

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 December 2022



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Financial Highlights

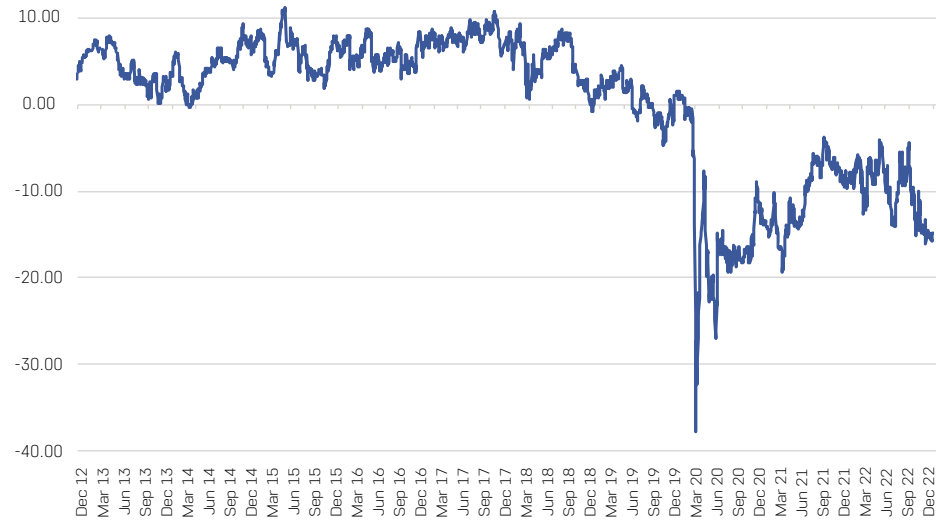
Key Highlights	Year ended 31 December 2022	Year ended 31 December 2021
NAV per Ordinary Share	105.20 p	103.09 p
Share Price	89.0 p	94.0 p
NAV total return ^{(1) (2)}	7.7%	4.6%
Share Price total return ^{(1) (2)}	0.45%	11.1%
Total Net Assets	£416.1 m	£421.6 m
Loans advanced at amortised cost (including accrued income)	£432.5 m	£414.6 m
Financial assets held at fair value through profit or loss	£0.7 m	£13.3 m
Cash and Cash Equivalents	£3.6 m	£3.0 m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£19.0 m	£8.5 m
Dividends per Ordinary Share ⁽²⁾	5.5 p	5.5 p
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	7.8%	6.9%
Invested Loan Portfolio levered annualised total return ⁽¹⁾	7.9%	7.0%
Ongoing charges percentage ⁽¹⁾	1.1%	1.0%
Weighted average portfolio LTV to Group first £ ⁽¹⁾	13.2%	16.4%
Weighted average portfolio LTV to Group last £ ⁽¹⁾	58.6%	61.9%

⁽¹⁾ Further explanation and definitions of the calculation is contained in the section "Alternative Performance Measures" at the end of this financial report.

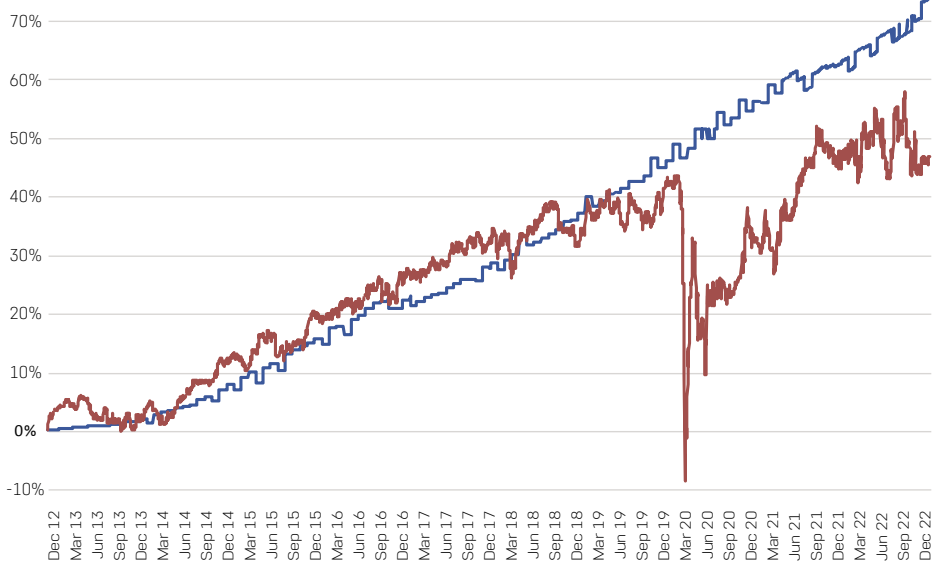
⁽²⁾ Excludes additional dividend for 2022 announced on 23 March 2023.

SHARE PRICE PERFORMANCE

As at 31 December 2022, the NAV was 105.20 pence per Ordinary Share (2021: 103.09 pence) and the share price was 89.0 pence (2021: 94.0 pence).



Premium / discount (%)



— Cumulative fair NAV total return index — Share price total return index

Source: Morningstar

The Company's share price has been volatile since the market turbulence caused by Covid-19 in March 2020. The volatility has been driven by market conditions and trading flows rather than a change in the Company's performance.

Objective and Investment Policy

INTRODUCTION

Starwood European Real Estate Finance Limited (the “Company”) was established in November 2012 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 in the UK and the European Union’s internal market.

The Company, together with its 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”), has provided a regular dividend to shareholders whilst preserving capital by limiting downside risk.

On 31 October 2022, the Company announced, that following a review of the Company’s strategy and advice sought from its advisers, the Board intended to recommend to shareholders that the investment objective and policy of the Company were amended such that the Board can pursue a strategy of orderly realisation and the return of capital over time to shareholders (the “Proposed Orderly Realisation”). If approved by the shareholders, the Company would seek to return cash to shareholders in an orderly manner as soon as reasonably practicable following the repayment of loans, while retaining sufficient working capital for ongoing operations and the funding of committed but currently unfunded loan commitments.

On 28 December 2022, a Circular relating to the Proposed Orderly Realisation and containing a Notice of Extraordinary General Meeting (EGM) was published. The Circular set out details of, and sought shareholder approval for, certain proposals (the “Proposals”). The Proposals were:

- (a) a change to the Company’s Investment Policy to reflect the fact that the Company will cease making any new investments and will pursue a realisation strategy of the remaining assets in the Company’s portfolio; and
- (b) adoption of new articles which provide for the periodic Compulsory Redemption of the Company’s Shares at the discretion of the Directors to allow cash to be returned to Shareholders following the full or partial realisation of assets.

On 27 January 2023, these Proposals were approved at the EGM.

The Investment Objective and Policy which applied prior to the approval of the Proposals, and for the whole of 2022, are set out in the prior year Annual Report which can be found on the company’s website <https://starwoodeuropeanfinance.com>. The Investment Objective applied for the whole of 2022 was 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 in the UK and the European Union’s internal market. The Investment Policy applied for the whole of 2022 was to invest in a diversified portfolio of real estate debt investments in the UK and the European Union’s internal market as the Group had done since its initial public offering (IPO) in December 2012.

Set out below is the current Investment Objective and Policy of the Company following the approval of the Proposals.

INVESTMENT OBJECTIVE

Following the Company's EGM on 27 January 2023, the Company's investment objective is to conduct an orderly realisation of the assets of the Group.

INVESTMENT POLICY

The assets of the Group will be realised in an orderly manner, returning cash to Shareholders at such times and in such manner as the Board may, in its absolute discretion, determine. The Board will endeavour to realise all of the Group's investments in a manner that achieves a balance between maximising the net value received from those investments and making timely returns to Shareholders.

The Group may not make any new investments save that:

- investments may be made to honour commitments under existing contractual arrangements or to preserve the value of any underlying security; and
- cash held by the Group pending distribution will be held in either cash or cash equivalents for the purposes of cash management.

Subject to the above restrictions, the Company retains the ability to seek to enhance the returns of selected loan investments through the economic transfer of the most senior portion of such loan investments which would be by way of syndication, sale, assignment, sub-participation or other financing (including but not limited to true sale securitisation, repurchase transactions and loan-on-loan financing) to the same maturity as the original loan (i.e. "matched funding") while retaining a significant proportion as a subordinate investment. It is anticipated that where this is undertaken it would generate a positive net interest rate spread and enhance returns for the Company.

Transactions with Starwood Capital Group or Other Accounts

Subject to the above restrictions, the Company retains the ability to transact with companies within the Starwood Capital Group or any fund, company, limited partnership or other account managed or advised by any member of the Starwood Capital Group (Other Accounts) in furtherance of the Company's investment objective to conduct an orderly realisation of the Group's assets (for example, sales of the Group's assets to companies within the Starwood Capital Group or certain Other Accounts or amendments to pre-existing arrangements). In order to manage the potential conflicts of interest that may arise as a result of any such transactions, any such proposed transaction may only be entered into if the independent Directors of the Company have reviewed and approved the terms of the transaction, complied with the conflict of interest provisions in the Registered Collective Investment Scheme Rules and Guidance, 2021 issued by the Guernsey Financial Services Commission ("Commission") under The Protection of Investors (Bailiwick of Guernsey) Law, 2020, as amended, and, where required by the Listing Rules, Shareholder approval would be obtained in accordance with the listing rules issued by the Financial Conduct Authority.

Typically, such transactions will only be approved if: (i) an independent valuation has been obtained in relation to the asset in question; and (ii) the terms are at least as favourable to the Company as would be any comparable arrangement effected on normal commercial terms negotiated at arms' length between the relevant person and an independent party, taking into account, amongst other things, the timing of the transaction.

Objective and Investment Policy

While Starwood Capital Group and certain Other Accounts are party to certain pre-existing co-investment commitments, no new co-investment arrangements are expected to be entered into by, or in relation to, the Company in the future during the orderly realisation of the Company's assets.

The change in investment objective does not impact the below classifications.

Borrowings

The Company may utilise borrowings from time to time for working capital and general corporate purposes provided such borrowings will not exceed an amount equal to 30 per cent of the Net Asset Value immediately following the drawdown of the borrowings.

In calculating the Company's borrowings for this purpose, any liabilities incurred under its foreign exchange hedging arrangements (described below) shall be disregarded.

Hedging

The Company will not enter into derivative transactions for purely speculative purposes. However, the Company's investments have been typically made in the currency of the country where the underlying real estate assets are located. The Company may continue to implement measures designed to protect the investments against material movements in the exchange rate between Sterling, being the Company's reporting currency, and the currency in which certain investments have been made. The analysis as to whether such measures should be implemented will take into account periodic interest, principal distributions or dividends, as well as the expected date of realisation of the investment. The Company may bear a level of currency risk that could otherwise be hedged where it considers that bearing such risk is advisable. The Company will only enter into hedging contracts, such as currency swap agreements, futures contracts, options and forward currency exchange and other derivative contracts when they are available in a timely manner and on terms acceptable to it. The Company reserves the right to terminate any hedging arrangement in its absolute discretion.

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

FCA Listing Rule restrictions

The Company will continue to comply with the restrictions imposed by the Listing Rules in force and as amended from time to time.

Any material change to the Company's published investment policy will be made only with the prior approval of the Financial Conduct Authority and of Shareholders by ordinary resolution at a general meeting of the Company.



UK Listing Authority Investment Restrictions

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

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

Chairman's Statement



JOHN WHITTLE | Chairman

23 March 2023

Dear Shareholder,

On behalf of the Board, it is my pleasure to present the Annual Report and Audited Consolidated Financial Statements of Starwood European Real Estate Finance Limited for the year ended 31 December 2022.

The feeling of optimism across UK and global economies felt in early 2022 - post the worst restrictions of the Covid-19 pandemic - was soon replaced by concerns over energy prices, the rising cost of living, higher interest rates and the Russian invasion of Ukraine.

Domestically, the UK government and economy faced a number of other setbacks in the second half of the year with three prime ministers in as many months, government U-turns on economic policy and a number of wide spread and widely impacting strikes across key infrastructure sectors - by railway workers, nurses and UK Border control, among others, at the end of the year.

Despite these challenging, volatile and uncertain economic and political times, once again, the Group demonstrated its unique portfolio resilience through the strength and consistency of its results. It is significant, and very gratifying to note, that, once again, all loan interest and scheduled amortisation payments have continued to be paid in full and on time. This excellent result is due both to the evident rigorous underwriting of borrowers and sponsors and the diligent ongoing portfolio management by our Investment Adviser and Manager. Meanwhile, underlying collateral valuations continue to provide reassuring headroom in the event of any asset under performance.

The last three years have demonstrated the positive fundamentals of the Group's portfolio as an attractive risk-adjusted source of alternative income tested in the harshest of market environments. Against significant market challenges, the Group not only maintained a stable Net Asset Value ('NAV') but also met its dividend targets, delivering its targetted annualised 5.5 pence per share to shareholders as well as an additional dividend of 2p per share announced on 23 March 2023.

Nevertheless, despite the resilience of the loan portfolio, a share buyback programme (which was active from July 2022 to October 2022) and a stable NAV, the Company's share price has been unable to meaningfully narrow its discount to the prevailing NAV which initially occurred as a result of the wider market re-rating following the onset of Covid-19 (in the first half of 2020).

Under the Company's discount control mechanisms (contained within its Articles of Association), in Q1 2023 the Company would have been required to offer shareholders an opportunity to redeem up to 75 per cent of their holding in the Company as a result of the Company's discount to its NAV per share being greater than five per cent or more during the six-month period ending 31 December 2022 (the "Tender Offer").

However, in October 2022, the Board determined that, following discussions with our larger shareholders, the likely take-up of a potential future Tender Offer would be significant and as a result the Company would no longer be of a viable size to provide shareholders with sufficient liquidity and scale. Accordingly, the Board resolved to recommend that the Company be placed into a managed wind-down with the aim of enabling shareholders to realise their entire holdings in the Company 'over time' in line with the repayment of the relevant loan positions.

In reaching this decision, the Board considered a range of options and several factors including the prevailing and persistent discount to NAV of the shares, feedback from shareholders, and the market capitalisation and liquidity of the shares.

In light of this, the Board recommended to shareholders that the investment objective and policy of the Company were amended such that the Board could pursue a strategy of orderly realisation and the return of capital 'over time' to shareholders.

The orderly realisation strategy will not result in the liquidation of the Company in the immediate future or require the Company to dispose of assets within a defined timeframe. The new strategy, approved by 99% of Shareholders voting at the Company's Extraordinary General Meeting ('EGM') on 27 January 2023, will be implemented in a manner that will seek to maximise value to shareholders. It is intended that the Company's listing and target annualised dividend of 5.5 pence per share will be maintained as long as feasible during the orderly realisation.

The Board anticipates that the orderly realisation of the assets will happen over a four to five year period with periodic share redemptions being made as loans are repaid and commitments are satisfied.

Whilst market sentiment may have changed and the secure income generation offered has recently fallen out of favour I feel it is worth reflecting that over its life the Group has successfully met the original objectives set out at IPO, delivering stable and consistent income and risk adjusted returns. To have endured the huge disruption of the last couple of years without a single missed payment is a remarkable achievement. My thanks to all involved - the Investment Adviser, the Investment Manager and the Board.

HIGHLIGHTS FOR 2022

- **Strong cash generation** - the portfolio as a whole continues to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly. A dividend of 5.5 pence per Ordinary Share represents a 6.2 per cent dividend yield on the share price as at 31 December 2022.
- **Additional dividend** - an additional dividend of 2.0 pence per share has been declared post period end in respect of the 2022 earnings period, leading to a total declared distribution of 7.5 pence per share for the year.
- **Income stability** - all loan interest and scheduled amortisation payments paid in full and on time.
- **79 per cent of the portfolio is contracted at floating interest rates** (with floors) which benefits the Group in the current rising interest rate environment.
- **Portfolio remains robust** - despite the economic disruption and uncertainty experienced in 2022, the portfolio continues to perform fully in line with expectations.
- **Borrowers remain adequately capitalised** and are expected to continue to pay loan interest and capital repayments in line with contractual obligations.
- **Further strategic progress** - in 2022, the Group committed a total of £66 million to two new loans, located in the United Kingdom and Europe, in the office and industrial sectors.
- **51 per cent** – share price total return since IPO in December 2012 (excludes additional dividend for 2022 announced on 23 March 2023).
- **Portfolio remains fully invested**

INVESTMENT PERFORMANCE

Interest & Amortisation Payments

All loan interest and scheduled amortisation payments to date have been paid in full and on time. This includes loans in sectors that have been most impacted by the lasting impact of the Covid-19 pandemic, namely, hospitality and retail assets, where borrowers continue to remain adequately capitalised as previously reported.

