

Starwood European Real Estate Finance Limited

# Interim Financial Report and Unaudited Condensed Consolidated Financial Statements

for the six month period from 1 January 2017  
to 30 June 2017



## Overview

Corporate Summary	2
Chairman's Statement	3
Investment Manager's Report	6
Principal Risks	11

## Governance

Board of Directors	12
Statement of Directors' Responsibilities	13

## Financial Statements

Independent Review Report	14
Unaudited Condensed Consolidated Statement of Comprehensive Income	15
Unaudited Condensed Consolidated Statement of Financial Position	16
Unaudited Condensed Consolidated Statement of Changes in Equity	17
Unaudited Condensed Consolidated Statement of Cash Flows	18
Notes to the Unaudited Condensed Consolidated Financial Statements	19

## Further Information

Corporate Information	32
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# CONTENTS

# Corporate Summary

## PRINCIPAL ACTIVITIES AND INVESTMENT OBJECTIVE

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

The Group seeks to limit downside risk by focusing on secured debt with both quality collateral and contractual protection. The typical loan term is between three and seven years.

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

## STRUCTURE

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

issues took place in March 2013, April 2013, July 2015, September 2015 and August 2016. The issued capital during the period comprises the Company’s Ordinary Shares denominated in Sterling.

The Company makes its investments through Luxco, an indirect wholly-controlled subsidiary not subject to regulation in Luxembourg or elsewhere. The Company’s interest in Luxco is held through a Guernsey limited partnership, Starfin Public LP of which Starfin Public GP Limited is the General Partner. The GP is wholly owned and controlled by the Company. Starfin Carry LP (the “Special Limited Partner”) is the only other Limited Partner of the Partnership and is majority owned by the Starwood Capital Group (“Starwood”) and has no control over the GP.

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

# Chairman's Statement



**STEPHEN SMITH | Chairman**

8 September 2017

## Dear Shareholder,

I am delighted to present the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements of Starwood European Real Estate Finance Limited for the period from 1 January 2017 to 30 June 2017.

## INVESTMENT

The first half of 2017 was another strong six months for the Group and a rewarding one for Shareholders. We continue to achieve our dividend objectives and deliver on our investment strategy through an increased volume of lending, notwithstanding significant loan repayments in the period.

As at 30 June 2017, the Group was fully invested with investments and commitments of £396.1 million, with £2.4 million of cash and £7.5 million drawn on the revolving credit facility. The Group experienced substantial loan repayments in the first half of the year, but despite this, the loan book increased by £30.3 million due to new commitments. The table below shows the commitments and repayments in the first half for the last three years, which highlights this strengthening trend.

	Commitments	Repayments & Amortisation	Net Increase in Investments plus Commitments
H1 2015	£31.3 m	£21.9 m	£9.4 m
H1 2016	£98.9 m	£92.1 m	£6.8 m
H1 2017	£115.5 m	£85.2 m	£30.3 m

In the last three years, repayments in the second half of the year have tended to be lower than the first half of the year, averaging between £20.0 - £45.0 million. Whilst it is difficult to forecast potential repayments, we anticipate that the second half of 2017 may see repayments at a similar level to the first half of the year and the Group will seek to minimise cash drag from potential repayments by utilising the revolving credit facility.

# Chairman's Statement

## REALISATION OFFER, REALISATION VOTE AND CHANGES TO 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 is put to Shareholders. If Shareholders did not vote for the realisation then the Company would continue in existence as currently constituted.

As announced on 23 August 2017, the Company has proposed the deferral of the Realisation Offer and Realisation Vote mechanisms by five years and then subject to a five year rolling basis thereafter. These proposals are summarised in detail in the aforesaid announcement. A circular convening an extraordinary general meeting to consider these changes was despatched on 7 September 2017.

The circular also contains details of certain other proposals which require your approval, including amendments to the Investment Management Agreement.

Again further details of these proposals were set out in the announcement of 23 August 2017.

## EQUITY ISSUANCE

The Company will be closely monitoring potential repayments and will continue to evaluate the impact of these when considering equity issuance in the second half of the year.

At the forthcoming EGM, and following the new EU Prospectus Regulations which came into force on 20 July 2017, the Board intends to seek approval for the authority to disapply pre-emption rights on the allotment of equity securities to increase from 10 per cent to 20 per cent of the Ordinary Shares in issue. Shares will only be issued at a premium to their last-published net asset value.

This increased authority and added flexibility will enable the Company to react effectively to opportunities to raise additional equity without publishing a prospectus. This may arise in the second half of the year, when origination activity is typically stronger, whilst managing the expected repayments noted above. The authority will supplement the authority obtained at the AGM which permits the company to issue up to 300 million shares pursuant to a placing programme (for which a prospectus will be required).

## OUTLOOK

Since 30 June 2017, one loan has been repaid for €13.8 million and the Company remains substantially fully invested. The Investment Adviser has a number of opportunities currently under review and the Company will continue to update Shareholders by way of the quarterly fact sheets and investment updates when deals are signed.

The Company continues to target a dividend at an annualised rate of 6.5 pence per Ordinary Share and has declared a dividend of 1.625 pence per Ordinary Share (6.5 pence annualised) for each of the first two quarters of 2017.

## GOING CONCERN

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

The Directors have undertaken a rigorous review of the Group's ability to continue as a going concern including a review of the on-going cash flows and the level of cash balances as of the reporting date as well as forecasts of future cash flows. After making enquiries of the Investment Manager and the Administrator and having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements.

**On behalf of the Board, I would like to close by thanking my fellow Shareholders for their commitment and I look forward to updating you on the Group's progress early next year.**

**Stephen Smith**

Chairman

8 September 2017

# Investment Manager's Report

## INVESTMENT DEPLOYMENT

As at 30 June 2017, the Group had investments and commitments of £396.1 million as shown in the table on the right:

Between 31 December 2016 to 30 June 2017, the following significant investment activity occurred (included in the table on the right):

### **New Loan – Industrial Portfolio, Hungary, Poland, Czech Republic:**

On 30 March 2017, the Group committed to provide a €68.5 million whole loan relating to the acquisition of a portfolio of industrial assets located across Central and Eastern Europe. The three year floating rate loan represented 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 funded on 31 May 2017.

