

Interim Financial Report and Unaudited Condensed Consolidated Financial Statements

for the six-month period from 1 January 2019 to 30 June 2019



Overview

Corporate Summary	2
Chairman's Statement	3
Investment Manager's Report	5
Principal Risks	14

Governance

Board of Directors	16
Statement of Directors' Responsibilities	17

Financial Statements

Independent Review Report	19
Unaudited Condensed Consolidated Statement of Comprehensive Income	20
Unaudited Condensed Consolidated Statement of Financial Position	21
Unaudited Condensed Consolidated Statement of Changes in Equity	22
Unaudited Condensed Consolidated Statement of Cash Flows	23
Notes to the Unaudited Condensed Consolidated Financial Statements	24

Further Information

Corporate Information	40
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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 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, August 2016 and May 2019. 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 (the "Group") for the period from 1 January 2019 to 30 June 2019.

INVESTMENT MOMENTUM

The table below summarises the new commitments made and repayments received in the first six months of 2015 to 2019.

	New Commitments	Repayments & Amortisation	Net Increase in Commitments
H1 2015	£31.3m	(£21.9m)	£9.4m
H1 2016	£98.9m	(£92.1m)	£6.8m
H1 2017	£115.5m	(£85.2m)	£30.3m
H1 2018	£147.5m	(£74.1m)	£73.4m
H1 2019	£49.9m	(£45.9m)	£4.0m

The net increase in commitments during the first half of 2019, whilst still positive, has been significantly lower than the last two years. The reason for this is seen to be one of timing of transactions rather than an overall reduction in activity for the reasons explained below.

- As we have reported in previous years, the first quarter is frequently quiet in the real estate market and we have only tended to see high levels of activity in the first quarter when deals which were in execution during the previous year were then delayed. This year, no deals rolled over from 2018 and the first quarter was relatively subdued as a result.
- The Group has a number of transactions under review and two transactions in execution which it hopes to close in the third quarter. If both transactions close, this would mean that the level of commitments made would be similar to the first half of 2018.

The Group also received a relatively low amount of repayments in the first half of 2019. However, since the end of the second quarter, the following repayments have been received:

- Mixed Use Development, UK - £8.8 million amortisation following the sale of one of the properties in line with the business plan.
- Industrial Europe - €26.3 million amortisation following the sale of one of the properties.
- Hotel, Barcelona, Spain – full repayment of €46 million following the sale of the hotel.

With these repayments factored in, the repayment percentage for the first seven months of the year is approximately 27 per cent of the loan book at the beginning of the year. In a normal year, we expect 30-40 per cent of the portfolio to repay on average but some years may be materially higher or lower than the average. It is difficult to accurately predict the repayment intention of borrowers as they execute their business plans, but we will continue to closely monitor this throughout the second half in order to try to minimise any potential cash drag from repayments.



STEPHEN SMITH | Chairman

9 September 2019

Chairman's Statement

NAV AND SHARE PRICE PERFORMANCE

The Group's performance has been stable. The Company's shares have generally traded at a premium to its Net Asset Value, which averaged 2.6 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 increased modestly from 102.66 pence to 102.82 pence per share.

Towards the end of the first half, the Company's shares traded for a short period of time at a small discount but, subsequent to that period, the shares returned to trade at a small premium to NAV. The Board will continue to monitor the price rating of the Company's shares to NAV.

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 2019.

The United Kingdom's imminent departure from the European Union, with or without an agreement may represent a potential threat to the UK economy as well as wider Europe. On a cyclical view, national economies across Europe appear to be heading at best towards lower growth and in some cases towards recession. The potential impact of Brexit could have a further destabilising effect.

To some extent the impact of an unsatisfactory UK exit from the EU has already been priced into markets and forecasts, but significant headwinds could arise should there be an unstructured settlement. It is extremely difficult in the circumstances to anticipate the potential impact on markets, so your Board is keeping a particularly watchful eye on the macro position.

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 ongoing 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.

BOARD COMPOSITION AND DIVERSITY

The Board previously mentioned in the 2018 annual report that it is mindful of the need to plan for succession and to implement it in a constructive fashion that supports and builds on a cohesive Board. In view of the approaching 9th year anniversary of the Company's IPO, the retirement process for the existing Directors continues to be on track and as currently envisaged, is anticipated to commence at the AGM of the Company in May 2020.

The Board will keep this succession plan under review and monitor its progress with a particular focus on ensuring over time that each new Director is equipped with the necessary skills, experience and knowledge. The Board believes in the value and importance of diversity in the boardroom and it continues to consider the recommendations of the Davies Report which will be a key factor in its succession planning.

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

9 September 2019

Investment Manager's Report

CONTINUED INVESTMENT DEPLOYMENT

As at 30 June 2019, the Group had investments and commitments of £478.9 million as follows:

	Sterling equivalent balance ⁽¹⁾	Sterling equivalent unfunded commitment ⁽¹⁾
Hospitals, UK	£25.0m	-
Mixed Use Development, South East UK	£11.1m	£1.2m
Regional Hotel Portfolio, UK	£45.9m	-
Credit Linked Notes, UK Real Estate	£21.8m	-
Hotel & Residential, UK	£39.9m	-
Office, Scotland	£4.3m	£0.7m
Total Sterling Loans	£148.0m	£1.9m
Logistics, Dublin, Ireland	£13.0m	-
Hotel, Barcelona, Spain	£41.3m	-
Industrial Portfolio, Central and Eastern Europe	£37.0m	-
Three Shopping Centres, Spain	£33.0m	£6.7m
Shopping Centre, Spain	£15.2m	-
Hotel, Dublin, Ireland	£53.8m	-
Residential, Dublin, Ireland	£2.0m	-
Office, Paris, France	£14.3m	-
Hotel, Spain	£26.2m	£22.4m
Office & Hotel, Madrid	£16.6m	£0.9m
Mixed Portfolio, Central and Northern Europe	£46.6m	-
Total Euro Loans	£299.0m	£30.0m
Total Portfolio	£447.0m	£31.9m

⁽¹⁾ Euro balances translated to sterling at period-end exchange rates.

