consider. 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, but may be counted in the quorum.

STEPHEN SMITH | Chairman

Corporate Governance Statement

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 throughout the year 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, a Director would abstain or have his objection noted, which would be reflected within the minutes.

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 20. 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 12. 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 any perceived issues, or a resignation is 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 AGM following his appointment by the Board, and to be re-elected once every three years thereafter. Mr John Whittle is therefore submitting himself for re-election at the AGM on 15 May 2018. Any Director who has served on the Board for more than nine years is required to submit themselves for re-election annually.

The Audit Committee Members and the Board confirm that Mr Whittle has proven his 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 Mr Whittle be re-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 or Director 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 meeting attendance record is displayed on page 28 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 confident all members have sufficient financial skills and experience, and competence relevant to the Company's Sector. Mr John Whittle is Audit Committee Chairman.

The Audit Committee met three times during 2017 (2016: three times); the meeting attendance record is displayed on page 28. 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, for example as evidenced by the Audit and Assurance Faculty Report ("AAF 01/06 Assurance Report") on the internal procedures of 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 consolidated 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 32. Formal terms of reference for the Audit Committee are available at the registered office and on the Company's website, and are reviewed on a regular basis.

Management Engagement Committee

The Company has established a Management Engagement Committee which comprises all the Directors, with Mr 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 the Investment Manager's performance are also conducted regularly throughout the year by the Board. Reviews of engagements with other service providers, such as the Administrator, 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.

The Management Engagement Committee met once during 2017 (2016: twice) and undertook a review of the key service providers to the Group and the Company, utilising a service provider questionnaire. No material weaknesses were identified and the recommendation to the Board was that the current arrangements were appropriate and provided good quality services and advice to the Company and the Group.

Formal terms of reference for the Management Engagement Committee are available at the registered office and the Company's website, and are reviewed on a regular basis.

The Company Secretary acts as the secretary to the Management Engagement Committee.

Corporate Governance Statement

BOARD AND COMMITTEE MEETING ATTENDANCE

Individual attendance at Board and Committee meetings is set out opposite:

	Scheduled Board	Ad hoc Board[1]	Audit Committee	Management Engagement Committee
Stephen Smith[1]	4	2	3	1
John Whittle	4	6	3	1
Jonathan Bridel	4	6	3	1
Total Meetings for year	**4**	**6**	**3**	**1**

[1]The ad hoc Board meetings are convened at short notice to deal with administrative matters. It is not therefore always logistically feasible, or a necessity, for the Chairman of the Board to attend such meetings.

In addition to the scheduled quarterly and additional offshore 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 apprised and up to date with the current investment status and progress. During the year Committees were also set up to consider and approve matters specific to the Restructuring of the Company and leading up to the EGM held on 29 September 2017 and the subsequent Refinancing which was completed in December 2017.

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 24.

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 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' roles and responsibilities in preparing the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2017 is provided in the Statement of Directors' Responsibilities on page 36.

For the purposes solely of the audit of the consolidated financial statements, the Auditors have reviewed the Company's compliance with certain of 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 38 to 44.

Further information enabling shareholders to assess the Company's performance, business model and strategy can be sourced in the Chairman's Statement on pages 8 to 11, the Strategic Report on pages 12 to 14 and the Report of the Directors on pages 21 to 23.

GOING CONCERN

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in Note 2 of the financial statements.

RISK CONTROL

In addition to the earlier assessment of principal risks and uncertainties contained within the Strategic Report, the Board is required annually to review the effectiveness of the Group'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 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.

RISK MANAGEMENT

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 below.

(i) Control Environment

The Company is ultimately dependent upon the quality and integrity of the staff and management of the Investment Manager, the Investment Adviser and its Fund Administration & Company Secretarial service provider. 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, consider internal controls relevant to the Company's preparation and fair presentation of the consolidated 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 conducted by the Board as a whole (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, and subsequently amended by EGM's held on 2 May 2014, 9 March 2015 and 6 May 2016;
- 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 year to 31 December 2017.

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.

Corporate Governance Statement

ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE ("AIFMD")

The AIFMD, which was implemented across the EU on 22 July 2013 with the transition period ending 22 July 2014, aims to harmonise the regulation of Alternative Investment Fund Managers ("AIFMs") and imposes obligations on managers who manage or distribute Alternative Investment Funds ("AIFs") in the EU or who market shares in such funds to EU investors.

After seeking professional regulatory and legal advice, the Company was established in Guernsey such that, upon implementation of AIFMD it would be a Non-EU AIF, with Starwood European Finance Partners Limited appointed to act as the Non-EU AIFM.

In accordance with AIFMD disclosure obligations, note 6 provides a summary of realised and unrealised gains and losses.

The Investment Manager does not receive an additional fee, to that stated in note 22, as a result of acting as the AIFM. The Board of the Investment Manager received an aggregate fee of £47,500 for the year ended 31 December 2017.

The marketing of shares in AIFs that are established outside the EU (such as the Company) to investors in an EU member state is prohibited unless certain conditions are met. Certain of these conditions are outside the Company's control as they are dependent on the regulators of the relevant third country (in this case Guernsey) and the relevant EU member state entering into regulatory co-operation agreements with one another.

The AIFM has given written notification to the United Kingdom Financial Conduct Authority ("FCA"), pursuant to Regulation 59 of the Alternative Investment Fund Managers Regulations 2013 (SI 1773/2013) (the "AIFM Regulations") of its intention to market the shares to investors in the United Kingdom in accordance with the AIFM Regulations and the rules and guidance of the FCA.

The AIFM has given written notification to the Netherlands Authority for the Financial Markets ("AFM") pursuant to Article 1:13b section 1 and 2 of the Act on the Financial Supervision (Wet op het financieel toezicht) (the "AFS") of its intention to market the shares to investors in the Netherlands in accordance with the AFS, any rules and regulations promulgated pursuant thereto and the rules and guidance of the AFM.

On 12 February 2016, the AIFM obtained a marketing licence in Sweden in accordance with Chapter 5, Section 10 of the Swedish Alternative Investment Fund Managers Act (Sw. lag (2013:561) om förvaltare av alternativa investeringsfonder). This enables shares in the Company to be marketed to professional investors in Sweden.

Currently, the National Private Placement Regime ("NPPR") provides a mechanism to market Non-EU AIFs that are not allowed to be marketed under the AIFMD domestic marketing regimes. The Board is utilising NPPR in order to market the Company, specifically in the UK, Sweden and the Netherlands. The Board works with the Company's advisers to ensure the necessary conditions are met, and all required notices and disclosures are made under NPPR. Eligible AIFMs will be able to continue to use NPPR until at least 22 July 2018, and at present NPPR remains the sole regime available to market in the EEA. A non-EEA marketing passport may be introduced, but this depends on a number of conditions being satisfied (as set out in the AIFMD and its Regulations).

Any regulatory changes arising from implementation of the AIFMD (or otherwise) that limit the Company's ability to market future issues of its shares may adversely affect the Company's ability to carry out its investment policy successfully and to achieve its investment objective, which in turn may adversely affect the Company's business, financial condition, results of operations, NAV and/or the market price of the Ordinary Shares.

The Board, in conjunction with the Company's advisers, will continue to monitor the development of the AIFMD and its impact on the Company. The Company will continue to use NPPR pending further consultation from the European Securities and Markets Authority ("ESMA").

The Board has considered the disclosure obligations under Articles 22 and 23 and can confirm that the Company complies with the various organisational, operational and transparency obligations.

FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA") AND THE OECD COMMON REPORTING STANDARDS ("CRS")

FATCA became effective on 1 January 2013 and is being gradually implemented internationally. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US Tax compliance with respect to those assets.

More than 90 jurisdictions, including all 34 member countries of the Organisation for Economic Co-operation and Development ("OECD") and the G20 members, have committed to implement the Common Reporting Standard for automatic exchange of tax information ("CRS"). Building on the model created by FATCA, the CRS creates a global standard for the annual automatic exchange of financial account information between the relevant tax authorities.

The Board in conjunction with the Company's service providers and advisers have ensured that the Company complies with FATCA and CRS's requirements to the extent relevant to the Company.

DIALOGUE WITH SHAREHOLDERS

The Directors place a great deal of importance on communication with shareholders. The Company's Chairman, Investment Manager and the Brokers, 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 Consolidated Financial

Statements and quarterly factsheets 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 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 AGM, informally following the meeting, or in writing at any time during the year via the Company Secretary. The Company Secretary is also available to answer general shareholder queries at any time throughout the year.

By order of the Board

John Whittle | Director

26 March 2018

Report of the Audit Committee

The Board is supported by the Audit Committee, which comprised all the Directors during the year under review (including the Chairman of the Board, to enable his greater understanding of the issues facing the Group). The Board has considered the composition of the Audit Committee and is satisfied it has sufficient recent and relevant skills and experience, in particular the Board has considered the requirements of the UK Code that the Audit Committee should have at least one Member who has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Company invests. The Board considers all of the relevant requirements to have been met.

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 consolidated financial statements of the Group and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements contained within said statements and announcements;
- Reviewing the Group's internal financial controls, and the Group's internal control and risk management systems;
- Monitoring the need for an internal audit function annually;
- Monitoring and reviewing the scope, 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 AGM;
- Development and implementation of the Group'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 Group;
- Providing advice to the Board on whether the consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- Reporting to the Board on how the Committee discharged all relevant responsibilities at each Board meeting.

