STARWOOD
EUROPEAN REAL ESTATE FINANCE

Interim Financial Report and Unaudited Condensed Consolidated Financial Statements

for the six-month period from 1 January 2020 to 30 June 2020

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 2020 to 30 June 2020.

INVESTMENT MOMENTUM

The table below summarises the new commitments made and repayments received in the first six months of each year from 2016 to 2020.

	New Commitments	Repayments & Amortisation	Net Increase in Commitments
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
H1 2020	£72.7m	(£65.3m)	£7.4m

The net increase in commitments during the first half of 2020, whilst still positive, has been modest. This is not surprising as market activity reduced significantly due to the Covid-19 pandemic. Repayments were similar to previous years and the majority occurred in the first quarter, pre lockdown though the credit linked notes repaid at the end of the second quarter. Importantly, the Group remains fully invested supporting the Company's income generation.

We normally anticipate that around 30-40 per cent of loans will repay in an average year. As things stand we would expect this figure to be lower during 2020 as it may take borrowers longer to sell or execute business plans and opportunities to refinance following completion of plans may be more limited. The Company expects all scheduled payments to be made on time and in accordance with their respective initial or amended terms, as applicable.

STEPHEN SMITH | Chairman

8 September 2020

Chairman's Statement

NAV AND SHARE PRICE PERFORMANCE

The NAV of the Group remained relatively stable over the first half of the year. Notably, the Company has not experienced any defaults or increase in expected credit losses during the period of market dislocation and importantly all scheduled interest payments have been received on time. The Company has delivered a NAV total return during the period of 4 per cent.

We would not expect to see significant movements in NAV as the Group's loans are held at amortised cost and Euro exposures are hedged. The NAV would only be materially impacted if there was an increase in credit risk which resulted in an expected credit loss or actual default. Please refer to the Investment Manager's report on page 10 for further useful information on the accounting for our loans and an assessment of expected credit losses for the period ended 30 June 2020. The Investment Manager also presents an analysis of the potential fair values of the loans against the amortised cost that is reflected in these financial statements.

At 30 June 2020, the share price traded at a significant discount to NAV of 17 per cent which has improved from the historic low (of 63.4 pence per share) experienced during the Covid-19 crisis. However, the Board and the Investment Adviser believe the shares represent very attractive value at this level and members of the Investment Adviser team and the Board have made personal purchases during the quarter, as disclosed by the Group.

The Company received authority at the recent AGM to purchase up to 14.99 per cent of the Ordinary Shares in issue on 8 June 2020. The Directors continue to closely and regularly monitor the discount to NAV and on 10th August we announced the appointment of Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. This engagement lasts until 31 December 2020 and any share buyback will be subject to sufficient cash being available to cover commitments to borrowers, working capital or the payment of dividends. As at 8 September 2020 the Company had repurchased 872,000 Ordinary Shares at an average price of 85.35 pence per share. These shares are being held in Treasury.

DIVIDENDS

The Directors declared a dividend in respect of the first two quarters of 2020 of 1.625 pence per Ordinary Share, equating to an annualised 6.5 pence per annum. This was approximately 0.9x covered by earnings excluding unrealised FX gains. With the current portfolio, we expect the dividend cover to reduce to approximately 0.87x during the second half of the year.

The Board and Investment Adviser recognise the importance of stable and predictable dividends for our shareholders. Accordingly, we held a dividend reserve (within retained earnings) built up over several years which we have been using to maintain the annual dividend at 6.5 pence per share over the last eighteen months even though the dividend has not been covered by earnings more recently. As a result, dividends have not, to date, been paid out of capital reserves. The Company intends to continue to use the remaining dividend reserve to maintain the annual dividend at 6.5 pence per share for the rest of 2020 which will leave a small dividend reserve remaining.

In the period since the Group's inception, the Bank of England base rate has reduced from 0.50 per cent to 0.10 per cent. The average 5 year GBP swap rate from inception to year end 2019 was 1.16 per cent, compared to 0.13 per cent at 30 June 2020 representing a fall of over 1 per cent on average. At inception LIBOR / EURIBOR might have contributed up to 10 per cent of the company's underlying return profile, today it makes up less than 1 per cent.

In light of this declining interest rate environment, from 1 January 2021 the Group intends to reduce the dividend target to 5.5 pence per annum (payable quarterly) which, in the Board and the Investment Adviser's view, is a sustainable level and which should be fully covered by earnings whilst ensuring we maintain our strong credit discipline and risk management. The share price at 30 June 2020, assuming a dividend of 5.5 pence per annum would deliver an attractive 6.4 per cent yield (this equates to a 5.3 per cent yield on NAV at 30 June 2020).

BOARD COMPOSITION AND DIVERSITY

The Board previously mentioned that it is mindful of the need to plan for succession and to implement this in a timely and constructive fashion that supports and builds on a cohesive Board. On 3 August 2020 the Company announced the appointment of Shelagh Mason with effect from 1 September 2020 and Charlotte Denton with effect from 1 January 2021 as Non-Executive Directors of the Company.

The new appointments are in accordance with the Board's Succession Planning Memorandum which states that a new Director will be appointed to the Board during the second half of 2020 allowing time for induction prior to Mr. Jonathan Bridel standing down from the Board in December 2020. In addition, the Company has decided that it is appropriate to make a second new appointment to add to the Company's skills, experience and diversity as well as to assist in the succession process when I retire from the Board in December 2021 and when Mr. John Whittle stands down in December 2022. 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.

We are pleased that Shelagh and Charlotte have accepted these appointments to the Board and the Company believes that as the succession plan unfolds the Board will be fully equipped with the necessary skills, experience, knowledge and diversity to continue to grow a successful business in the coming years. The Board believes that it has addressed concerns expressed by shareholders at this year's AGM.

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 assessing the possible impact of the Covid-19 pandemic on the Group's portfolio, 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 have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date the unaudited consolidated financial statements were signed. A range of scenarios have been evaluated as part of this analysis. The worst case scenario evaluated was an interest payment default on all hotel and retail loans. In this scenario the company is still able to meet its liabilities as they fall due although the dividend would need to be reduced to reflect the reduced cash received. Accordingly, the Directors continue to adopt a going concern basis in preparing the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements.

COVID-19 AND OUTLOOK

The Board is pleased that the robust underwriting, initial loan structuring and active asset management of the Investment Manager and Adviser during this turbulent time has contributed significantly to a very robust performance during the period. The Investment Manager and Adviser have actively engaged with our borrowers during this time when amendments and waivers under loan documentation have been required due to the disruption to business plans. Just under a quarter of the portfolio has required some sort of amendment or waiver as a result of Covid-19 with most waivers required in respect of income based covenants. However, despite this, all interest has been paid in full and on time and although in many cases credit risk may have changed and some loans have moved from Stage 1 to Stage 2, no impairments have been required. Importantly, we expect interest payments to continue to be paid, in full, based on the forecast and for conditions to gradually improve if lockdown continues to be relaxed across the UK and Europe. For further information on the performance of the various components of the portfolio during Covid-19 please refer to the Investment Managers report on page 7.

The Investment Adviser expects to see a strong pipeline of opportunities as the markets begin to stabilise and will continue to apply its rigorous approach to the selection of appropriate opportunities as it re-invests capital into new opportunities. At 30 June 2020, the Group was very modestly levered with net debt of £15.1 million (3.5 per cent of NAV) and undrawn revolving credit facilities of £101.9 million to fund the Group's existing commitments of £67.2 million. If the Group does not receive any further repayments this year, it means the Group has approximately £44 million of capacity for new loans.

The Board believes that the Company is well placed and that its portfolio and investment pipeline should, over the long term, continue to deliver an attractive risk-adjusted return. I would like to close by thanking you for your commitment and support.