Strong cash generation

The portfolio performance continues to support the targeted annual dividend payments of 5.5 pence, paid quarterly.

Dividend support

79 per cent of the portfolio is contracted at floating interest rates (with floors) which has started to provide an increase in revenue as higher inflation has resulted in higher interest rates.

The Invested Loan Portfolio unlevered annualised total return has been increasing steadily as interest rates curves have moved upwards. The year on year increase at 31 December 2022 was 90 basis points (i.e. at 7.8 per cent, up from 6.9 per cent in December 2021). As interest rates continue to rise there is additional support for the dividend cover.

INVESTMENT MOMENTUM

The Group closed two loans in 2022 – Office and Industrial Portfolio in the UK and the Netherlands (total commitment which was fully funded on signing - £5.5 million and €16.4 million respectively, of which €16.4 million had been repaid by the year end and of which £5.5 million was repaid in February 2023) and Industrial Estate in the UK (total commitment - £46.2 million of which £27.2 million was fully funded on signing).

The Group also funded a further £14.7 million in relation to loan commitments made in prior years which were unfunded.

One loan, Office, Scotland (£5.0 million) was repaid in full during the year but a further £51.9 million (including the €16.4 million referred to above) was received in partial repayments on loans which still have outstanding balances as at 31 December 2022.

Chairman's Statement

As at 31 December 2019 to 2022 the Group had commitments as shown in the table below.

	2019	2020	2021	2022
Funded loans	£411.1m	£440.9m	£412.0m	£425.9m
Unfunded Commitments	£78.2m	£49.2m	£44.5m	£49.0m
Total	£489.3m	£490.1m	£456.5m	£474.9m

The contractual maturity of the Group's portfolio is set out on page 19 and shows that as at 31 December 2022, 40.5 per cent of invested loan balances held were expected to mature in the next twelve months.

	Q1	Q2	Q3	Q4	2022
NAV at beginning of the period	103.09	103.13	103.42	103.58	103.09
Quarterly Movements					
Operating Income available to distribute ⁽¹⁾	1.36	1.47	1.77	2.20	6.80
Realised FX gains/(losses) not distributable ⁽²⁾	0.78	0.29	0.00	0.00	1.07
Unrealised FX gains/(losses) ⁽³⁾	-0.73	-0.09	-0.46	0.67	-0.61
Dividend declared	-1.37	-1.38	-1.37	-1.38	-5.50
Impact on NAV of shares bought back	0.00	0.00	0.22	0.13	0.35
NAV as end of period	103.13	103.42	103.58	105.20	105.20

⁽¹⁾ Operating Income available to distribute comprises loan income recognised in the period less the cost of debt facilities utilised by the Group and operating costs incurred. Included in loan income recognised in Q4 2022 is circa £1.3m (equivalent to 0.34p per share) of loan income related to Office and Industrial Portfolio, Netherlands which was fully repaid in December 2022 and which benefited from early repayment income protection. The Operating Income available to distribute also includes any realised foreign exchange gains or losses upon settlement of hedges, except those described in note 2.

⁽²⁾ On occasion, the Group may realise a gain or loss on the roll forward of a hedge if it becomes necessary to extend a capital hedge beyond the initial anticipated loan term. If this situation arises the Group will separate the realised FX gain or loss from other realised FX gains or losses and not consider it available to distribute or as a reduction in distributable profits. The FX gain or loss will only be considered part of distributable reserves or as a reduction in distributable profits when the rolled hedge matures or is settled and the final net gain or loss on the capital hedges can be determined.

⁽³⁾ Unrealised foreign exchange gain/losses relate to the net impact of changes in the valuation of foreign exchange hedges and the sterling equivalent value of Euro loan investments (using the applicable month end rate). Mis-matches between the hedge valuations and the loan investments may occur depending on the shape of the forward FX curve and this causes some movement in the NAV. These unrealised FX gains / losses are not considered part of distributable reserves.

NAV PERFORMANCE

The table below and to the left shows the NAV per share movements over the 12 months to 31 December 2022 by quarter and for the year.

As anticipated, and as in the past, we are pleased to report that the Group's NAV has once again remained stable during the year demonstrating the highly resilient credentials of the asset class that contributes to its success as a reliable source of alternative income. We do 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 be materially impacted if an impairment in the value of a loan was required but, despite the recent disruption to markets in general no such impairment has been needed and the Group's valuations remain stable and current (the average age of valuations is 1.43 years). Please refer to the Investment Manager's report on page 18 for detailed sector performance reporting, information on the accounting for our loans and the current loan to value position for the portfolio as a whole and for each sector.

SHARE BUYBACKS AND SHARE PRICE PERFORMANCE

During the year, the Company's share price has been relatively volatile, primarily as a result of dislocation across financial markets. During the year the Company's share price has traded in a range between 87.0 pence and 97.6 pence. The year end share price was 89.0 pence reflecting a 15.4 per cent discount to NAV.

The share price was supported in the latter half of 2022 by the share buyback programme which ran from July 2022 until October 2022. During this period the Company bought back an aggregate amount of 13.3 million shares at an average cost per share of 92.8 pence per share. These shares are held in Treasury.

FUTURE SHARE ISSUANCE

At the last Annual General Meeting (“AGM”), the Company sought and received authority to disapply Pre-Emption Rights on the allotment of equity securities for up to 10 per cent of the Ordinary Shares in issue. As at the date of this report, this authority has not been utilised and given the recent change in policy it is not intended that this authority will be utilised or renewed.

DIVIDENDS

Total dividends of 5.5 pence per Ordinary Share have been paid to date in relation to the year ended 31 December 2022. In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023.

The 2022 dividends paid to date (5.5 pence per Ordinary Share) were covered 1.24 times by earnings (excluding unrealised FX gains and FX gains realised on the roll forward of hedges). The Company maintains a dividend reserve which is utilised, when needed, to ensure dividends are not paid out of capital.

The Company intends to continue to target to pay a 5.5 pence per Ordinary Share per annum (payable quarterly) going forward for as long as feasible during the orderly realisation, and as noted above due to increases in interest rates the dividend coverage and headroom has improved. This will provide a level of dividend which should be fully covered by earnings whilst ensuring the Company maintains strong credit discipline.

On the share price at 31 December 2022, a dividend of 5.5 pence represents a 6.2 per cent dividend yield.

BOARD COMPOSITION AND DIVERSITY

The Board believes strongly in the value and importance of diversity in the boardroom and

we continue to consider the recommendations of the Davies, Hampton Alexander and Parker Reports and these recommendations will be taken into account should the appointment of a new director be required.

Based on the recent change to the FCA’s Listing Rules regarding the disclosure of diversity on listed company boards and executive committees, effective for accounting periods starting from April 2022, the Board are considering the impact, if any, on disclosure requirements.

I am very pleased with the current composition of the Board (which is 50 per cent female) both in terms of experience, skills and diversity which places us well for the upcoming challenges.

It had been anticipated that I would retire from the Board at the end of 2023. However, the Board have suggested that I remain in post to guide the Company through the orderly realisation of assets and I am happy to accept their suggestion subject to the usual shareholder agreement to my continuation in office.

Further details are provided on the succession planning in the Corporate Governance Statement on page 35.

GOING CONCERN

Under the AIC 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 comprehensive review of the Group’s ability to continue as a going concern including a review of the ongoing cash flows and the level of cash balances as of the reporting date as well as forecasts of future cash flows.

Furthermore, the Directors have also considered, as disclosed in these financial statements, the strategy of orderly realization and return of capital to shareholders.

After making enquiries of the Investment Manager, Investment Adviser and the Administrator and having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing these Consolidated Financial Statements.

OUTLOOK

The focus of the Group for 2023 is the commencement of the orderly realisation strategy and the return of capital to shareholders over time.

The Board believes it is important to communicate clearly with you, our shareholders, and we will continue to inform you of the Group’s progress by way of the quarterly fact sheets and stock market announcements. We welcome any comments you have on the way in which we communicate and provide information to you.

My thanks to all of our services providers for their perseverance in these challenging times.

On behalf of the Board, I would like to close by thanking shareholders for your commitment and support. I look forward to briefing you again on the Group’s progress later this year.

John Whittle | Chairman

23 March 2023

The Strategic Report describes the business of the Group and details the uncertainties, principal and emerging risks associated with its activities.

CORPORATE PURPOSE

Following the EGM held on 27 January 2023, the general corporate purpose of the Company and the Group is to pursue a strategy of orderly realisation and the return of capital over time to shareholders.

OBJECTIVE, INVESTMENT POLICY AND BUSINESS MODEL

The Objective and Investment Policy describes the Group's strategy and business model and is set out in the Overview section of these Annual Accounts.

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

CURRENT AND FUTURE DEVELOPMENT

A review of the year and outlook is contained in the Investment Highlights and Portfolio Review sections of the Investment Manager's Report and within the Chairman's Statement.

PERFORMANCE

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

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

measures to show the progress and performance of the Group and are as follows:

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

Details of the KPIs achieved are shown in the Financial Highlights section.

During 2023 the Board will consider what new and/or additional performance measures (if any) should be used to measure its new strategy of orderly realisation and return of capital to shareholders.

RISK MANAGEMENT

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

The Board performs a review of a risk matrix at each Board meeting.

The Board considers the following principal risks could impact the performance and prospects of the Group but do not threaten the ability of the Company or the Group to continue in operation and meet its liabilities. In deciding which risks are principal risks the Board considers the potential impact and probability of the related events or circumstances, and the timescale over which they may occur. Consequently, it has put in place mitigation plans to manage those identified risks. Details of the principal and emerging risks considered as part of the review of the risk matrix are highlighted on the next page.

Principal Risks

Financial Market Volatility (risk that dividends do not meet the targeted levels and that the share price discount persists and widens)

Subsequent to the EGM held on 27 January 2023 the Group's strategy is for an orderly realisation of its assets and the return of capital to shareholders. During the realisation period the Company intends to target a similar per share level of dividends as previously for as long as this is feasible and to return capital to shareholders subject to maintaining sufficient cash to fund as yet unfunded commitments on loans and ongoing operating costs.

The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies and, consequently, the actual rate of return may be materially lower than the targeted 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. Since March 2020 the shares have traded 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 Board, along with the Investment Manager and the Investment Adviser, monitor, review and consider the estimates and assumptions that underpin the targeted returns of the business and, where necessary, communicate any changes in those estimates and assumptions to the market.

The Board monitors the level of premium or discount of the share price to NAV per share and deployed a share buyback programme during 2020, 2021 and 2022 in order to support the share price. The new strategy of returning capital to shareholders over time should mean that, subject to no unforeseen negative impacts on the value of investments, shareholders will receive a return of capital invested over time.

Long-Term Strategic Risk (risk that the business model is no longer attractive)

Subsequent to the EGM held on 27 January 2023 the Group's strategy is for an orderly realisation and return of capital to shareholders. It is anticipated that the return of capital to shareholders will be completed in the next four to five years.

The Group's targeted returns are based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies and, consequently, the actual rate of return may be materially lower than the targeted returns.

The Directors regularly receive information on the performance of the existing loans, including the performance of underlying assets versus underwritten business plan and the likelihood of any early repayments, or the need for any loan amendments.

The Board continues to monitor the revised investment strategy and performance on an ongoing basis.

Market Deterioration Risk (risk of the economies in which the Group operates either stagnating or going into recession)

The Group's investments are comprised principally of debt investments in the UK and the 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 loan defaults or impairments.

The Covid-19 pandemic has had a material long term impact on global economies and on the operations of the Group's borrowers since 2020.

The situation in Ukraine, following the February 2022 incursion into Ukraine by Russia, also presents a significant risk to European and Global economies. While the Group has no direct or known indirect involvement with Ukraine, Russia or Belarus it may be impacted by the consequences of the

instability caused by the ongoing Ukrainian/Russian conflict.

The impact of the United Kingdom's departure from the European Union in 2020 still represents a potential threat to the UK economy as well as wider Europe. On a cyclical view, the national economies across Europe appear to be heading towards lower growth, and alongside the economic impact of Covid-19 and the destabilising impact of the conflict in Ukraine, towards recession.

In addition there is the impact of the ongoing high inflationary environment to consider (driven by increasing interest rates, energy costs and costs of living). This environment could make it harder for Borrowers to meet their interest obligations to the Group and to ultimately repay the loans advanced to them.

The Board have considered the impact of market deterioration 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 the Investment Manager 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.

In the event of a loan default in the portfolio, the Group is generally entitled to accelerate the loan and enforce security, but the process may be expensive and lengthy, and the outcome is dependent on sufficient recoveries being made to repay the borrower's obligations and associated costs. Some of the investments held would rank behind senior debt tranches for repayment in the event that a borrower defaults, with the consequence of greater risk of partial or total loss. In addition, repayment of loans by the borrower at maturity could be subject to the availability of refinancing options, including the availability of senior and subordinated debt and is also subject to the underlying value of the real estate collateral at the date of maturity. The Group is mitigated against this with an average weighted loan to value of the portfolio of

58.6 per cent. Therefore, the portfolio should be able to withstand a significant level of deterioration before credit losses are incurred.

The Investment Adviser has also mitigated the risk of credit losses by undertaking detailed due diligence prior to the signing of each loan. Whilst the precise scope of due diligence will have depended on the proposed investment, such diligence will typically have included independent valuations, building, measurement and environmental surveys, legal reviews of property title, assessment of the strength of the borrower's management team and key leases and, where necessary, mechanical and engineering surveys, accounting and tax reviews and know your customer checks.

The Investment Adviser, Investment Manager and Board have also managed these risks in the past by ensuring a diversification of investments in terms of geography, market and type of loan. Such diversification will be harder to achieve as the company pursues a strategy of orderly realization and does not enter into any new investments. The Investment Manager and Investment Adviser operate in accordance with the guidelines, investment limits and restrictions as determined by the Board. The Directors review the portfolio against these guidelines on a regular basis.

The Investment Adviser obtains regular performance reporting from all borrowers and meets with all borrowers on a regular basis to monitor developments in respect of each loan and reports to the Investment Manager and the Board periodically and on an ad hoc basis where considered necessary.

The Group's loans are held at amortised cost. The performance of each loan is reviewed quarterly by the Investment Adviser for any indicators of significant increase in credit risk, impaired or defaulted loans. The Investment Adviser also provides their assessment of any expected credit loss for each loan advanced. The results of the performance review and allowance for expected credit losses are discussed with the Investment Manager and the Board.

Two loans within the portfolio are currently classified as Stage 2 (increased risk of default). These loans account for 10.8 per cent of the loans advanced by the Group as at 31 December 2022. No expected credit losses have been recognised against any of the loans, because of the strong LTVs across the loan portfolio and strong contractual agreements with Borrowers, including against these Stage 2 loans. The reasons, estimates and judgements supporting this assessment are described in the Investment Manager's report.

Interest Rate Risk

The Group is subject to the risk that the loan income and income from the cash and cash equivalents will fluctuate due to movements in interbank rates.

The loans in place at 31 December 2022 have been structured so that 79 per cent are floating rate and 100 per cent of these floating rate loans are subject to interbank rate floors such that the interest cannot drop below a certain level, which offers some protection against downward interest rate risk.

The remaining 21 per cent by value of the loans are fixed rate, which provides protection from downward interest rate movements to the overall portfolio (but also prevents the Group from benefiting from any interbank rate rises on these positions).

Foreign Exchange Risk

The majority of the Group's investments are Sterling denominated (63.1 per cent as at 31 December 2022) with the remainder being Euro denominated. The Group is subject to the risk that the exchange rates move unfavourably and that a) foreign exchange losses on the Euro loan principals are incurred and b) that Euro interest payments received are lower than anticipated when converted back to Sterling and therefore returns are lower than the underwritten returns.

The Group manages this risk by entering into forward contracts to hedge the currency risk. All non-Sterling loan principal is hedged back to Sterling to the maturity date of the loan.

Interest payments are normally hedged for the period for which prepayment protection is in place. However, the risk remains that loans are repaid earlier than anticipated and forward contracts need to be broken early.

In these circumstances, the forward curve may have moved since the forward contracts were placed which can impact the rate received. In addition, if the loan repays after the prepayment protection, interest after the prepayment-protected period may be received at a lower rate than anticipated leading to lower returns for that period. Conversely, the rate could have improved, and returns may increase.

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

The Company had approximately £163.5 million (€184.1 million) of hedged notional exposure with Lloyds Bank plc at 31 December 2022 (converted at 31 December 2022 FX rates).