Financial Reporting

The primary role of the Audit Committee in relation to the financial reporting is to review with the Administrator, Investment Manager and the Auditors the appropriateness of the Annual Report and Audited Consolidated Financial Statements and Interim Condensed Consolidated Financial Statements, concentrating on, amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- Material areas in which significant judgements have been applied or there has been discussion with the Auditors;
- Whether the Annual Report and Audited Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy; and
- Any correspondence from regulators in relation to the Group's financial reporting.

To aid its review, the Audit Committee considers reports from the Administrator and Investment Manager and also reports from the Auditors on the outcomes of their half-year review and annual audit. The Audit Committee supports PricewaterhouseCoopers CI LLP ("PwC") in displaying the necessary professional scepticism their role requires.

The Audit Committee met three times during the year under review; individual attendance of Directors is outlined on page 28. The main matters discussed at those meetings were:

- Review and approval of the annual audit plan of the external Auditors;
- Discussion and approval of the fee for the external audit;
- Detailed review of the Annual Report and Audited Consolidated Financial Statements and recommendation for approval by the Board;
- Review and approval of the interim review plan of the external Auditors;
- Detailed review of the Interim Condensed Consolidated Financial Statements and recommendation for approval by the Board;
- Discussion of reports from the external Auditors following their interim review and annual audit;
- Assessment of the effectiveness of the Auditors as described below;
- Assessment of the independence of the external Auditors;
- Review of the Group's key risks and internal controls; and
- Consideration of the 2016 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.

Annual General Meeting

The Audit Committee Chairman, or other members of the Audit Committee appointed for the purpose, shall attend each AGM of the Company, prepared to respond to any shareholder questions on the Audit Committee's activities.

Internal Audit

The Audit Committee considers at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Group and all outsourced functions are with parties / administrators who have their own internal controls and procedures. This is evidenced by the annual 01/06 AAF Assurance Report provided by the Administrator, which gives sufficient assurance that a sound system of internal control is maintained at the Administrator.

SIGNIFICANT ISSUES IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

During the year, the Audit Committee considered a number of significant issues in respect of the Annual Report and Audited Consolidated Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Group had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the consolidated financial statements 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
Recoverability and impairment to the carrying values of loan investments	The Audit Committee reviews the investment process of the Investment Manager and Investment Adviser including the controls in place around deal sourcing, investment analysis, due diligence and the role of the Investment Adviser's investment committee and the Investment Manager's Board. The Audit Committee also reviews the controls in place around the effective interest loan models and is notified regularly by the Investment Manager of any changes to underlying assumptions made in the loan models. The Audit Committee receives regular updates on the performance of each loan and discusses whether there are any indicators of impairment with the Investment Manager and Investment Adviser. Formal, detailed impairment reviews are also prepared by the Investment Adviser and Investment Manager which are reviewed at each Audit Committee meeting and the Audit Committee considers whether there are any indicators of impairment.
Credit linked notes fair valuation	The Group closed its first investment in Credit Linked Notes ("CLNs") on 22 December 2017. This investment is held at fair value through profit or loss. The fair value of the CLNs will be determined by the Investment Adviser using a valuation model. The main inputs into the valuation model for the CLNs are discount rates, market risk premium adjustments to the discount rate, probabilities of default and cash flow forecasts. The Investment Adviser also performs a full analysis of the performance of each underlying loan and with reference to other inputs such as third party valuations of the underlying collateral. At 31 December 2017 the Group considers the fair value to be equal to the transaction price given the proximity of the closing of the transaction to the year end and no significant market movements or changes to the underlying reference portfolio in the gap period from purchase date of the CLNs to the year end. The Audit Committee has discussed this approach and made appropriate enquires of the Investment Manager and Investment Adviser and considers the approach reasonable.
Risk of fraud or error in revenue recognition	The Audit Committee discusses with the Investment Manager and Investment Adviser the reasons for the changes in key assumptions made in the loan models such as changes to expected drawdown or repayment dates or other amendments to expected cash flows such as changes in interbank rates on floating loans. The Audit Committee ensures that any changes made to the models are justifiable based on the latest available information. A separate income rationalisation which is prepared outside of the detailed loan models is provided to the Board on a quarterly basis as a secondary check on the revenue being recognised in the loan models. This is also reviewed by the Audit Committee and questions raised where appropriate.

Report of the Audit Committee

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 efficiency 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 consolidated financial statements 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 year, 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 audit findings 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' performance.

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.

AUDITORS' TENURE AND OBJECTIVITY

The Group has developed an audit tender policy which the Board will re-consider after five years from the appointment date of the current Auditor. A review of policy will therefore occur during 2018, subject to regular reviews by the Board and shareholder approval.

The Group's current Auditors, PwC, have acted in this capacity since the Company's inaugural meeting on 22 November 2012. The Committee reviews the Auditors' performance on a regular basis to ensure the Group receives an optimal service. Subject to annual appointment by shareholder approval at the AGM, the appointment of the Auditor is formally reviewed by the Audit Committee on an annual basis. PwC has now moved to adopt the IESBA Ethical Standards during 2017 and their rotation rules now require the lead audit partner to rotate every 7 years, key partners involved in an audit every 7 years and PwC's own internal policy would generally expect senior staff to rotate after 10 years. Rotation ensures a fresh look without sacrificing institutional knowledge.

Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the lead audit engagement partner.

PwC regularly updates the Audit Committee on the rotation of audit partners, staff, level of fees, details of any relationships between the Auditors and the Group and also provides overall confirmation of its independence and objectivity. There are no contractual obligations that restrict the Group's choice of Auditors. Any non-audit work would be 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 PwC remains independent of the Group, the Investment Manager and other service providers and the Audit Committee has no current plans for re-tendering for the position of auditor to the Company. The Audit Committee therefore recommends the continuing appointment of PwC by the Board.

CONCLUSIONS IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The production and the audit of the Annual Report and Audited Consolidated Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion on whether the Group's consolidated financial statements are fair, balanced and understandable, as required under the UK Code and the AIC Code, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Consolidated 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 and Audited Consolidated Financial Statements, 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 Group'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 service 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 Audit Committee has concluded that it has acted in accordance with its' terms of reference and has ensured the independence and objectivity of the external Auditors. It has reported to the Board that the Annual Report for the year ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 36.

The Audit Committee has recommended to the Board that the external auditor is re-appointed.

John Whittle | Audit Committee Chairman

26 March 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing consolidated 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 or loss of the Company for that year.

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

- Select suitable accounting policies and apply them consistently;
- Make judgments 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 consolidated financial statements; and
- Prepare the consolidated 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 consolidated financial statements since they are initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of the consolidated 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 consolidated financial statements comply with the Companies (Guernsey) Law, 2008, as amended. 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 consolidated 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 consolidated 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 Group; and
- The Chairman's Statement, Strategic Report, Investment Manager's Report, Report of the Directors and Corporate Governance Statement include a fair review of the development and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

The UK Code, as adopted through the AIC Code by the Company, also requires Directors to ensure that the Annual Report and Consolidated Financial Statements 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 Consolidated Financial Statements fulfill these requirements. The process by which the Committee has reached these conclusions is set out in the report of the Audit Committee on pages 32 to 35.

Furthermore, the Board believes that the disclosures set out on pages 6 to 19 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 year ended 31 December 2017, 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 Audited Consolidated Financial Statements for the year ended 31 December 2017, 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

26 March 2018

Financial Statements

Independent Auditor's report to the Members of Starwood European Real Estate Finance Limited

Report on the audit of the consolidated financial statements

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Starwood European Real Estate Finance Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2017, and of their consolidated financial performance and their consolidated cash flows for the year 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.

WHAT WE HAVE AUDITED

The Group's consolidated financial statements comprise:

- the Consolidated Statement of Financial Position as at 31 December 2017;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and at the request of the Directors SEC Independence Rules that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

OUR AUDIT APPROACH

Overview

MATERIALITY

- Overall materiality was £7.7 million (2016: £7.6 million), which represents 2.0% of consolidated net assets.

AUDIT SCOPE

- The Company is based in Guernsey with underlying subsidiaries located in Guernsey and Luxembourg and engages Starwood European Finance Partners Limited (the "Investment Manager") to manage its assets. The consolidated financial statements are a consolidation of the Company and all of the underlying subsidiaries.
- We conducted our audit of the consolidated financial statements from information provided by Ipes (Guernsey) Limited (the "Administrator") to whom the board of directors has delegated the provision of certain functions. We also had significant interaction with Starwood Capital Europe Advisers LLP (the "Investment Adviser") in completing aspects of our overall audit work.
- We conducted our audit work in Guernsey and we tailored the scope of our audit taking into account the types of investments within the Group, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Group operates.
- We performed an audit of the complete financial information of the Guernsey and Luxembourg components of the Group.
- The components of the Group where we performed full scope audit procedures accounted for 100% of total net assets and total operating profit.