Stephen Smith

Chairman

8 September 2020

Investment Manager's Report

CONTINUED INVESTMENT DEPLOYMENT

As at 30 June 2020, the Group had 18 investments and commitments of £514.7 million as follows:

	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Hospitals, UK	£25.0m	–
Hotel & Residential, UK	£49.9m	–
Office, Scotland	£4.6m	£0.4m
Office, London	£13.0m	£7.6m
Residential, London	£37.0m	£2.7m
Hotel, Oxford	£16.7m	£6.3m
Hotel, Scotland	£25.9m	£15.5m
Hotel, North Berwick	£10.5m	£4.5m
Logistics Portfolio, UK[2]	£12.0m	–
Total Sterling Loans	**£194.6m**	**£37.0m**
Three Shopping Centres, Spain	£34.1m	£5.9m
Shopping Centre, Spain	£15.6m	–
Hotel, Dublin, Ireland	£55.0m	–
Hotel, Spain	£40.1m	£9.5m
Office & Hotel, Madrid	£17.0m	£0.9m
Mixed Portfolio, Europe	£31.3m	–
Mixed Use, Dublin	£2.0m	£11.5m
Office Portfolio, Spain	£19.6m	£2.4m
Office Portfolio, Dublin	£32.2m	–
Logistics Portfolio, Germany[2]	£6.0m	–
Total Euro Loans	**£252.9m**	**£30.2m**
Total Portfolio	**£447.5m**	**£67.2m**

[1] Euro balances translated to sterling at period-end exchange rate.

[2] Logistics Portfolio, UK and Logistics Portfolio, Germany is one single loan agreement with sterling and Euro tranches.

Between 1 January 2020 to 30 June 2020, the following significant investment activity occurred (included in the table above):

NEW LOAN: OFFICE PORTFOLIO, DUBLIN:

On 2 January 2020, the Group committed to an investment in a c. 6 year floating rate loan secured by a portfolio of assets in Ireland, together with Starwood Property Trust, Inc (through a wholly owned subsidiary) participating in 50 per cent of the mezzanine loan amount, providing the Group with a commitment of €35.15 million. The portfolio consists of 12 high occupancy properties in Central Dublin with primarily office and some small amounts of retail and residential space totalling over 600,000 sqf in total.

NEW LOAN: HOTEL, NORTH BERWICK, SCOTLAND:

On 12th February 2020, the Group committed to fund a hotel acquisition financing for a commitment of £15.0 million. The sponsor is a repeat borrower for the Group. The financing, which was provided in the form of a significant initial advance to finance an asset acquisition together with a smaller capex facility, will support the sponsor's capital expenditure for improvement and rebranding of the hotel. The day one advance amount is £10.5 million whilst the total commitment is £15.0 million. The loan is for a term of 5 years.

LOAN UPSIZE: HOTEL & RESIDENTIAL, UK:

On 27th February 2020 the Group also committed to fund a £20.0 million upsize to an existing fixed rate mezzanine loan to support the development of a mixed-use scheme in London. Starwood Property Trust, Inc (through a wholly owned subsidiary) is participating in 50 per cent of the loan amount, providing the Group with a commitment of £10.0 million.

NEW LOAN: LOGISTICS, UK AND GERMANY:

On 17 June 2020, the Group closed an investment in the funding of a €71.9 million, 36 month floating rate senior loan secured by a portfolio of industrial/logistics assets in the UK and Germany. The investment was made alongside Starwood Property Trust, Inc (through a wholly owned subsidiary) with the Group participating in €20 million (27.8 per cent) of the senior loan amount. The Group expects the transaction to generate attractive risk-adjusted returns, in line with its stated investment strategy.

Loan Repayments & Amortisation: the following material loan repayments and material amortisation were received during the first half:

- a full and final repayment of the €16 million loan on an office in Paris;
- €16.4 million of unscheduled amortisation on the loan on the mixed portfolio;
- Full and final repayment of the mixed use development, South East UK loan (approximately £700k) as the borrower completed their business plan;
- Credit Linked notes: a full and final repayment of the £21.8 million balance. This repayment was earlier than the contractual settlement date but was anticipated given the relatively high yield that was being earned on the credit linked notes compared to the current market conditions; and
- Residential, London: £15.0 million of amortisation following the sale of residential units

The Group also advanced £16.5 million to borrowers to which it has outstanding commitments.

PORTFOLIO OVERVIEW IN LIGHT OF COVID-19

We have always had a detailed, hands on approach to asset management, almost all our loans are direct origination with the borrowers. We therefore know our borrowers well and we monitor the credit closely through the life of the investments.

Typically, loans are structured in line with underwritten borrower business plans. Financial and other milestone covenants are set and ratchet up over time to track those business plans, which means that should underlying performance start to deteriorate, early triggers are in place which effectively allow us to review the position with the borrower and recommend loan amendments or restructurings as appropriately tailored to each deal.

These loan structures, close relationships and monitoring have proved particularly useful during Covid-19 where disruption to business plans has resulted in requirements for amendments and waivers under loan documentation.

Just under a quarter of the portfolio has required some form of amendment or waiver as a result of Covid-19. As at the date of approval of the Unaudited Condensed Consolidated Financial Statements, most waivers required were in respect of income based covenants.

An example of this has been debt yield test or income covenant waivers to allow for the disruption of hospitality assets performance. However it is important to note that these deals are well capitalised with cash reserves in place to fund forecast shortfalls of income and, no deal or project has identified a funding shortfall in the medium term.

Amendments to-date have also included refurbishment or ground up construction loans where loans are structured with required project completion dates. Where construction progress has been hampered by either mandatory government shutdowns or the introduction of Covid-compliant social distancing measures, some milestones have been pushed out to account for the time lost. Again, these deals are all adequately capitalised where any cost increase identified as a result of on-site delays, has identified funding in place.

Investment Manager's Report

All loan interest up to the date of publication has been paid in full and on time and future interest payments are expected to be paid in full based on the forecast gradual continued easing of lockdowns across the UK and Europe. The performance of the portfolio has been robust during the Covid-19 crisis and performance by sector is summarised below.

Hospitality (34.7 per cent of Investment Portfolio)

- Of the Group's investments, the hospitality industry has been most affected by the Covid-19 pandemic.
- Four hotels, which equates to 40 per cent of hotels in the portfolio had to close during the pandemic.
- All hotels are now open and operational, aside from the Hotel, Spain which remains under construction and is due to achieve completion in Q3 2020. The Hotel, Dublin has remained open and has benefited from a contract with the Irish Health Authority during the pandemic.
- Every hospitality loan within the Group's loan book continued to pay interest on time.
- All hospitality loans have adequate resources to meet their cash needs for the medium term.

Retail (12.7 per cent of Investment Portfolio)

- The retail sector has also been hard hit by the Covid-19 pandemic. This is on the back of a number of difficult trading years for the retail "bricks and mortar" sector as a whole.
- Across Europe almost all non-essential retail assets were shut for a number of months. These retail assets are now beginning to open once again and starting to become operational.
- In some parts of the retail market we have witnessed footfall return to as much as 70 per cent of its pre-Covid level. However, we do expect to see more insolvencies across the sector as 2020 continues.
- The Group's retail investments are either a small part of a large portfolio of mixed assets or benefit from robust loan structures including interest / cash reserves which will enable the borrower to weather the storm over the medium term.