### **New Loan – Hotel, Barcelona, Spain:**

On 31 March 2017, the Group advanced a €46.0 million four year floating rate whole loan relating to the acquisition of a four-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. The transaction represented the Group's entry to the Spanish market, a large market opportunity with attractive real estate fundamentals and macroeconomic growth trends.

### **New Loan – School, Dublin, Ireland:**

On 31 March 2017, the Group advanced a €18.85 million three year floating rate whole loan to support the acquisition and repositioning of a South Dublin office building. The building will be converted for 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.

	Sterling equivalent principal balance <sup>(1)</sup>	Sterling equivalent unfunded commitments <sup>(1)</sup>
Centre Point, London	£45.0 m	-
5 Star Hotel, London	£13.0 m	-
Industrial Portfolio, UK	£25.5 m	-
Hospitals, UK	£25.0 m	-
Hotel, Channel Islands	£26.9 m	-
Varde Partners mixed portfolio, UK	£17.0 m	-
Mixed use development, South East UK	£8.5 m	£5.4 m
Regional Budget Hotel, Portfolio, UK	£75.0 m	-
<b>Total Sterling Loans</b>	<b>£235.9 m</b>	<b>£5.4 m</b>
Office, Netherlands	£12.2 m	-
Residential Portfolio, Cork, Ireland	£5.3 m	-
Residential Portfolio, Dublin, Ireland	£6.8 m	-
Logistics, Dublin, Ireland	£13.1 m	-
Hotel, Barcelona, Spain	£40.5 m	-
School, Dublin, Ireland	£16.6 m	-
Industrial Portfolio, Hungary, Poland, Czech Republic	£60.3 m	-
<b>Total Euro Loans</b>	<b>£154.8 m</b>	<b>-</b>
<b>Total Portfolio</b>	<b>£390.7 m</b>	<b>£5.4 m</b>

<sup>(1)</sup> Euro balances translated to sterling at 30 June 2017 exchange rates.

The transaction adds to the diversity of the Group's portfolio with its first loan backed by an educational use.

### **Repayment – Industrial Portfolio, Denmark:**

On 3 March 2017, the Group received full repayment of DKK302.3 million on the Industrial Portfolio, Denmark loan as a result of a sale of the portfolio by the borrower. 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 benefited from such provisions, meaning that the Group experienced no cash drag on the

repayment of the loan for a number of months after repayment.

### **Repayment – Industrial Portfolio, Netherlands:**

On 16 March 2017, the Group received full repayment of €26.1 million on the Industrial Portfolio, Netherlands loan as a result of a sale of the portfolio by the borrower.

### **Repayment – Retail & Residential Portfolio, Ireland:**

On 6 June 2017, the Group received a final repayment of €2.5 million on the Retail & Residential Portfolio, Ireland following completion of the execution of the borrower's business plan.

**Repayment – Center Parcs bonds, 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% following a refinancing. The repayment premium is equivalent to approximately eight months of make whole interest.

**Repayment – Other loans:**

During the period the Group continued to receive smaller amounts of amortisation on other loans as borrowers continue to execute their business plans, in particular the Varde Partners mixed portfolio and the Industrial Portfolio, UK loans.

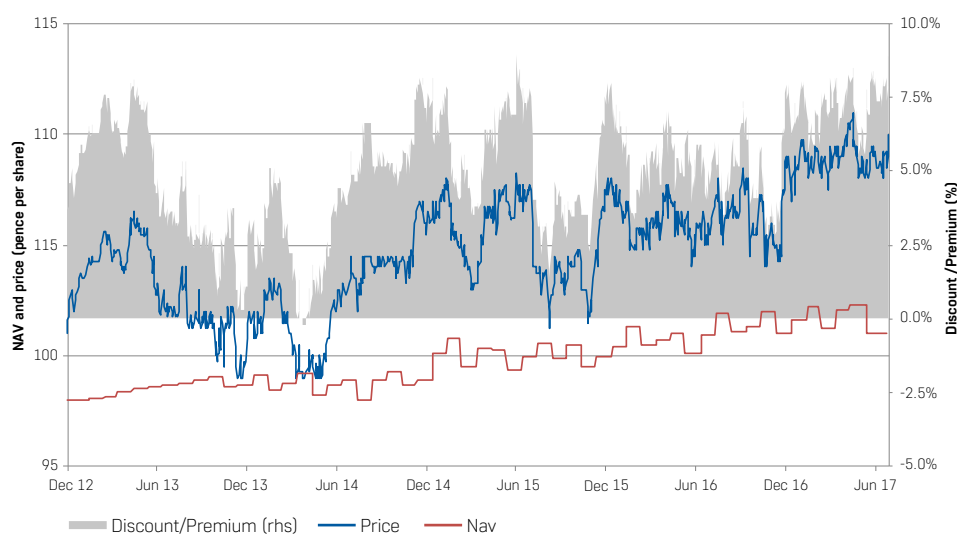
**The following activity occurred after 30 June 2017:****Repayment – Office, Netherlands:**

On 18 July 2017, the Group received full repayment of €13.8 million on the office, Netherlands loan following a refinancing by the borrower. The funds were used to repay the £7.5 million balance outstanding on the revolving credit facility at that time.

Following this activity, and further small amounts of amortisation received on other loans in the period, the Group remains substantially fully invested with cash of £10.6 million and no amounts drawn on the revolving credit facility as at 31 August 2017.

## COMPANY PERFORMANCE

### SHARE PRICE, NAV AND DISCOUNT/PREMIUM

**NAV and Share price performance**

As at 30 June 2017, the Net Asset Value (the “NAV”) was 101.88 pence per Ordinary Share and the share price was 108.25 pence.

# Investment Manager's Report

## Portfolio Statistics

As at 30 June 2017, the portfolio was invested in line with the Group's investment policy and this is summarised below.