As at 31 December 2022, the hedges were in the money. If the hedges move out of the money and at any time this mark to market exceeds £15 million, the Company is required to post collateral, subject to a minimum transfer amount of £1 million. This situation is monitored closely, however, and as at 31 December 2022, the Company had sufficient liquidity and credit available on the revolving credit facility to meet any cash collateral requirements.

Risk of Default under the Revolving Credit Facilities

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

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

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

Cybercrime

The Group is subject to the risk of unauthorised access into systems, identification of passwords or deleting data, which could result in loss of sensitive data, breach of data physical and electronic, amongst other potential consequences. This risk is managed and mitigated by regular reviews of the Group's operational and financial control environment. The matter is also contained within service providers surveys which are completed by the Group's service providers and are regularly reviewed by the Board. No adverse findings in connection with the service provider surveys have been found. The Company and its service providers have policies and procedures in place to mitigate this risk, the cybercrime risk continues to be closely monitored.

Regulatory risk

The Group is also subject to regulatory risk as a result of any changes in regulations or legislation. Constant monitoring by the Investment Adviser, Investment Manager and the Board is in place to ensure the Group keeps up to date with any regulatory changes and compliance with them.

Operational risk

The Group has no employees and is reliant on the performance of third-party service providers. Failure by the Investment Manager, Investment Adviser, Administrator or any other third-party service provider to perform in accordance with the terms of its appointment could have a material detrimental impact on the operation of the Group.

The Board maintains close contact with all service providers to ensure that the operational risks are minimised.

Emerging Risks

Emerging risks to the Group are considered by the Board to be trends, innovations and potential rule changes relevant to the real estate mortgage and financial sector. The challenge to the Group is that emerging risks are known to some extent but are not likely to materialise or have an impact in the near term. The Board regularly reviews and discusses the risk matrix and has identified climate change as an emerging risk.

Climate change

The consequences that climate change could have are potentially severe but highly uncertain. The potential high impact of possible losses has done a lot to raise the awareness of this risk in investment circles. The Board, in conjunction with the Investment Manager and Investment Adviser, considers the possible physical and transitional impact of climate change on properties secured on loans provided by the Group and includes the consideration of such factors in valuation instructions of the collateral properties and in considering any potential expected credit losses on loans. The Investment Adviser considers the possible physical and transitional impact of climate change as part of the origination process. In addition, the Board, in conjunction with the Investment Adviser, is monitoring closely the regulation and any developments in this area (see 'Environmental, Social and Corporate' section for further information).

ASSESSMENT OF PROSPECTS

The Group's strategy of an orderly realisation and return of capital to shareholders (approved by the shareholders in January 2023) is central to an understanding of its prospects. The Group's focus is twofold:

- i) to proactively manage the investments already made to ensure that the loans continue to perform and provide positive returns to the Group, and
- ii) return capital to shareholders on a timely basis subject to ensuring the Group can continue to fund as yet unfunded loan commitments (£49.0 million as at 31 December 2022) and meet its operating costs.

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

ASSESSMENT OF VIABILITY

The Directors have tested the potential impact on the Group of a number of scenarios by quantifying their financial impact. These scenarios are based on aspects of the following selected principal risks, which are detailed in this Strategic Report, and as described below:

- Foreign exchange risk;
- Market deterioration risk; specifically the risk that all the Stage 2 loans held default, resulting in a loss of interest income and delay in the repayment of capital; and
- Risk of default under the revolving credit facilities.

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

- A high level of loan default meaning that the Group stopped receiving interest on the Stage 2 loans in the portfolio and that the outstanding capital on these loans was not received until 6 or 12 months after the loan maturity date plus Sonia and Euribor rates falling to 0% from 2024 onwards;

- An analysis of the robustness of the covenants under the revolving credit facility to withstand default of the underlying investments; and
- A deterioration in the valuation of the foreign exchange hedges such that the Company is required to post collateral up to £5m.

The results of this stress testing showed that the Group would be able to withstand a high level of underlying loan default or impairment resulting from any of the risks identified over the period of the financial forecasts albeit the dividend may need to be reduced to reflect the reduced cash available.

VIABILITY STATEMENT

In addition to the assessment of prospects and viability above, the Directors also have a reasonable expectation, based on the scenario testing, that the Group will continue to meet its liabilities as they fall due over the three-year period ending 31 December 2025, and therefore the Group is expected to remain viable from both a business model and financial perspective.

Furthermore, the Directors have also considered, as disclosed in these financial statements, the strategy of orderly realization and return of capital to shareholders.

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

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (“ESG”)

As an investment company, the Board and the Investment Manager and Investment Adviser consider the Group’s direct activities to have a minimal direct impact on the environment. Nevertheless, the Board regularly monitors and discusses ESG matters both at the Board meetings and with the Investment Manager and Investment Adviser.

The Investment Manager and Investment Adviser are part of the Starwood Capital Group (SCG), which is a signatory to the UN Principles for Responsible Investments (UNPRI). In assessing new loans SCG evaluates environmental risks associated with any investments as part of the underwriting process. A formal scope of work is followed by the Investment Adviser, which requires an environmental site assessment to be performed which identifies environmental conditions that may have a material adverse impact on the property being assessed or its immediate surrounding area and an assessment of a property’s sustainability and marketability through the review of its environmentally friendly and unfriendly characteristics.

The Board recognises that it has no direct control over a borrower’s company policy towards environment and social responsibility and whilst it is an important part of the due diligence process in understanding the impact of such issues, decisions are not weighted towards those investments with stronger environmental and social characteristics. It should be noted that a number of the loans made by the Group involve refurbishment projects and these will often improve the environmental impact of the real estate concerned. Additionally, whilst it is not an investment criteria, the Group’s loan portfolio is significantly funded in sectors with positive social impact such as hospitality, healthcare and residential.

In carrying out its activities and in its relationship with the community, the Group aims to conduct itself responsibly, ethically and fairly; including in relation to social and human rights issues. This approach is built

into the Investment Adviser’s origination and underwriting process. Our risk management framework is intended to facilitate an enterprise wide view of risk that supports a strong and collaborative risk management culture within the Board and with its relationship with SCG.

The Board (through its relationships with SCG, its brokers and other advisers) is focused on maintaining a productive dialogue with shareholders and gathering feedback to inform the decision making at Board level.

SCG, with in excess of 4,500 employees worldwide, takes its social responsibilities to its employees very seriously offering a challenging, fast-paced and collegial environment to its employees. SCG strives to create diverse and inclusive workplaces where all employees can perform to their full potential and to be a good corporate citizen for their communities by supporting charitable organisations that promote education and social wellbeing.

As an investment fund, the Group outsources many of its activities to external service providers and, therefore, the Group has no direct Greenhouse Gas Emissions to report from its own operations and is currently not required to report on any other emission producing sources.

While there is some travel involved for the Directors and representatives from the Investment Adviser, the Company’s service providers are Guernsey office-based companies, and the majority of the Directors are based in Guernsey, thus having a relatively low impact on the environment and negating the need for long commutes or flights to and from Board meetings. As a result of Covid-19 there has been an acceleration in the use of interactive and virtual technology for meetings, further reducing the need for travel.

The Group has no employees and the Board is composed entirely of non-executive Directors. Therefore, the Group is not within scope of the Modern Slavery Act 2015 and is therefore not obliged to make a human trafficking statement. However, the business of the Company is conducted ethically and with integrity and has a zero tolerance policy towards modern slavery.

BOARD DIVERSITY

The Board considers that its members have a balance of skills, qualifications and experience which are relevant to the Company. The Board supports the recommendations of the Davies Report, the Hampton Alexander Review and the Parker Review and believes in the value and importance of diversity in the boardroom and it continues to consider the recommendations of these reports and reviews as part of its succession planning.

The Company has no employees and therefore has no disclosures to make in this regard.

John Whittle | Chairman

23 March 2023

Investment Manager's Report

MARKET SUMMARY AND INVESTMENT OUTLOOK

After decades of declining interest rates and a long period of benign inflation, 2022 saw a sea change in inflation and a knock on effect into interest rates across the globe. Rising inflation was driven by two key factors. First as a consequence of the Covid-19 pandemic global supply chains and shipments slowed in 2020 and 2021 causing worldwide shortages and affecting consumer patterns.

The causes of the economic slowdown included workers becoming sick with Covid-19 as well as mandates and restrictions affecting the availability of staff resulting in production and logistics disruption with goods also remaining at port due to staffing shortages. The related global chip shortage contributed to the supply chain crisis, particularly in the automobile and electronics sectors. During the Christmas and holiday season of 2021, an increase in spending in North America, combined with the spread of the Omicron variant of Covid-19, further exacerbated already tight supplies.

To start with, the market largely expected these issues to be transitory and inflation would settle back as an equilibrium in supply chains was restored. As a result central banks were initially cautious about raising rates which could stall a fragile economic recovery.

Market concerns began to rise about more persistent inflation in the later part of 2021, but the second driver that compounded the issues was the war in Ukraine which further disrupted supply of energy, commodities and food. The result was an unprecedented rise in inflation in almost every country in the world and a huge policy response.

Subsequently US, UK and Eurozone inflation has peaked at 9.1 per cent, 11.1 per cent and 10.6 per cent respectively. In response the central banks have acted rapidly, with the US Fed Funds rate, UK Bank of England Base Rate and the ECB deposit policy rate leaping from 0-0.25 per cent, 0.25 per cent and -0.5 per cent to 4.25-4.5 per cent, 3.5 per cent and 2.0 per cent respectively between the end of 2021 and the end of 2022. The knock on effect for longer rates is that benchmarks such as the five year swap which are

typically the benchmark for commercial real estate loans have also risen significantly. The US, UK and Euro 5 year swaps grew from 1.11 per cent, 1.05 per cent and -0.02 per cent to 3.70 per cent, 4.10 per cent and 3.18 per cent respectively during the year.

At the beginning of the year most economists had seen inflation having peaked and the expectations of future interest rises having peaked too. Goldman Sachs expected UK rates peaking at 4.5 per cent in May 2023 versus expectations by some economists that they might rise as far as 5 per cent or even 6 per cent previously, however fears that inflation and higher rates will be more sticky have been growing in recent weeks due to economic data particularly the employment statistics.

Inflation and interest rates impact hard assets in a number of ways. For example higher inflation in labour and construction materials and higher interest rates for the financing of development all lead to a higher overall construction cost which can lead to reduced supply which benefits existing stock. Higher rates generally can also put pressure on real estate yields that may look less desirable versus other forms of long income such as long dated bonds and higher financing costs will leave levered real estate buyers with less free cash after debt. On the other side of the coin, the income of real assets is often strongly linked to inflation either through direct linking in the terms of a lease or through correlation of revenue with inflation.

In markets such as logistics and residential to rent, low levels of vacancy combined with high demand have seen increasing rents and this trend is likely to continue in a number of areas where there is insufficient new supply delivered although a bad recession could reset demand and / or the tenants ability to pay. Rising rents will be supportive of values in these asset classes even while yields are softening.

Real estate and leveraged finance volumes fell significantly in 2022. Conditions have improved in the first weeks of 2023 but volumes are still lower and pricing elevated. A large share of the increase in financing costs has been the base interest rate component mentioned earlier with spreads having widened as well. Larger loans that require distributions through syndication CMBS or CLOs are still rare in the US and there have been none in Europe. However, we do continue to see steady underlying activity in bilateral and small club deals with spreads in Europe having changed much less than in the bond markets since 2021 albeit with more conservative risk metrics and structures. As is common in lower volume markets there has been an increased gap in appetite between prime and secondary assets and stock selection through asset class, sponsor and business plan combination is absolutely key. Where rates settle is still uncertain and it is likely that until the equilibrium is met we will still see smaller volumes both in transaction and financing volumes.

We are also continuing to see the existing themes in the bank lending market. There is a focus on stress tests, capital treatment and managing risk weighted assets. As a result, the trend towards banks working together with non-banks in co-origination or financing of loans as opposed to providing direct loans is persisting. This is evident in the latest Bayes lending survey which tracks the UK commercial real estate lending market. The most recent report shows that alternative lenders now provide 24 per cent of new origination from almost none a decade ago and we see that trend towards an increased portion of the market with non-bank lenders continuing.

Investment Manager's Report

PORTFOLIO STATISTICS

As at 31 December 2022, the portfolio was invested in line with the Group's investment policy and is summarised below.

	31 December 2022	31 December 2021
Number of investments	20	19
Percentage of invested portfolio in floating rate loans ⁽¹⁾	78.9%	78.0%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	7.8%	6.9%
Invested Loan Portfolio levered annualised total return ⁽¹⁾	7.9%	7.0%
Weighted average portfolio LTV – to Group first £ ⁽¹⁾	13.2%	16.4%
Weighted average portfolio LTV – to Group last £ ⁽¹⁾	58.6%	61.9%
Average loan term (stated maturity at inception)	5.0 years	4.9 years
Average remaining loan term	1.7 years	2.3 years
Net Asset Value	£416.1 m	£421.6 m
Amount drawn under Revolving Credit Facility (including accrued interest)	(£19.2 m)	(£8.5 m)
Loans advanced at amortised cost (including accrued income)	£432.5 m	£414.6 m
Cash	£3.6 m	£3.0 m
Other net assets / (liabilities) (including the value of FX hedges)	(£0.8 m)	£12.5 m

⁽¹⁾ Alternative Performance Measure – refer to page 97 for definitions and methodology.

The maturity profile of investments as at 31 December 2022 is shown below.

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	£172.6	40.5
1 to 2 years	£107.4	25.2
2 to 3 years	£86.7	20.4
3 to 5 years	£59.2	13.9

* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

PORTFOLIO DIVERSIFICATION

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

Country	% of invested assets
UK	63.1
Republic of Ireland	17.6
Spain	16.5
Netherlands	2.2
Germany	0.6

Sector	% of invested assets
Hospitality	38.7
Office	20.8
Retail	11.4
Residential	10.6
Light industrial	6.5
Healthcare	5.9
Life Sciences	4.6
Logistics	1.1
Other	0.4

Loan type	% of invested assets
Whole loans	70.0
Mezzanine	30.0

Loan currency	% of invested assets*
Sterling	63.1
Euro	36.9

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

Investment Manager's Report

INVESTMENT DEPLOYMENT

As at 31 December 2022, the Group had 20 investments and commitments of £474.9 million as follows:

Transaction	Sterling equivalent balance ⁽¹⁾	Sterling equivalent unfunded commitment ⁽¹⁾	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel & Residential, UK	£49.9 m		£49.9 m
Office, London	£19.0 m	£1.5 m	£20.5 m
Hotel, Oxford	£23.0 m		£23.0 m
Hotel, Scotland	£42.6 m		£42.6 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£19.5 m	£7.1 m	£26.6 m
Hotel and Office, Northern Ireland	£11.5 m		£11.5 m
Hotels, United Kingdom	£32.0 m	£18.6 m	£50.6 m
Office and Industrial Portfolio, UK	£5.5 m		£5.5 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	£270.2 m	£46.2 m	£316.4 m
Three Shopping Centres, Spain	£30.3 m		£30.3 m
Shopping Centre, Spain	£15.1 m		£15.1 m
Hotel, Dublin	£42.0 m		£42.0 m
Office, Madrid, Spain	£16.4 m	£0.9 m	£17.3 m
Mixed Portfolio, Europe	£7.8 m		£7.8 m
Mixed Use, Dublin	£11.2 m	£1.8 m	£13.0 m
Office Portfolio, Spain	£8.5 m	£0.1 m	£8.6 m
Office Portfolio, Ireland	£21.7 m		£21.7 m
Logistics Portfolio, Germany	£2.7 m		£2.7 m
Total Euro Loans	£155.7 m	£2.8 m	£158.5 m
Total Portfolio	£425.9 m	£49.0 m	£474.9 m

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

Between 1 January and 31 December 2022, the following significant investments activity occurred (included in the table above):

Additional funding by the Group (new loans and existing commitments)

NEW LOAN: Office and Industrial Portfolio, UK and The Netherlands

On 26 May 2022, the Group announced its €16.4 million and £5.5 million investment in a three-year multi-currency loan secured on a portfolio of five offices and one industrial property located in the Netherlands and the UK. The €16.4 million tranche of the loan was repaid in December 2022 and the £5.5 million tranche of the loan was repaid in February 2023.

NEW LOAN: Industrial Estate, UK

In September 2022 the Group funded the initial advance of a £46.2 million floating rate whole loan secured by an industrial estate in Loughborough, UK.

In addition to the new loans detailed above the Group also funded a further £14.7 million in relation to loan commitments made in prior years which were unfunded.

