

# Interim Financial Report and Unaudited Condensed Consolidated Financial Statements

for the six month period from 1 January 2018 to 30 June 2018





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# Corporate Summary

## PRINCIPAL ACTIVITIES AND INVESTMENT OBJECTIVE

The investment objective of Starwood European Real Estate Finance Limited (the "Company"), together with its 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, 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 ("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 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).

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

## Dear Shareholder,

I am delighted to present the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements of Starwood European Real Estate Finance Limited and its subsidiaries (the "Group") for the period from 1 January 2018 to 30 June 2018.

## POSITIVE INVESTMENT MOMENTUM

The first half of 2018 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.

As at 30 June 2018, the Group was fully invested with investments and commitments of £472.1 million, with £8.7 million of cash and £54.0 million drawn on the Group's £114 million revolving credit facilities.

The Group made a record level of new commitments in the first half of 2018 with £147.5 million of new commitments made (of which £116.6 million was funded in the first half of the year). Repayments were slightly below the same period in prior years and as a result, the Group's net commitments increased by £73.4 million in the first half of the year.

The table below summarises the new commitments made and repayments received in the first six months of 2015 to 2018 and demonstrates the growth of the portfolio.

	New Commitments	Repayments & Amortisation	Net Increase in 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
H1 2018	£147.5 m	£74.1m	£73.4m

In the last two financial years, new commitments have been broadly equal between the first and second half of the year and the Group remains optimistic that this trend is likely to continue, with more activity likely to be seen towards the end of the year in the normal course.

Repayments in the first half of the year were approximately 18 per cent of loans advanced at the end of 2017. We consider this to be the normalised level we anticipate and whilst it is always difficult to forecast potential repayments, and some years may be significantly higher or lower (as seen with the significantly higher repayments in 2017), we anticipate that the second half of 2018 may see repayments at a similar level to the first half of the year. The Group will continue to seek to minimise cash drag from potential repayments by utilising the revolving credit facilities available to it.



**STEPHEN SMITH** | Chairman

10 September 2018

# Chairman's Statement

## NAV AND SHARE PRICE PERFORMANCE

The Group's performance during the period has been stable and the Company's shares have generally traded at a premium to its Net Asset Value, which averaged 5.6 per cent over the past six months. Over the first half of this financial year, and after the payment of dividends of 3.25 pence per share, the Company's Net Asset Value per share has decreased modestly from 102.17 pence to 102 pence per share.

## OUTLOOK

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 completed.

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 2018.

## 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

10 September 2018

# Investment Manager's Report

## CONTINUED INVESTMENT DEPLOYMENT

As at 30 June 2018, the Group had investments and commitments of £472.1 million as follows:

	Sterling equivalent principal balance <sup>(1)</sup>	Sterling equivalent unfunded commitment <sup>(1)</sup>
Industrial Portfolio, UK	£18.6m	–
Hospitals, UK	£25.0m	–
Varde Partners Mixed Portfolio, UK	£3.0 m	–
Mixed Use Development, South East UK	£12.3m	£0.9m
Regional Hotel Portfolio, UK	£45.9m	–
Credit Linked Notes, UK Real Estate	£21.8m	–
<b>Total Sterling Loans</b>	<b>£126.6m</b>	<b>£0.9m</b>
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£13.0m	–
Hotel, Barcelona, Spain	£40.7m	–
School, Dublin, Ireland	£16.7m	–
Industrial Portfolio, Central and Eastern Europe	£57.2m	–
Three Shopping Centres, Spain	£31.2m	£8.3m
Shopping Centre, Spain	£11.1m	£3.9m
Hotel, Dublin, Ireland	£53.1m	–
Residential, Dublin, Ireland	£4.1m	£3.9m
Office Building, Paris, France	£23.0m	–
Industrial, Paris, France	£13.1m	–
Student Accommodation, Dublin	£9.4m	£0.6m
Hotel, Spain	£24.0m	£24.6m
<b>Total Euro Loans</b>	<b>£303.3m</b>	<b>£41.3m</b>
<b>Total Portfolio</b>	<b>£429.9m</b>	<b>£42.2m</b>

<sup>(1)</sup> Euro balances translated to Sterling at reporting date exchange rate.

Between 31 December 2017 to 30 June 2018, the following significant investment activity occurred (included in the table above):

# Investment Manager's Report

## **NEW LOAN: STUDENT ACCOMMODATION, DUBLIN:**

On 5 February 2018 the Group committed to a €11.25 million whole loan facility to finance a 127 bed purpose built student development scheme in central Dublin. The Dublin student market suffers from a severe structural undersupply of purpose built student accommodation, and the borrower's aim is to deliver high quality schemes in strong locations across Ireland in order to address this shortage. The initial facility advance was made on 5 February 2018, with remaining development costs for the scheme to be funded by the whole loan proceeds until expected practical completion in Summer 2018. The facility has a term of two years.

## **NEW LOAN: RESIDENTIAL, DUBLIN, IRELAND:**

On 16 February 2018, the Group committed to a €9 million floating rate whole loan to finance the conversion of 84 apart-hotels to residential use on a site adjacent to the Hotel, Dublin (described below). The financing has been provided in the form of an initial advance along with a capex facility to fund the refurbishment works for a period of 18 months with a six month extension option.

## **NEW LOAN: HOTEL, DUBLIN, IRELAND:**

On 21 February 2018, the Group closed a €60 million floating rate whole loan to finance the acquisition of a 764 key hotel, 27 apart-hotel units and ancillary development land in Dublin. The financing has been provided in the form of a single advance for a four year term with a one year extension option.

## **NEW LOAN: SHOPPING CENTRE, SPAIN:**

On 23 February 2018, the Group closed a €17 million floating rate mezzanine loan secured by a shopping centre in Spain. The property is well anchored, dominates its catchment and is positioned to benefit from the sponsors' active asset management strategy. The financing has been provided

in the form of an initial advance along with a capex facility to implement further value enhancing initiatives. The Group's loan complements an existing senior facility provided by Spanish banks, a structure that the Group sees potential to replicate further in Spain. The loan term is 30 months with two one year extension options.