Investment Manager's Report

Between 1 January 2019 to 30 June 2019, the following significant investment activity occurred (included in the table on the previous page):

NEW LOAN: OFFICE, SCOTLAND:

On 24 April 2019 the Group committed to provide a £5 million whole loan on an office in Scotland of which £4.3 million has been funded to date.

NEW LOAN: MIXED PORTFOLIO, CENTRAL AND NORTHERN EUROPE:

On 10 May 2019 the Group committed to participate in the funding of a €104 million mezzanine loan secured by a diversified portfolio of assets located in the Netherlands, Germany and Finland. Starwood Property Trust, Inc (through a wholly owned subsidiary) is participating in 50 per cent of the mezzanine loan amount, with the Group funding the balance amounting to a net commitment of €52 million. The portfolio is comprised of 165 assets and provides strong diversification in terms of tenant base, location and asset class. The loan has a term of 3 years with two, 1-year extension options and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

REPAYMENT: VARDE PARTNERS MIXED PORTFOLIO, UK:

The remaining balance of £1.0 million was repaid at the January 2019 interest payment date following completion of the borrower's business plan.

REPAYMENT: STUDENT ACCOMMODATION, DUBLIN, IRELAND:

The loan of €10.6 million was repaid on 1 March 2019 following successful completion of the borrower's business plan.

FINAL REPAYMENT: SCHOOL, DUBLIN, IRELAND:

On 8 May 2019 the Group received full repayment of €18.85 million on the loan to an Irish School following completion of the borrower's business plan.

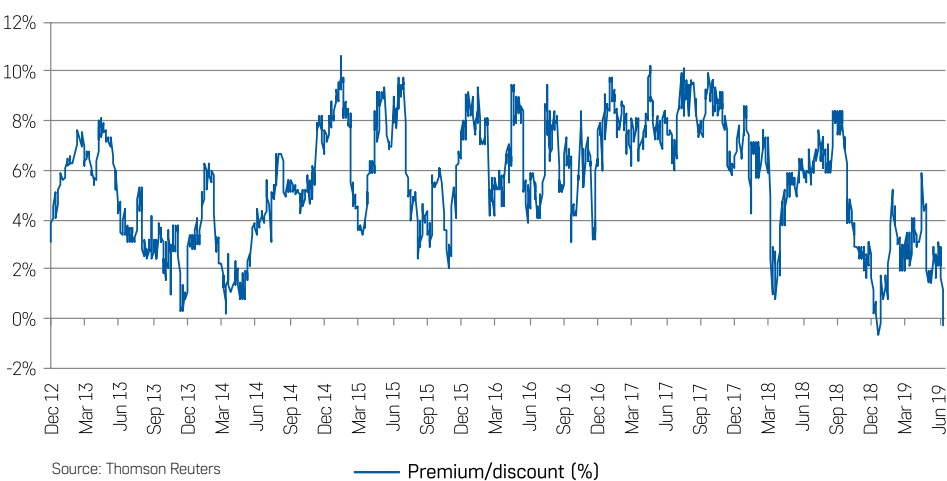
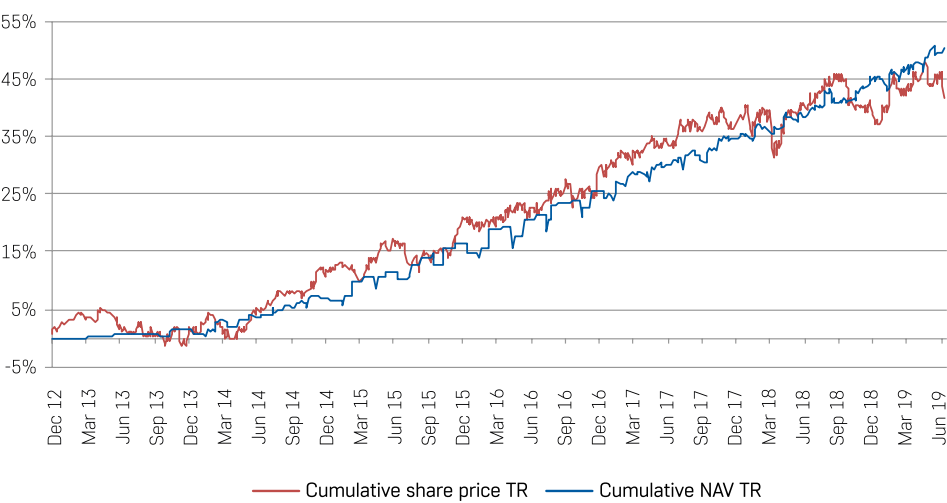
During the period the Group continued to receive unscheduled amortisation on other loans as borrowers continue to execute their business plans, in particular on the following loans:

- Mixed Use Development, South East UK - £3.1 million
- Industrial Portfolio, Central and Eastern Europe - €9.4 million
- Residential, Dublin, Ireland - €7.5 million
- Hotel & Residential, UK - £1.3 million

The Group also advanced £14.6 million to borrowers to which it has outstanding commitments.

COMPANY PERFORMANCE

Share price, NAV and discount/premium



Source: Thomson Reuters

Investment Manager's Report

PORTFOLIO STATISTICS

As at 30 June 2019, the portfolio was invested in line with the Group's investment policy. The key portfolio statistics are as summarised below.

Number of investments	17
Percentage of portfolio currently invested in floating rate loans	81.8%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	7.2%
Invested Loan Portfolio levered annualised total return ⁽²⁾	7.4%
Weighted average portfolio LTV – to Group first £ ⁽³⁾	23.0%
Weighted average portfolio LTV – to Group last £ ⁽³⁾	64.7%
Average loan term (stated maturity at inception)	4.0 years
Average remaining loan term	2.8 years
Net Asset Value	£424.9m
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	(£45.9m)
Loans advanced (including accrued income)	£428.6m
Financial assets held at fair value through profit or loss (including associated accrued income)	£21.9m
Cash	£28.0m
Other net assets/ (liabilities) (including hedges)	(£7.7m)
Origination Fees – first 6 months	£0.4m
Origination Fees – last 12 months	£0.8m
Management Fees – first 6 months	£1.4m
Management Fees – last 12 months	£2.9m

⁽¹⁾ 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. 14 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 uninvested cash. The calculation is stated after deducting the origination fee payable to the Investment Manager.