Loan Repayment

The following final loan repayment was received during the year:

REPAYMENT OF LOAN: Office, Scotland

The £5 million loan repaid in full upon the sale of the underlying property in line with the sponsors business plan during the second quarter of 2022.

Amortisation and early partial repayments

The following material loan amortisation and early partial repayment amounts were received during the year:

- €16.8 million of unscheduled amortisation on the loan on the Mixed Portfolio, Europe, following asset sales in line with the borrower's business plan;
- €16.4 million repayment of the euro tranche of the Office and Industrial Portfolio, UK and The Netherlands which was a new loan in 2022, following asset sales in line with the borrower's business plan;
- €12.6 million of early partial repayment on Hotel, Dublin from surplus cash;
- €7.2 million of unscheduled amortisation on the loan on the Office Portfolio, Dublin, following an asset sale in line with the borrower's business plan;
- €3.1 million of unscheduled amortisation on Logistics Portfolio, Germany, following an asset sale in line with business plan; and
- €1.5 million of scheduled amortisation on loan relating to Three Shopping Centres, Spain loan.

Investment Manager's Report

PORTFOLIO OVERVIEW

The portfolio continues to perform in line with expectations. All interest and scheduled amortisation has been paid in line with contractual obligations. Borrowers are also continuing to make progress on underwritten business plans including executing strategic asset sales and paying down the loans.

During 2022, a total of £56.9 million was repaid. The majority of these repayments were related to strategic underlying property sales executed by borrowers in line with business plan and typically following the completion of underwritten asset management initiatives, with the remainder representing regular scheduled loan amortisation or borrowers electing to voluntarily pay down loan balances with surplus cash.

The Group's exposure to development and heavy refurbishment projects continues to decrease as current developments reach completion. As at 31 December 2022, £63 million or 13 per cent of total loan commitments represented loans funding two construction projects. Both of these projects are expected to have reached substantial completion during the first quarter of 2023. The larger of these projects (with a total Group loan commitment of £49 million) has pre-sold the majority of its residential for-sale product and we are forecasting the loan to be fully repaid during 2023 from the proceeds of pre-sold unit completions.

The Group continues to closely monitor all of its loan exposures. Asset classes representing more than 10 per cent of total investments include Hospitality (39 per cent), Office (21 per cent), Retail (11 per cent) and Residential (11 per cent). The Hospitality exposure is diversified across seven different loan investments. Hotel performance on the trading hotel assets has continued to improve and recover from the pandemic very well during 2022. Despite the potential that trading may be impacted from lower discretionary consumer spending related to inflationary pressures, the Group's borrowers on trading assets such as hotels have generally indicated a positive end to 2022 and the outlook for 2023 is cautiously optimistic based on forward

sales activity as at year end. Office exposure (21 per cent) is spread across eight loan investments. Occupancy across the leased office portfolio has held up well, with the vast majority of the underlying tenants renewing leases and staying in occupation. We also continue to see prospective new tenants being attracted particularly to newly refurbished, high quality buildings. The Retail exposure (11 per cent) has continued to perform in line with expectations; occupancy continues to remain robust and footfall continues its post pandemic recovery. Our retail loan borrowers continue their active asset management and are signing new leases where tenants wish to expand and renew existing leases. Residential exposure (11 per cent) is predominantly related to the successfully pre-sold residential for sale development project that is due to complete during the first half of 2023, with the loan projected to be fully repaid in 2023. In general, market outlook for residential product remains high as rents have trended upwards with inflation over the prior year and many markets remain supply challenged.

Across all loans we continue to benefit from material headroom in underlying collateral value against the loan basis, with a current weighted average LTV of 58.6 per cent across the portfolio. These metrics are based on independent third party appraisals which are typically updated annually for income producing assets and following completion on newly constructed or refurbished assets. While the average age of valuations is just over one year for income producing assets and we recognise that interest rate increases within the last twelve months are expected to place downward pressure on valuation inputs, we are confident in the very significant buffer to absorb any negative valuation impact of the current market. On loans where new valuations were instructed in the second half of 2022, average values did not change materially as in many cases increased rents and asset management initiatives being achieved by sponsors outweighed or offset any increase in discount or capitalisation rates.

LIQUIDITY AND HEDGING

The Group is very modestly levered with net debt of £15.4 million (3.7 per cent of NAV) at 31 December 2022 and has significant liquidity available with undrawn revolving credit facilities (see note 17(c) and note 23 for further information) to fund existing commitments.

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 31 December 2022 was £0.7 million (in 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 Sterling (although this can change over time) and is a sterling denominated group. The Group is therefore subject to the risk that exchange rates move unfavourably and that a) foreign exchange losses on the loan principal are incurred and b) that interest payments received are lower than anticipated when converted back to Sterling and therefore returns are lower than the underwritten returns. The Group manages this risk by entering into forward contracts to hedge the currency risk. All non-Sterling loan principal is hedged back to Sterling to the maturity date of the loan (unless it was funded using the revolving credit facilities in which case it will have a natural hedge). Interest payments are generally hedged for the period for which prepayment protection is in place. However, the risk remains that loans are repaid earlier than anticipated and forward contracts need to be broken early. In these circumstances the forward curve may have moved since the forward contracts were placed which can impact the rate received. In addition, if the loan repays after the prepayment protection, interest after the prepayment protected period may be received at a lower rate than anticipated leading to lower returns for that period. Conversely the rate could have improved and returns may increase.

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 was introduced, 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	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.
Stage 2	Credit risk has increased significantly since initial recognition. Recognise lifetime expected losses. Interest revenue recognised on a gross basis.
Stage 3	Credit impaired financial asset. Recognise lifetime expected losses. Interest revenue recognised on a net basis (i.e., losses are "above the line" and impact P&L and NAV).

For the purposes of classifying between stages 1 to 3 after initial recognition, the Group considers a change in credit risk based on a **combination** of the following factors:

- 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 per cent of loan default covenant level;
- Late payments have occurred and not been cured;
- Loan maturity date is within six months and the borrower has not presented an achievable refinance or repayment plan;
- 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.

At 31 December 2022 two loans which account for 10.8 per cent of loans advanced by the Group are classified as Stage 2 and the remaining loans are still classified as Stage 1. The loans classified to Stage 2 are in the Spanish retail sector.

Investment Manager's Report

It is important to note that although these loans have been classified as Stage 2 no ECLs have been recognized. 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".

Although credit risk has increased for these loans compared with the credit risk at origination we have considered a number of scenarios and as a result of these do not currently expect to realise a loss in the event of a default (i.e. the last part of the formula above is considered to be zero for all loans).

This assessment has been made, despite the continued global economic pressure on the retail markets, on the basis of information in our possession at the date of reporting, our assessment of the risks of each loan and certain estimates and judgements around future performance of the assets. The position on any potential ECLs on the Stage 2 assets in particular continues to be closely monitored and analysed, and we have sought input, analysis and commentary from Spanish market advisers and have updated external valuations during 2022 to supplement our own information. Although we continue to update the information available at this point in time we have no reason to believe that any ECLs should be recognised against any of the loans determined to be Stage 2. The reasons, estimates and judgements supporting our current assessment are as follows:

- Significant headroom on the two loans with LTVs of between 70 per cent and 73 per cent based on the latest valuations dated June 2022;

- Performance of the centres when local restrictions were lifted following the different waves of Covid-19 has been very encouraging for future recovery; as a result we consider that income in the centers is well positioned to recover post pandemic;
- We have determined that although there is pressure in this market, it is unlike the UK retail market as we are currently seeing no evidence of significant liquidations in the Spanish retail market.

FAIR VALUE OF PORTFOLIO VS AMORTISED COST

The table below represents the value of the loans based on a discounted cash flow basis using different discount rates.

The effective interest rate ("EIR") – i.e. the discount rate at which future cash flows equal the amortised cost, is 8.9 per 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 change in market interest rates or credit risk premiums may impact the fair value of the portfolio versus the amortised cost. The Group considers the EIR of 8.9 per cent to be relatively conservative as many of these loans were part of a business plan which involved transformation and many of these business plans are either completed or well advanced in execution and therefore significantly de-risked from the original underwriting and pricing. The volatility of the fair value to movements in discount rates is low due to the low remaining duration of most loans.

Discount Rate	Fair Value	% of Book Value
6.0% (fair value)	£453,301,433	104.8
6.9%	£446,378,688	103.2
7.4%	£442,812,482	102.4
7.9%	£439,304,831	101.6
8.4%	£435,854,418	100.8
8.9%	£432,459,966	100.0
9.4%	£429,120,227	99.2
9.9%	£425,833,994	98.5
10.4%	£422,600,089	97.7
10.9%	£419,417,368	97.0

Investment Manager's Report

LOAN TO VALUE

Given the need for the Group and most of its peers to record loans at amortised cost, the loan to value of companies in our sector has understandably been an area of focus for many of our shareholders and stakeholders seeking to understand underlying risk further.

In order to try to assist in understanding the underlying credit risk, we have always quoted the last £ loan to value ("last LTV") of our portfolio and have outlined further detail below on our approach to this calculation.

Methodology

Our methodology to calculate the last LTV for each individual loan is:

Total loan drawn less any deductible lender controlled cash reserves and less any amortization received to date (including any debt provided by other lenders which rank alongside or senior to the Group's position)

Market value determined by the last formal lender valuation received by the reporting date

Each individual loan LTV is then weighted by the amount of the loan currently drawn (in the Group only, ignoring the position of other third party lenders) to give a weighted average last LTV across the Group's portfolio.

Valuations Process

The following describes the valuation basis that is used in our calculation. As the vast majority of our portfolio is originated directly by the Investment Adviser, the Group has discretion over when and how to instruct valuations. We consider this to be a strength of our valuation process as we have control over timing and complete access to the detail of the valuation process and the output. Where loans are not directly originated the lender could have a lack of control over the timing and no input to the process which we prefer to avoid where possible.

- On the origination of a loan, for a straight forward standing investment asset (for example, an occupied office), the independent open market value determined by an independent valuer under RICS guidelines will be used. When considering the relevance of these valuations in the current market, it is important to consider how quickly a portfolio churns. Our average loan term from origination to repayment is approximately 2.4 years and therefore our valuations have been relatively fresh.
- After loan origination the Group has the right under loan documents to obtain valuations on an annual basis at the expense of the borrower (based on loan anniversary, not Group financial year end). Where a follow on valuation has been done we use the latest valuation number in our calculations. However, the Group does not instruct independent third party valuations on a strict annual basis, only when it is considered necessary and useful to obtain one. 65 per cent of the total income producing loan book have had their valuation updated in the twelve months to 31 December 2022.
- For development projects there are a number of potential valuation methodologies. Our selected approach is based on giving the clearest and most consistent presentation of the risk. For development projects our calculation includes the total facility available and is calculated against the appraised market value on completion of the relevant project. There are other potential approaches such as using current drawn loan balance and current value or using total cost as a proxy for value. However each of these approaches has limitations. For example, using the approach of drawn loan balance divided by current project value will typically understate the LTV in the earlier days of a development when less debt is drawn before converging to a higher LTV that matches our methodology at the end once all the debt is drawn. We generally retain the same rights to valuation on development loans as for investment assets. It is also worth noting that the weighting of the loan within the portfolio calculation is based off the latest drawn balance and not the total loan commitment.

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-15%	67.5%	81.5%	67.6%	67.2%	69.0%
-10%	63.7%	77.0%	63.8%	63.5%	65.1%
-5%	60.4%	72.9%	60.5%	60.1%	61.7%
0%	57.3%	69.3%	57.4%	57.1%	58.6%
5%	54.6%	66.0%	54.7%	54.4%	55.8%
10%	52.1%	63.0%	52.2%	51.9%	53.3%
15%	49.9%	60.2%	49.9%	49.7%	51.0%

On the basis of the methodology previously outlined, at 31 December 2022 the Group has an average last LTV of 58.6 per cent (2021: 61.9 per cent).

The table above shows the sensitivity of the loan to value calculation for movements in the underlying property valuation and demonstrates that the Group has considerable headroom within the currently reported last LTVs

Dividend Policy

To date, the Company has paid dividends of 5.5 pence per Ordinary Share in respect of the year ended 31 December 2022 (2021: 5.5 pence per Ordinary Share). In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023. Dividends are recognised in the Consolidated Statement of Changes in Equity when declared. Dividends are usually paid within one month of the declaration date.

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

For the year ended December 2022 5.5 pence per share has been paid out in dividends which to date was covered 1.24x by earnings (excluding unrealised FX gains and losses and realised FX gains on hedges relating to loans that have been extended). In addition, on 23 March 2023, the Company has declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023. The Company maintains a dividend reserve which is utilised, when needed, to ensure dividends are not paid out of capital.

EVENTS AFTER THE REPORTING PERIOD

The following amounts have been drawn under existing commitments, up to 23 March 2023:

- Mixed Use, Dublin - €109,357

The following loan amortisation (both scheduled and unscheduled) has been received since the year-end up to 23 March 2023:

- Hotel, Dublin - €2,449,200
- Hotel and Office, Northern Ireland - £1,000,000
- Mixed Portfolio, Europe - €1,516,035
- Three Shopping Centres, Spain - €359,732

The following loans have been repaid in full since year end up to 23 March 2023:

- Hotel, Oxford - £22,950,000
- Office and Industrial Portfolio, UK - £5,500,000

During January and February 2023, a total amount of £19,000,000 was paid to Morgan Stanley as repayment of amounts owed as at 31 December 2022 under the credit facility held with them.

On 21 January 2023 the Directors declared a dividend in respect of the fourth quarter of 2022 of 1.375 pence per Ordinary Share payable on 24 February 2023 to shareholders on the register at 3 February 2023.

In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023.

Subsequent to year end the Lloyds credit facility agreement was extended to May 2024 with a reduced facility amount of £25.0 million.

Starwood European Finance Partners Limited | Investment Manager
23 March 2023

Board of Directors



JOHN WHITTLE | Non-executive Director – Chairman of the Board

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 and Audit Committee Chairman of The Renewable Infrastructure Group Ltd (FTSE 250), Sancus Lending Group Ltd (listed on AIM), and Chenavari Toro Limited Income Fund Limited (listed on the SFS segment of the Main Market of the London Stock Exchange). 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 a resident of Guernsey.



GARY YARDLEY | Non-executive Director

Gary is a Fellow of the Royal Institution of Chartered Surveyors and holds a degree in estate management from Southbank University and an MBA. He has been a senior deal maker in the UK and European real estate market for over 25 years. Gary was formally Managing Director & Chief Investment Officer of Capital & Counties Property PLC (“Capco”) and led Capco’s real estate investment and development activities. Leading Capco’s team on the redevelopment of Earls Court, Gary was responsible for acquiring and subsequently securing planning consent for over 11m sq. ft. at this strategic opportunity area capable of providing over 7,500 new homes for London. Gary was also heavily involved in the curation and growth of the Covent Garden estate for Capco, now an established premier London landmark. Gary is a Chartered Surveyor with over 30 years’ experience in UK & European real estate. He is a former CIO of Liberty International and former equity partner of King Sturge and led PwC’s real estate team in Prague and Central Europe in the early 1990s. Gary is a resident of the United Kingdom.



SHELAGH MASON | Non-executive Director – Management Engagement Committee Chairman and Senior Independent Director

Shelagh Mason is a solicitor specialising in English commercial property who retired as a consultant with Collas Crill LLP in 2020. She is the Non-Executive Chairman of the Channel Islands Property Fund Limited listed on the International Stock Exchange and is also Non-Executive Chairman of Riverside Capital PCC, sits on the board of Skipton International Limited, a Guernsey Licensed bank, and until 28 February 2022, she was a Non-Executive Director of the Renewables Infrastructure Fund a FTSE 250 company, standing down after nine years on the board. In addition to the Company, she has a non-executive position with Ruffer Investment Company Limited, also a FTSE 250 company. 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 she also holds the IOD Company Direction Certificate and Diploma with distinction. Shelagh is a resident of Guernsey.



CHARLOTTE DENTON | Non-executive Director - Audit Committee Chairman

Charlotte is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a degree in politics from Durham University. She is also a member of the Society of Trust and Estate Practitioners, a Chartered Director and a fellow of the Institute of Directors. During Charlotte’s executive career she worked in various locations through roles in diverse organisations, including KPMG, Rothschild, Northern Trust, a property development startup and a privately held financial services group. She has served on boards for over fifteen years and is currently a Non-Executive Director of various entities including Butterfield Bank (Guernsey) Limited, the GP boards of Private Equity groups Cinven and Hitec and the Investment Manager for NextEnergy. She is also the Audit Chair for the listed Investment Company River and Mercantile UK Micro Cap. Charlotte is a resident of Guernsey.