KEY AUDIT MATTERS

- Valuation of loans advanced
- Risk of fraud in income from loans advanced
- Valuation of Credit Linked Notes

AUDIT SCOPE

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Company is based in Guernsey with five underlying subsidiaries located in Guernsey and Luxembourg. The consolidated financial statements are a consolidation of the Company and all of the underlying subsidiaries.

Scoping was performed at the Group level, irrespective of whether the underlying transactions took place within the Company or within the subsidiaries. The Group audit was led, directed and controlled by PricewaterhouseCoopers CI LLP and all audit work for material items within the consolidated financial statements was performed in Guernsey by PricewaterhouseCoopers CI LLP.

The transactions relating to the Company and the subsidiaries are maintained by the Administrator and therefore we were not required to engage with component auditors from another PwC global network firm operating under our instructions. Our testing was therefore performed on a consolidated basis using thresholds which are determined with reference to the overall Group materiality and the risks of material misstatement identified.

As noted in the overview, the components of the Group where we performed full scope audit procedures accounted for 100% of total net assets and total operating profit.

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	£7.7 million (2016: £7.6 million)
How we determined it	2.0% of overall consolidated net assets
Rationale for the materiality benchmark	We believe consolidated net assets to be the appropriate basis for determining materiality since this is a key consideration for investors when assessing financial performance. It is also a generally accepted measure used for companies in this industry.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.4 million (2016: £0.4 million), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditor's report to the Members of Starwood European Real Estate Finance Limited

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the Key audit matter</th></tr>
<tr><td>Valuation of loans advanced
Loans advanced at the year-end of £370.0 million (2016: £359.9 million) are measured at amortised cost and comprise of both fixed and floating rate loans.
Loans advanced make up a significant part of the consolidated statement of financial position and due to the nature of these transactions their ongoing recoverability and impairment is subject to judgment and estimation.
The judgements exercised in determining the potential for impairment provisions could significantly impact the net asset value of the Group and this is considered to be a key source of estimation uncertainty as described in note 2c of the consolidated financial statements. The specific areas of judgement include:
• How management determine the underlying assumptions when preparing impairment review analysis such as changes in valuation of underlying collateral, the ability of the borrowers to deliver on their business plans and projected financial performance figures; and
• The impact of changes in the expected cash flows for each loan on the carrying values.</td><td>We evaluated management's processes and assumptions used to measure the loans at amortised cost and to assess whether the loans advanced showed any indicators for impairment and the impact of any such indicators. Our procedures included:
• Detailed testing over the effective interest models used by management to value the loans at amortised cost using the effective interest rate method;
• Validating the assumptions and inputs into the amortised cost models and reading the associated agreements and other legal documentation. Detailed back-testing procedures were also performed to assist in our conclusions as to the cash flow forecasting reliability displayed by the Investment Adviser;
• Obtaining management's impairment reviews for each loan and assessing whether any indicators of impairment existed at the year-end;
• Obtaining evidence to support significant assumptions presented in the impairment reviews, including consideration of the financial information on the borrower to assess their ability to meet future payment commitments; and
• Inspecting compliance certificates signed by each underlying borrower which confirmed compliance with any covenants as at the year-end.
We did not identify any material issues from our procedures.</td></tr>
</table>

Key audit matter	How our audit addressed the Key audit matter
Valuations of Credit Linked Notes The Group's investments in Credit Linked Notes ("CLNs") of £22.1m (2016: £nil) held as at the year-end are measured at fair value through profit or loss. This is the first investment held by the Group that is required to be recognised and measured at fair value through profit or loss in line with IFRS. The fair valuation of the CLNs represents a significant risk that we have focused on as the fair value is determined by the Investment Adviser using an internal model with inputs and assumptions that are subjective and therefore judgmental. In determining the fair value, the Investment Adviser also considers the original transaction price as well as relevant general market movements and recent market transactions for comparable instruments (where available) and adjusts the valuation model where deemed necessary. As the CLNs were acquired at fair value on 22 December 2017 with management concluding that there have been no material market movements or changes to the expected returns of the CLNs from that date to 31 December 2017, management therefore considers that the transaction price of £22.1m is the key determinant for the fair value as at 31 December 2017.	We updated our understanding and evaluated the controls in place surrounding the investment process including deal sourcing, investment analysis, due diligence and the role of the investment committee when the Group was seeking to acquire the CLN investments. We held discussions with the Investment Adviser on how the investment in the CLNs was structured and the original investment underwrite. Our procedures included; • Inspection of the CLNs' deal origination documents, including contract notes and legal agreements to review the specific terms and conditions of the underlying reference loans as well as reviewing the documentation to confirm the existence of the investment. • Discussions with our internal experts on the appropriate valuation methodology for CLNs and consideration of the rationale supporting the fair value determined by management for the CLNs as at 31 December 2017. • Concluding that we concur with management's use of the 22 December 2017 transaction price as a proxy for the fair value as at 31 December 2017 with these associated considerations; - There was a competitive bidding process for the Group to acquire the CLNs; and - There were no material market developments or changes to the underlying reference portfolio in the period from 22 December 2017 to 31 December 2017. We did not identify any material issues from our procedures.
Risk of fraud in income from loans advanced Income from loans advanced for the year was £32.0 million (2016: £27.8 million) and was measured in accordance with the effective interest rate requirements set out in IAS 39. The Group has a key investment objective to provide shareholders with regular dividends through investment in debt instruments and therefore we focussed on this risk. The requirement to estimate the expected cash flows when forming an effective interest rate model is subject to significant management judgements and estimates, and as such could be open to manipulation by management of factors including: • Timing of repayments; • Expectations of partial or full prepayments; and • Associated exit fees and make-whole payments. Changes to the estimated timings of cash flows can have a significant impact on the recognition of income from loans advanced and is considered to be a key source of estimation uncertainty as described in note 2c of the consolidated financial statements.	Our procedures included: • Assessing the judgements made in respect of the estimated cash flows including arrangement, origination and commitment fees, through testing of the amortised cost models for each loan to assess compliance with the requirements of IAS 39; • Recalculating interest income using the original effective interest rate paying due consideration to any early partial or full prepayments; • Inspecting supporting documents, such as correspondence with the underlying borrower and timing of cash receipts, as part of our assessment of management's estimates and assumptions; and • For those debt investments also held at 31 December 2016, comparing the estimated cash flows in the amortised cost models as at 31 December 2017 and evaluating the rationale behind any significant changes to those cash flows from the 31 December 2016 models. We did not identify any material issues from our procedures.

Independent Auditor's report to the Members of Starwood European Real Estate Finance Limited

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Objective and Investment Policy, the Financial Highlights, the Chairman's Statement, the Strategic Report, the Investment Manager's Report, the Board of Directors, the Report of the Directors, the Directors' Remuneration Report, the Corporate Governance Statement, the Report of the Audit Committee, the Statement of Directors' Responsibilities and the Corporate Information (but does not include the consolidated financial statements and our auditor's report thereon).

Other than as specified in our report,our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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 28 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Group's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

This report, including the opinion, has been prepared for and only for the 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.

John Roche

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

26 March 2018

Independent Auditor's report to the Members of Starwood European Real Estate Finance Limited

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 2017, and the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year 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.

AUDITOR'S 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 Finance Limited and its subsidiaries as of 31 December 2017, and the results of their operations, changes in their net assets, and their cash flows for the year 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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

Chartered Accountants,
Guernsey, Channel Islands

26 March 2018

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	1 January 2017 to 31 December 2017 £	1 January 2016 to 31 December 2016 £
Income			
Income from loans advanced	10	31,969,225	27,826,368
Income from cash and cash equivalents		19,535	17,195
Other income		-	577
Total income		**31,988,760**	**27,844,140**
Expenses			
Investment management fees	22	2,844,140	2,527,199
Credit facility commitment fees		359,000	324,040
Administration fees	3(b)	335,048	271,587
Legal and professional fees		239,999	239,158
Other expenses		236,529	124,113
Credit facility amortisation of fees		195,327	221,002
Audit and non-audit fees	5	204,609	130,970
Directors' fees and expenses	4, 22	125,416	124,807
Broker's fees and expenses	3(d)	76,525	950
Credit facility interest		72,834	308,523
Net foreign exchange losses / (gains)	6	734,926	(1,679,501)
Total operating expenses		**5,424,353**	**2,592,848**
Operating profit for the year before tax		**26,564,407**	**25,251,292**
Taxation	20	2,120	3,022
Operating profit for the year and total comprehensive income		**26,562,287**	**25,248,270**
Other comprehensive income			
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations		2,484	-
Other comprehensive income for the year		**2,484**	**-**
Total comprehensive income for the year		**26,564,771**	**25,248,270**
Weighted average number of shares in issue	7	375,019,398	332,051,239
Basic and diluted earnings per Ordinary Share (pence)	7	7.08	7.60