## **NEW LOAN: HOTEL, SPAIN:**

On 15 March 2018, the Group closed a €110 million floating rate whole loan secured by a hotel in Spain with Starwood Property Trust, Inc (through a wholly owned subsidiary) participating in 50 per cent of the loan amount, providing the Company with a net commitment of €55 million. The financing has been provided in the form of an initial advance along with a capex facility to support the sponsor's repositioning strategy. The loan term is five years, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

## **NEW LOAN: INDUSTRIAL, PARIS:**

On 4 May 2018 the Group arranged and subscribed to a €14.77 million note issuance, the proceeds of which were used to finance the acquisition of a light industrial asset in the Parisian region of France.

## **REPAYMENT: CENTRE POINT, LONDON:**

The Group received full repayment of the Centre Point loan on 16 February 2018 following successful completion of the borrower's business plan.

## **REPAYMENT: RESIDENTIAL PORTFOLIO, CORK:**

The Group received full repayment of the loan on 13 March 2018 following successful completion of the borrower's business plan.

## **REPAYMENT: HOTEL, CHANNEL ISLANDS:**

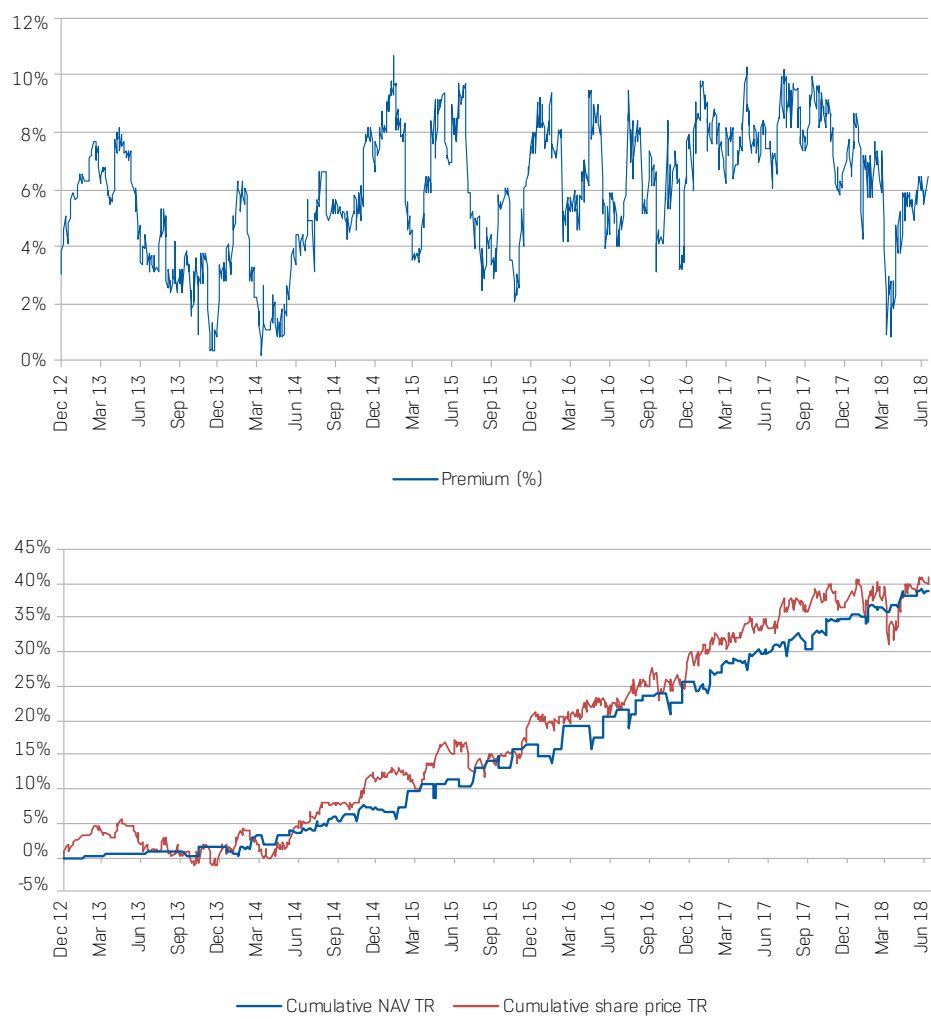
The Group received full repayment of the loan advanced to a Channel Islands Hotel company on 18 May 2018 following a refinancing by the borrower.

During the period the Group continued to receive unscheduled amortisation on other loans as borrowers continue to execute their business plans, in particular on the Industrial Portfolio, UK, the Varde Partners Mixed Portfolio and the Industrial Portfolio, Europe Loans. The Group also advanced £2.2 million of proceeds to borrowers to which it has outstanding commitments.



COMPANY PERFORMANCE

Share price, NAV and premium



Source: Thomson Reuters

# Investment Manager's Report

## PORTFOLIO STATISTICS

As at 30 June 2018, the portfolio was invested in line with the Group's investment policy. The key portfolio statistics are as summarised below.

Number of investments	19
Percentage of portfolio currently invested in floating rate loans	92.0%
Invested Loan Portfolio unlevered annualised total return <sup>(1)</sup>	7.4%
Invested Loan Portfolio levered annualised total return <sup>(2)</sup>	8.2%
Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>	13.3%
Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>	64.9%
Average loan term (stated maturity at inception)	4.1 years
Average remaining loan term	3.1 years
Net Asset Value	£382.5m
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	(£54.0m)
Loans advanced (including accrued income)	£412.1m
Financial assets held at fair value (including associated accrued income)	£21.9m
Cash	£8.7m
Other net assets/ (liabilities) (including hedges)	(£6.2m )
Origination Fees – first 6 months	£1.4m
Origination Fees – last 12 months	£2.2m
Management Fees – first 6 months	£1.4m
Management Fees – last 12 months	£2.8m

<sup>(1)</sup> The unlevered annualised total return is calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 17 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 (but including commitment fees) and excluding cash un-invested. The calculation also excludes the origination fee payable to the Investment Manager.