Report of the Directors

PRINCIPAL ACTIVITIES AND INVESTMENT OBJECTIVE

The Principal Activities and Investment Objective are fully detailed in the Objective and Investment Policy section.

STRUCTURE

The Company was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended, on 9 November 2012 with registered number 55836 and has been authorised by the Guernsey Financial Services Commission as a registered closed-ended investment company. The Company's Ordinary Shares were admitted to the premium segment of the Financial Conduct Authority's ("FCA") Official List and to trading on the Main Market of the London Stock Exchange as part of its IPO which completed on 17 December 2012. Further issues have taken place since IPO and are listed under "Capital" below. The issued capital during the year comprises the Company's Ordinary Shares denominated in Sterling.

The Company makes its investments through Starfin Lux S.à.r.l (indirectly wholly owned via a 100% shareholding in Starfin Public Holdco 1 Limited), Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l. (both indirectly wholly owned via a 100% shareholding in Starfin Public Holdco 2 Limited).

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

DIVIDEND POLICY

The Company has a target dividend of 5.5 pence per Ordinary Share per annum, based on quarterly dividend payments.

DIVIDENDS PAID AND PAYABLE

The Company has paid dividends of 1.375 pence per Ordinary Share for each of the calendar quarters of 2022. To date, the Company has paid a total of £22,107,601 in respect of 2022 (5.5 pence per Ordinary Share) (2021: £22,490,120: 5.5 pence per Ordinary Share). In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023.

BUSINESS REVIEW

The Group's performance during the year to 31 December 2022, its position at that date and the Group's future developments are detailed in the Chairman's Statement, the Strategic Report and the Investment Manager's Report.

CAPITAL

As part of the Company's IPO completed on 17 December 2012, 228,500,000 Ordinary Shares of the Company, with an issue price of 100 pence per share, were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange.

The following issues have been made since the IPO:

The Company holds 17,626,702 (2021: 4,308,125) shares in treasury. The total number of voting rights in the Company is 395,592,696, which may be used by shareholders as the denominator for the calculations by which they can determine if they are required to notify their interest in, or a change to their interest in, the Company under the Financial Conduct Authority's Disclosure and Transparency Rules. As disclosed in the Chairman's Statement, during the year ended 31 December 2022, the Company bought back 13,318,577 Ordinary Shares at an average cost of 92.84 pence per share (2021: 660,000 Ordinary Shares at an average cost of 89.63 pence per share).

Admission Date	Number of Ordinary Shares	Price (pence per Ordinary Share)
21 March 2013	8,000,000	104.25
9 April 2013	1,000,000	104.50
12 April 2013	600,000	104.00
23 July 2015	23,780,000	103.00
29 September 2015	42,300,000	102.75
12 August 2016	70,839,398	103.05
15 May 2019	38,200,000	104.75

Report of the Directors

SUBSTANTIAL INTERESTS

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure and Transparency Rules ("DTR") is published via a Regulatory Information Service and is available on the Company's website. The Company has been notified under Rule 5 of the DTR of the following holdings of voting rights in its shares as at 31 December 2022 and as at the date of this report.

Name	% holding of Ordinary Shares at 31 December 2022	% holding of Ordinary Shares at 7 March 2023 (the latest available)
BlackRock	19.37	19.27
Close Brothers Asset Management	7.72	7.84
Waverton Investment Management	7.71	7.99
Schroder Investment Management	5.85	6.39
Fidelity International	5.05	5.05
SG Private Banking	4.09	3.76
Premier Miton Investors	3.99	3.99
Quilter Cheviot Investment Manager	3.88	3.85
James Hambro & Partners	3.50	2.73
City of London	3.18	3.35

DIRECTORS' INTERESTS IN SHARES

The Directors' interests in shares are shown opposite:

Name	Ordinary Shares at 31 December 2022	Ordinary Shares at 31 December 2021
John Whittle	33,866	23,866
Shelagh Mason	112,819	112,819
Charlotte Denton	44,444	-
Gary Yardley	-	-

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

EVENTS AFTER THE REPORTING PERIOD

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

INDEPENDENT AUDITOR

The Directors, at the recommendation of the Audit Committee, conducted a tender for the position of Independent Auditor to the Company for the audit of the year ending 31 December 2023 as a form of best practice given PricewaterhouseCoopers CI LLP has served as the Company's Independent Auditor for two consecutive terms of five years. Following a competitive tender process, the Audit Committee recommended that the Board continue to engage PricewaterhouseCoopers CI LLP, who have been engaged since the Company's inaugural meeting on 22 November 2012 and have been re-appointed at each AGM held since. PricewaterhouseCoopers CI LLP have indicated their willingness to continue as Auditor. The Directors, at the recommendation of the Audit Committee, will place a resolution before the AGM to re-appoint them as independent auditor for the ensuing year, and to authorise the Directors to determine their remuneration.

INVESTMENT MANAGER AND SERVICE PROVIDERS

The Investment Manager during the year was Starwood European Finance Partners Limited (the "Investment Manager"), incorporated in Guernsey with registered number 55819 and regulated by the GFSC and Alternative Investment Fund Management Directive. The Investment Manager has appointed Starwood Capital Europe Advisers, LLP (the "Investment Adviser"), an English limited liability partnership authorised and regulated by the FCA, to provide investment advice pursuant to an Investment Advisory Agreement.

The administration of both the Company and Investment Manager was delegated to Apex Fund and Corporate Services (Guernsey) Limited (the "Administrator") during the year.

ORDERLY REALISATION AND RETURN OF CAPITAL TO SHAREHOLDERS

Under the Company's discount control mechanisms (contained within its previous Articles of Association), the Company would have been required to offer to redeem up to 75 per cent of the shares in issue as the Company's discount to its Net Asset Value

per share was greater than 5 per cent or more during the six-month period ending 31 December 2022 (the "Tender Offer").

However, on 31 October 2022, the Company announced, that following a review of the Company's strategy and advice sought from its advisers, the Board intended to recommend to shareholders that the investment objective and policy of the Company were amended such that the Board can pursue a strategy of orderly realisation and the return of capital over time to shareholders (the "Proposed Orderly Realisation"). If approved by the shareholders, the Company would seek to return cash to shareholders in an orderly manner as soon as reasonably practicable following the repayment of loans, while retaining sufficient working capital for ongoing operations and the funding of committed but currently unfunded loan commitments.

On 28 December 2022, a Circular relating to the Proposed Orderly Realisation and containing a Notice of Extraordinary General Meeting to be held on 27 January 2023 (the "EGM") was published. The Circular set out details of, and sought shareholder approval for, certain Proposals.

The Proposals were:

- a) a change to the Company's Investment Policy to reflect the fact that the Company will cease making any new investments and will pursue a realisation strategy of the remaining assets in the Company's portfolio; and
- b) adoption of the New Articles which provide for the periodic Compulsory Redemption of the Company's Shares at the discretion of the Directors to allow cash to be returned to Shareholders following the full or partial realisation of assets.

On 27 January 2023, these Proposals were approved at the EGM.

The Investment Objective and Policy which applied prior to the approval of the Proposals, and for the whole of 2022, are set out in the prior year Annual Report. The current Investment Objective and Policy of the Company following the approval of the Proposals are set out on page 4. The Company maintains share repurchase powers, as approved at the 10 June 2022 Annual General Meeting, that allow the

Company to repurchase Ordinary Shares in the Market up to 14.99 per cent of the share capital, subject to annual renewal of the Shareholder authority. It is not the intention of the Company to raise fresh capital including through a placing programme (subject to the publication of a prospectus of the Company) and through opportunistic tap issues following the approval of the Proposals at the EGM.

SHARE BUYBACKS

The Company renewed its authority at the recent AGM to purchase in the market up to 14.99 per cent of the Ordinary Shares in issue on 10 June 2022 at a price not exceeding: (i) five per cent above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made; or (ii) the higher of the last independent trade or the highest current independent bid for the Ordinary Shares.

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

If not previously used, this authority shall expire at the conclusion of the Company's AGM in 2023. The Directors intend to seek annual renewal of this buyback authority from Shareholders each year at the Company's AGM.

As disclosed in the Chairman's statement, the Company has bought back 13,318,577 shares during the year ended 31 December 2022 at an average cost per share of 92.84 pence. These shares are held in treasury.

John Whittle | Chairman

23 March 2023

Directors' Remuneration Report

REMUNERATION POLICY & COMPONENTS

The Board endeavours to ensure the remuneration policy reflects and supports the Company's strategic aims and objectives throughout the year under review. It has been agreed that, due to the small size and structure of the Company, a separate Remuneration Committee would be inefficient; therefore, the Board as a whole is responsible for discussions regarding remuneration.

As per the Company's Articles of Incorporation, all Directors are entitled to such remuneration as is stated in the Company's Prospectus or as the Company may determine by ordinary resolution; to not exceed the aggregate overall limit of £300,000 per annum. Subject to this limit, it is the Company's policy to determine the level of Directors' fees, having regard for the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of responsibilities related to the Board, Management Engagement Committee and Audit Committee and the time dedicated by each Director to the Company's affairs. Base fees are set out in the table below.

As outlined in the Articles of Incorporation, the Directors may also be paid for all reasonable travelling, accommodation and other out-of-pocket expenses properly incurred in the attendance of Board or Committee meetings, general meetings, or meetings with shareholders or debentures of the Company or otherwise in discharge of their duties; and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as Directors of the Company.

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

None of the Directors have a service contract with the Company. Each of the Directors have entered into a letter of appointment with the Company. The letters of appointment were reviewed and amended in 2019 by an external party to ensure that they were in line with market standards prevailing at the time. Each Director is subject to annual re-election.

The Directors do not have any interests in contractual arrangements with the Company or its investments during the year under review, or subsequently. Each appointment can be terminated in accordance with the Company's Articles and without compensation. As outlined in the letters of appointment, each appointment can be terminated at the will of both parties with one month's notice either by (i) written resignation; (ii) unauthorised absences from Board meetings for 12 months or more; (iii) written request of the other Directors; or (iv) a resolution of the shareholders.

Directors' and Officers' liability insurance cover is maintained by the Company but is not considered a benefit in kind nor constitutes a part of the Directors' remuneration. The Company's Articles indemnify each Director, Secretary, agent and officer of the Company, former or present, out of assets of the Company in relation to charges, losses, liabilities, damages and expenses incurred during the course of their duties, in so far as the law allows and provided that such indemnity is not available in circumstances of fraud, wilful misconduct or negligence.

By order of the Board
John Whittle | Chairman
 23 March 2023

Director	Role	Total Fee 2022 £	Total Fee 2021 £
John Whittle	Chairman with effect from 1 January 2022	60,000	45,000
Shelagh Mason	Management Engagement Committee Chairman and Senior Independent Director	45,000	42,500
Charlotte Denton	Audit Committee Chairman with effect from 1 January 2022	50,000	40,000
Gary Yardley	Non-Executive Director with effect from 6 September 2021	42,000	12,712
Stephen Smith	Chairman with effect to 31 December 2021	-	50,000
Aggregate fees		197,000	190,212
Aggregate expenses		6,373	5,198
Total		203,373	195,410

Corporate Governance Statement

As a regulated Guernsey incorporated company with a Premium Listing on the Official List and admission to trading on the Main Market for Listed Securities of the London Stock Exchange, the Company is required to comply with the principles of the UK Corporate Governance Code dated July 2018 ("UK Code").

As an AIC member, the Board has also considered the principles and provisions of the AIC Code of Corporate Governance dated February 2019 ("AIC Code"). The AIC Code addresses all the principles set out in the UK Code, as well as setting out additional principles and provisions on issues of specific relevance to the Company. The AIC Code has been endorsed by the Financial Reporting Council as ensuring investment company boards fully meet their obligations to the UK Code and LR 9.8.6 of the Listing Rules.

Except as disclosed within the report, the Board is of the view that throughout the year ended 31 December 2022, the Company complied with the principles and provisions of the AIC Code. Key issues affecting the Company's corporate governance responsibilities, how they are addressed by the Board and application of the AIC Code are presented below. There is no information that is required to be disclosed under Listing Rule 9.8.4.

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

The Guernsey Financial Services Commission Finance Sector Code of Corporate Governance ("GFSC Code") came into force in Guernsey on 1 January 2012 and was amended in February 2016 and June 2021. The Company is deemed to satisfy the GFSC Code provided that it continues to conduct its governance in accordance with the requirements of the AIC Code.

CHAIRMAN

Appointed to the position of Chairman of the Board on 1 January 2022, John Whittle is responsible for leading the Board in all areas, including determination of strategy, organising the Board's business and ensuring the effectiveness of the Board and individual Directors. He also endeavours to produce an open culture of debate within the Board.

The Chairman's appointment is in line with the previously released Succession Plan. Prior to the Chairman's appointment, a job specification was prepared which included an assessment of the time commitment anticipated for the role. Discussions were undertaken to ensure that the Chairman was sufficiently aware of the time needed for his role and agreed to this upon signature of his letter of appointment. Other significant business commitments of the Chairman were disclosed to the Company prior to his appointment to the Board and a current list of commitments is set out in his biography on page 28.

The effectiveness and independence of the Chairman is evaluated on an annual basis as part of the Board's performance evaluation; the Management Engagement Committee Chairman is tasked with collating feedback and discussing with the Chairman on behalf of the rest of the Board.

As per the Company's Articles, all Directors, including the Chairman, must disclose any interest in a transaction that the Board and Committees will consider. To ensure that all Board decisions are independent, the said conflicted Director is not entitled to vote in respect of any arrangement connected to the interested party but may be counted in the quorum.



JOHN WHITTLE | Chairman

Corporate Governance Statement

BOARD

Independence and Disclosure

The Chairman confirms that the initial Board, consisting of Messrs. Jonathan Bride! (resigned 31 December 2020), Stephen Smith (resigned 31 December 2021) and himself were selected prior to the Company's launch and were able to assume all responsibilities at an early stage, independent of the Investment Manager and Investment Adviser. Shelagh Mason was appointed as a non-executive Director during 2020 and Charlotte Denton and Gary Yardley were appointed as non-executive Directors on 1 January 2021 and 6 September 2021, respectively, in accordance with the Board's previous Succession Planning Memorandum. The Board is composed entirely of independent non-executive Directors, who meet as required without the presence of the Investment Manager or service providers to scrutinise the achievement of agreed goals, objectives and monitor performance. Through the Audit Committee and the Management Engagement Committee they are able to ascertain the integrity of financial information and confirm that all financial controls and risk management systems are robust and analyse the performance of the Investment Manager and other service providers on a regular basis.

Following the annual performance evaluation, it was deemed that the Directors had been proven to challenge the Investment Manager throughout the year under review, as minuted and recorded, therefore for the purposes of assessing compliance with the AIC Code, the Board as a whole considers that each Director is independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgment. If required, the Board is able to access independent professional advice. The Investment Manager is also requested to declare any potential conflicts surrounding votes, share dealing and soft commissions on an annual basis to the Board to help with the assessment of investments.

Open communication between the Investment Manager and the Board is facilitated by regular Board meetings, to which the Investment Manager is invited to attend and update the Board on the current status of the Company's investments, along with ad hoc meetings as required.

Coming to mutual agreement on all decisions, it was agreed that the Board had acted in the best interests of the Company to the extent that, if deemed appropriate, a Director would abstain or have his objection noted, which would be reflected within the minutes.

Similar to the process outlined above for the appointment of the Chairman, a job specification was prepared for each initial directorship which included an assessment of the time commitment anticipated for the role to ensure each Director was aware of the time commitment needed for the role. The Directors' other significant business commitments were disclosed to the Company prior to their appointment to the Board and were publicly disclosed in the Company's Prospectus dated 28 November 2012. A similar process was followed as part of the succession planning outlined above. Any subsequent changes have been declared. Certain of these commitments can be identified in each Director's biography on page 28. Details of the skills and experience provided by each Director can also be found in their biographies, alongside identification of the role each Director currently holds in the Company.

The terms and conditions of appointment for non-executive Directors are outlined in their letters of appointment and are available for inspection by any person at the Company's registered office during normal business hours and at the AGM for fifteen minutes prior to and during the meeting. The letters of appointment were previously reviewed by an external party and amended to ensure that they are in line with current market standards.

There is no executive Director function in the Company; all day-to-day functions are outsourced to external service providers.

Development

The Board believes that the Company's Directors should develop their skills and knowledge through participation at relevant courses. The Chairman is responsible for reviewing and discussing the training and development of each Director according to specific needs. Upon appointment, all Directors participate in discussions with the Chairman and other Directors to understand the responsibilities of the Directors, in addition to the Company's business and procedures. The

Company also provides regular opportunities for the Directors to obtain a thorough understanding of the Company's business by regularly meeting members of the senior management team from the Investment Manager, Investment Adviser and other service providers, both in person, by phone and through virtual meetings.