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

⁽³⁾ 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 development projects the calculation includes the total facility available and is calculated against the assumed market value on completion of the relevant project.

Reported returns have fallen from the year end from 7.4 per cent to 7.2 per cent unlevered, and from 8.0 per cent to 7.4 per cent levered. We would expect the levered returns to increase as the loans in execution are funded and further leverage is used for the loan portfolio.

In addition to this, the simplified way in which the annual return is presented does lead to the returns being an estimate at any point in time. The following items enhance the actual returns achieved:

- In the quoted return, we amortise all one-off fees (such as arrangement and exit fees) over the contractual life of the loan which is currently an average of four years for the portfolio. However, it has been our experience that loans tend to repay after approximately 2.5 years and as such these fees are actually amortised over a shorter period.
- Many loans benefit from prepayment provisions which mean that if they are repaid before the end of the protected period, additional interest or fees become due. As we quote the return based on the contractual life of the loan, these returns cannot be forecast in the return.
- The quoted return excludes the impact of any foreign exchange gains / losses on Euro loans. We do not forecast this as the loans are often repaid early and the gain / loss may be different than this once hedge positions are settled.

The above three upsides to quoted returns are not incorporated in the gross levered yield of 7.4 per cent as they are not guaranteed to occur, are difficult to forecast accurately and to incorporate them could overstate the expected return. However, these have and we expect these to continue to provide an enhancement to the quoted levels of return going forward although the levels of this enhancement may vary depending on when the loans repay versus contractual maturity, the level of prepayment protection and the shape of the Sterling-Euro forward curve. Over the life of the Company to date, we have experienced, on average, an enhancement of 0.63 percentage points from prepayments and one-off fees when loans repay, and we expect the pick up on foreign exchange to be in excess of 1 percentage point.

Finally, the Group maintains a dividend reserve to ensure that it can maintain a stable dividend during periods where modest leverage or cash drag can temporarily lower returns due to the timing of new loans and repayments.

Investment Manager's Report

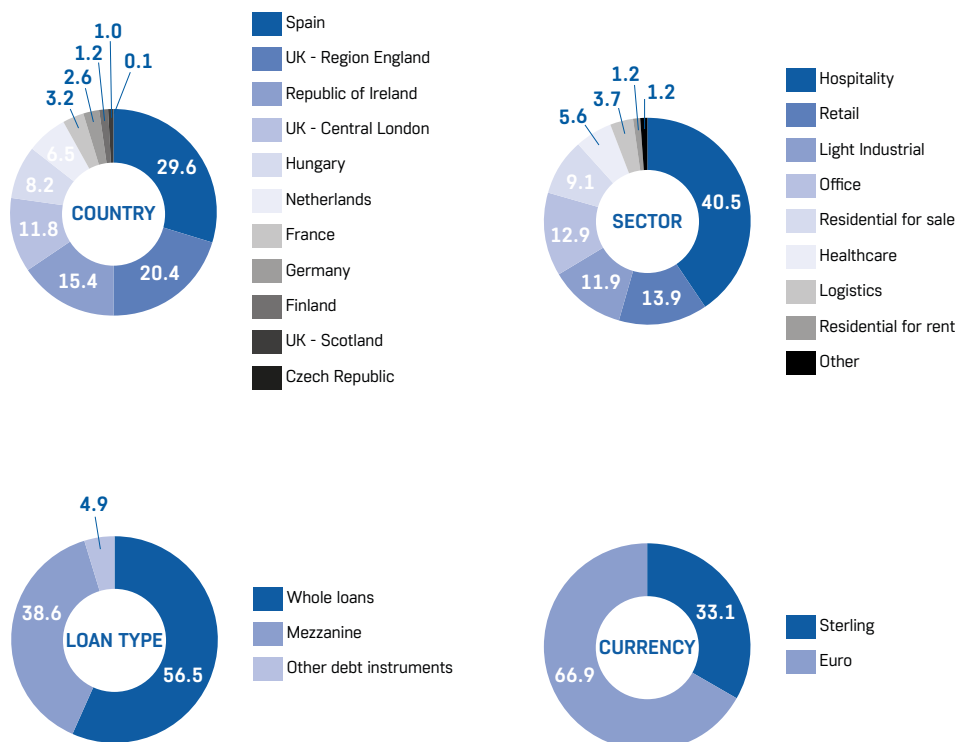
The maturity profile of investments as at 30 June 2019 is shown below.

Remaining years to contractual maturity ⁽¹⁾	Principal value of loans	% of invested portfolio
0 to 1 years	£50.1m	11.2%
1 to 2 years	£116.7m	26.1%
2 to 3 years	£111.0m	24.8%
3 to 5 years	£144.2m	32.3%
5 to 10 years	£25.0m	5.6%

⁽¹⁾ 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.

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

2019 has seen slower volumes in the commercial real estate market in Europe. According to BNP Real Estate total investment volumes for the first half of 2019 were €101.7 billion which is 13 per cent lower than in the same period in 2018. The average hides different situations across the different cities. In London, Brexit uncertainties have brought volumes down by more than the average at 39 per cent lower than last year with less stock being brought to market. Germany's big markets outside of Berlin were down significantly with Munich, Frankfurt and Hamburg down 46 per cent, 34 per cent and 49 per cent respectively. Hot markets included Milan, Berlin and Madrid, where investors are anticipating tight markets and strong rental growth potential, were up 56 per cent, 104 per cent and 67 per cent respectively.

Increased expectations of further rate cuts and quantitative easing has driven asset pricing across the board. Investors were already expecting the ECB to supply fresh monetary stimulus to help alleviate the ongoing economic stress within the region and the nomination of the International Monetary Fund's Christine Lagarde to be the next ECB president has raised expectations of continued loosening monetary policy. The EUR interest rate curve has significantly flattened so now the 5-year swap is lower than 3-month EURIBOR at -63 basis points in the middle of August. Government bond yields have continued to push down with all European 2-year sovereign debt now yielding negative returns and with German 10-year bonds having yielded as low as -0.7 per cent in August. Even peripheral European debt such as Portugal and Greece is trading at significantly lower yields than in recent years. Greek 10-year bonds have priced almost as tight as at 2 per cent having been almost 20 per cent in 2016 and Portugal has traded at 0.1 per cent at points during August versus over 4.4 per cent just 18 months ago.