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

Consolidated Statement of Financial Position
as at 31 December 2017

	Notes	31 December 2017 £	31 December 2016 £
Assets			
Cash and cash equivalents	8	11,750,356	31,018,181
Other receivables and prepayments	9	378,103	53,381
Credit facility capitalised costs	12	1,433,462	28,846
Financial assets at fair value through profit or loss	11	22,112,820	-
Loans advanced	10	369,955,983	359,876,862
Total assets		**405,630,724**	**390,977,270**
Liabilities			
Financial liabilities at fair value through profit or loss	11	6,726,268	9,156,088
Credit facility	12	13,338,329	-
Trade and other payables	13	2,426,591	870,156
Total liabilities		**22,491,188**	**10,026,244**
Net assets		**383,139,536**	**380,951,026**
Capital and reserves			
Share capital	15	371,929,982	371,929,982
Retained earnings		11,207,070	9,021,044
Translation reserve		2,484	-
Total equity		**383,139,536**	**380,951,026**
Number of Ordinary Shares in issue	15	375,019,398	375,019,398
Net asset value per Ordinary Share (pence)		102.17	101.58

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018, and signed on its behalf by:

Chairman

Director

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

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

Year ended 31 December 2017

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2017	371,929,982	9,021,044	-	380,951,026
Issue of share capital	-	-	-	-
Cost of issues	-	-	-	-
Dividends paid	-	(24,376,261)	-	(24,376,261)
Operating profit for the year	-	26,562,287	-	26,562,287
Other comprehensive income:				
Other comprehensive income for the year	-	-	2,484	2,484
Balance at 31 December 2017	**371,929,982**	**11,207,070**	**2,484**	**383,139,536**

Year ended 31 December 2016

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2016	300,397,205	5,075,839	-	305,473,044
Issue of share capital	73,000,000	-	-	73,000,000
Cost of issues	(1,467,223)	-	-	(1,467,223)
Dividends paid	-	(21,303,065)	-	(21,303,065)
Operating profit for the year	-	25,248,270	-	25,248,270
Balance at 31 December 2016	**371,929,982**	**9,021,044**	**-**	**380,951,026**

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	1 January 2017 to 31 December 2017 £	1 January 2016 to 31 December 2016 £
Operating activities:		
Operating profit for the year	26,562,287	25,248,270
Adjustments:		
Net interest income	(31,969,225)	(27,826,368)
Interest income on cash and cash equivalents	(19,535)	(17,195)
Decrease in prepayments and receivables	21,871	42,303
Increase in trade and other payables	55,234	54,704
Net (gains) / losses on financial instruments held at fair value through profit or loss	(2,429,820)	15,074,203
Net foreign exchange gains	(5,104,358)	(18,256,954)
Credit facility interest	72,834	308,523
Credit facility amortisation of fees	195,327	221,002
Credit facility commitment fees	359,000	324,040
	(12,256,385)	**(4,827,472)**
Loans advanced [1]	(215,175,030)	(168,567,654)
Loans repaid	213,114,663	129,269,039
Origination fees paid [3]	(1,668,811)	(1,316,353)
Origination expenses paid	(23,273)	-
Interest, commitment and exit fee income from loans advanced	30,171,530	33,855,722
Acquisition of financial assets at fair value through profit or loss	(21,773,000)	-
Net cash outflow from operating activities	**(7,610,306)**	**(11,586,718)**
Cash flows from investing activities		
Interest income from cash and cash equivalents	19,535	17,195
Net cash inflow from investing activities	**19,535**	**17,195**
Cash flows from financing activities		
Net share issue proceeds received [2]	-	71,532,777
Credit facility arrangement fees and expenses paid	(451,632)	(37,500)
Credit facility utilised / (repaid)	13,284,000	(8,155,816)
Credit facility interest paid	(65,005)	(315,112)
Credit facility commitment fees paid	(281,939)	(314,671)
Dividends paid	(24,376,261)	(21,303,065)
Net cash (outflow) / inflow from financing activities	**(11,890,837)**	**41,406,613**
Net (decrease) / increase in cash and cash equivalents	(19,481,608)	29,837,090
Cash and cash equivalents at the start of the year	31,018,181	520,558
Net foreign exchange gains on cash and cash equivalents	213,783	660,533
Cash and cash equivalents at the end of the year	**11,750,356**	**31,018,181**

[1] Net of arrangement fees of £2,679,765 (2016: £2,212,322) withheld. [2] Net of share issue costs of £nil (2016: £1,467,223) withheld. [3] Including CLNs origination fees of £288,150.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 Guernsey Financial Services Commission 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 IPO, 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 IPO which completed on 17 December 2012. A further £9.9 million of net proceeds was raised via tap issues throughout the period ended 31 December 2013 and £66.6 million for the year ended 31 December 2015. On 10 August 2016 the Company issued a further 70,839,398 Ordinary Shares raising net proceeds of £71.5 million.

The Group structure was re-organised on 6 October 2017. As a result of the re-organisation Starfin Public GP Limited and Starfin Public LP were liquidated, two new subsidiaries were set up in Guernsey, Starfin Public Holdco 1 Limited and Starfin Public Holdco 2 Limited, and two new sub-subsidiaries established in Luxembourg, Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l.

The consolidated financial statements comprise the financial statements of the Company, Starfin Public GP Limited (the "GP"), Starfin Public LP (the "Partnership"), Starfin Public Holdco 1 Limited (the "Holdco 1"), Starfin Public Holdco 2 Limited (the "Holdco 2"), Starfin Lux S.à.r.l ("Luxco"), Starfin Lux 3 S.à.r.l ("Luxco 3") and Starfin Lux 4 S.à.r.l ("Luxco 4") (together the "Group") as at 31 December 2017.

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 wider European Union's internal market. To pursue its investment objective, the Company, through the Holdco 1 and Holdco 2 (the "Holdcos"), invests in the Luxco, Luxco 3 and Luxco 4 (the "Luxcos") through both equity and profit participation instruments or other funding instruments. The Luxcos then grant or acquire loans (or other debt instruments) to borrowers in accordance with the Group's investment policy. The Group expects all of its investments to be debt obligations of corporate entities domiciled or with significant operations in the United Kingdom and wider European Union's internal market.

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. 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 years presented, unless otherwise stated.

a) Going Concern

Note 17 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 and available liquidity facilities 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 at least one year from the date the consolidated financial statements were signed. Accordingly, the Directors continue to adopt a going concern basis in preparing these consolidated financial statements.

b) 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 as adopted by the European Union ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Boards ("IASB") together with the interpretations of the IFRS 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 and not separate financial statements for the year.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

(i) Standards and amendments to existing standards effective 1 January 2017

Amendments to IAS 7, "Statement of Cash Flows" became effective for annual periods beginning on or after 1 January 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The changes in liabilities arising from financing activities as required by the Amendments to IAS 7 are disclosed in Note 12.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2017 that have a material effect on the financial statements of the Group.

(ii) New standards, amendments and interpretations effective after 1 January 2017 and have not been early adopted

New standards	Effective date
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018

IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

The Group does not anticipate that IFRS 9 will have a material impact on the financial statements for the following reasons:

- The majority of the Group's investments will continue to be recognised at amortised cost as they are financial assets with terms that give rise to interest and principal cash flows only and they are held in a business model whose objective is to hold financial assets to collect their cash flow;
- The Group does not currently apply hedge accounting. Foreign exchange derivatives are measured at fair value through profit or loss and this treatment is expected to continue under IFRS 9;
- Credit linked notes are measured at fair value through profit or loss and this treatment will also be applied under IFRS 9;
- Due to the detailed underwriting process, strong security packages in place and significant loan-to-value headroom on each of the Group's loans, in most circumstances it is not expect to recognise expected credit losses ("ECL") on the majority of the Group's portfolio, either at initial recognition or during the life of the loans.

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The Group does not expect IFRS 15 will have a material effect on the financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Group.

c) 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 Group'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:

(i) Critical accounting estimates and assumptions

- Models used for loans accounted at amortised cost use assumptions and estimates of the receipt of and estimated timing of scheduled and unscheduled pre-payments of loans advanced. Changes in these assumptions and estimates could impact on liquidity risk and the interest income (see note 17).
- The discounted cash flow models used to calculate the fair value of the credit linked notes involves approximates and estimates of the timing of cash flows and uses significant unobservable inputs that will directly impact the valuation of financial assets at fair value through profit or loss (see note 11).

(ii) Critical judgements

- 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 2(h)).
- The functional currency of subsidiary undertakings of the Company, which is considered by the Directors to be Euro for Luxco 3; Sterling for all other subsidiaries (see notes 2(e) and 2(k)).
- 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, being the provision of a diversified portfolio of real estate backed loans (see note 2(f)).
- The syndication of loans, and the assessment of how the syndicated facility should be treated under the relevant accounting standards. The key area of judgement being whether substantially all of the risks and rewards of ownership have transferred to the transferee and whether the syndicated loan is derecognised or not (see note 2(g)).
- The credit linked notes fair value at the end of the current reporting period, the key area of judgement being that the fair value has been deemed to be equal to the transaction price of the CLN investment given the proximity of closing of the transaction close to the end of the reporting period and no significant market movements or changes to the underlying reference portfolio in the gap period from purchase date of the CLNs to the year end.
- The valuation of the credit linked notes for subsequent periods will be derived from a model prepared by the Investment Adviser. The main inputs into the valuation model for the CLNs are discount rates, market risk factors, probabilities of default, expected credit loss levels and cash flow forecasts. The key area of judgement would be the methodology and approach to model the fair value of credit linked notes.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

d) 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 end of the reporting period. 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 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.

Acquisition-related costs are expensed as incurred unless directly attributable to the acquisition. 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.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated on consolidation. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated.