Balance of the Board and Diversity Policy

It is perceived that the Board is well-balanced, with a wide array of skills, experience and knowledge that ensures it functions correctly and that no single Director may dominate the Board's decisions.

The Board's position on diversity can be seen in the Strategic Report. All Directors currently sit on all the Committees, with the exception of the Chairman, who is not a member of the Audit Committee; additionally, no single Director fills more than one Committee chairmanship post.

Annual Performance Evaluation

The Board's balance is reviewed on a regular basis as part of a performance evaluation review. Using a pre-determined template based on the AIC Code's provisions as a basis for review, the Board undertook an evaluation of its performance, and in addition, an evaluation focusing on individual commitment, performance and contribution of each Director was conducted. The Chairman then met with each Director to fully understand their views of the Company's strengths and to identify potential weaknesses. If appropriate, new members are proposed to resolve any perceived issues, or a resignation is sought. Following discussions and review of the Chairman's evaluation by the other Directors, the Management Engagement

Committee Chairman reviewed the Chairman's performance. Training and development needs are identified as part of this process, thereby ensuring that all Directors are able to discharge their duties effectively.

Given the Company's size and the structure of the Board, no external facilitator or independent third party was used in the performance evaluation. The need to appoint an external facilitator is reviewed by the Board on an annual basis.

Re-election and Board Tenure

There is currently no Nominations Committee for the Company as it is deemed that the size, composition and structure of the Company would mean the process would be inefficient and counterproductive. The Board therefore undertakes a thorough process of reviewing the skill set of the individual Directors, and proposes new, or renewal of current appointments to the Board.

Each Director is required to be elected by shareholders at the AGM following his appointment by the Board. As part of the recommendations of the AIC Code, the Directors put themselves forward for annual re-election. In light of this, all Directors, are therefore submitting themselves for re-election.

The Audit Committee Members and the Board confirm that all Directors have proven their ability to fulfil all legal responsibilities and to provide effective independent judgment on issues of strategy, performance, resources and conduct. The Board therefore has no hesitation in recommending to Shareholders that all Directors are re-elected.

Appointment Process

The Directors appointment process involves identifying gaps and needs in the Board's composition and then reviewing the skill set of potential candidates with a view to making an appointment that fills the identified gaps and needs. Currently there is no gap that currently needs to be filled. Should a gap be identified, the Board would engage an independent search consultancy with no connection to the Company or its Directors, to assist in appointments to satisfy such gaps.

Succession Planning

The Company enters its eleventh year in 2023 and the Board has been mindful in the implementation of the previously announced succession plan. During Q4 2019, the Directors devised a Succession Planning Memorandum. The Memorandum stated that a new Director was to be appointed to the Board during the second half of 2021 giving them time to get up to speed prior to Stephen Smith standing down from the Board in December 2021. Charlotte Denton and Gary Yardley were duly appointed on 1 January 2021 and 6 September 2021, respectively.

Upon Stephen Smith's retirement from the Board during December 2021, John Whittle was subsequently appointed as Chairman of the Board as of 1 January 2022. Charlotte Denton became Chairman of the Audit Committee as of 1 January 2022. Shelagh Mason became the Senior Independent Director as of 20 January 2022.

As disclosed in previous reports, it was the Board's intention that John Whittle would remain on the Board until December 2023 in light of (i) John Whittle's extensive familiarity with the Company; (ii) the previously challenging market circumstances facing the Company; and (iii) the extensive rotation of the Board in recent years. Given the shareholder approval to progress the Orderly Realisation and Return of Capital, as passed by shareholder resolution at the Extraordinary General Meeting on 27 January 2023, the Board are of the view that it is in shareholders' best interests that John Whittle remains on the Board until the completion of the Orderly Realisation and Return of Capital to Shareholders. This will ensure that the Board and shareholders will benefit from the significant experience and knowledge of the Company and its portfolio that John Whittle has developed since the Company's IPO.

In terms of the new appointments, with the approval of the Orderly Realisation and Return of Capital and the previously announced succession plan being largely completed, the Directors believe that the current composition of three Guernsey Directors and one Director from the United Kingdom works well in terms of satisfying the Company's requirements. To the extent applicable or required, the Board will continue to consider diversity when making the new appointments to the Board.

At present, the Directors wish to leave the succession and the tenure policy of the Chairman open indefinitely, with no changes currently planned.

BOARD AND COMMITTEES

Board

Matters reserved for the Board include review of the Company's overall strategy and business plans; approval of the Company's half-yearly and annual reports; review and approval of any alteration to the Group's accounting policies or practices and valuation of investments; approval of any alteration to the Company's capital structure; approval of the dividend

policy; appointments to the Board and constitution of Board Committees; observation of relevant legislation and regulatory requirements; and performance review of key service providers. The Board also retains ultimate responsibility for Committee decisions; every Committee is required to refer to the Board, who will make the final decision.

Terms of reference that contain a formal schedule of matters reserved for the Board of Directors and its duly authorised Committee for decision has been approved and can be reviewed at the Company's registered office.

The meeting attendance record is displayed in the Corporate Governance statement. The Company Secretary acts as the Secretary to the Board.

Audit Committee

The Board has established an Audit Committee which was composed of all the independent members of the Board other than Chairman of the Board. The Chairman of the Board, although not a member of the Committee, may still attend the meetings upon invitation by the Audit Committee Chairman. The Audit Committee, its membership and its terms of reference are kept under regular review by the Board, and it is confident that all members have sufficient financial skills and experience, and competence relevant to the Company's sector. John Whittle was the Audit Committee Chairman until 31 December 2021. Charlotte Denton was appointed on 24 March 2021 to the Audit Committee and has become chairman of the Audit Committee with effect from 1 January 2022.

The Audit Committee met four times during 2022 (2021: three times). The Company Secretary acts as the Secretary to the Audit Committee.

Owing to the size and structure of the Company, there is no internal audit function. The Audit Committee has reviewed the need for an internal audit function and perceived that the internal financial and operating control systems in place within the Group and its service providers, for example as evidenced by the Report on Controls at a Service Organisation ("SOC 1 Type 2 Report") on the internal procedures of the Administrator, give sufficient assurance that a sound system of internal control is maintained that safeguards shareholders' investment and Group's assets.

Corporate Governance Statement

The Audit Committee is intended to assist the Board in discharging its responsibilities for the integrity of the Group's consolidated financial statements, as well as aiding the assessment of the Group's internal control effectiveness and objectivity of the external Auditors. Further information on the Audit Committee's responsibilities is given in the Report of the Audit Committee.

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

Management Engagement Committee

The Company has established a Management Engagement Committee which comprises all the Directors, with Shelagh Mason as the Chairman of the Committee. The Management Engagement Committee's main function is to review and make recommendations on any proposed amendment to the Investment Management Agreement and keep under review the performance of the Investment Manager; and undertake an assessment of the Investment Manager's scope and responsibilities as outlined in the service agreement and prospectus on a formal basis every year. Discussions on the Investment Manager's performance are also conducted regularly throughout the year by the Board. Reviews of engagements with other service providers, such as the Administrator, to ensure all parties are operating satisfactorily are also undertaken by the Management Engagement Committee so as to ensure the safe and accurate management and administration of the Company's affairs and business and that they are competitive and reasonable for Shareholders.

The Management Engagement Committee met twice during 2022 (2021: once) and undertook a review of the key service providers to the Group and the Company, utilising a service provider questionnaire. No material weaknesses were identified and the recommendation to the Board was that the current arrangements were appropriate and provided good quality services and advice to the Company and the Group.

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

	Scheduled Board	Ad hoc Board ⁽¹⁾	Audit Committee	Management Engagement Committee
John Whittle	4	9	4	2
Shelagh Mason	4	10	4	2
Charlotte Denton	4	9	4	2
Gary Yardley	4	9	4	2
Total Meetings for year	4	10	4	2

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

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

Board and Committee Meeting Attendance

Individual attendance at Board and committee meetings is set out above.

In addition to the scheduled quarterly and additional ad hoc meetings, the Directors and the Investment Manager have been provided with a number of videoconference or telephone investment briefings by the Investment Adviser in order to keep the Directors and the Investment Manager fully apprised and up to date with the current investment status and progress. During 2018, a committee of one Director was appointed to approve dividends should a quorum of two Directors not be available.

BOARD REMUNERATION

As outlined in the Prospectus, Directors are paid in accordance with agreed principles aimed at focusing on long-term performance of the Company. Further information can be found in the Directors' Remuneration Report

COMPANY SECRETARY

Reports and papers, containing relevant, concise and clear information, are provided to the Board and Committees in a timely manner to enable review and consideration prior to both scheduled and ad-hoc specific meetings. This ensures that Directors are capable of contributing to, and validating, the development of Company strategy and management. The regular reports also provide information that enables scrutiny of the Company's Investment Manager and other service providers'

performance. When required, the Board has sought further clarification of matters with the Investment Manager and other service providers, both by means of further reports and in-depth discussions, in order to make more informed decisions for the Company.

Under the direction of the Chairman, the Company Secretary facilitates the flow of information between the Board, Committees, the Investment Manager and other service providers through the development of comprehensive, detailed meeting packs, agendas and other media. These are circulated to the Board and other attendees in sufficient time to review the data.

Full access to the advice and services of the Company Secretary is available to the Board; in turn, the Company Secretary is responsible for advising on all governance matters through the Chairman. The Articles and schedule of matters reserved for the Board indicate the appointment and resignation of the Company Secretary is an item reserved for the full Board. A review of the performance of the Company Secretary is undertaken by the Board on a regular basis.

FINANCIAL AND BUSINESS INFORMATION

An explanation of the Directors' roles and responsibilities in preparing the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2022 is provided in the Statement of Directors' Responsibilities.

Further information enabling shareholders to assess the Company's performance, business model and strategy can be sourced in the Chairman's Statement, the Strategic Report and the Report of the Directors.

GOING CONCERN

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the 'Basis of preparation' paragraph in note 2(a) of the financial statements which includes consideration of the EGM.

RISK CONTROL

In addition to the earlier assessment of principal risks and uncertainties contained within the Strategic Report, the Board is required annually to review the effectiveness of the Group's key internal controls such as financial, operational and compliance controls and risk management. The controls are designed to ensure that the risk of failure to achieve business objectives is minimised and are intended to provide reasonable assurance against material misstatement or loss. This is not absolute assurance that all risks are eliminated.

Through regular meetings of the Audit Committee, the Board seeks to maintain full and effective control over all strategic, financial, regulatory and operational issues. The Board maintains an organisational and committee structure with clearly defined lines of responsibility and delegation of authorities.

RISK MANAGEMENT

As part of the compilation of the risk register for the Company, appropriate consideration has been given to the relevant control processes and that risk is considered, assessed and managed as an integral part of the business. The Company's system of internal control includes inter alia the overall control exercise, procedures for the identification and evaluation of business risk, the control procedures themselves and the review of these internal controls by the Audit Committee on behalf of the Board. Each of these elements that make

up the Company's system of internal financial and operating control is explained in further detail as below.

(i) Control Environment

The Company is ultimately dependent upon the quality and integrity of the staff and management of the Investment Manager, the Investment Adviser and its Fund Administration & Company Secretarial service provider. In each case, qualified and able individuals have been selected at all levels. The staff of both the Investment Manager and Administrator are aware of the internal controls relevant to their activities and are also collectively accountable for the operation of those controls. Appropriate segregation and delegation of duties is in place.

The Audit Committee undertakes a review of the Company's internal financial and operating controls on a regular basis. The Auditors of the Company consider internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design their audit procedures, but not for the purpose of expressing an audit opinion on the effectiveness of the Company's internal controls.

In its role as a third-party fund administration services provider, Apex Fund and Corporate Services (Guernsey) Limited produces an annual SOC 1 Type 2 Report on the internal control procedures in place within Apex Fund and Corporate Services (Guernsey) Limited and this is subject to review by the Audit Committee and the Board.

(ii) Identification and Evaluation of Business Risks

Another key business risk is the performance of the Company's investments. This is managed by the Investment Manager, which undertakes regular analysis and reporting of business risks in relation to the loan portfolio, and then proposes appropriate courses of action to the Board for their review.

(iii) Key Procedures

In addition to the above, the Audit Committee's key procedures include a comprehensive system for reporting financial results to the

Board regularly, as well as quarterly impairment reviews of loans conducted by the Board as a whole (including reports on the underlying investment performance).

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's system is designed to assist the Directors in obtaining reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Company, given its size, does not have an internal audit function. It is the view of the Board that the controls in relation to the Company's operating, accounting, compliance and IT risks performed robustly throughout the year. In addition, all have been in full compliance with the Company's policies and external regulations, including:

- Investment policy, as outlined in the IPO documentation, and subsequently amended by EGMs held on 2 May 2014, 9 March 2015, 6 May 2016 and 27 January 2023;
- Personal Account Dealing, as outlined in the Model Code;
- Whistleblowing Policy;
- Anti-Bribery Policy;
- Applicable Financial Conduct Authority Regulations;
- Listing Rules, and Disclosure and Transparency Rules;
- Treatment and handling of confidential information;
- Conflicts of interest;
- Compliance policies; and
- Anti-Money Laundering Regulations.

There were no protected disclosures made pursuant to the Company's whistleblowing policy, or that of service providers in relation to the Company, during the year to 31 December 2022.

In summary, the Board considers that the Company's existing internal financial and operating controls, coupled with the analysis of risks inherent in the business models of the Company and its subsidiaries, continue to provide appropriate tools for the Company to monitor, evaluate and mitigate its risks.

Corporate Governance Statement

ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE (“AIFMD”)

The AIFMD, which was implemented across the EU on 22 July 2013 with the transition period ending 22 July 2014, aims to harmonise the regulation of Alternative Investment Fund Managers (“AIFMs”) and imposes obligations on managers who manage or distribute Alternative Investment Funds (“AIFs”) in the EU or who market shares in such funds to EU investors. Following the UK’s cessation of EU membership on 31 January 2020, the FCA has implemented an equivalent regulation (“UK AIFMD”) for the marketing of AIFs in the UK and to UK investors.

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

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

The Investment Manager does not receive an additional fee, to that stated in notes 3 and 22, as a result of acting as the AIFM. The Board of the Investment Manager received an aggregate fee of £63,600 for the year ended 31 December 2022.

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

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

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

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

Currently, the National Private Placement Regime (“NPPR”) provides a mechanism to market Non-EU AIFs that are not allowed to be marketed under the AIFMD domestic marketing regimes. The Board is utilising NPPR in order to market the Company, specifically in the UK, Sweden and the Netherlands. The Board works with the Company’s advisers to ensure the necessary conditions are met, and all required notices and disclosures are made under NPPR.

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

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

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

The Board has considered requirements of Articles 6 and 7 of Regulation 2019/2088 on sustainability-related disclosures in the financial services sector dated 27 November 2019 and have made the necessary disclosures on the Company’s website.

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

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

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

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

SECTION 172 STATEMENT

Whilst directly applicable to UK domiciled companies, the intention of the AIC Code is that the below matters set out in section 172 of the UK Companies Act, 2006 are reported.

Risk Management

In order to minimise the risk of failure to achieve business objectives, the Company actively identifies, evaluates, manages and mitigates risk as well as continually evolving the approach to risk management. For further details in connection with Risk Management of the Company, please refer to the Strategic Report and the Corporate Governance Statement.

Our People

The Company has no employees, however, to succeed we need to manage the Company's performance by bringing through talent to the Board while ensuring we operate as efficiently as possible, as demonstrated with the succession plan. For further details in connection with the succession plan, please refer to the Corporate Governance Statement.

Business Relationships

In order for the Company to succeed, it requires to develop and maintain long-term relationships with service providers and borrowers. The Company values all of its service providers and borrowers.

Community and Environment

As an investment company, the Group's activities have minimal direct impact on the environment. Please refer to the Strategic Report for more details in connection with the impact of the Group's operations on the community and environment.

Business Conduct

The Company is committed to act responsibly and ensure that the business operates in a responsible and effective manner and with high standards in order to meet its objectives.

Shareholders

The Board place a great deal of importance on communication with all shareholders and envisage to continuing effective dialogue with all shareholders. Please refer to section below for more details on how the Company engages with the shareholders.

Throughout 2023, the Board of the Company, both individually and together, will continue to review and challenge how the Company can continue to act in good faith to promote the success of the Company for the benefit of its stakeholders in the decisions taken.