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

<sup>(3)</sup> LTV to Group last £ means the percentage which the total loan drawn 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 loans drawn (when aggregated with any other indebtedness ranking senior to it). For the Irish School, Dublin and the Mixed Use Development, South East UK and Student Accommodation, Dublin the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

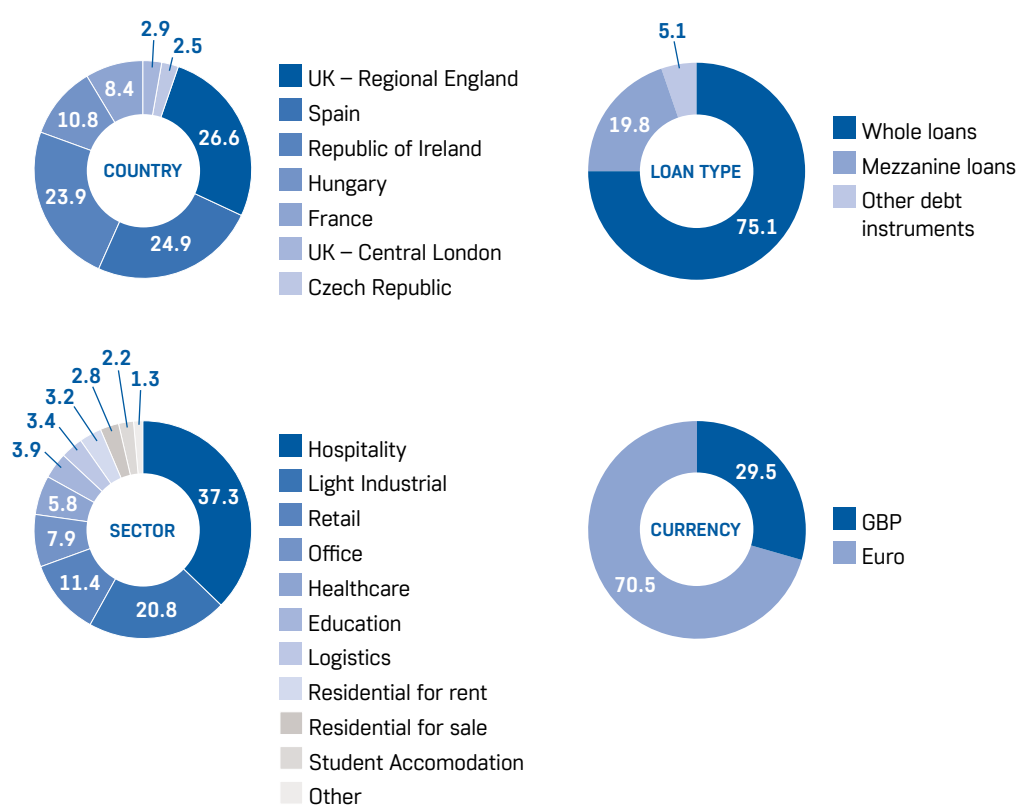
The maturity profile of investments as at 30 June 2018 is shown below.

Remaining years to contractual maturity <sup>(1)</sup>	Principal value of loans	% of invested portfolio
0 to 1 years	£15.3m	3.6%
1 to 2 years	£112.7m	26.2%
2 to 3 years	£133.7m	31.1%
3 to 5 years	£143.2m	33.3%
5 to 10 years	£25.0m	5.8%

<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





# Investment Manager's Report

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.

## HEDGING POLICY

The Group has the majority of its investments currently denominated in Euros (although this can change over time) and is a Sterling denominated group. The Group is therefore subject to the risk that 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 (unless it was funded using the revolving credit facilities in which case it will have a natural hedge). Interest payments are generally 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.

## MARKET SUMMARY AND INVESTMENT OUTLOOK

Whilst the agreement of the terms of Brexit between the UK and the European Union are making slow progress, the elongated uncertainties of Brexit are less evident in the real estate markets. Appetite for London office investment is unabated and while Chinese investors have pulled back from new acquisitions, there are many other sources of capital attracted to the London investment market illustrated through recent transactions such as Ho Bee Land, a Singaporean listed company buying Ropemaker Place for £650 million, CK Holdings' purchase of 5 Broadgate for £1 billion and Korean investors buying 20 Old Bailey and Cannon Street House. The occupational market has also been strong with Savills reporting in June that the City's 12 month rolling take-up hit its highest level since September 2015 at 7.6 m square feet, which is also 25 per cent up on June last year.

Student accommodation, residential private rented sector, light industrial, logistics and hospitality markets all remain robust with good levels of investor interest. The outlier in the UK is retail where there are a number of headwinds and since the beginning of the year there has been a constant stream of bad news on retail occupiers scaling back, Creditor Voluntary Arrangements and tenant insolvencies. While some areas of retail will do better than others from a leasing point of view, it is likely that the negative sentiment will still affect the values of UK retail assets across the board. As a result we are seeing increased interest from borrowers who had been looking to sell last year but are now considering refinancing as an alternative or a necessity as they begin to come up against financing maturities. We are cautious around this trend and are likely to watch and wait before considering new UK retail investments. Our overall retail exposure in the UK is 1.5 per cent which is derived from smaller contributions of mixed use assets or portfolios.

In the debt market there has been a resurgence in European CMBS issuance. With a small number of exceptions, over the past few years CMBS pricing had been at a level where bank and insurance companies generally would beat the CMBS market on pricing. However, since

the end of 2017 CMBS pricing has lowered in line with other forms of fixed income. European fixed income yields have been driven lower by ECB bond buying and as a result CMBS pricing has come into lower levels which makes it competitive. A good example of the pricing arbitrage is the £427 million Ribbon hotel portfolio CMBS which priced at a blended margin of around 160bps at 65 per cent LTV. This represents pricing about 100bps inside of where the bank market would typically be for this loan. New CMBS issuance has created a lot of interest and headlines but to put it in context, volumes at less than €2 billion in only five issuances so far this year are still quite small compared to the overall €1 trillion sized European commercial real estate loan market.