Subsidiary undertakings	Date of Control	Ownership %	Country of Establishment	Principal place of business
Starfin Public GP Limited [1]	20/11/12	100	Guernsey	Guernsey
Starfin Public LP [1]	22/11/12	100	Guernsey	Guernsey
Starfin Lux S.à.r.l	30/11/12	100	Luxembourg	Luxembourg
Starfin Public Holdco 1 Limited	11/09/17	100	Guernsey	Guernsey
Starfin Public Holdco 2 Limited	11/09/17	100	Guernsey	Guernsey
Starfin Lux 3 S.à.r.l	19/09/17	100	Luxembourg	Luxembourg
Starfin Lux 4 S.à.r.l	11/12/17	100	Luxembourg	Luxembourg

(1) Starfin Public GP Limited and Starfin Public LP entered into voluntarily dissolution on 5 December 2017, date when a liquidator was appointed and the Group ceased to control the subsidiaries.

e) 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"). Therefore the Directors have considered in assessing the functional currency of each of the Group's entities:

- the share capital of all members of the Group is denominated in Sterling except for Lux 3 share capital which is denominated in Euro;
- the dividends are paid in Sterling;
- Euro non-investment transactions represent only a small proportion of transactions in the Luxembourg entities;

The functional and presentation currency of each Group entity is Sterling, apart from Starfin Lux 3 S.à.r.l for which the functional currency is Euro. Starfin Lux 3 S.a.r.l holds loans and investments in Euro currencies. The Directors have also adopted Sterling as the Group's presentation currency and therefore the consolidated financial statements for the Company are presented in Sterling.

f) 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.

g) Financial assets and liabilities

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 have two sub-categories: derivatives not designated as hedges and debt securities, comprising of credit linked notes, which are evaluated on a fair value basis.

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 after 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. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Comprehensive Income. Financial assets at fair value through profit or loss and available-for-sale financial assets 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.

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.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

Gains and losses arising from changes in the fair value of the debt securities which are evaluated on a fair value basis are presented in the Consolidated Statement of Comprehensive Income within "net changes in fair value of financial assets and liabilities at fair value through profit or loss" in the period in which they arise.

Interest on debt securities at fair value through profit or loss are recognised in the Consolidated Statement of Comprehensive Income within interest income based on the effective interest rate.

Fair value estimation

The fair value of financial assets and liabilities, which comprise financial instruments such as debt securities, not traded in an active market, is determined using valuation techniques. The fair value of the CLNs will be determined by the Investment Adviser using a valuation model. The main inputs into the valuation model for the CLNs are discount rates, market risk premium adjustments to the discount rate, probabilities of default and cash flow forecasts. The Investment Adviser also performs a full analysis of the performance of each underlying loan and with reference to other inputs such as third party valuations of the underlying collateral.

The fair value of financial assets and liabilities, which comprise derivatives not designated as hedges, are valued based on the difference between the agreed price of selling or buying the financial instruments on a future date and the price quoted on the year end date for selling or buying the same or similar financial instruments.

Loan syndication

Loans and receivables measured at amortised cost are derecognised following syndication if the risks and rewards of ownership have substantially transferred to the counterparty. Transaction costs of syndications are recognised in the Consolidated Statement of Comprehensive Income when incurred.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

h) Impairment of financial assets

Impairments 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, if any, would be recorded in the Consolidated Statement of Comprehensive Income. No impairment has been recognised to date.

i) 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.

j) 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.

k) 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. 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 losses/(gains)".

Group companies

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

i. assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the end of the reporting period;

ii. income and expenses for each Statement of Comprehensive Income 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.

The cumulative amount of translation exchange differences is presented in a separate component of equity until disposal of the entity.

Starfin Lux 3 S.à.r.l has Euro as its functional currency.

l) Interest income

Interest income on loans advanced is recognised using the effective interest rate method. If a loan or 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 to the extent that the Group expects to recover the interest receivable.

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

m) Origination, exit and loan arrangement fees

Origination fees paid to the Investment Manager and exit and direct loan arrangement fees 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. Syndication costs are recognised in the Consolidated Statement of Comprehensive Income when incurred.

n) Expenses

All other expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis.

o) 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 Holdcos are exempted for Guernsey tax purposes, and therefore no provision for taxes has been made.

The Luxcos are subject to the applicable general tax regulations in Luxembourg and taxation is provided based on the results for the year (see note 20).

p) 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.

q) 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.

r) 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.

s) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

t) Financial liabilities

Financial liabilities, including bank loans are initially recognised at fair value and subsequently accounted for with interest on an accruals basis. Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.

u) Capitalised expenses on credit facilities

Expenses in connection with the process of originating, prolongation, or restructuring of a credit facility, such as application and underwriting fees, are capitalised and subsequently amortised over the period of the relevant credit facility in the Consolidated Statement of Comprehensive Income within "credit facility amortisation of fees".

3. 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"), (which was amended on 7 March 2014, 14 May 2014, 7 September 2015 and 6 October 2017) pursuant to which the Investment Manager has been given overall responsibility for the discretionary management of the Company's assets 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 NAV. In calculating such fee, there shall be excluded from the Net Asset Value attributable to the Ordinary Shares the uninvested portion of the cash proceeds of any new issue of Shares (or C Shares) until at least 90 per cent of such proceeds are invested in accordance with the Company's investment policy (or deployed to repay borrowings under any credit facility of the Group or other liabilities of the Group) for the first time. 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 Group (see note 22). The asset origination fee to be paid by the Group is expected to be paid upon receipt by the Group of loan arrangement fees received on the deployment of the Group'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. The Company is also able to terminate the appointment of the Investment Manager in the event of a change of control of the Investment Manager. A change of control shall be deemed to occur where a person acquires a direct or indirect interest in the Investment Manager, which is calculated by reference to 15 per cent or more of the voting rights. In addition the Investment Management Agreement can be terminated by the Company for any failure to act in good faith with the due skill, care and diligence which would reasonably be expected from an experienced manager in the sector and to exercise appropriate prudence in the management of the Group's portfolio.

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

During the year the Investment Manager's performance entitlements were changed. This entitlement was previously part of the Amended and Restated Limited Partnership Agreement relating to Starfin Public LP, dated 28 November 2012, (the "Partnership Agreement") but is now incorporated within the Investment Management Agreement and Starfin Public LP has been dissolved.

The provisions relating to the performance fee will apply from 1 January 2018 and no performance fee was due in relation to prior periods. As with the Partnership Agreement, the amount of such Performance Fee is 20 per cent of the excess (if any) of the returns generated by the Group over the Hurdle Total Return (described below). In addition, however, the measurement period over which the Performance Fee is calculated was shortened from five years under the Partnership Agreement to two years, with the payment of any performance fee earned being made at the end of each such two year period. The other material terms of the Partnership Agreement were substantially grandfathered into the performance fee within the Investment Management Agreement (with appropriate changes to reflect the modification from a limited partnership interest to a contractual payment mechanism under the Investment Management Agreement).

The Hurdle Total Return will be achieved when the NAV of the Company at the end of the two year period, plus the total of all dividends declared and paid to Ordinary Shareholders in that two year period, is equal to the NAV of the Company at the start of each two year measurement period, as increased by 8 per cent per annum, on a simple interest basis (but excluding performance fees accrued and deemed as a creditor on the balance sheet at the start of the two year measurement period). No performance fee will be payable in relation to performance that recoups previous losses (if any).

b) 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 NAV exceeds £140 million 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.

c) 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.

d) Brokerage Agreement

On 21 March 2018, the Company appointed Stifel Nicolaus Europe Limited ("Stifel") to act as Broker to the Group. Stifel is entitled to receive a fee of £50,000 per annum plus expenses. The previous brokerage agreement with Fidante Partners Europe Limited was terminated on 19 March 2018.

e) 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.

f) Hedging agreements

The Company and Lloyds Bank plc entered into an international forward exchange master agreement dated 5 April 2013 and on 7 February 2014 the Company entered into a Professional Client Agreement with Goldman Sachs, 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. Both agreements are governed by the laws of England and Wales.

g) Revolving credit facility

Under its investment policy, the Company is limited to borrowing an amount equivalent to a maximum of 30 per cent of its NAV at the time of drawdown, of which a maximum of 20 per cent can be longer term borrowings. In calculating the Company's borrowings for this purpose, any liabilities incurred under the Company's foreign exchange hedging arrangements shall be disregarded.

On 4 December 2014, the Company entered into a £50 million revolving credit facility with a major UK clearing bank which is intended for short-term liquidity. This facility was amended and extended on 22 December 2015, 28 October 2016 and 6 October 2017. The current maturity date is 6 October 2018. The facility is secured by a pledge over the bank accounts of the Company, its interests in Starfin Public Holdco 1 Limited and the intercompany funding provided by the Company to Starfin Public Holdco 1 Limited. Starfin Public Holdco 1 Limited 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.

On 18 December 2017, the Group entered into a new £64 million secured borrowing facility with Morgan Stanley (the "MS Facility"). The debt can be drawn in respect of underlying loans which are eligible under the facility. Certain loans will not be eligible, for example mezzanine loans and loans above 75 per cent loan to value. It is secured by a customary security package of bank account pledges, intercompany receivables security, share security over the two borrower entities (Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l) and their shares. The MS Facility does not have recourse to the Company. The undertakings and events of default are customary for a facility of this nature.