Number of investments	<b>15</b>
Percentage of currently invested portfolio in floating rate loans <sup>(1)</sup>	<b>73.2%</b>
Invested Loan Portfolio annualised total return <sup>(2)</sup>	<b>7.9%</b>
Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>	<b>17.8%</b>
Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>	<b>63.9%</b>
Average loan term (stated maturity at inception)	<b>4.4 years</b>
Average remaining loan term	<b>3.1 years</b>
Net Asset Value	<b>£382.1m</b>
Amount drawn under Revolving Credit Facility (excluding accrued interest)	<b>(£7.5m)</b>
Portfolio value (including accrued income)	<b>£393.4m</b>
Cash	<b>£2.4m</b>
Other net assets/ (liabilities) (including hedges)	<b>(£6.2m)</b>

<sup>(1)</sup> Calculated on loans drawn at the reporting date using the exchange rates applicable when the loans were funded.

<sup>(2)</sup> Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. Twelve 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.

<sup>(3)</sup> 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.

As discussed in the Chairman's Statement, the Group once again experienced substantial loan repayments in the first half of the year. These came to £85.2 million of repayments and amortisation. Notwithstanding this, the Group has remained fully invested throughout due to another strong first half of origination activity. A number of loans repaid in the first half also benefited from make-whole protection, which further enhanced the earnings for the first half of the year and provided protection against potential cash drag.

In the last three years, the Group's loan repayments in the last six months of the year have tended to be in the range of £20.0 - £45.0 million, as shown in the table below.

	<b>Repayments</b>
H2 2014	£44.9 m
H2 2015	£21.5 m
H2 2016	£37.2 m

It can be difficult to forecast the timing of any potential repayments, as this often depends on many factors including but not limited to the execution of the underlying borrower's business plan. However, we currently anticipate that the second half of 2017 may see repayments at a similar level to the first half of the year and we will continue to seek to minimise cash drag from any potential repayments by utilising the revolving credit facility where appropriate.

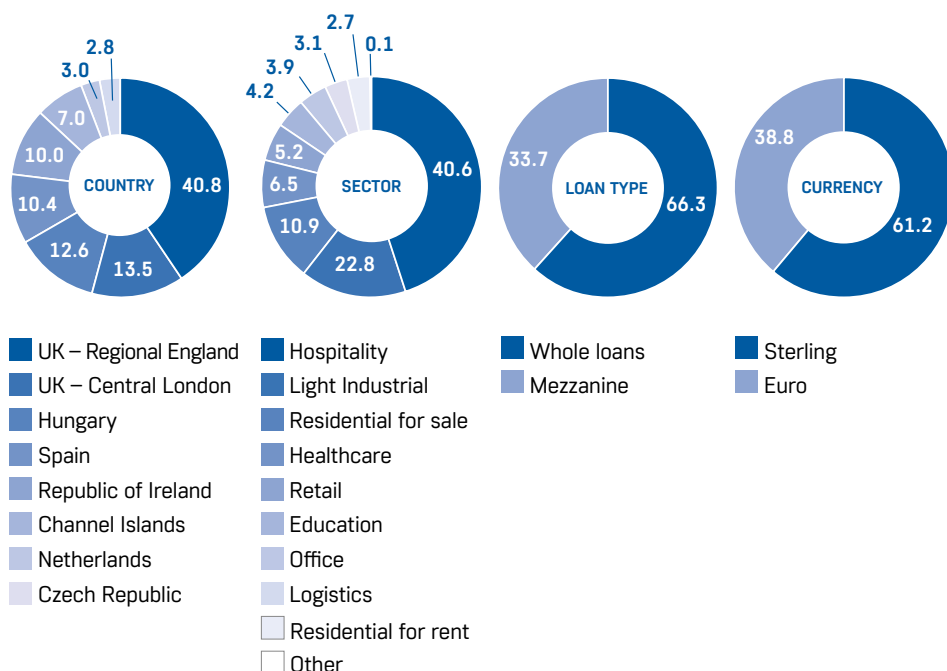
The maturity profile of investments as at 30 June 2017 is shown on the next page. This illustrates that £51.1 million or 13.1 per cent of the portfolio had contractual maturity in 0 to 1 years, and we expect most of this repayment to occur in the second half of 2017. The Office, Netherlands loan, which repaid on 18 July 2017, is included in 1 to 2 remaining years in the table opposite.

Remaining years to contractual maturity <sup>1</sup>	Principal value of loans	% of invested portfolio
0 to 1 years	£51.1 m	<b>13.1%</b>
1 to 2 years	£37.7 m	<b>9.6%</b>
2 to 3 years	£121.4 m	<b>31.1%</b>
3 to 5 years	£155.5 m	<b>39.8%</b>
5 to 10 years	£25.0 m	<b>6.4%</b>

<sup>1</sup> Excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

The Group continues to achieve good portfolio diversification as shown in the graphs below:

#### % of invested assets



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

## MARKET SUMMARY AND INVESTMENT OUTLOOK

A number of property finance research pieces focussed on the UK were released during the quarter. These include the De Montfort University lending survey, Savills Financing Property 2017 presentation, Laxfield Capital's 8th Property Finance Barometer and a new piece of research: Capita's inaugural Real Estate Finance Market Trend Analysis.

The De Montfort University lending survey is the leading commercial property financing research piece on the UK market. The semi-annual report provides insights into the opaque lending market with hard data sourced from many market participants including the Group. The year end 2016 survey was released at the beginning of May and reports that total year end 2016 debt secured by commercial real estate in the UK is relatively unchanged at £208.7 billion, down 1.5 per cent year on year. The Brexit effect can be seen in a number of the outputs, with average loan-to-values ("LTVs") down, and average margins up slightly; but the largest effect has been a reduced acquisition financing volume as transaction numbers fell. Average LTVs for prime office lending are down 5 per cent, margins are up 15 basis points between year end 2015 and year end 2016 and new loan origination is down 17 per cent to £44.5 billion. A larger proportion of activity, at 61 per cent of the total is refinancing compared to 44 per cent in 2015.

The proportion of loans made by UK Banks was higher at 47 per cent this year versus 34 per cent last year. This is likely related to the larger proportion of refinancings versus new acquisitions, where incumbent UK banks benefit from existing relationships within the lending book. Syndications are down from £18 billion to £14 billion, reflecting a lack of paper rather than a lack of appetite. Lending volumes continue to be dominated by a small number of players – 62 per cent of new loan origination by volume came from only 12 institutions (six UK banks, two German banks, one North American bank, one insurance company and two other international banks). Only UK banks and non-bank lenders reported

# Investment Manager's Report

larger balance sheets at year end 2016 than 2015. In particular origination volume by US banks fell 56 per cent and insurance companies fell 46 per cent (reflecting reduced larger transaction activity). Non-bank lenders continue to take a market share of around 10 per cent of the market. 76 per cent of mezzanine / junior debt is held by non-bank lenders with a further 18 per cent held by insurance companies and only 6 per cent held by banks.