Office, Industrial & Residential (47 per cent of Investment Portfolio)

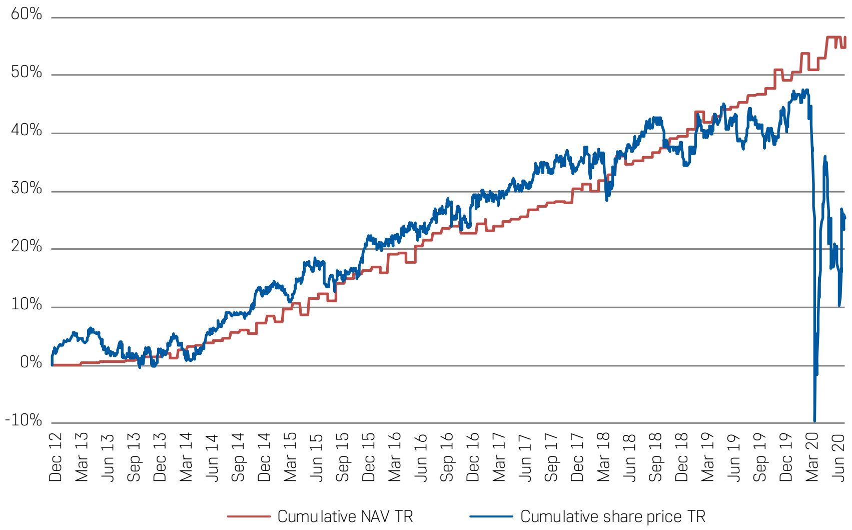
- These three sectors have been the most resilient sectors during the Covid-19 pandemic.
- Underlying office rent collections for loans with greater than 75 per cent exposure to office remain strong at 96 per cent year to date.
- Residential sales have continued to progress well during the Covid-19 related disruption with a number of units being sold since 1 March 2020 at premiums to underwritten values. The loan-to-value for this segment is 59.6 per cent.
- Underlying industrial loan rent collections remain strong at 100 per cent year to date.

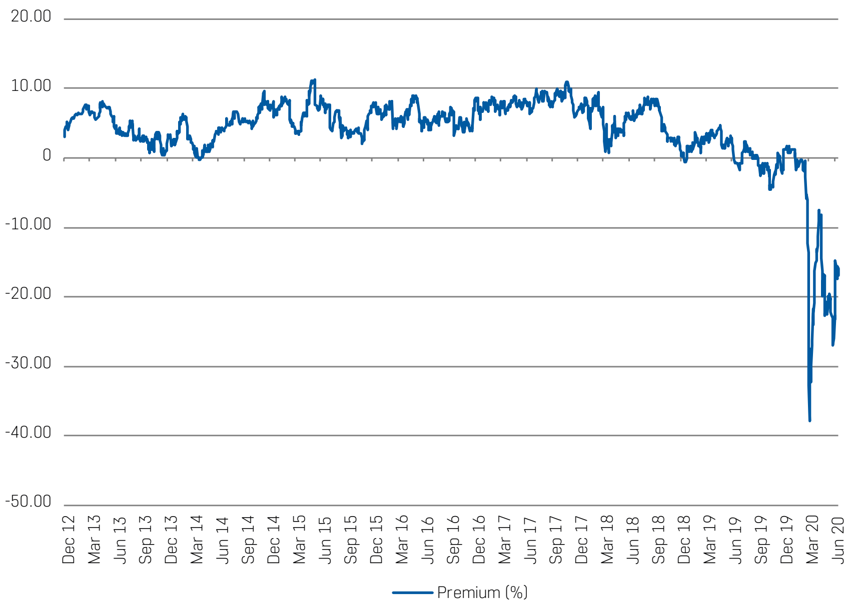
Construction (34 per cent of Investment Portfolio including some hospitality and residential assets included above)

- Construction sites have continued to make progress during the Covid-19 pandemic.
- In the UK construction sites were able to remain open at all times. In Spain and Ireland, construction sites were closed for 14 and 52 days respectively.
- We expect to see more moderate delays to final completion in our construction deals as a result of Covid-19.
- However, every deal remains fully funded by debt and equity with ample contingencies and cost overrun protections to enable borrowers to mitigate any Covid-19 impacts.

COMPANY PERFORMANCE

Share price, NAV and discount/premium





Source: Thomson Reuters

Investment Manager's Report

PORTFOLIO STATISTICS

As at 30 June 2020, the portfolio was invested in line with the Group's investment policy. The key portfolio statistics are as summarised below.

Number of investments	18
Percentage of currently invested portfolio in floating rate loans	79.5%
Invested Loan Portfolio unlevered annualised total return [(1)]	6.7%
Portfolio levered annualised total return [(2)]	7.0%
Weighted average portfolio LTV – to Group first £ [(3)]	18.4%
Weighted average portfolio LTV – to Group last £ [(3)]	62.9%
Average loan term (stated maturity at inception)	4.4 years
Average remaining loan term	2.8 years
Net Asset Value	£430.1m
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	(£24.1m)
Loans advanced	£448.9m
Cash	£9.0m
Other net assets / (liabilities) (including hedges)	(£3.8m)
Origination Fees – current quarter	£0.1m
Origination Fees – last 12 months	£1.9m
Management Fees – current quarter	£0.8m
Management Fees – last 12 months	£3.2m

[(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 cash un-invested. The calculation also excludes the origination fee payable to the Investment Manager.

[(2)] The levered annualised total return is calculated as per the unlevered return but takes into account the amount of 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 Group first £ 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.

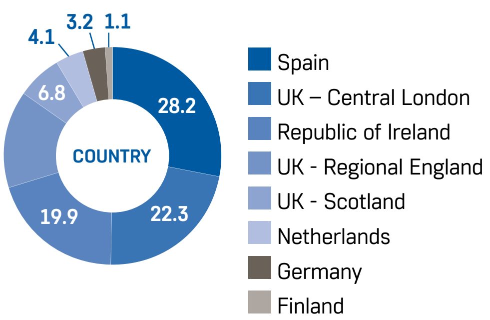
The maturity profile of investments as at 30 June 2020 is shown below.

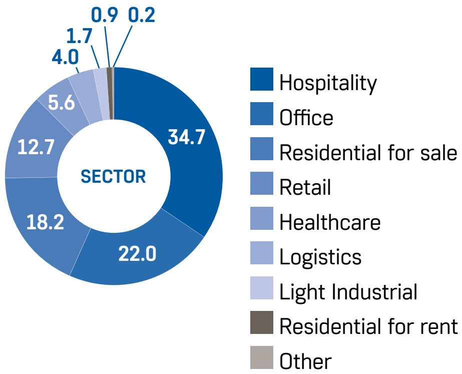
Remaining years to contractual maturity [1]	Principal value of loans £m	% of invested portfolio
0 to 1 years	20.2	4.5%
1 to 2 years	133.2	29.8%
2 to 3 years	147.2	32.9%
3 to 5 years	89.7	20.0%
5 to 10 years	57.2	12.8%
Total	**447.5**	**100.0%**

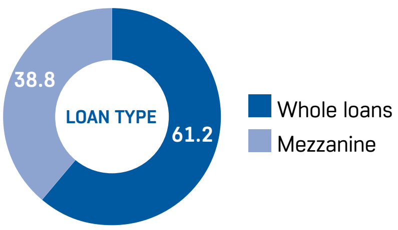
[1] Excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

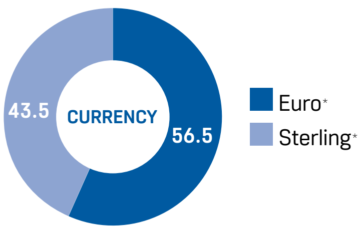
The Group continues to achieve good portfolio diversification as shown in the graphs below:

% of invested assets









* the currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

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.

LIQUIDITY AND HEDGING

The Group is very modestly levered with net debt of £15.1 million (3.5 per cent of NAV) at 30 June 2020, has no repo facilities outstanding and significant liquidity available with undrawn revolving credit facilities of £101.9 million to fund existing commitments as summarised below.

As at 30 June 2020	£ million
Drawn on Group debt facilities	(24.1)
Cash at hand	9.0
Net Debt	(15.1)
Undrawn Debt Facilities available to Group	101.9
Undrawn Commitments to Borrowers	(67.2)
Available Capacity	**43.7**

The way in which the Group's borrowing facilities are structured means that it does not need to fund mark to market margin calls. The Group does have the obligation to post cash collateral under its hedging facilities. However, cash would not need to be posted until the hedges were more than £20 million out of the money. The mark to market of the hedges at 30 June 2020 was £4.5 million (out of the money) and with the robust hedging structure employed by the Group, cash collateral has never been required to be posted since inception.