4. DIRECTORS' FEES

	31 December 2017 £	31 December 2016 £
Directors' emoluments	122,500	122,500
Other expenses	2,916	2,307
	125,416	**124,807**

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

5. AUDIT AND NON-AUDIT FEES

	31 December 2017 £	31 December 2016 £
Audit and non-audit fees expensed in the Consolidated Statement of Comprehensive Income		
Audit of company	87,600	62,750
Audit of subsidiaries	62,788	48,220
Total audit	**150,388**	**110,970**
Audit related assurance services (Interim review)	20,500	20,000
Other assurance services	18,000	-
Total assurance services	**188,888**	**130,970**
Other non-audit services not covered above	15,721	-
Total other non-audit services	**15,721**	**-**
Total non-audit services	**15,721**	**-**
Total fees expensed	**204,609**	**130,970**
Audit and non-audit fees not expensed into Consolidated Statement of Comprehensive income		
Assurance services		
Placing programme (Equity raising)	-	5,000
Total assurance services		**5,000**
Tax compliance services (i.e. related to assistance with corporate restructuring)		
Tax advisory services	150,000	-
Total non-audit services	150,000	-

Auditor's other assurance expenses of £18,000 incurred during the year (2016: £nil) relate to Auditor's work on the Investment Circular. Auditor's professional services in relation to the Placing Programme of £nil (2016: £5,000) were recognised in the Consolidated Statement of Changes in Equity as Cost of Issues. Non-audit fees of £150,000 (2016: £nil) relate to the Group's restructuring and refinancing and these were capitalised to revolving credit facility costs.

6. NET FOREIGN EXCHANGE (LOSSES) / GAINS

	31 December 2017 £	31 December 2016 £
Loans advanced gains (realised)	12,830,447	3,289,183
Loans advanced losses (realised)	(670,240)	(2,309,471)
Forward contracts gains (realised)	191,365	1,201,629
Forward contracts losses (realised)	(8,459,530)	(1,942,172)
Other gains (realised)	210,388	800,094
Other losses (realised)	(46,526)	(901,618)
Loans advanced gains (unrealised)	3,033,221	16,616,059
Loans advanced losses (unrealised)	(10,253,871)	-
Forward contracts gains (unrealised)	7,473,888	359,219
Forward contracts losses (unrealised)	(5,044,068)	(15,433,422)
	(734,926)	**1,679,501**

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 £26,562,287 (2016: £25,248,270) and on the weighted average number of Ordinary Shares in issue during the year of 375,019,398 (2016: 332,051,239) Ordinary Shares.

The calculation of NAV per Ordinary Share is based on a NAV of £383,139,536 (2016: £380,951,026) and the actual number of Ordinary Shares in issue at 31 December 2017 of 375,019,398 (2016: 375,019,398).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	31 December 2017 £	31 December 2016 £
Cash at bank	11,750,356	31,018,181
	11,750,356	**31,018,181**

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 17.

9. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2017 £	31 December 2016 £
Arrangement fees receivable	346,593	-
Prepayments	31,510	38,131
Sundry debtors	-	15,250
	378,103	**53,381**

10. LOANS ADVANCED

The Group's accounting policy on the measurement of financial assets is discussed in note 2(g).

	31 December 2017 £	31 December 2016 £
UK		
Regional Hotel Portfolio, UK	46,329,933	-
Hotel, Channel Islands	27,262,859	27,096,842
Centre Point, London	26,379,420	45,599,157
Industrial Portfolio, UK	26,039,509	32,177,066
Hospitals, UK	25,356,064	25,354,320
Mixed Use Development, South East UK	10,886,017	8,063,336
Varde Partners Mixed Portfolio, UK	9,235,610	25,037,555
Regional Budget Hotel Portfolio, UK	-	74,998,597
5 Star Hotel, London	-	12,962,754
Center Parcs Bonds, UK	-	9,796,319
Ireland		
School, Dublin	17,111,265	-
Logistics, Dublin	13,077,887	12,714,596
Residential Portfolio, Dublin	6,947,895	6,750,309
Residential Portfolio, Cork	5,437,250	5,263,215
Retail and Residential Portfolio	-	3,687,359
Spain		
Hotel, Barcelona	41,042,007	-
Shopping Centres, Spain	30,860,627	-
France		
Office Building, Paris	22,969,095	-
Central and Eastern Europe		
Industrial Portfolio, Europe	61,020,545	-
Netherlands		
Office	-	12,058,598
Industrial Portfolio	-	22,624,425
Denmark		
Industrial Portfolio	-	35,692,414
	369,955,983	**359,876,862**

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

10. LOANS ADVANCED (CONTINUED)

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

	31 December 2017 £	31 December 2016 £
Loans advanced at the start of the year	359,876,862	307,694,827
Loans advanced	217,854,795	170,779,976
Loans repaid	(213,114,663)	(129,269,039)
Arrangement fees earned	(3,026,358)	(2,212,322)
Commitment fees earned	(297,117)	(112,404)
Accrued interest (received) / purchased on loan acquisition	-	(474,589)
Exit fees earned	(1,662,413)	(2,624,796)
Origination fees for the year	1,656,491	1,316,353
Origination expenses paid	23,273	-
Effective interest income earned	31,917,555	27,826,368
Interest payments received / accrued	(28,212,000)	(30,643,933)
Foreign exchange gains / (losses)	4,939,558	17,596,421
Loans advanced at the end of the year	**369,955,983**	**359,876,862**
Loans advanced at fair value	**382,689,045**	**382,064,552**

For further information on the fair value of loans advanced, refer to note 18.

11. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or 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 and financial instruments designated at fair value through profit and loss which are debt securities that are managed by the Group and their performance is evaluated on a fair value basis.

The underlying instruments of currency forwards 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 financial assets and liabilities at fair value through profit or loss are set out overleaf:

31 December 2017	Notional contract amount[1] £	Fair values Assets £	Fair values Liabilities £	Total £
Investments at fair value through profit or loss				
Credit Linked Notes, UK Real Estate	N/A	22,112,820	-	22,112,820
Total	**-**	**22,112,820**	**-**	**22,112,820**
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	198,329,630	17,858	(6,726,062)	(6,708,204)
Goldman Sachs	945,136	-	(18,064)	(18,064)
Total	**199,274,766**	**17,858**	**(6,744,126)**	**(6,726,268)**

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

31 December 2016	Notional contract amount[1] £	Fair values Assets £	Fair values Liabilities £	Total £
Investments at fair value through profit or loss				
Credit Linked Notes, UK Real Estate	N/A	-	-	-
Total	**-**	**-**	**-**	**-**
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	89,622,755	99,549	(8,533,965)	(8,434,416)
Goldman Sachs	16,225,478	-	(721,672)	(721,672)
Total	**105,848,233**	**99,549**	**(9,255,637)**	**(9,156,088)**

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

12. CREDIT FACILITIES

Under its investment policy, the Company is limited to borrowing an amount equivalent to a maximum of 30 per cent of its NAV at the time of drawdown, of which a maximum of 20 per cent can be longer term borrowings. In calculating the Company's borrowings for this purpose, any liabilities incurred under the Company's foreign exchange hedging arrangements shall be disregarded. The Group has two credit facilities as described in note 3(g) of these financial statements.

As at 31 December 2017 an amount of £13,330,500 (2016: £nil) was drawn and interest of £7,829 (2016: £ nil) was payable.

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

The changes in liabilities arising from financing activities as required by the Amendments to IAS 7 are shown in the below table.

	Revolving Credit Facility	
	2017	2016
Borrowings as at 1 January	**-**	**(8,162,405)**
Proceeds	(34,784,000)	(45,954,376)
Repayments	21,500,000	55,010,900
Interest accrued	(72,834)	(308,523)
Interest paid	65,005	315,112
Foreign exchange	(46,500)	(900,708)
Borrowings as at 31 December	**(13,338,329)**	**-**

13. TRADE AND OTHER PAYABLES

	31 December 2017 £	31 December 2016 £
Refinancing and restructuring fees payable	1,148,310	-
Investment management fees payable	713,498	716,308
Origination fees payable	275,830	-
Administration fees payable	109,354	67,329
Revolver commitment fees payable	106,979	29,918
Audit fees payable	72,620	56,601
	2,426,591	**870,156**

14. COMMITMENTS

As at 31 December 2017 the Company had outstanding commitments in respect of loans not fully drawn of £11,305,160 (2016: £6,851,061).

As at 31 December 2017 the Company has entered into forward contracts under the Hedging Master Agreement with Lloyds Bank plc to sell €223,168,257 (2016: €59,886,719) and Kr nil (2016: Kr333,042,060) to receive Sterling. At the end of the reporting period, these forward contracts have a fair value of £6,708,204 liability (2016: £8,434,416 liability).

As at 31 December 2017 the Company has entered into forward contracts under the Professional Client Agreement with Goldman Sachs to sell €1,063,504 (2016: €18,932,880) and receive Sterling. At the end of the reporting period, these forward contracts have a fair value of £18,064 liability (2016: £721,672 liability).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

15. 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.