The Savills' report repeats many of the findings from the De Montfort Survey, which was published a month earlier, adding some further observations in their Financing Property 2017 report. Savills write that "Property has rarely been so financeable" comparing the UK All Property Equivalent Yield and average all in cost of money and showing the all in cost of real estate debt is at historical lows and the spread between property yield and financing cost being at historical highs. Savills also note that development finance is not growing significantly and is at less than half the levels of 2007 and 2008. This theme is in line with what we are seeing in the market but we also see a risk that as an increasing amount of development financing is being provided by alternative lenders (especially on the larger tickets), this could be missed from survey data, as these lenders are less likely to report their lending to the survey.

Both Savills' and Capita's reports highlight the general desire of the lending community to do new business. Savills quote 81 per cent of lenders expressing a desire to increase their lending while Capita say that 52 per cent of lenders are looking to grow their lending teams and 71 per cent are looking to grow their lending book over the next year. Both highlight the variety of different lender types in the market and there is such a diversity that Capita divide lenders into twelve separate categories.

Capita's report was released after the general election: interestingly they see very little macro nervousness among lenders despite uncertainties from Brexit and the recent general election. Evidence of the market shrugging off Brexit uncertainties

for prime London properties can be seen in lower margins being achieved on recent larger London financings. For example, according to Debtwire the "Cheesegrater" (122 Leadenhall Street) financing for CC Land was priced at Libor+ 150bps and, also according to Debtwire, London and Regional have refinanced 55 Baker Street at 175bps over Libor for the 60 per cent LTV senior loan and 450bps over Libor for the 60-70 per cent LTV junior loan. This represents some of the lowest post global financial crisis mezzanine pricing we have seen in the UK.

The challenge to obtain UK development financing can be seen in the results of the Laxfield survey which shows that borrowers' development loan margin expectations are up 21 per cent in the six month period ending 31 March 2017 versus the previous six month period. This appears to be an issue which is affecting the UK specifically and we continue to see much stronger availability of development financing in most other countries around Europe. Laxfield report the six months ending 31 March 2017 was the second slowest by volume after the preceding six months, with volumes of UK commercial property financing requests down by 20 per cent on the same period last year from £11.8 billion to £9.5 billion. At the same time the number of financings reported was up from 162 to 173 so we are seeing a higher number of smaller deals making up a lower overall volume. The De Montfort data backs this up: average loan size fell considerably between 2015 and 2016 with over 50 per cent of loans being in the £100-500 million range in 2015 and just 8 per cent in 2016. Laxfield also report borrower expectations on margin for most LTV points were up in this period.

In terms of pipeline, we continue to see similar themes to those seen over the last few quarters. Geographically we continue to focus on the UK and Spain in particular. We are being patient with development financing opportunities. While these loans offer good risk adjusted return opportunities, they also consume larger amounts of time and resources to underwrite, execute and manage post-closing. We are also finding that development financing processes are taking

longer to progress from the initial borrower's financing requests to execution and are often subject to significant scope changes during the process leading to less execution certainty. We expect to see continuing acquisition activity in alternative real estate asset classes which should yield opportunities with early stage hospitality, student accommodation and leisure asset financings currently on our target pipeline.

## RELATED PARTY TRANSACTIONS

Related party disclosures in the first six months of the financial year are given in note 13 to the Unaudited Condensed Consolidated Financial Statements. There were no changes in the related parties transactions described in the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2016 that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

## FORWARD LOOKING STATEMENTS

Certain statements in this interim report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. As these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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

8 September 2017

# Principal Risks

## PRINCIPAL RISKS FOR THE REMAINING SIX MONTHS OF THE YEAR TO 31 DECEMBER 2017

The principal risks assessed by the Board relating to the Group were disclosed in the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2016. The Board and Investment Manager have reassessed the principal risks and do not consider these risks to have changed. Therefore, the following are the principal risks assessed by the Board and the Investment Manager as relating to the Group for the remaining six months of the year to 31 December 2017:

- The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the targeted returns. In addition, the pace of investment has in the past and may in the future be slower than expected, or principal may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. In addition, 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. As a consequence, the shares may trade at a discount to NAV per share and Shareholders may be unable to realise their investments through the secondary market at NAV per share;
- The 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 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 default the Group is generally entitled to enforce security, but the process may be expensive and lengthy and the outcome is dependent on sufficient capital being available to meet the borrower's obligations. Some of the investments made would rank behind senior debt tranches for repayment in the event that a borrower defaults, with the consequence of greater risk of partial or total loss. In addition, repayment of loans could be subject to the availability of refinancing options, including the availability of senior and subordinated debt and is also subject to the underlying value of the real estate collateral at the date of maturity;
- The Group has investments in Euros and may make investments in other non-Sterling currencies. 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 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. As a consequence of this, the Group could breach the covenants of its revolving credit facility, and fall into default.

# Board of Directors



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

Stephen is currently Chairman of The PRS REIT and the AEW Long Lease REIT, both of which recently listed on the London Stock Exchange. Stephen is also a Director of Gatehouse Bank Plc. 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 ended 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 and Funding Circle SME Income Fund Limited which are listed on the main market of the London Stock Exchange and DP Aircraft I Limited and Fair Oaks Income Limited. He was previously Managing Director of Royal Bank of Canada's investment business in the Channel Islands. Prior to this, after working at Price Waterhouse Corporate Finance in London, Jonathan served in senior management positions in the British Isles and Australia in banking, specialising in credit and in private businesses as Chief Financial Officer. Graduating from the University of Durham with a degree of Master of Business Administration in 1988, Jonathan also holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jonathan is a Chartered Marketer and a member of the Chartered Institute of Marketing, the Institute of Directors and 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 Chairman or Director of listed and unlisted companies comprised mainly of investment funds and investment managers. These include International Public Partnerships Limited (FTSE 250), India Capital Growth Fund Limited, Globalworth Real Estate Investments Limited, GLI Finance and Aberdeen Frontier Markets Investment Company Limited (all listed on AIM), Toro 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 Price Waterhouse in London before embarking on a career in business services, predominantly telecoms. He co-led the business turnaround of Talkland International (now Vodafone Retail) and was directly responsible for the strategic shift into retail distribution and its subsequent implementation; he subsequently worked on the £20 million private equity acquisition of Ora Telecom. John is also a resident of Guernsey.