The Group has the majority of its investments currently denominated in Euros (although this can change over time), although the Group is sterling denominated. 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 functional and presentation currency of the Group is sterling as capital is raised in sterling, it is listed on the London Stock Exchange and the majority of expenses are sterling. The Group focuses on the UK and Europe but at 30 June 2020 the investment portfolio is slightly Euro dominant. The portfolio split between sterling and Euro will fluctuate over time depending on where the best opportunities arise.

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.

EXPECTED CREDIT LOSSES (IMPAIRMENT)

All loans within the portfolio are classified and measured at amortised cost less impairment.

Under IFRS 9 a three stage approach for recognition of impairment is applicable, based on whether there has been a significant deterioration in the credit risk of a financial asset since initial recognition. These three stages then determine the amount of impairment provision recognised.

At Initial Recognition (if asset is not credit impaired)	Recognise a loss allowance equal to 12 months expected credit losses resulting from default events that are possible within 12 months.
After initial recognition:	
Stage 1	Credit risk has not increased significantly since initial recognition. Recognise 12 months expected credit losses. Interest income is recognised by applying the effective interest rate to the gross carrying amount of financial assets.
Stage 2	Credit risk has increased significantly since initial recognition. Recognise lifetime expected losses. Interest income is recognised by applying the effective interest rate to the gross carrying amount of financial assets.
Stage 3	Credit impaired financial asset. Recognise lifetime expected losses. Interest income is calculated by applying the effective interest rate to their amortised cost (that is net of expected loss provision).

The Group has not recognised expected credit losses at initial recognition on any of its loans due to the detailed and conservative underwriting undertaken, robust loan structures in place and a strong equity cushion with an average LTV of 62.9 per cent (based on the latest available valuation for each asset).

Stage 2: Significant increase in credit risk

The Group uses both quantitative and qualitative criteria which is monitored no less than quarterly in order to assess whether an increase in credit risk has occurred. Increased credit risk would be considered if, for example, all or a combination of the following has occurred:

- underlying income performance is at a greater than 10 per cent variance to the underwritten loan metrics;
- loan to value is greater than 75-80 per cent;
- loan to value or income covenant test results are at a variance of greater than 5-10% of loan default covenant level (note that loan default covenant levels are set tightly to ensure that an early cure is required by the borrower should they breach which usually involves decreasing the loan amount until covenant tests are passed);
- late payments have occurred and not been cured within 3 days;
- loan maturity date is within six months and the borrower has not presented an achievable refinance or repayment plan;

Investment Manager's Report

EXPECTED CREDIT LOSSES (IMPAIRMENT) (CONTINUED)

- covenant and performance milestones criteria under the loan have required more than two waivers;
- increased credit risk has been identified on tenants representing greater than 25 per cent of underlying asset income;
- income rollover / tenant break options exist such that a lease up of more than 30 per cent of underlying property will be required within 12 months in order to meet loan covenants and interest payments; and
- borrower management team quality has adversely changed.

Stage 3: Non-performing assets

Non-performing financial assets would be classified in Stage 3, which is fully aligned with the definition of credit- impaired, when one or more of the following has occurred:

- the borrower is in breach of all financial covenants;
- the borrower is in significant financial difficulty; and
- it is becoming probable that the borrower will enter bankruptcy.

An instrument is considered to have been cured, that is no longer in default, when it no longer meets any of the default criteria for a sufficient period of time.

At the end of 2019 all loans were classified as Stage 1. As at 30 June 2020 six loans with a value of 33 per cent of NAV have moved to Stage 2 but no loan has moved to Stage 3. The loans classified to stage 2 are predominantly in the retail and hospitailty sectors. Out of the list of considerations outlined above the main reason for moving the loans to stage 2 was expected income covenant breaches due to the disruption from Covid-19. It is important to note that classification to Stages 2 does not automatically mean that an expected credit loss will be recognised. This is because the formula for calculating the expected credit loss is:

"Present Value of loan" x "probability of default" x "value of expected loss"

The Group does not instruct independent third party valuations on a strict annual basis, only when it is considered necessary to obtain one. We generally consider this to be a conservative approach to the LTV stated as many of our borrowers have business plans which are in execution and the plans would have be gradually de-risked as the business plan progresses. The Investment Adviser does closely analyse all available market and internal information on a regular basis and as at 30 June 2020 considers that it is still very likely that the third part of the formula "value of expected loss" will remain as nil for all loans, even if they have moved from Stage 1 to Stage 2, due to the significant headroom the Group has with an average loan to value (based on the latest third party valuations performed) of 62.9 per cent.

The table below shows the sensitivity of the loan to value calculation for movements in the underlying property valuation.

Change in Valuation	Hospitality	Retail	Residential	Other	Portfolio Average
-15%	73.0%	82.1%	70.1%	74.3%	74.0%
-10%	68.9%	77.5%	66.2%	70.2%	69.9%
-5%	65.3%	73.4%	62.7%	66.5%	66.2%
0%	62.0%	69.8%	59.6%	63.2%	62.9%
5%	59.1%	66.5%	56.7%	60.2%	59.9%
10%	56.4%	63.4%	54.2%	57.4%	57.2%
15%	53.9%	60.7%	51.8%	54.9%	54.7%

The Group is unable to record the loans at fair value as the loans do not qualify for this accounting treatment as per IFRS. However, we do have to present and have calculated the fair value of the loans based on a discounted cash flow basis using different discount rates (as applicable) with the assumption all loans run to full maturity, and the results are shown below.

Discount Rate	Value Calculated	% of book value
4.7%	£473.3 m	105.4%
5.2%	£467.0 m	104.0%
5.4%	**£462.3 m (= fair value)**	**103.0%**
5.7%	£460.8 m	102.7%
6.2%	£454.8 m	101.3%
6.7%	**£448.9 m (= book value)**	**100.0%**
7.2%	£443.1 m	98.7%
7.7%	£437.4 m	97.5%
8.2%	£431.9 m	96.2%
8.7%	£426.5 m	95.0%

The effective interest rate ("EIR") – i.e. the discount rate at which future cash flows equal the amortised cost, is 6.7per cent. We have sensitised the cash flows at EIR intervals of 0.5 per cent up to +/- 2.0 per cent. The table reflects how a changes in market interest rates or credit risk premiums may impact the fair value of the portfolio versus the amortised cost. Further, the Group considers the EIR of 6.7 per cent to be conservative as many of these loans were part of a business plan which involved transformation and many of these business plans are advanced in the execution and therefore significantly de-risked from the original underwriting and pricing.

Investment Manager's Report

MARKET SUMMARY AND INVESTMENT OUTLOOK

Markets remain reasonably volatile but have stabilised in the last few months. The VIX is down from 38.2 at 17 April to 27.2 at 17 July having peaked at 82.7 in March 2020. The iShares UK Property ETF is almost completely unchanged at 495.15p on 17 July versus 495.85p three months earlier. This more stable picture is the result of an effective campaign of unprecedented monetary and fiscal stimulus. Overall one of the largest drivers of the market will be the balance of these stimulus measures versus the long-term economic effects of the disruption caused by Covid-19.

We have also seen more clarity in real estate valuation. In April real estate valuers had been caveating their work with material uncertainty clauses however the RICS Material Valuation Uncertainty Leaders Forum have now recommended that central London offices, as well as all industrial and logistics assets, no longer need a material uncertainty clause in valuations.