Investment Manager's Report

With low asset yields we have seen increased formation of lower priced debt funds and direct investing by insurance companies and pension funds in more vanilla senior commercial real estate debt as an alternative for sovereign and corporate bonds. Insurance companies such as Axa and Allianz have been expanding their senior commercial real estate lending strategies and we are seeing some new players with similar mandates emerging. We have also seen good pricing on the two recent CMBS issuances with Morgan Stanley's Eos (European Loan Conduit No. 35) pricing at a blended 137 bps over EURIBOR for a 58.7 per cent Note to Value ("NTV") and Goldman and CA-CIB's cold storage securitisation pricing at 184 bps over LIBOR for a 65.2 per cent NTV.

For other types of alternate lenders there have been a mixed bag of results. Lendy, a peer to peer lender making small property loans was put into administration in May after issues on its loan book including a reported 66 per cent of loans past due as of late 2018. Funding Circle, which makes small business loans, recently reported the tougher lending criteria it was imposing would halve its expected revenue growth for 2019. The FCA has increased regulation in the space with investors no longer be able to put more than 10 per cent of their investable assets into peer to peer lending and another part of the new rules is the introduction of an appropriateness test for investors that considers a client's knowledge and experience of peer to peer lending. In better news, Lendinvest which provides a variety of property finance has successfully completed its first securitisation. We have also seen varied fortunes for the challenger banks. Oaknorth appears to be doing well having grown its total loan book 160 per cent in a year to £2.2 billion and with new commercial development loans as large as £60 million reported. Meanwhile fellow challenger bank Metro has had issues with its loan book having announced it had been miscategorising the risk-weightings for a large number of its loans when working out how much capital it needed to protect against losses, which has led to reports of weakened investor and customer confidence and to a new capital raise in May.

On the UK residential side, London peaked in 2014 and according to Savills as a whole the prime central London market has fallen 19.4 per cent in sterling terms between June 2014 and the end of the first quarter of 2019. The second quarter saw a return to positive house price appreciation in London with the Nationwide reporting a 0.6 per cent quarter on quarter growth. Across the UK market as a whole, the RICS residential survey is reporting a more stable picture. In July the survey reported the second consecutive month of increased new buyer enquiries, however, sales volumes are down slightly in July, having been up slightly in June. For the parts of the market that attract high proportions of international buyers the continued devaluation of sterling means that foreign buyers denominated in USD, EUR and RMB currencies are viewing the all-in discount from peak as especially attractive in their domestic currency.

As we have commented in recent factsheets, the market for UK retail debt is yet to settle. The refinancing of the £750 million Westfield Stratford CMBS has gone well given the quality of the asset and a low LTV and high debt yield. The new bonds were issued in July and priced at Gilts+100bps. According to Debtwire the market may be tested again soon with Intu reported to be looking at a refinancing of £1 billion of debt secured by the Trafford Centre and a potential CMBS of a £150 million Deutsche bank loan secured by the intu Derby shopping centre. It will be an interesting test of sentiment to the sector to follow the progress of the refinancing of these very high profile assets over the coming months.

The UK continues to suffer from Brexit uncertainties with a clear message from Boris Johnson around his intention to come out of Europe on the 31st October 2019 with or without a deal which raises the probability of an intentional or unintentional no deal Brexit. This outcome would no doubt create increased challenges and uncertainties around many aspects of the UK market including real estate and real estate debt. In a down market for real estate, real estate credit will benefit from the equity cushion between starting values of the underlying collateral and the lending basis. Uncertainties or shocks may also create openings for the Company to opportunistically make new investments on a good risk / return basis.

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. Because 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

9 September 2019

Principal Risks

PRINCIPAL RISKS FOR THE REMAINING SIX MONTHS OF THE YEAR TO 31 DECEMBER 2019

The Directors note the introduction of the 2018 UK Corporate Governance Code (the “2018 Code”) which applies to the Group for its financial year beginning 1 January 2019. As part of the 2018 Code, the Board is required to consider the Group’s impact on environmental, social and governance (the “ESG”) factors. The Board will report on its compliance with the 2018 Code in the 2019 Annual Report.

The principal risks assessed by the Board relating to the Group were disclosed on pages 12-14 in the Annual Report and Audited Consolidated Financial Statements for the period to 31 December 2018. 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 2019:

- 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;
- The United Kingdom's imminent departure from the European Union, with or without an agreement, represents a potential threat to the UK economy as well as wider Europe. On a cyclical view, national economies across Europe appear to be heading at best towards lower growth and in some cases towards recession. The potential impact of Brexit could have a further destabilising effect. To some extent the potential impact of an unsatisfactory UK exit from the EU has already been priced into markets and forecasts, but significant headwinds could arise should there be an unstructured settlement; 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 facilities 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), Sequoia Economic Infrastructure Income Fund Limited (FTSE 250) and SME Credit Realisation Fund Limited (formerly Funding Circle SME Income Fund Limited) which are listed on the main market of the London Stock Exchange, DP Aircraft I Limited and Fair Oaks Income Fund Limited. He was previously Managing Director of Royal Bank of Canada's investment business in the Channel Islands. Prior to this, after working at Price Waterhouse Corporate Finance in London, Jonathan served in senior management positions in the British Isles and Australia in banking, specialising in credit and in private businesses as Chief Financial Officer. Graduating from the University of Durham with a degree of Master of Business Administration in 1988, Jonathan also holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jonathan is a Chartered Marketer and a member of the Chartered Institute of Marketing, a Chartered Director and Fellow of the Institute of Directors and a Chartered Fellow of the Chartered Institute for Securities and Investment. Jonathan is a resident of Guernsey.