# Statement of Directors' Responsibilities

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

1. The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union; and
2. The Interim Financial Report, comprising of the Chairman's Statement and the Investment Manager's Report, meets the requirements of an interim management report and includes a fair review of information required by DTR 4.2.4 R:
  - (i) DTR 4.2.7R of the UK Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months and their impact on the Unaudited Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (ii) DTR 4.2.8R of the UK Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months and that have materially affected the financial position or performance of the Company during that period, and any material changes in the related party transactions disclosed in the last Annual Report.

By order of the Board

**Starwood European Real Estate Finance Limited**

**Stephen Smith**

Chairman

8 September 2017

**John Whittle**

Director

8 September 2017

# Independent Review Report to Starwood European Real Estate Finance Limited

## OUR CONCLUSION

We have reviewed the accompanying condensed consolidated interim financial information of Starwood European Real Estate Finance Limited (the "Company") and its subsidiaries (together the "Group") as of 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

## WHAT WE HAVE REVIEWED

The accompanying condensed consolidated interim financial information comprise:

- the condensed consolidated interim statement of financial position as of 30 June 2017;
- the condensed consolidated statement of comprehensive income for the six-month period then ended;
- the condensed consolidated statement of changes in equity for the six-month period then ended;
- the condensed consolidated statement of cash flows for the six-month period then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

## OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

The Directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this

report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity' issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

## PricewaterhouseCoopers CI LLP Chartered Accountants

Guernsey, Channel Islands

8 September 2017

- (a) The maintenance and integrity of the Starwood European Real Estate Finance Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Unaudited Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 June 2017

	Notes	1 January 2017 to 30 June 2017 £ (unaudited)	1 January 2016 to 30 June 2016 £ (unaudited)	1 January 2016 to 31 December 2016 £ (audited)
<b>Income</b>				
Income from loans advanced	6	15,838,604	14,055,008	27,826,368
Income from cash and cash equivalents		1	12,948	17,195
Other income		-	577	577
<b>Total income from investments</b>		<b>15,838,605</b>	<b>14,068,533</b>	<b>27,844,140</b>
<b>Expenses</b>				
Investment management fees	13	1,412,930	1,140,459	2,527,199
Revolving credit facility commitment fees		147,363	132,950	324,040
Administration fees		138,110	136,759	271,587
Other expenses		121,623	49,036	124,113
Legal and professional fees		91,392	96,028	239,158
Auditor's fees		87,570	68,644	130,970
Revolving credit facility amortisation of fees		69,983	114,005	221,002
Directors' fees and travel expenses	13	62,707	62,756	124,807
Revolving credit facility interest		48,684	290,533	308,523
Broker's fees and expenses		44,709	950	950
Net foreign exchange losses / (gains)		298,878	204,691	(1,679,501)
<b>Total operating expenses</b>		<b>2,523,949</b>	<b>2,296,811</b>	<b>2,592,848</b>
<b>Operating profit for the period / year before tax</b>		<b>13,314,656</b>	<b>11,771,722</b>	<b>25,251,292</b>
Taxation	12	3,310	2,661	3,022
<b>Operating profit for the period / year and total comprehensive income</b>		<b>13,311,346</b>	<b>11,769,061</b>	<b>25,248,270</b>
Weighted average number of shares in issue	3	375,019,398	304,180,000	332,051,239
Basic and diluted earnings per Ordinary Share (pence)	3	3.55	3.87	7.60

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

# Unaudited Condensed Consolidated Statement of Financial Position

as at 30 June 2017

	Notes	As at 30 June 2017 £ (unaudited)	As at 30 June 2016 £ (unaudited)	As at 31 December 2016 £ (audited)
<b>Assets</b>				
Cash and cash equivalents	4	2,351,730	7,932,190	31,018,181
Other receivables and prepayments		13,162	17,794	53,381
Revolving credit facility capitalised cost	5	123,863	98,344	28,846
Loans advanced	6	393,387,738	315,010,353	359,876,862
<b>Total assets</b>		<b>395,876,493</b>	<b>323,058,681</b>	<b>390,977,270</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	7	5,351,376	7,183,140	9,156,088
Revolving credit facility	8	7,502,072	8,039,241	-
Trade and other payables		948,803	865,270	870,156
<b>Total liabilities</b>		<b>13,802,251</b>	<b>16,087,651</b>	<b>10,026,244</b>
<b>Net assets</b>		<b>382,074,242</b>	<b>306,971,030</b>	<b>380,951,026</b>
<b>Capital and reserves</b>				
Share capital		371,929,982	300,392,205	371,929,982
Retained earnings		10,144,260	6,578,825	9,021,044
<b>Total equity</b>		<b>382,074,242</b>	<b>306,971,030</b>	<b>380,951,026</b>
Number of Ordinary Shares in issue		375,019,398	304,180,000	375,019,398
Net asset value per Ordinary Share (pence)		101.88	100.92	101.58

These Unaudited Condensed Consolidated Financial Statements on pages 15 to 32 were approved and authorised for issue by the Board of Directors on 8 September 2017, and signed on its behalf by:

**Stephen Smith**  
Chairman

**John Whittle**  
Director

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

# Unaudited Condensed Consolidated Statement of Changes in Equity

as at 30 June 2017

Period ended 30 June 2017	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2017	371,929,982	9,021,044	380,951,026
Dividends paid	-	(12,188,130)	(12,188,130)
Operating profit and total comprehensive income	-	13,311,346	13,311,346
<b>Balance at 30 June 2017</b>	<b>371,929,982</b>	<b>10,144,260</b>	<b>382,074,242</b>

Period ended 30 June 2016	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2016	300,397,205	5,075,839	305,473,044
Cost of issues	(5,000)	-	(5,000)
Dividends paid	-	(10,266,075)	(10,266,075)
Operating profit and total comprehensive income	-	11,769,061	11,769,061
<b>Balance at 30 June 2016</b>	<b>300,392,205</b>	<b>6,578,825</b>	<b>306,971,030</b>