While these CMBS financings have been in sectors that the company has been active in such as hospitality and light industrial, we do not believe that CMBS is currently changing the competitive landscape for the investments the Group is making. In order to be considered for a CMBS structure, the key elements are for the loan to have sufficient scale, to spread the cost of issuance and create sufficiently large note sizes, and for the underlying collateral to have sufficient in place yield and granularity of income to obtain the required ratings analysis. When looking at whether CMBS would have been suitable as an alternative for previous investments made by the Group we concluded that CMBS would have had limited success for a variety of reasons. For example, on the light industrial side for our Danish and CEE loans both the size of the loan and the jurisdictions resulted in a CMBS structure not being feasible. For our Dutch portfolio both the loan size and the multiple closings required for the borrowers needs would have not been suitable for CMBS issuance.

In the subordinated debt space, we continue to see that widely marketed mezzanine debt on income producing assets is being priced lower than our return requirements. According to Debtwire recent examples include a Libor+ 550bps mezzanine for the Enigma student housing portfolio and Libor+ 625bps for the Ribbon hotel portfolio. We continue to see investment opportunities in mezzanine financings however we will have to work hard to successfully originate this type of debt by finding ways of adding value for borrowers that creates an acceptable risk / reward return profile for the Group which is in line with the Group's stated return targets.

## ADOPTION AND THE IMPACT OF IFRS 9 “FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT”

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2018. IFRS 9 makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. Under IFRS 9, the classification of assets is driven by the business model in which the financial asset is managed and the contractual nature of the cash flows arising from the investment. The adoption of IFRS 9 did not have a material impact on the financial statements for the following reasons:

- The majority of the Group's investments 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 consistent with IFRS 9;
- Credit linked notes are measured at fair value through profit or loss and this treatment is consistent with IFRS 9; and

# Investment Manager's Report

- Due to the detailed underwriting process, strong security packages in place and significant loan-to-value headroom on each of the Group's loans, the Group has recognised £nil expected credit losses ("ECL") on the Group's portfolio, either at initial recognition or during the life of the loan to date. The Group has undertaken a review of the underwriting assumptions and does not consider there to have been any material changes impacting the value.

## RELATED PARTY TRANSACTIONS

Related party disclosures are given in note 13 to the Unaudited Condensed Consolidated Financial Statements.

## 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

10 September 2018



# Principal Risks

## PRINCIPAL RISKS FOR THE REMAINING SIX MONTHS OF THE YEAR TO 31 DECEMBER 2018

The principal risks assessed by the Board relating to the Group were disclosed in the Annual Report and Audited Consolidated Financial Statements for the period to 31 December 2017. 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 2018:

- 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 has the majority of its investments currently denominated in Euros and 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. All non-Sterling loan principal is hedged back to Sterling to the maturity date of the loan (except where drawn in Euros on the revolving credit facilities). 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 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; and
- 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 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 and 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 Pricewaterhouse 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 which is listed on the main market of London Stock Exchange, Globalworth Real Estate Investments Limited, GLI Finance Ltd and Aberdeen Frontier Markets Investment Company 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.

# 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 the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority; and
2. The Interim Financial Report, comprising of the Chairman's Statement, the Investment Manager's Report and the Principal Risks meet the requirements of an interim management report and includes a fair review of information required by DTR 4.2.4 R:
  - (i) DTR 4.2.7R of the UK Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months and their impact on the Unaudited Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (ii) DTR 4.2.8R of the UK Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months and that have materially affected the financial position or performance of the Company during that period, and any material changes in the related party transactions disclosed in the last Annual Report.

**By order of the Board**

**For Starwood European Real Estate Finance Limited**



**Stephen Smith**

Chairman

10 September 2018



**John Whittle**

Director

10 September 2018





# 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 2018. 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 unaudited condensed consolidated statement of financial position as of 30 June 2018;
- the unaudited condensed consolidated statement of comprehensive income for the six-month period then ended;
- the unaudited condensed consolidated statement of changes in equity for the six-month period then ended;
- the unaudited 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 Unaudited Condensed Consolidated Financial Statements and considered whether they contain any apparent misstatements or material inconsistencies with the information in the interim financial statements.

## PricewaterhouseCoopers CI LLP

Chartered Accountants,  
Guernsey, Channel Islands

10 September 2018

(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 2018

	Notes	1 January 2018 to 30 June 2018 £ (unaudited)	1 January 2017 to 30 June 2017 £ (unaudited)	1 January 2017 to 31 December 2017 £ (audited)
<b>Income</b>				
Income from loans advanced	5	14,363,129	15,838,604	31,969,225
Net changes in fair value of financial assets at fair value through profit or loss	11	850,117	-	-
Income from cash and cash equivalents		21,204	1	19,535
<b>Total income from investments</b>		<b>15,234,450</b>	<b>15,838,605</b>	<b>31,988,760</b>
<b>Expenses</b>				
Investment management fees	13	1,415,286	1,412,930	2,844,140
Credit facility interest		489,960	48,684	72,834
Credit facility amortisation of fees		240,143	69,983	195,327
Credit facility commitment fees		232,228	147,363	359,000
Administration fees		179,047	138,110	335,048
Audit and non-audit fees		160,034	87,570	204,609
Other expenses		114,384	121,623	236,529
Legal and professional fees		88,895	91,392	239,999
Directors' fees and expenses	13	71,541	62,707	125,416
Broker's fees and expenses		50,749	44,709	76,525
Agency fees		5,446	-	-
Net foreign exchange losses		676,718	298,878	734,926
<b>Total operating expenses</b>		<b>3,724,431</b>	<b>2,523,949</b>	<b>5,424,353</b>
<b>Operating profit for the period / year before tax</b>		<b>11,510,019</b>	<b>13,314,656</b>	<b>26,564,407</b>
Taxation	12	1,901	3,310	2,120
<b>Operating profit for the period / year and total comprehensive income</b>		<b>11,508,118</b>	<b>13,311,346</b>	<b>26,562,287</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified to profit or loss</b>				
Exchange differences on translation of foreign operations		54,644	-	2,484
<b>Other comprehensive income for the period / year</b>		<b>54,644</b>	<b>-</b>	<b>2,484</b>
<b>Total comprehensive income for the period / year</b>		<b>11,562,762</b>	<b>13,311,346</b>	<b>26,564,771</b>
Weighted average number of shares in issue	3	375,019,398	375,019,398	375,019,398
Basic and diluted earnings per Ordinary Share (pence)	3	3.07	3.55	7.08