The stimulus has had a material effect on the outlook for interest rates. At the end of June the FT reported that the UK 30 year gilt was trading below the Japanese 30 year bond. Since the Company launched in December 2012 the 30-year rate has decreased by 2.5 per cent in total. Short-term rates have plummeted since Covid-19 with GBP Libor declining by 0.69 per cent to 0.08 per cent over the last six months. The curve is also extremely flat with the UK 5-year swap rate also at only 0.08 per cent. Overall the lower interest rate environment is likely to be propping up property values with an increasing lack of yield in the fixed income world.

Investment grade credit spreads have tightened since last quarter. Specifically, in the real estate space, Vonovia, which is one of the largest real estate bond issuers in Europe now has lower yields than it did at the start of the year on some of its medium and longer dated maturities. The evolution of pricing can be seen with the new Vonovia 10 year bond issued in July 2020 with a 1 per cent coupon versus 2.25 per cent in April this year.

Covid-19 has accelerated some of the long-term trends from physical to online retail. The UK has been particularly hard hit by this and we have seen more bricks-and-mortar retailers go into administration during the first half of this year than in the whole of 2019, which was described by some observers as 'the worst year for 25 years' for the industry. According to the Centre for Retail Research, 40 companies have failed affecting 2,630 stores in the first half of the year versus 43 companies and 2,051 stores for 2019 as a whole.

Large logistics and last mile logistics continue to benefit from the long-term trend to online retail and the continued growth in requirements for the logistics infrastructure to service the model. This continued trend in favour of logistics is evident in both increased take-up which was up 36 per cent year on year in the UK and also in the transaction market. Last quarter we reported that expectations for transaction volumes were, in general, heavily down given market uncertainties and practicalities of doing business in lockdown. However in the second quarter the volume of logistics transactions has held up much better than other asset classes. While still down on 2019, investment volumes reached £1.12 billion for H1 2020, (a fall of 26 per cent when compared with H1 2019). Volumes for logistics investment fell by just 24 per cent from Q1 to Q2, compared with the commercial market as a whole where volume fell by 82 per cent during the same time period. Values have also held up well while initially Savills moved prime yields out 25bps to 4.50 per cent for prime single let logistics units and 4.25 per cent for multi-let industrial estates they now see positive sentiment and competitive tension putting downward pressure on these yields.

In residential there are many themes driving the market, the stamp duty holiday and very low interest rates are helping buyers. The imbalance of pent up demand from buyers having put moves on hold as the market was shut who are now looking to a limited supply of available property are so far outweighing the uncertainties of full implications of the macro-economic impacts of Covid-19. There is limited downward pressure and in some parts of the market there is a significant upwards pressure. We are also seeing the continuing theme of successful creation of larger institutional private rented sector product in many countries around Europe and expect to see this continue to grow.

There is much debate about the future of office space. In particular there are short to medium term practicalities about reopening the office space which will still take some months to bed down. Some workers have thrived working from home in lockdown but it is also clear that people miss and need other essential aspects of office life around close teamwork and spontaneous communication, training, culture building, ideas generation and the social aspects of the office environment. There has been limited activity so far to see the impacts on the long-term outlook. Savills City Office research shows City office rents holding up but with some pressure on incentives and their investment market prime yields for office are flat. As volumes have been significantly lower during the second quarter for commercial real estate transactions some market participants are expecting a similar pent up demand as we have seen in the residential market from both buyers and sellers to transact and expect many processes to be launched after the summer for Q4 closing.

The real estate debt market reflects the underlying real estate market and there has been relatively low volumes of financing concluded. We expect that as with the underlying real estate market the early transactions will be seen in the logistics, residential and office sectors. There is still dislocation in the market, however we are seeing an easing and even in some markets such as the German core office space financing terms are back to pre-Covid-19 levels. Pricing tends to be quite opaque in the market, however we currently estimate that in general most types of income producing real estate are between 25bps and 50bps wider than pre-Covid-19. Pricing for more complex credits can be significantly wider. We have observed that this premium has been changing quickly and normalising over recent weeks. Larger deals requiring syndication have been particularly difficult to evaluate given a lack of clarity in the CMBS and syndication market but we are hearing that banks with pre-Covid-19 loan inventory for sale are now making good progress with some syndications which will help create new underwriting capacity in the market. We still see a fair way to go to get back to pre-Covid-19 conditions with less market participants and capacity but we are also beginning to hear market participants worrying about missing targets and opportunities and so we are expecting the market to continue to "stabilise" into a new equilibrium in Q4.

RELATED PARTY TRANSACTIONS

Related party disclosures are given in note 14 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

8 September 2020

Principal Risks

PRINCIPAL RISKS FOR THE REMAINING SIX MONTHS OF THE YEAR TO 31 DECEMBER 2020

The principal risks assessed by the Board relating to the Group were disclosed in the Annual Report and Audited Consolidated Financial Statements for the year to 31 December 2019 on pages 12 to 14. The Board and Investment Manager have reassessed the principal risks and do not consider these risks to have changed, except for the ongoing impact of Covid-19. 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 2020:

- The Covid-19 pandemic presents a new and major risk to growth, however, as yet, the full impact of the consequences for the world economy is unclear. The Board have considered the impact of Covid-19 on the current and future operations of the Group and its portfolio of loans advanced. Because of the cash and loan facilities available to the Group and the underlying quality of the portfolio of loans advanced, both management and the Board still believe the fundamentals of the portfolio remain optimistic and that the Group can adequately support the portfolio of loans advanced despite current market conditions.
- 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. In the period since the Group's inception, the Bank of England base rate has reduced from 0.50 per cent to 0.10 per cent and in the light of the declining interest rate environment the Group intends to reduce the dividend target to a more sustainable level of dividend which should be fully covered by earnings ensuring strong credit discipline whilst managing risk.
- 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 available 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 departure from the European Union 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 alongside the economic impact of Covid-19 to towards recession. The potential impact of Brexit could have a further destabilising effect as a result of Covid-19. 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 facility and fall into default.

Board of Directors

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

Stephen is Chairman of 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 acts as 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 (in run off) 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 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 India Capital Growth Fund which is listed on the main market of London Stock Exchange, Globalworth Real Estate Investments Limited, GLI Finance Ltd (all listed on AIM), Toro Limited (listed on the SFS segment of the Main Market segment of the London Stock Exchange), 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.

SHELAGH MASON | Non-executive Director

Shelagh Mason (appointed 1 September 2020) is a solicitor specialising in English commercial property as a consultant with Collas Crill LLP,. She is also non-executive Chairman of the Channel Islands Property Fund Limited and sits on the Board of Riverside Capital PCC, Skipton International Limited a Guernsey Licensed bank and is a non executive director of the Renewables Infrastructure Fund a FTSE 250 company and she is also on the Board of Ruffer Investment Company Limited. Previously Shelagh was a member of the board of directors of Standard Life Investments Property Income Trust, a property fund listed on the London Stock Exchange for 10 years until December 2014. She retired from the board of Medicx Fund Limited, a main market listed investment company investing in primary healthcare facilities in 2017 after 10 years on the board. She is a past Chairman of the Guernsey Branch of the Institute of Directors and a member of the Chamber of Commerce, the Guernsey International Legal Association and she also holds the IOD Company Direction Certificate and Diploma with distinction. Shelagh is 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, the Investment Manager's Report and the Principal Risks, 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
8 September 2020

John Whittle
Director
8 September 2020

Financial Statements

Independent Review Report to Starwood European Real Estate Finance Limited

Report on the unaudited condensed consolidated financial statements

OUR CONCLUSION

We have reviewed Starwood European Real Estate Finance Limited's unaudited condensed consolidated financial statements (the "interim financial statements") in the Interim Financial Report and Unaudited Condensed Consolidated Financial Statements (the "Interim Report") of Starwood European Real Estate Finance Limited for the 6-month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are 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 interim financial statements comprise:

- the unaudited condensed consolidated statement of financial position as at 30 June 2020;
- the unaudited condensed consolidated statement of comprehensive income for the period then ended;
- the unaudited condensed consolidated statement of cash flows for the period then ended;
- the unaudited condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Report have 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.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is The Companies (Guernsey) Law, 2008 and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 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 responsibility is to express a conclusion on the interim financial statements in the Interim Report 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.