Year ended 31 December 2016	Share capital £ (audited)	Retained earnings £ (audited)	Total equity £ (audited)
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 and total comprehensive income	-	25,248,270	25,248,270
<b>Balance at 31 December 2016</b>	<b>371,929,982</b>	<b>9,021,044</b>	<b>380,951,026</b>

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

# Unaudited Condensed Consolidated Statement of Cash Flows

for the period ended 30 June 2017

	1 January 2017 to 30 June 2017 £ (unaudited)	1 January 2016 to 30 June 2016 £ (unaudited)	1 January 2016 to 31 December 2016 £ (audited)
<b>Operating activities:</b>			
Operating profit for the period / year and total comprehensive income	13,311,346	11,769,061	25,248,270
<b>Adjustments</b>			
Net interest income	(15,838,604)	(14,055,008)	(27,826,368)
Interest income on cash and cash equivalents	(1)	(12,948)	(17,195)
Decrease in prepayments and receivables	40,219	77,890	42,303
Increase / (decrease) in trade and other payables	85,793	(61,027)	54,704
Net (gains) / loss on financial instruments held at fair value through profit and loss	(3,804,712)	13,101,255	15,074,203
Net foreign exchange gains	(3,439,978)	(13,248,630)	(18,256,954)
Revolving credit facility interest	48,684	290,533	308,523
Revolving credit facility amortisation of fees	69,983	114,005	221,002
Revolving credit facility commitment fees	147,363	132,950	324,040
	<b>(9,379,907)</b>	<b>(1,891,919)</b>	<b>(4,827,472)</b>
Loans advanced <sup>(1)</sup>	(114,243,795)	(88,743,585)	(168,567,654)
Loans repaid	85,227,730	92,105,742	129,269,039
Arrangement fees received	478,690	-	-
Origination fees paid	(864,281)	(697,828)	(1,316,353)
Origination expenses paid	-	(30,057)	-
Interest, commitment and exit fee income from loans	14,978,119	17,062,139	33,855,722
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(23,803,444)</b>	<b>17,804,492</b>	<b>(11,586,718)</b>
<b>Cash flows from investing activities</b>			
Interest income from cash and cash equivalents	1	12,948	17,195
<b>Net cash inflow from investing activities</b>	<b>1</b>	<b>12,948</b>	<b>17,195</b>
<b>Cash flows from financing activities</b>			
Net share issue proceeds received <sup>(2)</sup>	-	-	71,532,777
Cost of share issues	-	(5,000)	-
Revolving credit facility expenses paid	(165,000)	-	(37,500)
Revolving credit facility utilised / (repaid)	7,500,000	(116,742)	(8,155,816)
Revolving credit facility interest paid	(46,612)	(296,955)	(315,112)
Revolving credit facility commitment fees paid	(154,509)	(129,075)	(314,671)
Dividends paid	(12,188,130)	(10,266,075)	(21,303,065)
<b>Net cash (outflow) / inflow from financing activities</b>	<b>(5,054,251)</b>	<b>(10,813,847)</b>	<b>41,406,613</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(28,857,694)</b>	<b>7,003,593</b>	<b>29,837,090</b>
Cash and cash equivalents at the start of the period / year	31,018,181	520,558	520,558
Net foreign exchange gains on cash and cash equivalents	191,243	408,039	660,533
<b>Cash and cash equivalents at the end of the period / year</b>	<b>2,351,730</b>	<b>7,932,190</b>	<b>31,018,181</b>

<sup>(1)</sup> Net of arrangement fees of £ 1,607,763 (30 June 2016: £ 1,503,322; 31 December 2016: £ 2,212,322) withheld.

<sup>(2)</sup> Net of share issue cost of £nil (30 June 2016 £nil; 31 December 2016: £1,467,223) withheld.

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 1. GENERAL INFORMATION

The Company is a close-ended investment company incorporated in Guernsey. The Unaudited Condensed Consolidated Financial Statements comprise the Financial Statements of the Company, the GP, the Partnership and the Luxco (together the "Group") as at 30 June 2017.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Company has prepared these Unaudited Condensed Consolidated Financial Statements on a going concern basis in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. This interim Financial Report does not comprise statutory Financial Statements within the meaning of the Companies (Guernsey) Law, 2008, and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The statutory Financial Statements for the year ended 31 December 2016 were approved by the Board of Directors on 17 March 2017. The opinion of the Auditor on those Financial Statements was unqualified and did not contain an emphasis of matter. The accounting policies adopted in this Interim Financial Report are unchanged since 31 December 2016. A review has been performed on the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2017 in the Interim Financial Report.

Standards and Interpretations in issue and not yet effective:

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

The Group is continuing its assessment of the effect of IFRS 9 on its financial statements. However, at this stage we do not anticipate that it will have a material impact on the financial statements of the Group for the following reasons:

- It is expected that 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.
- Due to the detailed underwriting process, strong security packages in place and significant loan-to-value headroom on each of our loans, in most circumstances we do not expect to recognise expected credit losses on our portfolio, either at initial recognition or during the life of the loan.

The preparation of the Unaudited Condensed Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these Unaudited Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Consolidated Financial Statements for the year ended 31 December 2016.

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 3. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

The calculation of basic earnings per Ordinary Share is based on the operating profit of £13,311,346 (30 June 2016: £11,769,061) and on the weighted average number of Ordinary Shares in issue during the period of 375,019,398 (30 June 2016: 304,180,000) Ordinary Shares.

The calculation of NAV per Ordinary Share is based on a NAV of £382,074,242 (31 December 2016: £380,951,026) and the actual number of Ordinary Shares in issue at 30 June 2017 of 375,019,398 (31 December 2016: 375,019,398).

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	30 June 2017 £	30 June 2016 £	31 December 2016 £
Cash at bank	2,351,730	7,932,190	31,018,181
	<b>2,351,730</b>	<b>7,932,190</b>	<b>31,018,181</b>

Cash and cash equivalents comprises cash and short term deposits held with various banking institutions with original maturities of three months or less. The carrying amount of these assets approximates their fair value.