JOHN WHITTLE | Non-executive Director – Audit Committee Chairman

John is a Fellow of the Institute of Chartered Accountants in England and Wales and holds the Institute of Directors Diploma in Company Direction. He is a non-executive Director of International Public Partnerships Limited (FTSE 250), India Capital Growth Fund Limited (listed on main market LSE), 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 as required by DTR 4.2.4 R; 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:
 - (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

9 September 2019

John Whittle

Director

9 September 2019



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 2019. 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 2019;
- 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 it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers CI LLP

Chartered Accountants,
Guernsey, Channel Islands

9 September 2019

(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 2019

	Notes	1 January 2019 to 30 June 2019 £ (unaudited)	1 January 2018 to 30 June 2018 £ (unaudited)	1 January 2018 to 31 December 2018 £ (audited)
Income				
Income from loans advanced	5	13,687,862	14,363,129	30,137,174
Net changes in fair value of financial assets at fair value through profit or loss	11	1,164,657	850,117	2,018,771
Income from cash and cash equivalents		1	21,204	21,205
Total income from investments		14,852,520	15,234,450	32,177,150
Expenses				
Investment management fees	13	1,476,340	1,415,286	2,858,556
Credit facility interest		544,084	489,960	1,074,308
Credit facility amortisation of fees		196,689	240,143	439,950
Credit facility commitment fees		229,821	232,228	470,700
Administration fees		169,147	179,047	356,409
Audit and non-audit fees		125,156	160,034	249,500
Other expenses		77,393	114,384	287,663
Legal and professional fees		127,005	88,895	196,806
Directors' fees and expenses	13	70,167	71,541	141,821
Broker's fees and expenses		167	50,749	75,749
Agency fees		10,936	5,446	16,506
Net foreign exchange (gains) / losses		(1,003,676)	676,718	(234,453)
Total operating expenses		2,023,229	3,724,431	5,933,515
Operating profit for the period / year before tax		12,829,291	11,510,019	26,243,635
Taxation	12	23,939	1,901	68,068
Operating profit for the period / year		12,805,352	11,508,118	26,175,567
Other comprehensive income				
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations		(3,142)	54,644	54,740
Other comprehensive income for the period / year		(3,142)	54,644	54,740
Total comprehensive income for the period / year		12,802,210	11,562,762	26,230,307
Weighted average number of shares in issue	3	384,938,735	375,019,398	375,019,398
Basic and diluted earnings per Ordinary Share (pence)	3	3.33	3.07	6.98

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 2019

	Notes	As at 30 June 2019 £ (unaudited)	As at 30 June 2018 £ (unaudited)	As at 31 December 2018 £ (audited)
Assets				
Cash and cash equivalents	4	27,959,950	8,730,655	28,248,515
Other receivables and prepayments		12,198	13,411	28,935
Credit facilities capitalised cost	8	1,015,582	1,224,205	1,212,271
Financial assets at fair value through profit or loss	6	21,879,086	21,878,430	21,886,335
Loans advanced	5	428,636,053	412,109,232	413,444,410
Total assets		479,502,869	443,955,933	464,820,466
Liabilities				
Financial liabilities at fair value through profit or loss	6	7,216,743	6,010,773	8,781,432
Credit facilities	8	46,012,226	54,098,366	68,977,214
Trade and other payables	7	1,391,059	1,332,626	2,068,238
Total liabilities		54,620,028	61,441,765	79,826,884
Net assets		424,882,841	382,514,168	384,993,582
Capital and reserves				
Share capital		411,205,161	371,929,982	371,929,982
Retained earnings		13,623,598	10,527,058	13,006,376
Translation reserves		54,082	57,128	57,224
Total equity		424,882,841	382,514,168	384,993,582
Number of Ordinary Shares in issue		413,219,398	375,019,398	375,019,398
Net asset value per Ordinary Share (pence)		102.82	102.00	102.66

These Unaudited Condensed Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on 9 September 2019, 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 2019

Period ended 30 June 2019	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Translation reserve £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2019	371,929,982	13,006,376	57,224	384,993,582
Issue of share capital	40,014,500	-	-	40,014,500
Cost of issues	(739,321)	-	-	(739,321)
Dividends paid	-	(12,188,130)	-	(12,188,130)
Operating profit for the period	-	12,805,352	-	12,805,352
Other comprehensive income:				
Other comprehensive income for the period	-	-	(3,142)	(3,142)
Balance at 30 June 2019	411,205,161	13,623,598	54,082	424,882,841

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

Year ended 31 December 2018	Share capital £ (audited)	Retained earnings £ (audited)	Translation reserve £ (audited)	Total equity £ (audited)
Balance at 1 January 2018	371,929,982	11,207,070	2,484	383,139,536
Dividends paid	-	(24,376,261)	-	(24,376,261)
Operating profit for the year	-	26,175,567	-	26,175,567
Other comprehensive income:				
Other comprehensive income for the year	-	-	54,740	54,740
Balance at 31 December 2018	371,929,982	13,006,376	57,224	384,993,582