DIALOGUE WITH SHAREHOLDERS

The Directors place a great deal of importance on communication with shareholders. The Company's Chairman, Investment Manager and the Broker, aim to meet with large shareholders at least annually, together with the Investment Adviser, and calls are undertaken on a regular basis with shareholders. The Board also receives regular reports from the Broker on shareholder issues. Publications such as the Annual Report and Consolidated Financial Statements and quarterly factsheets - which in light of the considerable disruption from Covid-19 the Board has sought to provide more detailed updates and disclosures - are reviewed and approved by the Board prior to circulation and are widely distributed to other parties who have an interest in the Company's performance and are available on the Company's website.

The Chairman met with multiple large shareholders in October 2022, where it was concluded that the likely take-up of a potential future Tender Offer would be significant and that the Company would no longer be of a viable size to provide shareholders with sufficient liquidity and scale. Following these consultations and the subsequent announcement on 31 October 2022, the Company's Proposed Orderly Realisation was progressed and approved at the EGM as discussed on page 4.

All Directors are available for discussions with the shareholders, in particular the Chairman (John Whittle), Senior Independent Director (Shelagh Mason) and the Audit Committee Chairman (Charlotte Denton), as and when required.

Should a situation arise where shareholders cast a vote of 20 per cent or more against a board recommendation the directors will consult with shareholders to understand their reasons behind this vote. The Board will publish the views received from the shareholders within six months of the shareholder meeting.

CONSTRUCTIVE USE OF AGM

The Notice of AGM is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions to the Board or Investment Manager, either formally at the Company's AGM, informally following the meeting, or in writing at any time during the year via the Company Secretary. The Company Secretary is also available to answer general shareholder queries at any time throughout the year.

By order of the Board

John Whittle | Chairman

23 March 2023

Report of the Audit Committee

The Board is supported by the Audit Committee, which during the year comprised of Charlotte Denton, as Chairman, Shelagh Mason, and Gary Yardley. John Whittle, as Chairman of the Board, does not sit on the Audit Committee. The Board has considered the composition of the Audit Committee and is satisfied that it has sufficient recent and relevant skills and experience. In particular the Board has considered the requirements of the AIC Code that the Audit Committee should have at least one Member who has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Company invests. The Board considers all of the relevant requirements to have been met.

ROLE AND RESPONSIBILITIES

The primary role and responsibilities of the Audit Committee are outlined in the Audit Committee's terms of reference, available at the registered office, including:

- Reviewing the Group's internal financial controls, and the Group's internal control and risk management systems;
- Monitoring the need for an internal audit function annually;
- Monitoring and reviewing the scope, independence, objectivity and effectiveness of the external Auditor, taking into consideration relevant regulatory and professional requirements;
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditor and approving their remuneration and terms of engagement, which in turn can be placed before the shareholders for their approval at the AGM;
- Development and implementation of the Group's policy on the provision of non-audit services by the external Auditor, as appropriate;

- Reviewing the arrangements in place to enable Directors and staff of service providers to, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Group;
- Providing advice to the Board on whether the consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- Reporting to the Board on how the Committee discharged all relevant responsibilities at each Board meeting.

Financial Reporting

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

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

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

The Audit Committee met four times during the year under review; individual attendance of Directors is outlined in the Corporate Governance Statement. The main matters discussed at those meetings were:

- Review and approval of the external Auditor and when tabled, consideration of the final audit findings report;
- Discussion and approval of the fee for the external audit;
- Detailed review of the Annual Report and Audited Consolidated Financial Statements and recommendation for approval by the Board;
- Review and approval of the interim review findings report of the external Auditor;
- Detailed review of the Interim Condensed Consolidated Financial Statements and recommendation for approval by the Board;
- Discussion of reports from the external Auditor following their interim review and annual audit;
- Assessment of the effectiveness of the external Auditor as described below;
- Assessment of the independence of the external Auditor;
- Review of the Group’s key risks and internal controls;
- Consideration of the AIC Code, FRC Guidance on Audit Committees and other regulatory guidelines; and
- Consideration of the proposals received as part of the competitive tender process conducted for the role of the Company’s independent auditor for the audit of the year-ended 31 December 2023.

The Committee has also reviewed and considered the whistleblowing policy in place for the Administrator and other service providers and is satisfied the relevant staff can raise concerns in confidence about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company.

Annual General Meeting

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

Internal Audit

The Audit Committee considers at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Group and all outsourced functions are with parties / administrators who have their own internal controls and procedures. This is evidenced by the annual SOC 1 Type 2 Report provided by the Administrator, which gives sufficient assurance that a sound system of internal control is maintained at the Administrator.

SIGNIFICANT ISSUES IN RELATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

During the year, the Audit Committee considered a number of significant risks in respect of the Annual Report and Audited Consolidated Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the appropriate areas of audit risk relevant to the Group had been identified and that suitable audit procedures had been put in place to obtain reasonable assurance that the consolidated financial statements as a whole would be free of material misstatements.

The table on the next page sets out the Audit Committee’s view of the key areas of risk and how they have addressed the issues.

Report of the Audit Committee

Significant Issues	Actions to Address Issue
<p>Carrying amount and impairment/ expected credit losses of loans advanced</p>	<p>The Audit Committee reviews the investment process of the Investment Manager and Investment Adviser including the controls in place around deal sourcing, investment analysis, due diligence and the role of the Investment Adviser’s investment committee and the Investment Manager’s Board. The Audit Committee also reviews the controls in place around the effective interest loan models and is notified regularly by the Investment Manager of any changes to underlying assumptions made in the loan models.</p> <p>The Audit Committee receives regular updates and reports on the performance of each loan and discusses with the Investment Manager and Investment Adviser whether there are any indicators of significant increase in credit risk or impaired or defaulted loans. The Audit Committee also assesses the ECL methodology focusing on the estimation of probability of default, exposure at default and loss given default.</p> <p>Formal loan performance reviews and credit risk assessments are also prepared by the Investment Adviser and Investment Manager which are reviewed at each Audit Committee meeting and the Audit Committee considers whether there are any indicators that would warrant a change to the expected credit loss assessed for each loan advanced. For all new loans advanced, the Investment Manager presents, as part of the investment recommendation process, their assessment of any expected credit loss required at inception of the loan arrangement.</p> <p>All existing loans advanced as at 31 December 2022 were assessed so as to ensure compliance with IFRS 9. As disclosed in note 2 and in the Investment Manager’s report, while two loans amounting to £46,909,623 (2021: three loans amounting to £59,031,888 (one loan was moved to Stage 1 during 2022)) remain classified as Stage 2, during the year ended 31 December 2022, no expected credit losses were considered necessary based on the loan to value ratios headroom as at 31 December 2022 and strong security packages in place.</p>
<p>Risk of fraud and error in income from loans advanced</p>	<p>Income from loans advanced is measured in accordance with the effective interest rate method. The requirement to estimate the expected cash flows when forming an effective interest rate model is subject to significant management judgements and estimates.</p> <p>The Audit Committee discusses with the Investment Manager and Investment Adviser the reasons for the changes in key assumptions made in the loan models such as changes to expected drawdown or repayment dates or other amendments to expected cash flows such as changes in interbank rates on floating loans. The Audit Committee ensures that any changes made to the models are justifiable based on the latest available information.</p> <p>A separate income rationalisation which is prepared outside of the detailed loan models is provided to the Board on a quarterly basis as a secondary check on the revenue being recognised in the loan models. This is also reviewed by the Audit Committee and questions raised where appropriate.</p>

REVIEW OF EXTERNAL AUDIT PROCESS EFFECTIVENESS

The Audit Committee communicated regularly with the Investment Manager, Investment Adviser and Administrator to obtain a good understanding of the progress and efficiency of the audit process. Similarly, feedback in relation to the efficiency of the Investment Manager, Investment Adviser and other service providers in performing their relevant roles was sought from relevant involved parties, including the audit partner and team. The external Auditor is invited to attend the Audit Committee meetings at which the interim and annual consolidated financial statements are considered, also enabling the Auditor to meet and discuss any matters with the Audit Committee without the presence of the Investment Manager or the Administrator.

During the year, the Audit Committee reviewed the external Auditor's performance, considering a wide variety of factors including:

- The quality of service, the Auditor's specialist expertise, the level of audit fee, identification and resolution of any areas of accounting judgement, and quality and timeliness of papers analysing these judgements;
- Review of the audit plan presented by the Auditor, and when tabled, the final audit findings report;
- Meeting with the Auditor regularly to discuss the various papers and reports in detail;
- Furthermore, interviews of appropriate staff in the Investment Manager, Investment Adviser and Administrator to receive feedback on the effectiveness of the audit process from their perspective; and
- Compilation of a checklist with which to provide a means to objectively assess the Auditor's performance.

In addition to the regular and ad hoc meetings held with the auditors, the Audit Committee Chairman and Chairman of the Company received a presentation on PwC's use of technology in their audit process on 7 February 2022.

AUDITOR'S TENURE AND OBJECTIVITY

The Group's current Auditor, PwC, have acted in this capacity since the Company's inaugural meeting on 22 November 2012. The Committee reviews the Auditor's performance on a regular basis to ensure the Group receives an optimal service and make regular enquiries to confirm the quality findings of audit work undertaken by both the firm and lead engagement partner on the audit. Subject to annual appointment by shareholder approval at the AGM, the appointment of the Auditor is formally reviewed by the Audit Committee on an annual basis. PwC follows the FRC Ethical Standards and their rotation rules require the lead audit partner to rotate every 5 years, key partners involved in an audit every 7 years and PwC's own internal policy would generally expect senior staff to have consideration given to the threats to their independence after 7 years and to be rotated after 10 years. Rotation ensures a fresh look without sacrificing institutional knowledge.

Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the lead audit engagement partner. Roland Mills is currently serving his fifth year of five as engagement partner and a new audit partner will be in place for the 31 December 2023 audit, with a full handover taking place at the conclusion of the 2022 year end audit.

PwC regularly updates the Audit Committee on the rotation of audit partners, staff, level of fees, details of any relationships between the Auditor and the Group, and also provides overall confirmation of its independence and objectivity. There are no contractual obligations that restrict the Group's choice of Auditor. Any non-audit work would be reviewed by the Audit Committee to confirm it appropriate under the FRC Ethical Standard and approved by the Audit Committee Chairman prior to the Auditor undertaking any work.

Following a review of PwC's tenure, the Audit Committee recommended that the Board of Directors conduct a competitive tender process for the role of the Company's independent auditor for the audit of the year-ended 31 December 2023. Following the completion of the competitive tender process, the Audit Committee were satisfied that PwC were still best placed to service the Company as its independent auditors and as such will be recommending their continued appointment by the Board.

Report of the Audit Committee

CONCLUSIONS IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The production and the audit of the Annual Report and Audited Consolidated Financial Statements is a comprehensive process requiring input from a number of different contributors. In order to reach a conclusion on whether the Group's consolidated financial statements are fair, balanced and understandable, as required under the AIC Code, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Consolidated Financial Statements fulfils these requirements. In outlining its advice, the Audit Committee has considered the following:

- The comprehensive documentation that is in place outlining the controls in place for the production of the Annual Report and Audited Consolidated Financial Statements, including the verification processes in place to confirm the factual content;
- The detailed reviews undertaken at various stages of the production process by the Investment Manager, Investment Adviser, Administrator, Auditor and the Audit Committee that are intended to ensure consistency and overall balance;
- Controls enforced by the Investment Manager, Investment Adviser, Administrator and other third-party service providers to ensure complete and accurate financial records and security of the Group's assets; and
- The existence and content of a satisfactory controls report that has been reviewed and reported upon by the Administrator's service Auditor to verify the effectiveness of the internal controls of the Administrator, such as the SOC 1 Type 2 Report.

As a result of the work performed, the Audit Committee has concluded that it has acted in accordance with its' terms of reference and has ensured the independence and objectivity of the external Auditor. It has reported to the Board that the Annual Report for the year ended 31 December 2022, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities.

The Audit Committee has recommended to the Board that, following a competitive tender process, the external auditor be re-appointed for the 2023 year end annual report.

Charlotte Denton | Audit Committee
Chairman

23 March 2023

Statement of Directors' Responsibilities

The Directors are responsible for preparing consolidated financial statements for each financial year which give a true and fair view, in accordance with applicable laws and regulations, of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The maintenance and integrity of the Company's website is the responsibility of the Directors; the work conducted by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the consolidated financial statements since they are initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of the consolidated financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the consolidated financial statements comply with the Companies (Guernsey) Law, 2008, as amended. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors confirms that, to the best of their knowledge:

- They have complied with the above requirements in preparing the consolidated financial statements;
- There is no relevant audit information of which the Company's Auditor is unaware;
- All Directors have taken the necessary steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of said information;
- The consolidated financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group; and
- The Chairman's Statement, Strategic Report, Investment Manager's Report, Report of the Directors and Corporate Governance Statement include a fair review of the development and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face and take into account the results of the EGM.

The UK Code, as adopted through the AIC Code by the Company, also requires Directors to ensure that the Annual Report and Consolidated Financial Statements are fair, balanced and understandable. In order to reach a conclusion on this matter, the Board has requested that the Audit Committee advise on whether it considers that the Annual Report and Consolidated Financial Statements fulfil these requirements. The process by which the Committee has reached these conclusions is set out in the Report of the Audit Committee on pages 40-44. Furthermore, the Board believes that the disclosures set out on pages 6-9 of the Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Having taken into account all the matters considered by the Board and brought to the attention of the Board during the year ended 31 December 2022, as outlined in the Chairman Statement, Investment Manager's Report, Corporate Governance Statement, Strategic Report and the Report of the Audit Committee, the Board has concluded that the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2022, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For Starwood European Real Estate Finance Limited

John Whittle | Chairman
23 March 2023

Financial Statements



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

Report on the audit of the consolidated financial statements

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Starwood European Real Estate Finance Limited (the "company") and its subsidiaries (together "the group") as at 31 December 2022, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

WHAT WE HAVE AUDITED

The group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

INDEPENDENCE

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements of the group, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OUR AUDIT APPROACH

OVERVIEW

Audit scope

- The company is based in Guernsey, has subsidiaries located in Guernsey and Luxembourg and engages Starwood European Finance Partners Limited (the "Investment Manager") to manage its assets. The consolidated financial statements are a consolidation of the company and all the subsidiaries.
- We conducted our audit of the consolidated financial statements from information provided by Apex Fund and Corporate Services (Guernsey) Limited (the "Administrator") and its related group entities to whom the board of directors has delegated the provision of certain functions. We also had significant interaction with Starwood Capital Europe Advisers, LLP (the "Investment Adviser") in completing aspects of our overall audit work.
- We conducted our audit work in Guernsey and we tailored the scope of our audit taking into account the types of investments within the group, the involvement of the third parties referred to above, and the industry in which the group operates.
- We performed an audit of the consolidated financial information of the company and its Guernsey and Luxembourg subsidiaries and we consider them all as one component.
- Scoping was performed at the group level, irrespective of whether the underlying transactions took place within the company or within any of the subsidiaries. Our testing was performed on a consolidated basis using thresholds which are determined with reference to the overall group performance materiality and the risks of material misstatement identified.

KEY AUDIT MATTERS

- Carrying amount, expected credit losses and impairment of loans advanced
- Risk of fraud in income from loans advanced
- Amendment to group investment objective and policy to pursue a strategy of orderly realisation

MATERIALITY

- Overall group materiality: £8.3 million (2021: £8.4 million) based on 2% of consolidated net assets.
- Performance materiality: £6.2 million (2021: £6.3 million).