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 2018

	Notes	As at 30 June 2018 £ (unaudited)	As at 30 June 2017 £ (unaudited)	As at 31 December 2017 £ (audited)
<b>Assets</b>				
Cash and cash equivalents	4	8,730,655	2,351,730	11,750,356
Other receivables and prepayments		13,411	13,162	378,103
Credit facility capitalised cost	8	1,224,205	123,863	1,433,462
Financial assets at fair value through profit or loss	6	21,878,430	-	22,112,820
Loans advanced	5	412,109,232	393,387,738	369,955,983
<b>Total assets</b>		<b>443,955,933</b>	<b>395,876,493</b>	<b>405,630,724</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	6	6,010,773	5,351,376	6,726,268
Credit facility (including accrued interest)	8	54,098,366	7,502,072	13,338,329
Trade and other payables	7	1,332,626	948,803	2,426,591
<b>Total liabilities</b>		<b>61,441,765</b>	<b>13,802,251</b>	<b>22,491,188</b>
<b>Net assets</b>		<b>382,514,168</b>	<b>382,074,242</b>	<b>383,139,536</b>
<b>Capital and reserves</b>				
Share capital		371,929,982	371,929,982	371,929,982
Retained earnings		10,527,058	10,144,260	11,207,070
Translation reserves		57,128	-	2,484
<b>Total equity</b>		<b>382,514,168</b>	<b>382,074,242</b>	<b>383,139,536</b>
Number of Ordinary Shares in issue		375,019,398	375,019,398	375,019,398
Net asset value per Ordinary Share (pence)		102.00	101.88	102.17

These Unaudited Condensed Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on 10 September 2018, and signed on its behalf by:



**Stephen Smith**  
Chairman



**John Whittle**  
Director

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

# Unaudited Condensed Consolidated Statement of Changes in Equity

for the period ended 30 June 2018

Period ended 30 June 2018	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Translation reserves £ (unaudited)	Total equity £ (unaudited)
<b>Balance at 1 January 2018</b>	<b>371,929,982</b>	<b>11,207,070</b>	<b>2,484</b>	<b>383,139,536</b>
Dividends paid	-	(12,188,130)	-	(12,188,130)
Operating profit for the period	-	11,508,118	-	11,508,118
<b>Other comprehensive income:</b>				
Other comprehensive income for the period	-	-	54,644	54,644
<b>Balance at 30 June 2018</b>	<b>371,929,982</b>	<b>10,527,058</b>	<b>57,128</b>	<b>382,514,168</b>

Period ended 30 June 2017	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Translation reserves £ (unaudited)	Total equity £ (unaudited)
<b>Balance at 1 January 2017</b>	<b>371,929,982</b>	<b>9,021,044</b>	<b>-</b>	<b>380,951,026</b>
Cost of issues	-	-	-	-
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>-</b>	<b>382,074,242</b>

Year ended 31 December 2017	Share capital £ (audited)	Retained earnings £ (audited)	Translation reserves £ (audited)	Total equity £ (audited)
<b>Balance at 1 January 2017</b>	<b>371,929,982</b>	<b>9,021,044</b>	<b>-</b>	<b>380,951,026</b>
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
<b>Other comprehensive income:</b>				
Other comprehensive income for the year	-	-	2,484	2,484
<b>Balance at 31 December 2017</b>	<b>371,929,982</b>	<b>11,207,070</b>	<b>2,484</b>	<b>383,139,536</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 2018

	1 January 2018 to 30 June 2018 £ (unaudited)	1 January 2017 to 30 June 2017 £ (unaudited)	1 January 2017 to 31 December 2017 £ (audited)
<b>Operating activities:</b>			
Operating profit for the period / year	11,508,118	13,311,346	26,562,287
<b>Adjustments</b>			
Income from loans advanced	(14,363,129)	(15,838,604)	(31,969,225)
Net changes in fair value of financial assets at fair value through profit or loss	(850,117)	-	-
Interest income on cash and cash equivalents	(21,204)	(1)	(19,535)
(Increase) / decrease in prepayments and receivables	(12,787)	40,219	21,871
Increase in trade and other payables	68,638	85,793	55,234
Net unrealised (gains) on foreign exchange derivatives	(715,495)	(3,804,712)	(2,429,820)
Net foreign exchange losses / (gains) <sup>3</sup>	402,449	(3,439,978)	(5,104,358)
Credit facility interest	489,960	48,684	72,834
Credit facility amortisation of fees	240,143	69,983	195,327
Credit facility commitment fees	232,228	147,363	359,000
	<b>(3,021,196)</b>	<b>(9,379,907)</b>	<b>(12,256,385)</b>
Loans advanced <sup>1</sup>	(114,786,936)	(114,243,795)	(215,175,030)
Loans repaid	74,091,183	85,227,730	213,114,663
Arrangement fees received (not withheld from proceeds)	347,490	478,690	-
Origination fees paid <sup>2</sup>	(1,382,544)	(864,281)	(1,668,811)
Origination expenses paid	-	-	(23,273)
Interest, commitment and exit fee income from loans advanced	13,420,672	14,978,119	30,171,530
Interest received on Credit Linked Notes	1,084,507	-	-
Acquisitions of financial assets at fair value through profit or loss	-	-	(21,773,000)
<b>Net cash outflow from operating activities</b>	<b>(30,246,824)</b>	<b>(23,803,444)</b>	<b>(7,610,306)</b>
<b>Cash flows from investing activities</b>			
Interest income from cash and cash equivalents	21,204	1	19,535
<b>Net cash inflow from investing activities</b>	<b>21,204</b>	<b>1</b>	<b>19,535</b>
<b>Cash flows from financing activities</b>			
Credit facility arrangement fees and expenses paid	(420,567)	(165,000)	(451,632)
Credit facility utilised, net of fees withheld, foreign exchange and translation movements	40,584,862	7,500,000	13,284,000
Credit facility interest paid	(372,806)	(46,612)	(65,005)
Credit facility commitment fees paid	(259,914)	(154,509)	(281,939)
Dividends paid	(12,188,130)	(12,188,130)	(24,376,261)
<b>Net cash inflow / (outflow) from financing activities</b>	<b>27,343,445</b>	<b>(5,054,251)</b>	<b>(11,890,837)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(2,882,175)</b>	<b>(28,857,694)</b>	<b>(19,481,608)</b>
Cash and cash equivalents at the start of the period / year	11,750,356	31,018,181	31,018,181
Net foreign exchange (losses) / gains on cash and cash equivalents	(137,526)	191,243	213,783
<b>Cash and cash equivalents at the end of the period / year</b>	<b>8,730,655</b>	<b>2,351,730</b>	<b>11,750,356</b>