## 5. REVOLVING CREDIT FACILITY CAPITALISED COSTS

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

## 6. LOANS ADVANCED

	30 June 2017 £	30 June 2016 £	31 December 2016 £
<b>UK</b>			
Centre Point, London	45,640,251	45,546,532	45,599,157
5 Star Hotel, London	12,974,698	12,950,308	12,962,754
Center Parcs Bonds, UK	-	9,802,192	9,796,319
Industrial Portfolio, UK	25,733,736	32,435,918	32,177,066
Hospitals, UK	25,349,324	25,347,652	25,354,320
Hotel, Channel Islands	27,103,241	27,534,512	27,096,842
Varde Partners mixed portfolio, UK	16,901,213	35,363,902	25,037,555
Mixed use development, South East UK	8,699,236	6,358,950	8,063,336
Regional Budget Hotel Portfolio, UK	75,255,311	-	74,998,597
<b>Netherlands</b>			
Office	12,332,827	11,542,901	12,058,598
Industrial	-	21,686,660	22,624,425
W Hotel	-	19,636,978	-
<b>Denmark</b>			
Industrial Portfolio	-	35,073,315	35,692,414
<b>Ireland</b>			
Retail and Residential Portfolio	-	4,773,536	3,687,359
Residential Portfolio, Cork	5,386,202	5,090,452	5,263,215
Residential Portfolio, Dublin	6,953,044	6,535,793	6,750,309
Logistics, Dublin	12,996,965	15,330,752	12,714,596
School, Dublin	16,866,624	-	-
<b>Spain</b>			
Hotel, Barcelona	40,838,645	-	-
<b>Europe</b>			
Industrial Portfolio, Hungary, Poland, Czech Republic	60,356,421	-	-
	<b>393,387,738</b>	<b>315,010,353</b>	<b>359,876,862</b>

No element of loans advanced are past due or impaired. For further information and the associated risks see the Investment Manager's Report on page 6.

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 6. LOANS ADVANCED (CONTINUED)

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

	30 June 2017 £	30 June 2016 £	31 December 2016 £
<b>Loans advanced at the start of the period / year</b>	<b>359,876,862</b>	<b>307,694,827</b>	<b>307,694,827</b>
Loans advanced	115,851,558	90,337,277	170,779,976
Loans repaid	(85,227,730)	(92,105,742)	(129,269,039)
Arrangement fees earned	(2,086,453)	(1,503,322)	(2,212,322)
Commitment fees earned	(58,630)	(36,875)	(112,404)
Accrued interest purchased on loan acquisition	-	(474,589)	(474,589)
Exit fees earned	(967,369)	(2,515,759)	(2,624,796)
Origination fees paid	864,281	723,796	1,316,353
Origination expenses paid	-	30,057	-
Effective interest income earned	15,838,604	14,055,008	27,826,368
Interest payments received / accrued	(13,952,120)	(14,034,916)	(30,643,933)
Foreign exchange losses (realised and unrealised)	3,248,735	12,840,591	17,596,421
<b>Loans advanced at the end of the period / year</b>	<b>393,387,738</b>	<b>315,010,353</b>	<b>359,876,862</b>
<b>Loans advanced at fair value</b>	<b>411,988,743</b>	<b>328,088,808</b>	<b>382,064,552</b>

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

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

### Goldman Sachs:

30 June 2017	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	13,107,924	-	(369,226)	(369,226)
<b>Total</b>	<b>13,107,924</b>	<b>-</b>	<b>(369,226)</b>	<b>(369,226)</b>

### Lloyds Bank plc:

30 June 2017	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	155,551,488	-	(4,982,150)	(4,982,150)
<b>Total</b>	<b>155,551,488</b>	<b>-</b>	<b>(4,982,150)</b>	<b>(4,982,150)</b>

### Total:

30 June 2017	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	168,659,412	-	(5,351,376)	(5,351,376)
<b>Total</b>	<b>168,659,412</b>	<b>-</b>	<b>(5,351,376)</b>	<b>(5,351,376)</b>

<sup>(1)</sup> Euro amounts are translated at the period / year end exchange rate

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)

### Goldman Sachs:

31 December 2016	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	16,225,478	-	(721,672)	(721,672)
<b>Total</b>	<b>16,225,478</b>	<b>-</b>	<b>(721,672)</b>	<b>(721,672)</b>

### Lloyds Bank plc:

31 December 2016	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	89,622,755	99,549	(8,533,965)	(8,434,416)
<b>Total</b>	<b>89,622,755</b>	<b>99,549</b>	<b>(8,533,965)</b>	<b>(8,434,416)</b>

### Total:

31 December 2016	Notional contract amount <sup>(1)</sup> £	Fair values		
		Assets £	Liabilities £	Total £
Foreign exchange derivatives - currency forwards	105,848,233	99,549	(9,255,637)	(9,156,088)
<b>Total</b>	<b>105,848,233</b>	<b>99,549</b>	<b>(9,255,637)</b>	<b>(9,156,088)</b>

<sup>(1)</sup> Euro amounts are translated at the period / year end exchange rate

## 8. REVOLVING CREDIT FACILITY

Under the Company's investment policy, the Company is limited to aggregate short and long term borrowings at the time of the relevant drawdown of 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. In calculating the Company's borrowings for this purpose, any liabilities incurred under the Company's foreign exchange hedging arrangements shall be disregarded. The interest rate payable is LIBOR plus 2.30 per cent per annum. The facility is secured by a pledge over the bank accounts of the Company, its interests in Starfin Public LP and the intercompany funding provided by the Company to Starfin Public LP. Starfin Public LP also acts as guarantor of the facility and has pledged its bank accounts as collateral. The undertakings and events of default are customary for a transaction of this nature. As at 30 June 2017 an amount of £7,500,000 (31 December 2016: £nil) was drawn and interest of £2,072 (31 December 2016: £nil) was payable.

## 9. DIVIDENDS

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

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

The Company paid the following dividends in respect of the period to 30 June 2017:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2017	1.625	6,094,065	16 May 2017

After the end of the period, the Directors declared a dividend in respect of the financial period ended 30 June 2017 of 1.625 pence per share which was paid on 25 August 2017 to Shareholders on the register on 4 August 2017.