At the year end the Company had issued and fully paid up share capital as follows:

	31 December 2017 £	31 December 2016 £
Ordinary Shares of no par value Issued and fully paid	375,019,398	375,019,398

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

1 January 2017 to 31 December 2017:

Ordinary Shares	Number	£
Balance at start of the year	375,019,398	379,480,650
Shares issued in 2017	-	-
Balance at the end of the year	**375,019,398**	**379,480,650**
Issue costs to date		(7,550,668)
Net proceeds		**371,929,982**

1 January 2016 to 31 December 2016:

Ordinary Shares	Number	£
Balance at start of the year	304,180,000	306,480,650
Shares issued on 12 August 2016	70,839,398	73,000,000
Balance at the end of the year	**375,019,398**	**379,480,650**
Issue costs to date		(7,550,668)
Net proceeds		**371,929,982**

16. 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 year to 31 December 2017:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2017	1.625	6,094,065	16 May 2017
30 June 2017	1.625	6,094,065	25 August 2017
30 September 2017	1.625	6,094,065	17 November 2017

After the end of the year, the Directors declared a dividend in respect of the financial year ended 31 December 2017 of 1.625 pence per share, £6,094,065 to be paid as at 23 February 2018 to shareholders on the register as at 9 February 2018.

The Company paid the following dividends in respect of the year to 31 December 2016:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2016	1.625	4,942,925	19 May 2016
30 June 2016	1.625	4,942,925	25 August 2016
30 September 2016	1.625	6,094,065	4 November 2016
31 December 2016	1.625	6,094,065	17 February 2017

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

17. 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.

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 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:

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. The Group considers that there is no material market price risk at the end of the reporting period for CLNs due to the CLNs investments having been acquired close to the year end and the Directors' assessment that there are no significant market movements in the gap period to the year end.

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 ongoing 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.

The Company and Lloyds Bank plc entered into an international forward exchange master agreement dated 5 April 2013 and on 7 February 2014 the Company entered into a Professional Client Agreement with Goldman Sachs, 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 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 Consolidated Statement of Financial Position date and movements in the fair value are included in the Consolidated Statement of Comprehensive Income under net foreign exchange losses/(gains). The Company does not adopt hedge accounting in the financial statements. At the end of the reporting period the Company had 114 (2016: 106) open forward contracts.

As at 31 December 2017 the Company had the following currency exposure:

31 December 2017	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	-	171,489,412	198,466,571	369,955,983
Financial assets at fair value through profit or loss	-	22,112,820	-	22,112,820
Other receivables and prepayments	-	31,510	346,593	378,103
Cash and cash equivalents	(2,618)	11,297,839	455,135	11,750,356
Liabilities				
Financial liabilities at fair value through profit or loss	-	(6,726,268)	-	(6,726,268)
Revolving credit facility	-	-	(13,338,329)	(13,338,329)
Trade and other payables	-	(297,883)	(2,128,708)	(2,426,591)
Net currency exposure	**(2,618)**	**197,907,430**	**183,801,262**	**381,706,074**

As at 31 December 2016 the Company had the following currency exposure:

31 December 2016	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	35,692,414	261,085,946	63,098,502	359,876,862
Other receivables and prepayments	-	53,381	-	53,381
Cash and cash equivalents	1,287,053	29,007,907	723,221	31,018,181
Liabilities				
Financial liabilities at fair value through profit or loss	-	(9,156,088)	-	(9,156,088)
Trade and other payables	-	(870,156)	-	(870,156)
Net currency exposure	**36,979,467**	**280,120,990**	**63,821,723**	**380,922,180**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 2017 would increase or decrease by £18,380,126 (2016: £6,382,172). Should the exchange rate of the Danish Krone against Sterling increase or decrease by 10 per cent with all other variables held constant, the net assets of the Group at 31 December 2017 would increase or decrease by £262 (2016: £3,697,947). These percentages have been determined based on potential volatility and deemed reasonable by the Directors. This does not include the impact of hedges in place which would be expected to reduce the impact.

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.

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 at amortised cost, credit linked notes, 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 and 75.2% of investments designed as loans advanced at 31 December 2017 have a floating interbank interest rate. The interest rate risk is mitigated by the inclusion of interbank rate floors on floating rate loans, preventing interest rates from falling below certain levels.

The following table shows the portfolio profile of the financial assets at 31 December 2017:

	31 December 2017 £	31 December 2016 £
Floating rate		
Loans advanced[1]	292,103,935	242,693,741
Cash and cash equivalents	11,750,356	31,018,181
Fixed rate		
Financial assets at fair value through profit or loss	22,112,820	-
Loans advanced	77,852,048	117,183,121
Total financial assets subject to interest rate risk	**403,819,159**	**390,895,043**

[1] Loans advanced at floating rates include loans with interbank rate floors.

If interest rates had changed by 25 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:

	31 December 2017 £	31 December 2016 £
Floating rate		
Increase of 25 basis points[1]	814,918	684,280
Decrease of 25 basis points	(814,918)	(684,280)

[1] The calculation assumes no interbank rate floors.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 investment portfolio, shown as loans advanced at amortised cost and credit linked notes designated at fair value through profit or loss, 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 31 December 2017 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 foreign exchange derivatives which is diversified between hedge providers in order to spread credit risk to which the Group is exposed.

With respect to the credit linked notes designated at fair value through profit or loss, the Group holds junior notes linked to the performance of a portfolio of high quality UK real estate loans owned by a major commercial bank. The transaction is structured as a synthetic securitisation with risk transfer from the bank to the Group achieved via the purchase of credit protection by the bank on the most junior tranches. The credit risk to the Group is the risk that one of the underlying borrowers defaults on their loan and the Group is required to make a payment under the credit protection agreement. Despite the different way in which the transaction has been structured the Group considers the risks to be fundamentally the same as any other junior loan in the portfolio and monitors and manages this risk in the same way as the other loans advanced by the Group.

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 31 December 2017, the maximum credit risk exposure was £404,165,752 (2016: £390,910,293).

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.

The Group maintains its cash and cash equivalents across various different banks to diversify credit risk which have been all rated A1 or higher by Moody's and this is subject to the Group's credit risk monitoring policies as mentioned above.

31 December 2017	Total as at 31 December 2017 £
Barclays Bank plc	11,596,030
Lloyds Bank plc	854
HSBC Bank plc	76
Royal Bank of Scotland International	123
ING Luxembourg, SA	153,273
Total cash and cash equivalents	**11,750,356**

31 December 2016	Total as at 31 December 2016 £
Barclays Bank plc	31,001,274
Lloyds Bank plc	894
HSBC Bank plc	74
Royal Bank of Scotland International	193
ING Luxembourg, SA	15,746
Total cash and cash equivalents	**31,018,181**

The carrying amount of cash and cash equivalents approximates their fair value.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 30 per cent of NAV and has entered into revolving credit facilities totalling £114,000,000 (2016: £60,000,000) of which £13,330,500 (2016: £nil) was drawn at the end of the reporting period.

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 end of the reporting date. The amounts disclosed under assets 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 2017	Up to 3 months £	Between 3 and 12 months £	Over 1 year £	Total £
Assets				
Loans advanced	-	26,379,420	343,576,563	369,955,983
Financial assets at fair value through profit or loss	-	-	22,112,820	22,112,820
Liabilities and commitments				
Loan commitments[1]	(613,241)	(7,237,382)	(3,454,537)	(11,305,160)
	(613,241)	**19,142,038**	**362,234,846**	**380,763,643**

[1] Loan commitments are estimated forecasted drawdowns at year end.

31 December 2016	Up to 3 months £	Between 3 and 12 months £	Over 1 year £	Total £
Assets				
Loans advanced	-	51,694,797	308,182,065	359,876,862
Liabilities and commitments				
Loan commitments	(156,734)	(3,365,607)	(3,328,720)	(6,851,061)
	(156,734)	**48,329,190**	**304,853,345**	**353,025,801**

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 end of the reporting date. The amounts disclosed are the contractual undiscounted cash flows:

31 December 2017

Derivatives	Up to 3 months £	Between 3 and 12 months £	More than 1 year £	Total as at 31 December 2017 £
Goldman Sachs:				
Foreign exchange derivatives				
Outflow[1]	-	-	1,945,136	1,945,136
Inflow	-	-	981,260	981,260
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow[1]	2,464,050	29,834,871	166,030,710	198,329,631
Inflow	2,466,405	29,962,789	171,725,189	204,154,383

31 December 2016

Derivatives held for trading	Up to 3 months £	Between 3 and 12 months £	More than 1 year £	Total as at 31 December 2016 £
Goldman Sachs:				
Foreign exchange derivatives				
Outflow[1]	259,152	3,870,200	12,096,127	16,225,479
Inflow	249,619	3,336,270	12,174,796	15,760,685
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow[1]	1,016,205	2,645,809	85,960,740	89,622,754
Inflow	894,776	3,099,571	80,185,670	84,180,017

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 attribute 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 and subsequent tap issues and placings) 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 ongoing basis. The Company has no imposed capital requirements.