WHAT A REVIEW OF INTERIM FINANCIAL STATEMENTS INVOLVES

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 enquiries, 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 Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers CI LLP

Chartered Accountants,
Guernsey, Channel Islands

8 September 2020

(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 2020

	Notes	1 January 2020 to 30 June 2020 £ (unaudited)	1 January 2019 to 30 June 2019 £ (unaudited)	1 January 2019 to 31 December 2019 £ (audited)
Income				
Income from loans advanced	6	14,433,090	13,687,862	26,890,182
Net foreign exchange gains		4,281,241	1,003,676	4,921,541
Net changes in fair value of financial assets at fair value through profit or loss	12	1,097,722	1,164,657	2,339,222
Income from cash and cash equivalents		-	1	535
Total income from investments		**19,812,053**	**15,856,196**	**34,151,480**
Expenses				
Investment management fees	14	1,584,891	1,476,340	3,077,665
Credit facility commitment fees		376,430	229,821	520,218
Credit facility interest		301,993	544,084	1,003,580
Credit facility amortisation of fees		206,201	196,689	390,350
Legal and professional fees		155,133	127,005	263,725
Administration fees		154,606	169,147	338,604
Audit and non-audit fees		127,885	125,156	241,048
Other expenses		94,259	77,393	195,244
Directors' fees and expenses	14	69,991	70,167	140,328
Agency fees		10,781	10,936	22,023
Broker's fees and expenses		-	167	167
Total operating expenses		**3,082,170**	**3,026,905**	**6,192,952**
Operating profit for the period / year before tax		**16,729,883**	**12,829,291**	**27,958,528**
Taxation	13	59,808	23,939	60,898
Operating profit for the period / year		**16,670,075**	**12,805,352**	**27,897,630**
Other comprehensive income				
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations		292,900	(3,142)	6,451
Other comprehensive income for the period / year		**292,900**	**(3,142)**	**6,451**
Total comprehensive income for the period / year		**16,962,975**	**12,802,210**	**27,904,081**
Weighted average number of shares in issue	3	413,219,398	384,938,735	399,195,288
Basic and diluted earnings per Ordinary Share (pence)	3	4.03	3.33	6.99

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 2020

	Notes	As at 30 June 2020 £ (unaudited)	As at 30 June 2019 £ (unaudited)	As at 31 December 2019 £ (audited)
Assets				
Cash and cash equivalents	4	9,024,042	27,959,950	36,793,674
Other receivables and prepayments	5	1,107,701	12,198	28,935
Financial assets at fair value through profit or loss	7	-	21,879,086	30,480,689
Loans advanced	6	448,891,684	428,636,053	390,647,516
Total assets		**459,023,427**	**478,487,287**	**457,950,814**
Liabilities				
Financial liabilities at fair value through profit or loss	7	4,536,384	7,216,743	-
Credit facilities	9	22,931,943	44,996,644	28,359,047
Trade and other payables	8	1,466,674	1,391,059	3,036,686
Total liabilities		**28,935,001**	**53,604,446**	**31,395,733**
Net assets		**430,088,426**	**424,882,841**	**426,555,081**
Capital and reserves				
Share capital		411,205,161	411,205,161	411,205,161
Retained earnings		18,526,690	13,623,598	15,286,245
Translation reserve		356,575	54,082	63,675
Total equity		**430,088,426**	**424,882,841**	**426,555,081**
Number of Ordinary Shares in issue		413,219,398	413,219,398	413,219,398
Net asset value per Ordinary Share (pence)		104.08	102.82	103.23

These Unaudited Condensed Consolidated Financial Statements were approved and authorised for issue by the Board of Directors on 8 September 2020, 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 2020

Period ended 30 June 2020	Share capital £ (unaudited)	Retained earnings £ (unaudited)	Translation reserve £ (unaudited)	Total equity £ (unaudited)
Balance at 1 January 2020	**411,205,161**	**15,286,245**	**63,675**	**426,555,081**
Dividends paid	-	(13,429,630)	-	(13,429,630)
Operating profit for the period	-	16,670,075	-	16,670,075
Other comprehensive income:				
Other comprehensive income for the period	-	-	292,900	292,900
Balance at 30 June 2020	**411,205,161**	**18,526,690**	**356,575**	**430,088,426**

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 and total comprehensive income	-	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**

Year ended 31 December 2019	Share capital £ (audited)	Retained earnings £ (audited)	Translation reserve £ (audited)	Total equity £ (audited)
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	-	(25,617,761)	-	(25,617,761)
Operating profit for the year	-	27,897,630	-	27,897,630
Other comprehensive income:				
Other comprehensive income for the year	-	-	6,451	6,451
Balance at 31 December 2019	**411,205,161**	**15,286,245**	**63,675**	**426,555,081**

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 2020

	1 January 2020 to 30 June 2020 £ (unaudited)	1 January 2019 to 30 June 2019 £ (unaudited)	1 January 2019 to 31 December 2019 £ (audited)
Operating activities:			
Operating profit for the period / year	16,670,075	12,805,352	27,897,630
Adjustments			
Income from loans advanced	(14,433,090)	(13,687,862)	(26,890,182)
Net changes in fair value of financial assets at fair value through profit or loss	(1,097,722)	(1,164,657)	(2,339,222)
Income on cash and cash equivalents	-	(1)	(535)
(Increase) / decrease in prepayments, receivables and capitalised costs	(1,078,766)	16,737	-
Increase / (decrease) in trade and other payables	188,944	58,459	(4,279)
Net unrealised losses / (gains) on foreign exchange derivatives	13,131,462)	(1,564,689)	(17,376,510)
Net foreign exchange (gains) / losses	(17,346,174)	1,229,975	10,824,860
Currency translation difference	(404,293)	(81,044)	471,376
Credit facility interest	301,993	544,084	1,003,580
Credit facility amortisation of fees	206,201	196,689	390,350
Credit facility commitment fees	376,430	229,821	520,218
Corporate taxes paid	(82,766)	(45,624)	(45,909)
	(3,567,706)	**(1,462,760)**	**(5,548,623)**
Loans advanced[1]	(85,689,578)	(62,553,702)	(185,959,804)
Loan repayments and amortisation	43,513,026	45,895,750	198,311,623
Credit linked notes repayments	21,773,000		
Origination fees paid	(576,287)	(683,328)	(1,962,601)
Interest, commitment and exit fee income from loans advanced	14,020,648	13,998,212	28,411,123
Interest received on Credit Linked Notes	1,210,333	1,171,906	2,339,946
Net cash outflow from operating activities	**(9,316,564)**	**(3,633,922)**	**35,591,664**
Cash flows from investing activities			
Interest income from cash and cash equivalents	-	1	535
Net cash inflow from investing activities	**-**	**1**	**535**
Cash flows from financing activities			
Share issue proceeds received	-	40,014,500	40,014,500
Cost of share issues	-	(739,321)	(739,321)
Credit facility arrangement fees and expenses paid	-	-	(572,358)
Proceeds under credit facility	44,952,688	37,075,890	148,035,219
Repayments under credit facility	(50,472,045)	(60,213,500)	(185,401,045)
Credit facility interest paid	(293,798)	(566,047)	(1,137,413)
Credit facility commitment fees paid	(339,296)	(216,232)	(499,063)
Dividends paid	(13,429,630)	(12,188,130)	(25,617,761)
Net cash inflow from financing activities	**(19,582,081)**	**3,167,160**	**(25,917,242)**
Net (decrease) in cash and cash equivalents	**(28,898,645)**	**(466,761)**	**9,674,957**
Cash and cash equivalents at the start of the period / year	36,793,674	28,248,515	28,248,515
Net foreign exchange gains / (losses) on cash and cash equivalents	1,129,013	178,196	(1,129,798)
Cash and cash equivalents at the end of the period / year	**9,024,042**	**27,959,950**	**36,793,674**

[1] Net of arrangement fees of £778,691 (30 June 2019: £335,994; 31 December 2019: £2,389,453) withheld.