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 Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 10. RISK MANAGEMENT POLICIES AND PROCEDURES

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

The Directors monitor and measure the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Even though the risks detailed in the Annual Report and Financial Statements for the year ended 31 December 2016 still remain appropriate, further information regarding these risk policies are outlined below:

### I) MARKET RISK

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

#### a) Currency risk

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

#### b) Interest rate risk

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

The majority of the Group's financial assets are loans advanced, receivables and cash and cash equivalents. The Group's investments have some exposure to interest rate risk but this is limited to interest earned on cash deposits and floating interbank rate exposure for investments designated as loans advanced. Loans advanced have been structured to include a combination of fixed and floating interest rates and at 30 June 2017 73.2% of investments designated as loans advanced 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.

## II) CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group's main credit risk exposure is in the loan portfolio, shown as loans advanced, where the Group invests in whole loans and also subordinated and mezzanine debt which rank behind senior debt for repayment in the event that a borrower defaults. There is also credit risk in respect of other financial assets as a portion of the Group's assets are cash and cash equivalents or accrued interest. The banks used to hold cash and cash equivalents have been diversified to spread the credit risk to which the Group is exposed. The Group also has credit risk exposure in its financial assets through profit and loss which is diversified between hedge providers in order to spread credit risk to which the Group is exposed. The total exposure to credit risk arises from default of the counterparty and the carrying amounts of financial assets best represent the maximum credit risk exposure at the year end date. As at 30 June 2017, the maximum credit risk exposure was £395,726,306 (31 December 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.

## 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 a revolving credit facility of £50 million of which £7,502,072 (including accrued interest) was drawn on 30 June 2017 (31 December 2016: £nil).

As at 30 June 2017, the Group had £2,351,730 (31 December 2016: £31,018,181) available in cash and £948,803 (31 December 2016: £870,156) trade payables. The Directors considered this to be sufficient cash available, together with the undrawn facilities on the revolving credit facility, to meet the Group's liabilities.

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 11. FAIR VALUE MEASUREMENT

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

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates) or other market corroborated inputs (level 2); and
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

30 June 2017	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Liabilities</b>				
Derivative liabilities	-	(5,351,376)	-	(5,351,376)
<b>Total</b>	-	<b>(5,351,376)</b>	-	<b>(5,351,376)</b>

31 December 2016	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Liabilities</b>				
Derivative liabilities	-	(9,156,088)	-	(9,156,088)
<b>Total</b>	-	<b>(9,156,088)</b>	-	<b>(9,156,088)</b>

There have been no transfers between levels for the period ended 30 June 2017 (31 December 2016: nil).

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 30 June 2017 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
<b>Assets</b>					
Cash and cash equivalents	-	2,351,730	-	2,351,730	2,351,730
Other receivables and prepayments	-	13,162	-	13,162	13,162
Loans advanced	-	-	411,988,743	411,988,743	393,387,738
<b>Total</b>	-	<b>2,364,892</b>	<b>411,988,743</b>	<b>414,353,635</b>	<b>395,752,630</b>

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
<b>Liabilities</b>					
Trade and other payables	-	948,803	-	948,803	948,803
Revolving credit facility	-	7,502,072	-	7,502,072	7,502,072
<b>Total</b>	-	<b>8,450,875</b>	-	<b>8,450,875</b>	<b>8,450,875</b>

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

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
<b>Assets</b>					
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
<b>Total</b>	-	<b>31,071,562</b>	<b>382,064,552</b>	<b>413,136,114</b>	<b>390,948,424</b>

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
<b>Liabilities</b>					
Trade and other payables	-	870,156	-	870,156	870,156
<b>Total</b>	-	<b>870,156</b>	-	<b>870,156</b>	<b>870,156</b>

The carrying values of the assets and liabilities included in the above table are considered to approximate their fair values, except for loans advanced. The fair value of loans advanced has been determined by discounting the expected cash flows using a discounted cash flow model. For the avoidance of doubt, the Group carries its loans advanced at amortised cost in the Financial Statements.

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

## 12. TAXATION

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 for which it pays an annual fee of £1,200.

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

# Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2017

## 13. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### Fees, expenses and other payments

	Outstanding at 30 June 2017 £	For the period ended 30 June 2017 £	Outstanding at 31 December 2016 £	For the period ended 30 June 2016 £
<b>Directors' fees and expenses paid</b>				
Stephen Smith	-	23,750	-	23,750
John Whittle	-	20,000	-	20,000
Jonathan Bridel	-	17,500	-	17,500
Expenses paid	-	1,457	-	1,506
<b>Investment Manager</b>				
Investment management fees earned	710,023	1,412,930	716,308	1,140,459
Origination fees earned	-	864,281	-	723,796
Expenses	-	7,591	15,250	5,706

### Shareholdings and dividends paid

	Dividends paid for the period ended 30 June 2017 £	As at 30 June 2017 Number of shares	Dividends paid for the period ended 30 June 2016 £	As at 31 December 2016 Number of shares
Starwood Property Trust Inc	297,050	9,140,000	309,825	9,140,000
SCG Starfin Investor LP	74,262	2,285,000	77,119	2,285,000
Stephen Smith	2,565	78,929	2,664	78,929
John Whittle	386	11,866	400	11,866
Jonathan Bridel	386	11,866	400	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
5 Star Hotel, London	Starfin TC
Mixed use development, South East UK	STWD

## 14. EVENTS AFTER THE REPORTING PERIOD

Additional drawdowns of £1,216,116 have been made on the Mixed use development, South East UK loan.

The following loan amortisation (both scheduled and unscheduled) has been received since the period end, up to the date of publication of this report:

	Local currency
Varde Partners mixed portfolio, UK	£4,950,155
Office, Netherlands	€35,750
Residential Portfolio, Dublin, Ireland	€50,856
Logistics, Dublin, Ireland	€38,967
Residential Portfolio, Cork, Ireland	€39,789

The following loans have been repaid in full since the period end, up to the date of publication of this

	Local currency
Office, Netherlands	€13,799,500

On 25 July 2017 the Company declared a dividend of 1.625 pence per Ordinary share payable to shareholders on the register on 4 August 2017.

# Corporate Information

## 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  
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## Sole Broker

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## Administrator, Designated Manager and Company Secretary

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## Registered Office

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## Investment Adviser

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