The Company's capital at the end of the reporting period comprises:

	31 December 2017 £	31 December 2016 £
Equity		
Equity share capital	371,929,982	371,929,982
Retained earnings and translation reserves	11,209,554	9,021,044
Total capital	**383,139,536**	**380,951,026**

18. FAIR VALUE MEASUREMENT

IFRS 13 requires the Group 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 rates, 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:

31 December 2017

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Investments at fair value through profit or loss	-	-	22,112,820	22,112,820
Total	**-**	**-**	**22,112,820**	**22,112,820**
Liabilities				
Derivative liabilities	-	(6,726,268)	-	(6,726,268)
Total	**-**	**(6,726,268)**	**-**	**(6,726,268)**

31 December 2016

	Level 1 £	Level 2 £	Level 3 £	Total £
Liabilities				
Derivative liabilities	-	(9,156,088)	-	(9,156,088)
Total	**-**	**(9,156,088)**	**-**	**(9,156,088)**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

Investments classified within Level 3 consist of Credit Linked Notes ("CLNs"). The fair value of the CLNs is determined by the Investment Adviser using a discounted cash flow valuation model. The main inputs into the valuation model for the CLNs are discount rates, market risk factors, probabilities of default, expected credit loss levels and cash flow forecasts. The Investment Adviser also considers the original transaction price and recent transactions of comparable instruments (where available) and adjusts the valuation model as deemed necessary.

The Directors are responsible for considering the methodology and assumptions used by the Investment Adviser and for approving the fair values reported at the financial period end.

The fair value of the CLNs held as at 31 December 2017 is £22 million (2016: £nil). The CLNs were purchased on 22 December 2017, and hence the transaction price has been deemed to be a proxy for the fair value since there were no significant market movements or changes to the underlying cash flow forecasts in the period from purchase date of the CLNs to the year end.

The most significant input to the valuation model is the discount rate applied to the cash flows. As at 31 December 2017, if the discount rate was to increase/decrease by 1%, the fair value of the CLNs would reduce/increase by £637/£665 thousand.

No Level 3 investments movement schedule has been presented for the financial year ended 31 December 2017, as the purchase amount of £22 million is the fair value as at the period end, and there were no disposals or unrealised fair value gains in relation to Level 3 investments in the period.

There have been no transfers between levels for the year ended 31 December 2017 (2016: nil).

The following tables summarise within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2017 and 31 December 2016 but for which fair value is disclosed:

31 December 2017

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Cash and cash equivalents	-	11,750,356	-	11,750,356	11,750,356
Other receivables and prepayments	-	378,103	-	378,103	378,103
Loans advanced	-	-	382,689,045	382,689,045	369,955,983
Total	**-**	**12,128,459**	**382,689,045**	**394,817,504**	**382,084,442**
Liabilities					
Trade and other payables	-	2,426,591	-	2,426,591	2,426,591
Credit facility	-	13,338,329	-	13,338,329	13,338,329
Total	**-**	**15,764,920**	**-**	**15,764,920**	**15,764,920**

31 December 2016

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Cash and cash equivalents	-	31,018,181	-	31,018,181	31,018,181
Other receivables and prepayments	-	53,381	-	53,381	53,381
Loans advanced	-	-	382,064,552	382,064,552	359,876,862
Total	**-**	**31,071,562**	**382,064,552**	**413,136,114**	**390,948,424**
Liabilities					
Trade and other payables	-	870,156	-	870,156	870,156
Total	**-**	**870,156**	**-**	**870,156**	**870,156**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

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 consolidated financial statements.

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. Credit facility and trade and other payables represent the contractual amounts and obligations due by the Group for contractual payments.

19. 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.

20. 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 £1,200.

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

	31 December 2017 £	31 December 2016 £
Current tax		
Current tax on profit for the year	3,310	3,022
Tax refund for previous periods	(1,190)	-
Total current tax	**2,120**	**3,022**

The Luxco had no operating gain on ordinary activities before taxation and was therefore for the year ended 31 December 2017 subject to the Luxembourg minimum net wealth tax at €3,210 (2016: €3,210). The Luxco 3 and Luxco 4 were not subject to minimum net wealth tax in 2017 due to formation closer to year end.

21. RECONCILIATION OF IFRS TO US GAAP

To meet the requirements of Rule 206(4)-2 under the Investment Advisers 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 38 to 44, 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 IFRS 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.

The Directors have assessed the operating profit and NAV of the Company and Group under both IFRS and US GAAP and have concluded that no material differences were identified and therefore no reconciliation has been presented in these financial statements.

22. 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 3 to the consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

The following tables summarise the transactions occurred with related parties during the reporting period and outstanding at 31 December 2017 and 31 December 2016:

2017

Fees, expenses and other payments	Outstanding at 31 December 2017 £	For the year ended 31 December 2017 £
Directors' fees and expenses paid		
Stephen Smith	-	47,500
John Whittle	-	40,000
Jonathan Bridel	-	35,000
Expenses paid	-	2,916
Investment Manager		
Investment management fees	716,498	2,844,140
Origination fees	275,830	1,944,641
Expenses	-	47,636

2016

Fees, expenses and other payments	Outstanding at 31 December 2016 £	For the year ended 31 December 2016 £
Directors' fees and expenses paid		
Stephen Smith	-	47,500
John Whittle	-	40,000
Jonathan Bridel	-	35,000
Expenses paid	-	2,307
Investment Manager		
Investment management fees	716,308	2,527,199
Origination fees	-	1,316,353
Expenses	-	39,885
Sundry debtors	15,250	-

The following tables summarise the dividends paid to related parties during the reporting period and number of Company's shares held by related parties at 31 December 2017 and 31 December 2016:

2017

Shareholdings and dividends paid	Dividends paid for the year ended 31 December 2017 £	As at 31 December 2017 Number of shares
Starwood Property Trust Inc.	594,100	9,140,000
SCG Starfin Investor LP	148,525	2,285,000
Stephen Smith	5,130	78,929
John Whittle	771	11,866
Jonathan Bridel	771	11,866

2016

Shareholdings and dividends paid	Dividends paid for the year ended 31 December 2016 £	As at 31 December 2016 Number of shares
Starwood Property Trust Inc.	594,100	9,140,000
SCG Starfin Investor LP	148,525	2,285,000
Stephen Smith	5,130	78,929
John Whittle	771	11,866
Jonathan Bridel	771	11,866

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
Centre Point, London	STWD, Starfin TC
Mixed Use Development, South East UK	STWD
Credit Linked Notes, UK Real Estate Loans	STWD

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017

23. EVENTS AFTER THE REPORTING PERIOD

The following new commitments have been made since the year end, up to 26 March 2018:

	Local Currency
Student Accomodation, Dublin	€11,250,000
Shopping Centre, Spain	€17,000,000
Hotel, Dublin	€60,000,000
Residential, Dublin	€9,000,000
Hotel, Spain	€55,000,000

£655,198 has also been drawn under the outstanding commitments on the Mixed Use Development, South East UK.

The Company has drawn additional funds on its credit facilities in order to fund the new investments shown above. At 26 March 2018 the amounts drawn under each facility is:

- Morgan Stanley - €34 million
- Lloyds - €41.6 million

The following loan amortisation (both scheduled and unscheduled) has been received since the year end up to 26 March 2018:

	Local Currency
Varde Partners Mixed Portfolio, UK	£2,673,464
Industrial Portfolio, Central and Eastern Europe	€3,807,024
Industrial Portfolio, UK	£6,883,661
Logistics, Dublin, Ireland	€38,967
Residential Portfolio, Dublin, Ireland	€58,029

The following loans have been repaid in full since the year end up to 26 March 2018:

	Local Currency
Residential Portfolio, Cork, Ireland	€5,983,437
Centre Point, London	£25,438,707

On 26 January 2018 the Company declared a dividend of 1.625 pence per Ordinary Share payable to shareholders on the register on 9 February 2018.

Corporate Information

STARWOOD
EUROPEAN REAL ESTATE FINANCE

Directors

Stephen Smith (Non-executive Chairman)

Jonathan Bridel (Non-executive Director)

John Whittle (Non-executive Director)

(all care of the registered office)

Investment Manager

Starwood European Finance Partners Limited
1 Royal Plaza
Royal Avenue
St Peter Port
Guernsey
GY1 2HL

Solicitors to the Company (as to English law and U.S. securities law)

Norton Rose LLP
3 More London Riverside
London
SE1 2AQ
United Kingdom

Registrar

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

Broker

Stifel Nicolaus Europe Limited trading as Stifel
150 Cheapside
London
EC2V 6ET
United Kingdom

Administrator, Designated Manager and Company Secretary

Ipes (Guernsey) Limited
1 Royal Plaza
Royal Avenue
St Peter Port
Guernsey
GY1 2HL

Registered Office

1 Royal Plaza
Royal Avenue
St Peter Port
Guernsey
GY1 2HL

Investment Adviser

Starwood Capital Europe Advisers, LLP
2nd Floor
One Eagle Place
St. James`s
London
SW1Y 6AF
United Kingdom

Advocates to the Company (as to Guernsey law)

Carey Olsen
PO Box 98
Carey House, Les Banques
St Peter Port
Guernsey
GY1 4HP

Independent Auditor

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

Principal Bankers

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

Website:
www.starwoodeuropeanfinance.com