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 2019

	1 January 2019 to 30 June 2019 £ (unaudited)	1 January 2018 to 30 June 2018 £ (unaudited)	1 January 2018 to 31 December 2018 £ (audited)
Operating activities:			
Operating profit for the period / year	12,805,352	11,508,118	26,175,567
Adjustments			
Income from loans advanced	(13,687,862)	(14,363,129)	(30,137,174)
Net changes in fair value of financial assets at fair value through profit or loss	(1,164,657)	(850,117)	(2,018,771)
Income on cash and cash equivalents	(1)	(21,204)	(21,205)
Decrease / (increase) in prepayments and receivables and capitalised costs	16,737	(12,787)	(152,366)
Decrease in trade and other payables	58,459	68,638	50,302
Net unrealised (gains) / losses on foreign exchange derivatives	(1,564,689)	(715,495)	2,055,164
Net foreign exchange losses / (gains)	1,229,975	402,449	(4,750,126)
Other non-cash items	(81,044)	-	-
Credit facility interest	544,084	489,960	1,074,308
Credit facility amortisation of fees	196,689	240,143	439,950
Credit facility commitment fees	229,821	232,228	470,700
Corporate taxes paid	(45,624)	-	(4,217)
	(1,462,760)	(3,021,196)	(6,817,868)
Loans advanced ¹	(62,553,702)	(114,786,936)	(172,359,770)
Loan repayments and amortisation	45,895,750	74,091,183	137,158,115
Arrangement fees received (not withheld from proceeds)	-	347,490	347,490
Origination fees paid ²	(683,328)	(1,382,544)	(1,509,923)
Interest, commitment and exit fee income from loans advanced	13,998,212	13,420,672	29,398,155
Interest received on Credit Linked Notes	1,171,906	1,084,507	2,245,256
Net cash outflow from operating activities	(3,633,922)	(30,246,824)	(11,538,545)
Cash flows from investing activities			
Interest income from cash and cash equivalents	1	21,204	21,205
Net cash inflow from investing activities	1	21,204	21,205
Cash flows from financing activities			
Share issue proceeds received	40,014,500	-	-
Cost of share issues	(739,321)	-	-
Credit facility arrangement fees and expenses paid	-	(420,567)	(420,567)
Proceeds under credit facility	37,075,890	64,862,862	129,546,670
Repayments under credit facility	(60,213,500)	(24,278,000)	(75,603,281)
Credit facility interest paid	(566,047)	(372,806)	(924,480)
Credit facility commitment fees paid	(216,232)	(259,914)	(494,779)
Dividends paid	(12,188,130)	(12,188,130)	(24,376,261)
Net cash inflow from financing activities	3,167,160	27,343,445	27,727,302
Net (decrease) / increase in cash and cash equivalents	(466,761)	(2,882,175)	16,209,962
Cash and cash equivalents at the start of the period / year	28,248,515	11,750,356	11,750,356
Net foreign exchange gains / (losses) on cash and cash equivalents	178,196	(137,526)	288,197
Cash and cash equivalents at the end of the period / year	27,959,950	8,730,655	28,248,515

¹ Net of arrangement fees of £335,994 (30 June 2018: £1,771,375; 31 December 2018: £2,396,173) withheld.

² Including CLNs origination fees of £nil (30 June 2018: £288,150; 31 December 2018: £288,150).

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 2019

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 2019.

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 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. 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 2018, 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 2018 were approved by the Board of Directors on 25 March 2019. 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 2019 has been reviewed by the Auditor but not audited.

There are a number of new and amended accounting standards and interpretations that became applicable for annual reporting periods commencing on or after 1 January 2019.

These amendments have not had a significant impact on these Unaudited Condensed Consolidated Financial Statements and therefore the additional disclosures associated with first time adoption have not been made.

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 2018.

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 £12,805,352 (30 June 2018: £11,508,118 and 31 December 2018: £26,175,567) and on the weighted average number of Ordinary Shares in issue at 30 June 2019 of 384,938,735 (30 June 2018: 375,019,398 and 31 December 2018: 375,019,398).

The calculation of NAV per Ordinary Share is based on a NAV of £424,882,841 (30 June 2018: £382,514,168 and 31 December 2018: £384,993,582) and the actual number of Ordinary Shares in issue at 30 June 2019 of 413,219,398 (30 June 2018: 375,019,398 and 31 December 2018: 375,019,398).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	30 June 2019 £	30 June 2018 £	31 December 2018 £
Cash at bank	27,959,950	8,730,655	28,248,515
	27,959,950	8,730,655	28,248,515

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 2019

5. LOANS ADVANCED

	30 June 2019 £	30 June 2018 £	31 December 2018 £
UK			
Regional Hotel Portfolio, UK	46,690,942	46,747,493	46,752,485
Hotel and Residential, UK	39,863,705	-	34,532,132
Hospitals, UK	25,341,644	25,351,156	25,346,479
Industrial Portfolio, UK	-	19,070,180	-
Mixed Use Development, South East UK	12,282,913	12,932,216	14,927,500
Varde Partners Mixed Portfolio, UK	-	3,058,045	981,502
Office, Scotland	4,305,664	-	-
Ireland			
Hotel, Dublin, Ireland	54,173,151	53,372,166	54,458,838
School, Dublin	-	16,967,038	17,319,861
Logistics, Dublin	13,035,099	12,970,152	13,168,789
Student Accommodation, Dublin	-	9,402,404	9,667,282
Residential Portfolio, Dublin	-	6,869,245	-
Residential, Dublin	2,147,252	4,029,496	6,931,790
Spain			
Hotel, Barcelona	41,483,446	40,887,310	41,697,630
Three Shopping Centres, Spain	32,602,374	31,045,447	31,527,080
Hotel, Spain	25,604,236	24,210,649	23,394,315
Office and Hotel, Madrid	16,624,145	-	16,712,680
Shopping Centre, Spain	15,374,244	11,162,015	15,357,522
France			
Office, Paris	14,512,426	23,232,265	14,653,866
Industrial Portfolio, Paris	-	13,146,683	-
Rest of Europe			
Mixed Portfolio, Central and Northern Europe	47,194,411	-	-
Industrial Portfolio, Central and East Europe	37,400,401	57,655,272	46,014,659
	428,636,053	412,109,232	413,444,410

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

5. LOANS ADVANCED (CONTINUED)

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

	30 June 2019 £	30 June 2018 £	31 December 2018 £
Loans advanced at the start of the period / year	413,444,410	369,955,983	369,955,983
Loans advanced	62,495,181	116,558,311	175,161,798
Loans repaid	(45,895,750)	(74,091,183)	(137,158,115)
Arrangement fees earned	(335,994)	(1,771,375)	(2,396,173)
Commitment fees earned	(327,239)	(135,670)	(575,559)
Exit fees earned	(602,557)	(1,071,217)	(2,730,382)
Origination fees paid	373,953	1,106,714	1,543,468
Effective interest income earned	13,687,862	14,363,129	30,137,174
Interest payments received / accrued	(13,055,677)	(12,213,785)	(26,092,214)
Foreign exchange (losses) / gains	(1,148,136)	(591,675)	5,598,430
Loans advanced at the end of the period / year	428,636,053	412,109,232	413,444,410
Loans advanced at fair value	439,874,981	425,785,582	426,379,370

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

The underlying instruments of currency forwards become favourable (assets) or unfavourable (liabilities) as a result of fluctuations of foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The foreign exchange derivatives are subject to offsetting, enforceable master netting agreements for per each counterparty.