<sup>1</sup> Net of arrangement fees of £1,771,375 (30 June 2017: £1,607,763; 31 December 2017: £2,679,765) withheld.

<sup>2</sup> Including CLNs origination fees of £288,150.

<sup>3</sup> Excludes foreign exchange differences on revolving credit facilities and cash.

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 2018

## 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, 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 30 June 2018.

## 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 sourcebook of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. This Interim Financial Report and Unaudited Condensed Consolidated Financial Statements do 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 2017, 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 2017 were approved by the Board of Directors on 26 March 2018. The opinion of the Auditor on those Financial Statements was unqualified and did not contain an emphasis of matter. This Interim Financial Report and Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2018 have been reviewed by the Auditor but not audited.

The Company has adopted the new accounting pronouncements which have become effective this year, and are as follows:

### IFRS 9 Financial Instruments – Classifications and Measurement

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2018. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of certain financial assets. Under IFRS 9, the classification of assets is driven by the business model in which the financial asset is managed and the contractual nature of the cash flows arising from the investment. The adoption of IFRS 9 did not have a material impact on the financial statements for the following reasons:

- The majority of the Group's investments 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 continue to be measured at fair value through profit or loss and this treatment is consistent with IFRS 9;
- Credit linked notes are measured at fair value through profit or loss and this treatment is consistent with IFRS 9; and
- Due to the detailed underwriting process, strong security packages in place and significant loan-to-value headroom on each of the Group's loans, the Group has recognised £nil expected credit losses ("ECL") on the Group's portfolio, either at initial recognition or during the life of the loans.

### IFRS 15 Financial Instruments – Revenue from Contracts from Customers

IFRS 15 replaces IAS 18 'Revenue' and several revenue-related interpretations. There are no changes to the recognition of income by the Group as a result of the new Standard.

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 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 £11,508,118 (30 June 2017: £13,311,346 and 31 December 2017: £26,562,287) and on the weighted average number of Ordinary Shares in issue at 30 June 2018 of 375,019,398 (30 June 2017: 375,019,398 and 31 December 2017: 375,019,398).

The calculation of NAV per Ordinary Share is based on a NAV of £382,514,168 (30 June 2017: £382,074,242 and 31 December 2017: £383,139,536) and the actual number of Ordinary Shares in issue at 30 June 2018 of 375,019,398 (30 June 2017: 375,019,398 and 31 December 2017: 375,019,398).

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	30 June 2018 £	30 June 2017 £	31 December 2017 £
Cash at bank	8,730,655	2,351,730	11,750,356
	<b>8,730,655</b>	<b>2,351,730</b>	<b>11,750,356</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.



# Notes to the Unaudited Condensed Consolidated Financial Statements

## for the period ended 30 June 2018

### 5. LOANS ADVANCED

	30 June 2018 £	30 June 2017 £	31 December 2017 £
<b>UK</b>			
Regional Hotel Portfolio	46,747,493	-	46,329,933
Hospitals	25,351,156	25,349,324	25,356,064
Industrial Portfolio	19,070,180	25,733,736	26,039,509
Mixed Use Development, South East UK	12,932,216	8,699,236	10,886,017
Varde Partners Mixed Portfolio	3,058,045	16,901,213	9,235,610
Regional Hotel Portfolio	-	75,255,311	-
Centre Point, London	-	45,640,251	26,379,420
Hotel, Channel Islands	-	27,103,241	27,262,859
5 Star Hotel, London	-	12,974,698	-
<b>Netherlands</b>			
Office	-	12,332,827	-
<b>Ireland</b>			
Hotel, Dublin	53,372,166	-	-
School, Dublin	16,967,038	16,866,624	17,111,265
Logistics, Dublin	12,970,152	12,996,965	13,077,887
Student Accommodation, Dublin	9,402,404	-	-
Residential Portfolio, Dublin	6,869,245	6,953,044	6,947,895
Residential, Dublin	4,029,496	-	-
Residential Portfolio, Cork	-	5,386,202	5,437,250
<b>Spain</b>			
Hotel, Barcelona	40,887,310	40,838,645	41,042,007
Three Shopping Centres	31,045,447	-	30,860,627
Hotel	24,210,649	-	-
Shopping Centre	11,162,015	-	-
<b>France</b>			
Office Building, Paris	23,232,265	-	22,969,095
Industrial, Paris	13,146,683	-	-
<b>Central and Eastern Europe</b>			
Industrial Portfolio	57,655,272	60,356,421	61,020,545
	<b>412,109,232</b>	<b>393,387,738</b>	<b>369,955,983</b>