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

Notes to the Unaudited Condensed Consolidated Financial Statements for the period ended 30 June 2020

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 2020.

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 2019, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Companies (Guernsey) Law, 2008. The statutory Financial Statements for the year ended 31 December 2019 were approved by the Board of Directors on 6 April 2020. 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 2020 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 2020.

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 2019.

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 £16,670,075 (30 June 2019: £12,805,352 and 31 December 2019: £27,897,630) and on the weighted average number of Ordinary Shares in issue at 30 June 2020 of 413,219,398 (30 June 2019: 384,938,735 and 31 December 2019: 399,195,288).

The calculation of NAV per Ordinary Share is based on a NAV of £430,088,426 (30 June 2019: £424,882,841 and 31 December 2019: £426,555,081) and the actual number of Ordinary Shares in issue at 30 June 2020 of 413,219,398 (30 June 2019: 413,219,398 and 31 December 2019: 413,219,398).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Cash at bank	9,024,042	27,959,950	36,793,674
	9,024,042	**27,959,950**	**36,793,674**

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

5 . OTHER RECEIVABLES AND REPAYMENTS

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Prepayments	12,198	12,198	28,935
Investment proceeds receivable	1,095,503	-	-
	1,107,701	**12,198**	**28,935**

Investment proceeds receivable relates to Hotel & Residential, UK and was received on 1 July 2020

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

6 . LOANS ADVANCED

	30 June 2019 £	30 June 2018 £	31 December 2018 £
UK			
Regional Hotel Portfolio	-	46,690,942	-
Hotel & Residential	49,918,078	39,863,705	39,861,178
Hospitals	25,355,368	25,341,644	25,354,300
Residential, London	37,450,724	-	49,522,631
Hotel, Scotland	10,522,972	-	-
Hotel, North Berwick	25,841,675	-	25,861,391
Hotel, Oxford	16,727,400	-	16,724,638
Mixed Use Development, South East UK	-	12,282,913	766,877
Office, London	12,964,026	-	12,697,122
Office, Scotland	4,688,936	4,305,664	4,470,792
Logistics Portfolio	11,905,419	-	-
Ireland			
Hotel, Dublin	55,484,069	54,173,151	51,576,017
Office Portfolio, Dublin	32,217,021	-	-
Logistics, Dublin	-	13,035,099	-
Mixed use, Dublin	1,870,185	-	592,335
Residential, Dublin	-	2,147,252	-
Spain			
Hotel, Barcelona	-	41,483,446	-
Three Shopping Centres	34,097,509	32,602,374	31,709,624
Hotel	39,590,856	25,604,236	25,225,534
Office & Hotel, Madrid	17,015,583	16,624,145	15,832,398
Shopping Centre	15,792,369	15,374,244	14,672,253
Office Portfolio	19,669,822	-	18,050,874
France			
Office, Paris	-	14,512,426	13,854,691
Germany			
Logistics Portfolio	5,957,035	-	-
Europe			
Mixed Portfolio	31,822,637	47,194,411	43,874,861
Industrial Portfolio	-	37,400,401	-
	448,891,684	**428,636,053**	**390,647,516**

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

6. LOANS ADVANCED (CONTINUED)

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

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Loans advanced at the start of the period / year	**390,647,516**	**413,444,410**	**413,444,410**
Loans advanced	84,751,266	62,495,181	189,678,726
Loan repayments and amortisation	(43,513,026)	(45,895,750)	(198,311,623)
Arrangement fees earned	(778,691)	(335,994)	(2,389,453)
Commitment fees earned	(683,762)	(327,239)	(688,884)
Exit fees earned	(243,680)	(602,557)	(1,983,925)
Origination fees paid	545,248	373,953	1,684,798
Effective interest earned	14,433,090	13,687,862	26,890,182
Interest payments received / accrued	(13,093,206)	(13,055,677)	(25,738,458)
Foreign exchange (losses) / gains	16,826,929	(1,148,136)	(11,938,257)
Loans advanced at the end of the period / year	**448,891,684**	**428,636,053**	**390,647,516**
Loans advanced at fair value	**462,295,383**	**439,874,981**	**402,825,998**

For further information on the fair value of loans advanced, refer to note 12.

7. 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 domestic currency and sell foreign 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 each counterparty.

Notes to the Unaudited Condensed Consolidated Financial Statements
for the period ended 30 June 2020

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

The fair value of financial assets and liabilities at fair value through profit or loss are set out below:

30 June 2020	Notional contract amount[1] £	Fair values Assets £	Liabilities £	Total £
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	303,343,342	1,142,927	(5,679,311)	(4,536,384)
Total	**303,343,342**	**1,142,927**	**(5,679,311)**	**(4,536,384)**

30 June 2019	Notional contract amount[1] £	Fair values Assets £	Liabilities £	Total £
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)**

31 December 2019	Notional contract amount[1] £	Fair values Assets £	Liabilities £	Total £
Investments at fair value through profit or loss				
Credit Linked Notes, UK Real Estate	N/A	21,885,611	-	21,885,611
Total	**-**	**21,885,611**	**-**	**21,885,611**
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	231,251,616	8,819,545	(224,467)	8,595,078
Total	**231,251,616**	**8,819,545**	**(224,467)**	**8,595,078**

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

8. TRADE AND OTHER PAYABLES

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Investment management fees payable	795,148	767,529	801,074
Refinancing and restructuring fees	208,558	231,605	207,098
Audit fees payable	182,996	156,779	86,131
Commitment fees payable	144,124	95,162	104,055
Administration fees payable	79,167	85,816	12,980
Tax provision	56,681	41,429	76,773
Prepaid interest received	-	12,739	-
Loan amounts payable	-	-	1,717,003
Origination fees payable	-	-	31,572
	1,466,674	**1,391,059**	**3,036,686**

9. CREDIT FACILITIES

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 2020 an amount of £24,062,500 (30 June 2019: £45,878,046 and 31 December 2019: £29,704,000) was drawn and interest of £23,144 (30 June 2019: £134,180 and 31 December 2019: £14,949) was payable.

The revolving credit facility capitalised costs are directly attributable costs incurred in relation to the establishment of the credit loan facilities and an amount of £1,153,701 (30 June 2019: £1,015,582 and 31 December 2019: £1,359,902) was netted off against the loan facilities outstanding.

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

9. CREDIT FACILITIES (CONTINUED)

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

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Borrowings at the start of the period /year	**28,359,047**	**67,764,943**	**67,764,943**
Proceeds during the period / year	44,952,688	37,075,890	148,035,219
Repayments during the period / year	(50,472,045)	(60,213,500)	(185,401,045)
Interest expense recognised for the period / year	301,993	544,084	1,003,580
Interest paid during the period / year	(293,798)	(566,047)	(1,137,413)
Credit facility fees incurred	-	-	(537,981)
Credit facility amortisation of fees	206,201	196,689	390,350
Foreign exchange and translation difference	(122,143)	194,585	(1,758,606)
Borrowings at the end of the period/year	**22,931,943**	**44,996,644**	**28,359,047**

10. 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 2020:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
Period to:			
31 March 2020	1.625	6,714,815	15 May 2020

After the end of the period, the Directors declared a dividend in respect of the financial period ended 30 June 2020 of 1.625 pence per share which was paid on 28 August 2020 to Shareholders on the register on 31 July 2020.