The fair value of financial assets and liabilities at fair value through profit or loss are set out on the next page:

Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2019

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

30 June 2019	Notional contract amount ¹ £	Fair values		Total £
		Assets £	Liabilities £	
Investments at fair value through profit or loss				
Credit Linked Notes, UK Real Estate	N/A	21,879,086	-	21,879,086
Total	-	21,879,086	-	21,879,086
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	296,802,700	351,983	(7,552,757)	(7,200,774)
Goldman Sachs	953,750	-	(15,969)	(15,969)
Total	297,756,450	351,983	(7,568,726)	(7,216,743)

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

31 December 2018	Notional contract amount ¹ £	Fair values		Total £
		Assets £	Liabilities £	
Investments at fair value through profit or loss				
Credit Linked Notes, UK Real Estate	N/A	21,886,335	-	21,886,335
Total	-	21,886,335	-	21,886,335
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	263,815,899	50,055	(8,803,266)	(8,753,211)
Goldman Sachs	959,174	-	(28,221)	(28,221)
Total	264,775,073	50,055	(8,831,487)	(8,781,432)

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

7. TRADE AND OTHER PAYABLES

	30 June 2019 £	30 June 2018 £	31 December 2018 £
Investment management fees payable	767,529	712,064	723,652
Refinancing and restructuring fees payable	231,605	300,166	239,081
Audit fees payable	156,779	180,729	95,943
Commitment fees payable	95,162	79,293	82,900
Administration fees payable	85,816	60,374	74,360
Tax provision	41,429	-	64,401
Prepaid interest received	12,739	-	-
Accrued expenses	-	-	60,196
Legal and professional fees payable	-	-	12,475
Loan amounts payable	-	-	405,855
Origination fees payable	-	-	309,375
	1,391,059	1,332,626	2,068,238

8. CREDIT FACILITIES

The Group utilises revolving credit facilities (EUR and GBP). Under its investment policy, the Group 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 Group's borrowings for this purpose, any liabilities incurred under the Group's foreign exchange hedging arrangements shall be disregarded.

As at 30 June 2019 an amount of £45,878,046 (30 June 2018: £53,972,800 and 31 December 2018: £68,818,554) was drawn and interest of £134,180 (30 June 2018: £125,566 and 31 December 2018: £158,660) was payable.

The revolving credit facilities 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 2019

8. CREDIT FACILITIES (CONTINUED)

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

	30 June 2019 £	30 June 2018 £	31 December 2018 £
Borrowings at the start of the period /year	68,977,214	13,338,329	13,338,329
Proceeds during the period/year	37,075,890	65,295,600	129,979,408
Repayment during the period/year	(60,213,500)	(24,278,000)	(75,603,281)
Arrangement fees payable	-	432,738	432,738
Arrangement fees retained	-	(432,738)	(432,738)
Interest expense recognised for the period/year	544,084	489,960	1,074,308
Interest paid during the period/year	(566,047)	(372,806)	(924,480)
Foreign exchange and translation movements	194,585	(374,717)	1,112,930
Borrowings at the end of the period/year	46,012,226	54,098,366	68,977,214

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 2019:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
Period to:			
31 March 2019	1.625	6,094,065	24 May 2019

After the end of the period, the Directors declared a dividend in respect of the financial period ended 30 June 2019 of 1.625 pence per share which was paid on 30 August 2019 to Shareholders on the register on 2 August 2019.

9. DIVIDENDS (CONTINUED)

The Company paid the following dividends in respect of the year to 31 December 2018:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
Period to:			
31 March 2018	1.625	6,094,065	17 May 2018
30 June 2018	1.625	6,094,065	31 August 2018
30 September 2018	1.625	6,094,065	16 November 2018
31 December 2018	1.625	6,094,065	22 February 2019

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 2018 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 Investment Manager regularly monitors the fair value of Credit Linked Notes and no specific hedging activities are undertaken in relation to this investment.

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 2019

10. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

b) Interest rate risk

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

The majority of the Group's financial assets are loans advanced at amortised cost, credit linked notes, receivables and cash and cash equivalents. The Group's investments have some exposure to interest rate risk which is limited to interest earned on cash deposits, credit linked notes 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 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 2019 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 of the counterparty and the carrying amounts of financial assets best represent the maximum credit risk exposure at the end of the reporting period. As at 30 June 2019, the maximum credit risk exposure was £478,475,089 (30 June 2018: £442,718,317 and 31 December 2018: £463,579,260).

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 ongoing 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.

10. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

The Group measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. The Directors consider both historical analysis and forward looking information in determining any expected credit loss. The Directors consider the loss given default to be close to zero as all loans are the subject of very detailed underwriting, including the testing of resilience to aggressive downside scenarios with respect to the loan specifics, the market and general macro changes. In addition to this, all loans have very robust covenants in place, strong security packages and significant loan-to-value headroom. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Group. All loans advanced are in Stage 1 as there has not been a significant change in counterparty credit risk since 31 December 2018 or inception.

(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 £46,012,226 (including accrued interest) was drawn on 30 June 2019 (30 June 2018: £54,098,366 and 31 December 2018: £68,977,214).

As at 30 June 2019, the Group had £27,959,950 (30 June 2018: £8,730,655 and 31 December 2018: £28,248,515) available in cash and £1,391,059 (30 June 2018: £1,332,626 and 31 December 2018: £2,068,238) 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 and unfunded commitments.

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 2019

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Financial assets at fair value through profit or loss	-	-	21,879,086	21,879,086
Total	-	-	21,879,086	21,879,086
Liabilities				
Derivative liabilities	-	(7,216,743)	-	(7,216,743)
Total	-	(7,216,743)	-	(7,216,743)

Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2019

11. FAIR VALUE MEASUREMENT (CONTINUED)

30 June 2018

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Financial assets at fair value through profit or loss	-	-	21,878,430	21,878,430
Total	-	-	21,878,430	21,878,430
Liabilities				
Derivative liabilities	-	(6,010,773)	-	(6,010,773)
Total	-	(6,010,773)	-	(6,010,773)

31 December 2018

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Financial assets at fair value through profit or loss	-	-	21,886,335	21,886,335
Total	-	-	21,886,335	21,886,335
Liabilities				
Derivative liabilities	-	(8,781,432)	-	(8,781,432)
Total	-	(8,781,432)	-	(8,781,432)

There have been no transfers between levels for the period ended 30 June 2019 (30 June 2018: £nil and 31 December 2018: £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), the credit quality on the underlying reference portfolios 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.