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

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

	30 June 2018 £	30 June 2017 £	31 December 2017 £
<b>Loans advanced at the start of the period / year</b>	<b>369,955,983</b>	<b>359,876,862</b>	<b>359,876,862</b>
Loans advanced	116,558,311	115,851,558	217,854,795
Loans repaid	(74,091,183)	(85,227,730)	(213,114,663)
Arrangement fees earned	(1,771,375)	(2,086,453)	(3,026,358)
Commitment fees earned	(135,670)	(58,630)	(297,117)
Exit fees earned	(1,071,217)	(967,369)	(1,662,413)
Origination fees for the year	1,106,714	864,281	1,656,491
Origination expenses paid	-	-	23,273
Effective interest income earned	14,363,129	15,838,604	31,917,555
Interest payments received / accrued	(12,213,785)	(13,952,120)	(28,212,000)
Foreign exchange (losses) / gains	(591,675)	3,248,735	4,939,558
<b>Loans advanced at the end of the period / year</b>	<b>412,109,232</b>	<b>393,387,738</b>	<b>369,955,983</b>
<b>Loans advanced at fair value</b>	<b>425,785,582</b>	<b>411,988,743</b>	<b>382,689,045</b>

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

## 6. FINANCIAL ASSETS AND FINANCIAL 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 one currency and sell another currency on a future date at a specified price. Financial instruments designated at fair value through profit or loss 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:

# Notes to the Unaudited Condensed Consolidated Financial Statements

## for the period ended 30 June 2018

30 June 2018	Notional contract amount <sup>1</sup> £	Fair values		Total £
		Assets £	Liabilities £	
<b>Investments at fair value through profit or loss</b>				
Credit Linked Notes, UK Real Estate	N/A	21,878,430	-	21,878,430
<b>Total</b>	<b>-</b>	<b>21,878,430</b>	<b>-</b>	<b>21,878,430</b>
<b>Foreign exchange derivatives</b>				
Currency forwards:				
Lloyds Bank plc	265,658,802	67,297	(6,061,845)	(5,994,548)
Goldman Sachs	940,988	-	(16,225)	(16,225)
<b>Total</b>	<b>266,599,790</b>	<b>67,297</b>	<b>(6,078,070)</b>	<b>(6,010,773)</b>

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

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

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

## 7. TRADE AND OTHER PAYABLES

	30 June 2018 £	30 June 2017 £	31 December 2017 £
Investment management fees payable	712,064	710,023	713,498
Refinancing and restructuring fees payable <sup>(1)</sup>	300,166	44,709	1,148,310
Audit fees payable	180,729	98,754	72,620
Revolver commitment fees payable	79,293	22,772	106,979
Administration fees payable	60,374	72,545	109,354
Origination fees payable	-	-	275,830
	<b>1,332,626</b>	<b>948,803</b>	<b>2,426,591</b>

<sup>(1)</sup> A total balance of £420,567 of refinancing and restructuring fees accrued were paid during the reporting period and arrangement fees of £432,738 were retained from borrowing facilities (refer to Note 8).

## 8. 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.

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.

As at 30 June 2018 an amount of £53,972,800 (31 December 2017: £13,330,500) was drawn and interest of £125,566 (31 December 2017: £7,829) was payable.

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

# Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2018

The changes in liabilities arising from financing activities are shown in the below table.

	1 January 2018 to 30 June 2018 £	1 January 2017 to 30 June 2017 £	1 January 2017 to 31 December 2017 £
<b>Beginning of the period / year</b>	<b>(13,338,329)</b>	-	-
Proceeds during the period	(65,295,600)	(21,500,000)	(34,784,000)
Repayment during the period	24,278,000	14,000,000	21,500,000
Arrangement fees payable	(432,738)	-	-
Arrangement fees retained (Note 7)	432,738	-	-
Interest expense recognised for the period	(489,960)	(48,684)	(72,834)
Interest paid during the period	372,806	46,612	65,005
Foreign exchange and translation movements	374,717	-	(46,500)
<b>End of the period / year</b>	<b>(54,098,366)</b>	<b>(7,502,072)</b>	<b>(13,338,329)</b>

## 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 2018:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
<b>Period to:</b>			
31 March 2018	1.625	6,094,065	17 May 2018

After the end of the period, the Directors declared a dividend in respect of the financial period ended 30 June 2018 of 1.625 pence per share which was paid on 31 August 2018 to Shareholders on the register on 10 August 2018.



The Company paid the following dividends in respect of the year to 31 December 2017:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
<b>Period to:</b>			
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
31 December 2017	1.625	6,094,065	23 February 2018

## 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 2017 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. The Group's exposure to market price risk arises from Credit Linked Notes held by the Group and classified as assets at fair value through profit or loss. The Group considers that there is no material market price risk at the end of the reporting period.

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 ongoing basis and is reported to the Board accordingly.

# Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2018

## 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, 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 rates to reduce the overall impact of interest rate movements. Further protection is provided by including interbank rate floors and 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 investment portfolio, shown as loans advanced at amortised cost and to a lesser extent with the 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 30 June 2018 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 derivative financial instruments 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 by 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 2018, the maximum credit risk exposure was £442,718,317 (31 December 2017: £404,165,752).

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 ongoing 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 revolving credit facilities totalling £114,000,000 of which £54,098,366 (including accrued interest) was drawn on 30 June 2018 (31 December 2017: £13,338,329).

As at 30 June 2018, the Group had £8,730,655 (31 December 2017: £11,750,356) available in cash and £1,332,626 (31 December 2017: £2,426,591) trade payables. The Directors considered this to be sufficient cash available, together with the undrawn facilities on the credit facilities, to meet the Group's liabilities.

## 11. FAIR VALUE MEASUREMENT

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

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment rates, 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).

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

### 30 June 2018

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Investments at fair value through profit or loss	-	-	21,878,430	21,878,430
<b>Total</b>	-	-	<b>21,878,430</b>	<b>21,878,430</b>
<b>Liabilities</b>				
Derivative liabilities	-	(6,010,773)	-	(6,010,773)
<b>Total</b>	-	<b>(6,010,773)</b>	-	<b>(6,010,773)</b>

# Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2018

## 31 December 2017

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

There have been no transfers between levels for the period ended 30 June 2018 (31 December 2017: £nil).