10. DIVIDENDS (CONTINUED)

The Company paid the following dividends in respect of the year to 31 December 2019:

	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
Period to:			
31 March 2019	1.625	6,094,065	24 May 2019
30 June 2019	1.625	6,714,815	30 August 2019
30 September 2019	1.625	6,714,815	22 November 2019
31 December 2019	1.625	6,714,815	21 February 2020

11. RISK MANAGEMENT POLICIES AND PROCEDURES

The COVID-19 outbreak is an ongoing situation that is evolving and changing on a weekly basis. There has been a negative impact on global economies and the future impact and outcome is still largely unknown. While the outbreak has had a significant negative impact on a lot of businesses worldwide, it has also created opportunities in other sectors. The Directors continue to monitor the impact on the Group and its investments.

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 2019 still remain appropriate, further information regarding these risk policies are outlined below:

(i) Market 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 arose from Credit Linked Notes held by the Group and classified as assets at fair value through profit or loss. The Investment Manager regularly monitored the fair value of Credit Linked Notes and no specific hedging activities were 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.

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

11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

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.

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 2020 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 held junior notes linked to the performance of a portfolio of high-quality UK real estate loans owned by a major commercial bank. The credit linked notes were repaid in June 2020. The transaction was 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 was the risk that one of the underlying borrowers defaulted on their loan and the Group being required to make a payment under the credit protection agreement. Despite the different way in which the transaction was structured the Group considered the risks to be fundamentally the same as any other junior loan in the portfolio and monitored and managed 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 2020, the maximum credit risk exposure was £459,011,229 (30 June 2019: £478,475,089 and 31 December 2019: £457,921,879).

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.

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. Despite the fact that six loans with a carrying value of £142,572,781 have been moved from Stage 1 to Stage 2 from 31 December 2019 to 30 June 2020 (refer to the Investment Manager's Report), no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Group.

(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 £126,000,000 (30 June 2019: £114,000,000 and 31 December 2019: £126,000,000) of which £24,085,644 (including accrued interest) was drawn on 30 June 2020 (30 June 2019: £46,012,226 and 31 December 2019: £29,718,949).

As at 30 June 2020, the Group had £9,024,042 (30 June 2019: £27,959,950 and 31 December 2019: £36,793,674) available in cash and £1,466,674 (30 June 2019: £1,391,059 and 31 December 2019: £3,036,686) 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.

12. 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).

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

12. FAIR VALUE MEASUREMENT (CONTINUED)

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

30 June 2020

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Investments at fair value through profit or loss	-	-	-	-
Total	**-**	**-**	**-**	**-**
Liabilities				
Derivative liabilities	-	(4,536,384)	-	(4,536,384)
Total	**-**	**(4,536,384)**	**-**	**(4,536,384)**

30 June 2019

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Investments 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)**

31 December 2019

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	8,595,078	-	8,595,078
Investments at fair value through profit or loss	-	-	21,885,611	21,885,611
Total	**-**	**8,595,078**	**21,885,611**	**30,480,689**
Liabilities				
Derivative liabilities	-	-	-	-
Total	**-**	**-**	**-**	**-**

There have been no transfers between levels for the period ended 30 June 2020 (30 June 2019: £nil and 31 December 2019: £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 considered 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. All CLNs have been repaid during the period ended to 30 June 2020.

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

	30 June 2020 £	30 June 2019 £	31 December 2019 £
Balance at the start of the period / year	**21,885,611**	**21,886,335**	**21,886,335**
Cash interest received	(1,210,333)	(1,171,906)	(2,339,946)
Net gains / (losses) recognised in profit or loss[1]	1,097,722	1,164,657	2,339,222
Loan repayments	(21,773,000)	-	-
Balance at the end of the period / year	**-**	**21,879,086**	**21,885,611**
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	-	-	-

[1] The net gains for the period ended 30 June 2020 comprise of £1,097,722 interest income on CLNs (30 June 2019: £1,164,657 31 December 2019: £2,339,222).

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 2020 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	462,295,383	462,295,383	448,891,684
Total	**-**	**-**	**462,295,383**	**462,295,383**	**448,891,684**
Liabilities					
Credit facilities	-	22,931,943	-	22,931,943	22,931,943
Total	**-**	**22,931,943**	**-**	**22,931,943**	**22,931,943**

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

12. 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 2019 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	439,874,981	439,874,981	428,636,053
Total	**-**	**-**	**439,874,981**	**439,874,981**	**428,636,053**
Liabilities					
Credit facilities	-	44,996,644	-	44,996,644	44,996,644
Total	**-**	**44,996,644**	**-**	**44,996,644**	**44,996,644**

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 2019 but for which fair value is disclosed:

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	402,825,998	402,825,998	390,647,516
Total	**-**	**-**	**402,825,998**	**402,825,998**	**390,647,516**
Liabilities					
Credit facilities	-	28,359,047	-	28,359,047	28,359,047
Total	**-**	**28,359,047**	**-**	**28,359,047**	**28,359,047**

For Cash and cash equivalents, Other receivables and prepayments and Trade and other payables their carry amount is considered to be the same as their fair value.

12. 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, consistent with the requirement of IFRS 9 as the Group's intention and business model is to collect both interest and the capital repayments thereof.

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.

13. 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 (2019: €4,815). 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 24.94% (2019: 24.94%).

14. 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 2020 £	Outstanding at 30 June 2019 £	Outstanding at 31 December 2019 £
Investment Manager			
Investment management fees payable	795,148	767,529	801,074
Origination fees payable	-	-	31,572

	For the period ended 30 June 2020 £	For the period ended 30 June 2019 £	For the year ended 31 December 2019 £
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	1,241	1,417	2,828
Investment Manager			
Investment management fees earned	1,584,891	1,476,340	3,077,665
Origination fees	545,248	373,953	1,684,798
Expenses	43,413	91,912	100,624

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

14. 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 2020 £	Dividends paid for the period ended 30 June 2019 £	Dividends paid for the year ended 31 December 2019 £
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	581	386	771
Jonathan Bridel	386	386	771
Duncan MacPherson*	-	-	-
Lorcain Egan*	-	-	-

	As at 30 June 2020 Number of shares	As at 30 June 2019 Number of shares	As at 31 December 2019 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	23,866	11,866	11,866
Jonathan Bridel	11,866	11,866	11,866
Duncan MacPherson*	133,333	-	-
Lorcain Egan*	61,093	-	-

* Employees at the Investment Advisor

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 and Residential, UK	STWD
Credit Linked Notes, UK Real Estate	STWD
Hotel, Spain	STWD
Mixed Use Portfolio, Europe	STWD
Logistics Porfolio, UK	STWD
Logistics Porfolio, Germany	STWD
Mixed Use, Dublin	STWD

15. 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
Hotel, North Berwick	£1,250,000
Office, London	£170,405
Residential, London	£560,844
Hotel, Spain	€ 5,077,365
Office Portfolio, Spain	€ 153,411
Office, Scotland	£81,263
Mixed Use, Dublin	€ 445,901

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

	Local Currency
Three Shopping Centres, Spain	€ 167,344
Residential, London	£4,268,098
Office Portfolio, Spain	€ 421,945
Mixed Portfolio, Europe	€ 375,190

On 30 July 2020, the Company declared a dividend of 1.625 pence per Ordinary share payable to shareholders on the register on 28 August 2020.

On 10th August we announced the appointment of Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. As at 8 September 2020 the Company had repurchased 872,000 Ordinary Shares at an average price of 85.35 pence per share.

Corporate Information

Directors
Stephen Smith (Non-executive Chairman)
Jonathan Bridel (Non-executive Director)
John Whittle (Non-executive Director)
Shelagh Mason (Non-executive Director)
(appointed 1 September 2020)
(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
Jefferies Group LLC
100 Bishopsgate
London, EC2N 4JL
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 Glategny Esplanade
St Peter Port
Guernsey
GY1 4ND

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

Website:
www.starwoodeuropeanfinance.com