11. FAIR VALUE MEASUREMENT (CONTINUED)

The movement in level 3 instruments are presented in the table below.

	30 June 2019 £	30 June 2018 £	31 December 2018 £
Balance at the start of the period / year	21,886,335	22,112,820	22,112,820
Disposals	-	-	-
Acquisitions	-	-	-
Cash interest received	(1,171,906)	(1,084,507)	(2,245,256)
Net gains / (losses) recognised in profit or loss ⁽¹⁾	1,164,657	850,117	2,018,771
Balance at the end of the period / year	21,879,086	21,878,430	21,886,335
Changes in unrealised gains or losses for Level 3 assets held at period/ year end and included in other net changes in fair value of financial assets at fair value through profit or loss	-	-	-

¹ The net gains for the period ended 30 June 2019 comprise of £1,164,657 interest income on CLNs (30 June 2018: £1,138,267 of interest income on CLNs net of £288,150 origination fees and 31 December 2018: £2,306,921 of interest income on CLNs net of £288,150 origination fees 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 2019 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Cash and cash equivalents	-	27,959,950	-	27,959,950	27,959,950
Other receivables and prepayments	-	12,198	-	12,198	12,198
Loans advanced	-	-	439,874,981	439,874,981	428,636,053
Total	-	27,972,148	439,874,981	467,847,129	456,608,201
Liabilities					
Trade and other payables	-	1,391,059	-	1,391,059	1,391,059
Credit facilities	-	46,012,226	-	46,012,226	46,012,226
Total	-	47,403,285	-	47,403,285	47,403,285

Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2019

11. FAIR VALUE MEASUREMENT (CONTINUED)

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 30 June 2018 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
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
Total	-	8,744,066	425,785,582	434,529,648	420,853,298
Liabilities					
Trade and other payables	-	1,332,626	-	1,332,626	1,332,626
Credit facilities	-	54,098,366	-	54,098,366	54,098,366
Total	-	55,430,992	-	55,430,992	55,430,992

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 2018 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Cash and cash equivalents	-	28,248,515	-	28,248,515	28,248,515
Other receivables and prepayments	-	28,935	-	28,935	28,935
Loans advanced	-	-	426,379,370	426,379,370	413,444,410
Total	-	28,277,450	426,379,370	454,656,820	441,721,860
Liabilities					
Trade and other payables	-	2,068,238	-	2,068,238	2,068,238
Credit facilities	-	68,977,214	-	68,977,214	68,977,214
Total	-	71,045,452	-	71,045,452	71,045,452

11. FAIR VALUE MEASUREMENT (CONTINUED)

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. The Luxembourg indirect subsidiaries of the Company are subject to the applicable tax regulations in Luxembourg.

The Luxco had no operating gains on ordinary activities before taxation and is therefore subject to the Luxembourg minimum corporate income taxation at €4,815 (2018: €3,810). The Luxco 3 and Luxco 4 are subject to Corporate Income Tax and Municipal Business Tax based on a margin calculated on an arm's- length principle. The effective tax rate in Luxembourg during the reporting period was 26.01% (2018: 26.01%).

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

	Outstanding at 30 June 2019 £	Outstanding at 30 June 2018 £	Outstanding at 31 December 2018 £
Investment Manager			
Investment management fees payable	767,529	712,064	723,652
Origination fees payable	-	-	309,375
Expenses	-	-	60,196

	For the period ended 30 June 2019 £	For the period ended 30 June 2018 £	For the year ended 31 December 2018 £
Directors' fees and expenses paid			
Stephen Smith	25,000	25,000	50,000
John Whittle	22,500	22,500	45,000
Jonathan Bridel	21,250	21,250	42,500
Expenses paid	1,417	2,791	4,321
Investment Manager			
Investment management fees earned	1,476,340	1,415,286	2,858,556
Origination fees	373,953	1,106,714	1,543,468
Expenses	91,912	49,717	175,531

Notes to the Unaudited Condensed Consolidated Financial Statements

for the period ended 30 June 2019

13. RELATED PARTY TRANSACTIONS (CONTINUED)

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 2019 £	Dividends paid for the period ended 30 June 2018 £	Dividends paid for the year ended 31 December 2018 £
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 2019 Number of shares	As at 30 June 2018 Number of shares	As at 31 December 2018 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, as summarised in the table below.

Loan
Mixed Use Development, South East UK
Hotel and Residential, UK
Credit Linked Notes, UK Real Estate
Hotel, Spain
Mixed Portfolio, Central and Northern Europe

14. EVENTS AFTER THE REPORTING PERIOD

The following significant cash amounts have been funded since the period end, up to the date of publication of this report:

	Local Currency
Three Shopping Centres, Spain	€1,048,878

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

	Local Currency
Industrial Portfolio, Central and Eastern Europe	€26,282,936
Mixed Use Development, South East UK	£8,789,620

The following new commitments have been made since the period end, up to the date of publication of this report:

	Local Currency
Office Building, London	£12,450,000

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

	Local Currency
Hotel, Barcelona	€46,000,000

Subsequently to reporting date, the Group repaid €6 million under Morgan Stanley credit facility and €17 million under Lloyds credit facility. At the date of publication of this report the amount drawn under each facility are:

Lloyds Facility:	€nil million
Morgan Stanley Facility:	€28 million

On 24 July 2019 the Company declared a dividend of 1.625 pence per Ordinary share payable to shareholders on the register on 2 August 2019.



Directors

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

Investment Manager

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

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

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

Registrar

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

Sole Broker

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

Administrator, Designated Manager and Company Secretary

Apex Fund and Corporate Services
(Guernsey) (formerly Ipes (Guernsey) Limited)
1 Royal Plaza
Royal Avenue
St Peter Port
Guernsey
GY1 2HL

Registered Office

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

Investment Adviser

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

Advocates to the Company (as to Guernsey law)

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

Independent Auditor

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

Principal Bankers

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

Website:

www.starwoodeuropeanfinance.com