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 table below presents the movement in level 3 investments.

	1 January 2018 to 30 June 2018 £	1 January 2017 to 30 June 2017 £	1 January 2017 to 31 December 2017 £
<b>Beginning of the period / year</b>	<b>22,112,820</b>	-	-
Disposals	-	-	-
Acquisitions	-	-	22,061,150
Cash interest received	(1,084,507)	-	-
Net gains / (losses) recognised in profit or loss <sup>(1)</sup>	850,117	-	51,670
<b>End of the period / year</b>	<b>21,878,430</b>	-	<b>22,112,820</b>
Changes in unrealised gains or losses for Level 3 assets held at period/ year end and included in net changes in fair value of financial assets at fair value through profit or loss	-	-	-

<sup>(1)</sup> The net gains comprise of £1,138,267 interest income recognised on Credit Linked Notes and £288,150 initially capitalised origination fees which were subsequently expensed.

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 2018 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	-	8,730,655	-	8,730,655	8,730,655
Other receivables and prepayments	-	13,411	-	13,411	13,411
Loans advanced	-	-	425,785,582	425,785,582	412,109,232
<b>Total</b>	<b>-</b>	<b>8,744,066</b>	<b>425,785,582</b>	<b>434,529,648</b>	<b>420,853,298</b>
<b>Liabilities</b>					
Trade and other payables	-	1,332,626	-	1,332,626	1,332,626
Credit facilities	-	54,098,366	-	54,098,366	54,098,366
<b>Total</b>	<b>-</b>	<b>55,430,992</b>	<b>-</b>	<b>55,430,992</b>	<b>55,430,992</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 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	-	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
<b>Total</b>	<b>-</b>	<b>12,128,459</b>	<b>382,689,045</b>	<b>394,817,504</b>	<b>382,084,442</b>
<b>Liabilities</b>					
Trade and other payables	-	2,426,591	-	2,426,591	2,426,591
Credit facilities	-	13,338,329	-	13,338,329	13,338,329
<b>Total</b>	<b>-</b>	<b>15,764,920</b>	<b>-</b>	<b>15,764,920</b>	<b>15,764,920</b>



# Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2018

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. Credit facilities and 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 (31 December 2017: £1,200).

The Luxembourg indirect subsidiaries of the Company have no operating gains on ordinary activities before taxation and are therefore subject to the Luxembourg minimum net wealth tax at €4,815 (2017: €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.

## 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.

The tables below summarise the outstanding balances and transactions which occurred with related parties.

	As at 30 June 2018 £	As at 30 June 2017 £	As at 31 Dec 2017 £
<b>Investment Manager</b>			
Investment management fees payable	712,064	710,023	716,498
Origination fees payable	-		275,830

	For the period ended 30 June 2018 £	For the period ended 30 June 2017 £	For the year ended 31 December 2017 £
<b>Directors' fees and expenses paid</b>			
Stephen Smith	25,000	23,750	47,500
John Whittle	22,500	20,000	40,000
Jonathan Bridel	21,250	17,500	35,000
Expenses paid	2,791	1,457	2,916
<b>Investment Manager</b>			
Investment management fees	1,415,286	1,412,930	2,844,140
Origination fees	1,106,714	864,281	1,944,641
Expenses	49,717	7,591	47,636

# Notes to the Unaudited Condensed Consolidated Financial Statements

## for the period ended 30 June 2018

The tables below summarise the dividends paid to and number of Company's shares held by related parties.

	Dividends paid for the period ended 30 June 2018 £	Dividends paid for the period ended 30 June 2017 £	Dividends paid for the year ended 31 December 2017 £
Starwood Property Trust Inc.	297,050	297,050	594,100
SCG Starfin Investor LP	74,262	74,262	148,525
Stephen Smith	2,565	2,565	5,130
John Whittle	386	386	771
Jonathan Bridel	386	386	771

	As at 30 June 2018 Number of shares	As at 30 June 2017 Number of shares	As at 31 December 2017 Number of shares
Starwood Property Trust Inc.	9,140,000	9,140,000	9,140,000
SCG Starfin Investor LP	2,285,000	2,285,000	2,285,000
Stephen Smith	78,929	78,929	78,929
John Whittle	11,866	11,866	11,866
Jonathan Bridel	11,866	11,866	11,866

### Other

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

Loan	Related party co-lenders
Mixed Use Development, South East UK	STWD
Hotel, Spain	STWD
Credit Linked Notes, UK Real Estate	STWD

## 14. EVENTS AFTER THE REPORTING PERIOD

No new loan commitments have been made since 30 June 2018 up to 10 September 2018.

The following cash amounts have been funded since 30 June 2018 up to 10 September 2018 under existing commitments:

	Local Currency
Shopping Centre, Spain	€1,902,946
Residential, Dublin, Ireland	€322,669

The following loan amortisation (both scheduled and unscheduled) has been received since 30 June 2018 up to 10 September 2018:

	Local Currency
Residential Portfolio, Dublin, Ireland	€19,688
Logistics, Dublin, Ireland	€38,967
Industrial Portfolio, Central and Eastern Europe	€11,098,728
Varde Partners Mixed Portfolio, UK	£798,476
Industrial Portfolio, UK	£1,000,000

No loans have been repaid in full since 30 June 2018.

Following the above activity the Company has repaid part of the revolving credit facilities. At 10 September 2018 the amount drawn under each facility is:

- Lloyds Facility: €16 million
- Morgan Stanley Facility: €34 million

On 27 July 2018 the Company declared a dividend of 1.625 pence per Ordinary Share paid on 31 August 2018 to shareholders on the register on 10 August 2018.



## Directors

Stephen Smith (Non-executive Chairman)  
Jonathan Bridel (Non-executive Director)  
John Whittle (Non-executive Director)  
(all care of the registered office)

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