THE SCOPE OF OUR AUDIT

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the consolidated financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

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

Key audit matter	How our audit addressed the Key audit matter
<p>Carrying amount, expected credit losses and impairment of loans advanced</p> <p>As detailed within notes 2(g) and 10 to the consolidated financial statements, loans advanced at the year-end of £432.5 million are measured at amortised cost and comprise of both fixed and floating rate loans.</p> <p>Loans advanced make up a significant part of the consolidated statement of financial position and due to the nature of this balance, their carrying amount, expected credit losses ("ECL") and impairment is subject to judgement and estimation.</p> <p>The judgements exercised in determining the carrying amount, ECL and impairment of loans advanced could significantly impact the net asset value of the group and this is considered to be a key source of estimation uncertainty as described in note 2(c) and 2(h) of the consolidated financial statements.</p> <p>The specific areas of judgement include:</p> <ul style="list-style-type: none"> • The impact of changes in the expected cash flows for each loan on the carrying amount of the loans measured at amortised cost; and • How management determine the underlying assumptions when determining the carrying amount and preparing the ECL and impairment review analyses, such as significant changes in the credit risk of a borrower, changes in the probability of default of a borrower, changes in valuation of underlying collateral and the Loan-To-Value ratios headroom, the ability of the borrowers to deliver in accordance with their business plans and their projected financial performance figures. <p>Given the level of judgement and estimate used by management in determining the carrying amount, ECL, and impairment of loans advanced, combined with the significance of the balance of the loans advanced in the consolidated statement of financial position, meant that this was considered a key audit matter.</p>	<p>We understood and evaluated the internal control environment in place at the Administrator and the Investment Adviser over the carrying amount of the loans advanced, in particular management's processes and assumptions used to measure the loans at amortised cost and used to determine ECL and the level of impairment (if any) required on the loans advanced, either at inception, or on an ongoing basis.</p> <p>We assessed the accounting policy for loans advanced for compliance with International Financial Reporting Standards as adopted by the European Union and planned and executed our audit procedures to ensure that the loans advanced were accounted for in accordance with the stated accounting policy.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Detailed testing over the amortised cost models used by management to value the loans at amortised cost using the effective interest rate method; • Testing and challenging the assumptions and inputs into the amortised cost models and inspecting the associated agreements and other legal documentation; • Back-testing procedures were performed to assist in our conclusions as to the cash flow forecasting reliability applied by the Investment Adviser; • Understanding, assessing and challenging the assumptions and judgements made by the Investment Adviser in respect of the ECL for each loan advanced including: <ul style="list-style-type: none"> ◦ obtaining the Investment Adviser's impairment papers and assessing the ECL methodology, focussing on and challenging the estimation of probability of default, exposure at default and loss given default, and how forward-looking information was considered in this regard; ◦ assessing the consistency and appropriateness of the Investment Adviser's assumptions applied in determining whether any loan advanced was performing, underperforming or non-performing, including consideration as to whether a significant increase in credit risk of each borrower had occurred during the year; ◦ obtaining evidence to support any significant assumptions presented in the assessment of the ECL, including consideration of the financial information on the borrower and the collateral in place to assess their ability to meet future payment commitments, and progress against business plans, including any ongoing impact caused by COVID-19 or other global crises, including management's assessment of the Loan-To-Value ratio headroom for each of the loans; ◦ assessing the Investment Adviser's application of its impairment and ECL criteria to evaluate the appropriateness and completeness of the loans moved between ECL stages; ◦ recalculating a targeted sample of the Investment Adviser's sensitivity analysis of the Loan-To-Values ratios headroom; ◦ engaging our Real Estate valuation experts to work with our audit team through the inspection of a sample of third-party real estate valuation reports on the underlying properties against which collateral is held by the group for the loans advanced, and which underpin the Loan-To-Value considerations applied in the ECL modelling; and ◦ inspecting a sample of compliance certificates signed by each respective underlying borrower in respect of compliance with covenants as at the year-end. • Obtained and reviewed management's calculation with respect to any impairment on loans advanced (if any). <p>Based on the audit procedures performed we have nothing to report to those charged with corporate governance.</p>

Key audit matter

Risk of fraud in income from loans advanced

Income from loans advanced for the year was £33.4 million (Note 10) and was measured in accordance with the accounting policies as described in note 2(l) of the consolidated financial statements. The group has a key investment objective to provide shareholders with regular dividends through investment in debt instruments and therefore we focussed on this risk.

The requirement to estimate the expected cash flows when calculating an effective interest rate model is subject to significant management judgements and estimates, and as such could be open to manipulation by management of factors including:

- Expected timing of repayments;
- Expectations of partial or full prepayments; and
- Associated exit fees and make-whole payments.

Changes to the estimated timings of cash flows can have a significant impact on the recognition of income from loans advanced and is considered to be a key source of estimation uncertainty as described in note 2(c) of the consolidated financial statements.

As a result of the significance of interest income and the level of estimation that can be applied, the risk of fraud in income from loans advanced was considered a key audit matter.

Amendment to group investment objective and policy to pursue a strategy of orderly realisation

As referred to in note 2(a), on 28 December 2022, a Circular relating to the Proposed Orderly Realisation and containing a Notice of Extraordinary General Meeting (EGM) was published which set out details of, and sought shareholder approval for, proposals with respect to the Board's recommendation to pursue a strategy of orderly realisation of the group's loans advanced and the return of capital over time to shareholders (the "Proposed Orderly Realisation").

On 27 January 2023, these Proposals were approved at the EGM. Based on the current terms of the group's loans advanced, the orderly realisation could take up to 5 years to complete and given the significant shift in the investment strategy, we have considered this a key audit matter.

How our audit addressed the Key audit matter

We assessed the accounting policy for the recognition of interest income for compliance with International Financial Reporting Standards as adopted by the European Union; and we planned and executed our audit procedures to ensure that income from loans had been accounted for in accordance with the stated accounting policy.

We held discussions with the Investment Adviser and the Administrator to understand and evaluate the processes in place for recognising income from loans and to understand the estimates made.

Our procedures included:

- Detailed testing over the amortised cost models used by management to measure the loans at amortised cost and calculate the effective interest income in the consolidated financial statements, including how the arrangement, origination and commitment fees, which are integral to the loan arrangements, have been considered in the models;
- Assessing the judgements made in respect of the estimated cash flows timing (versus the contractual repayment date) and amount including arrangement, origination and commitment fees, through testing of the amortised cost models for each loan;
- Recalculating interest income using the original effective interest rate, paying due consideration to any early, partial or full prepayments or management's re-estimate thereof;
- Inspecting supporting documents, such as correspondence with the underlying borrower and timing of cash receipts, as part of our assessment of management's estimates and assumptions; and
- For those loans advanced that were also held at 31 December 2021, comparing the estimated future cash flows in the amortised cost models as at 31 December 2022 and evaluating the rationale behind any significant changes from the estimated cash flows in the 31 December 2021 models.

Based on the audit procedures performed, we have nothing to report to those charged with corporate governance.

We obtained a detailed understanding of the Board's proposals with respect to the Proposed Orderly Realisation through discussions with the Board and the Investment Adviser and from reviewing the Circular.

We considered these proposals in light of the requirements of International Financial Reporting Standards as adopted by the European Union, the current accounting policies of the group and in considering the ongoing basis of preparation of the financial statements.

We also considered the adequacy of the disclosures made by the Directors with respect to the Proposed Orderly Realisation in the Annual Report and Financial Statements.

Based on our enquiries and the matters considered above with respect to the Proposed Orderly Realisation, we have nothing to report to those charged with corporate governance.

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

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, the industry in which the group operates, and we considered the risk of climate change and the potential impact thereof on our audit approach.

The company is based in Guernsey with two subsidiaries located in Guernsey and three underlying subsidiaries located in Luxembourg. The consolidated financial statements are a consolidation of the company and all the subsidiaries. We have considered whether the consolidated subsidiaries included within the group comprise separate components for the purpose of our audit scope. However, we have taken into account the group's financial reporting system and the related controls in place at the Administrator and at the Investment Adviser, and based on our

therefore we were not required to engage with component auditors from another PwC global network firm operating under our instruction. Our testing was therefore performed on a consolidated basis using thresholds which are determined with reference to the overall group materiality and the risks of material misstatement identified

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Based on our professional judgement, we determined materiality for the consolidated financial statements as a whole as follows:

Overall group materiality	£8.3 million (2021: £8.4 million)
How we determined it	2% of consolidated net assets
Rationale for benchmark applied	We believe consolidated net assets to be the appropriate basis for determining materiality since this is a key consideration for members of the company when assessing financial performance. It is also a generally accepted measure used for companies in this industry.

professional judgement have tailored our audit scope to account for the group's consolidated financial statements as a single component.

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

The transactions relating to the company and the subsidiaries are maintained by the Administrator and its related group entities and

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £6.2 million (2021: £6.3 million) for the group financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.4 million (2021: £0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

REPORTING ON OTHER INFORMATION

The other information comprises all the information included in the Annual Report and Audited Consolidated Financial Statements (the “Annual Report”) but does not include the consolidated financial statements and our auditor’s report thereon. The directors are responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the consolidated financial statements

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the consolidated financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Company Law exception reporting

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

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

We have no exceptions to report arising from this responsibility.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

The company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the company's obligations, as an investment company, under the Listing Rules of the FCA.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Strategic Report is materially consistent with the consolidated financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the consolidated financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the consolidated financial statements;

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

- The directors' explanation as to their assessment of the group's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statement is consistent with the consolidated financial statements and our knowledge and understanding of the group and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the consolidated financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

OTHER MATTERS

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these consolidated financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditor's report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

As explained in note 21 to the consolidated financial statements, in addition to our responsibility to audit and express an opinion on the consolidated financial statements in accordance with ISAs and Guernsey law, we have been requested by the directors to express an opinion on the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America as issued by the AICPA, in order to meet the requirements of Rule 206(4)-2 under the Investment Advisers Act (the "Custody Rule"). We have reported separately in this respect within the Annual Report.

Roland Mills

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

23 March 2023

Independent Auditor's Report to the Directors of Starwood European Real Estate Finance Limited (US GAAS)

OPINION

We have audited the accompanying consolidated financial statements of Starwood European Real Estate Finance Limited ("the Company") and its subsidiaries (together "the group"), which comprise the consolidated statements of financial position as of 31 December 2022 and 31 December 2021 and the related consolidated statements of comprehensive income, changes in equity and cash flows including the related notes for the years then ended (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2022 and 31 December 2021, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the group and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as going concerns, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report to the Directors of Starwood European Real Estate Finance Limited (US GAAS)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

OTHER INFORMATION

Management is responsible for the other information included in the Annual Report and Audited Consolidated Financial Statements (the "Annual Report"). The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's reports thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

RESTRICTION OF USE

This report, including the opinion, has been prepared for and only for the directors in relation to the requirements of Rule 206(4)-2 of the Investment Advisers Act of 1940 (the "Custody Rule") as it applies to the company and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers CI LLP

Chartered Accountants,
Guernsey, Channel Islands

23 March 2023

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	1 January 2022 to 31 December 2022 £	1 January 2021 to 31 December 2021 £
Income			
Income from loans advanced	10	33,356,702	28,382,742
Net foreign exchange gains/(losses)	6	3,046,164	(3,043,374)
Total income		36,402,866	25,339,368
Expenses			
Investment management fees	3(a), 22	3,122,755	3,147,075
Credit facility interest and amortisation of fees		1,080,499	685,815
Credit facility commitment fees		828,876	844,694
Legal and professional fees		437,622	266,154
Other expenses		432,649	179,262
Administration fees	3(b)	354,426	344,950
Audit and non-audit fees	5	233,773	229,387
Professional fees for the orderly realisation proposals		210,000	-
Directors' fees and expenses	4, 22	203,373	195,410
Broker's fees	3(d)	50,000	53,250
Total operating expenses		6,953,973	5,945,997
Operating profit for the year before tax		29,448,893	19,393,371
Taxation	20	90,287	100,452
Operating profit for the year		29,358,606	19,292,919
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	2(k)	(112,256)	(329,895)
Other comprehensive loss for the year		(112,256)	(329,895)
Total comprehensive income for the year		29,246,350	18,963,024
Weighted average number of shares in issue	7	404,881,933	408,939,505
Basic and diluted earnings per Ordinary Share (pence)	7	7.25	4.72

Consolidated Statement of Financial Position

as at 31 December 2022

	Notes	As at 31 December 2022 £	As at 31 December 2021 £
Assets			
Cash and cash equivalents	8	3,576,155	2,994,357
Other receivables and prepayments	9	26,792	37,652
Financial assets at fair value through profit or loss	11	706,661	13,291,598
Loans advanced	10	432,459,966	414,632,512
Total assets		436,769,574	430,956,119
Liabilities			
Credit facility	12	18,863,204	7,914,993
Trade and other payables	13	1,758,606	1,484,526
Total liabilities		20,621,810	9,399,519
Net assets		416,147,764	421,556,600
Capital and reserves			
Share capital	15	395,075,556	407,440,011
Retained earnings		21,218,267	14,150,392
Translation reserve		(146,059)	(33,803)
Total equity		416,147,764	421,556,600
Number of Ordinary Shares in issue	15	395,592,696	408,911,273
Net asset value per Ordinary Share (pence)		105.20	103.09

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 March 2023, and signed on its behalf by:

Chairman

Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

Year ended 31 December 2022

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2022	407,440,011	14,150,392	(33,803)	421,556,600
Share buybacks	(12,364,455)	-	-	(12,364,455)
Dividends paid	-	(22,290,731)	-	(22,290,731)
Operating profit for the year	-	29,358,606	-	29,358,606
Other comprehensive loss: Other comprehensive loss for the year	-	-	(112,256)	(112,256)
Balance at 31 December 2022	395,075,556	21,218,267	(146,059)	416,147,764

Year ended 31 December 2021

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2021	408,031,544	18,369,871	296,092	426,697,507
Share buybacks	(591,533)	-	-	(591,533)
Dividends paid	-	(23,512,398)	-	(23,512,398)
Operating profit for the year	-	19,292,919	-	19,292,919
Other comprehensive loss: Other comprehensive loss for the year	-	-	(329,895)	(329,895)
Balance at 31 December 2021	407,440,011	14,150,392	(33,803)	421,556,600

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

	1 January 2022 to 31 December 2022 £	1 January 2021 to 31 December 2021 £
Operating activities:		
Operating profit for the year before tax	29,448,893	19,393,371
Adjustments:		
Net interest income	(33,356,702)	(28,382,742)
Decrease/(increase) in prepayments and receivables	10,860	(20,558)
Increase in trade and other payables	458,661	132,570
Net unrealised losses / (gains) on foreign exchange derivatives	12,584,938	(12,373,339)
Net foreign exchange (gains) / losses	(15,292,556)	15,488,570
Net foreign exchange gains on hedges	5,618,298	895,944
Credit facility interest	707,171	236,071
Credit facility amortisation of fees	373,328	449,744
Credit facility commitment fees	828,876	844,694
Currency translation difference	(5,663,501)	2,722,148
Corporate taxes paid	(84,274)	(87,724)
	(4,366,008)	(701,251)
Loans advanced ⁽¹⁾	(60,788,846)	(90,597,307)
Loan repayments and amortisation	56,894,392	103,474,780
Origination fees paid	(872,020)	(300,456)
Interest income from loans advanced	28,373,979	25,567,309
Commitment and exit fee income from loans advanced	1,211,844	1,115,354
Net cash inflow from operating activities	20,453,341	38,558,429
Cash flows from financing activities		
Interest income from cash and cash equivalents	-	-
Net cash inflow from investing activities	-	-
Cash flows from financing activities		
Share buybacks	(12,364,455)	(677,120)
Dividends paid	(22,290,731)	(23,512,398)
Proceeds under credit facility	94,223,490	63,800,000
Repayments under credit facility	(84,158,141)	(75,128,132)
Credit facility interest paid	(533,577)	(262,221)
Credit facility commitment fees paid	(834,495)	(647,799)
Net cash outflow from financing activities	(25,957,909)	(36,427,670)
Net increase / (decrease) in cash and cash equivalents	(5,504,568)	2,130,759
Cash and cash equivalents at the start of the year	2,994,357	2,939,408
Net foreign exchange gains/(losses) on cash and cash equivalents	6,086,366	(2,075,810)
Cash and cash equivalents at the end of the year	3,576,155	2,994,357

⁽¹⁾ Net of arrangement fees of £820,118 (2021: £1,125,342) withheld.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

1. GENERAL INFORMATION

Starwood European Real Estate Finance Limited (the "Company") was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended, on 9 November 2012 with registered number 55836, and has been authorised by the Guernsey Financial Services Commission (the "GFSC") as a registered closed-ended investment scheme. The registered office and principal place of business of the Company is 1, Royal Plaza, Royal Avenue, St Peter Port, Guernsey, Channel Islands, GY1 2HL.

On 12 December 2012, the Company announced the results of its IPO, which raised net proceeds of £223.9 million. The Company's Ordinary Shares were admitted to the premium segment of the UK FCA's Official List and to trading on the Main Market of the London Stock Exchange as part of its IPO which completed on 17 December 2012. Further issues took place in March 2013, April 2013, July 2015, September 2015, August 2016 and May 2019. On 10 August 2020 the Company announced the appointment of Jefferies International Limited as buyback agent to effect share buybacks on behalf of the Company. During the year ended 31 December 2022, the Company had repurchased 13,318,577 (year ended 31 December 2021: 660,000) Ordinary Shares at an average cost of 92.84 (year ended 31 December 2021: 89.63 pence) per share. These Ordinary Shares are held in treasury.

The 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 31 December 2022.

The Company's investment objective is to conduct an orderly realisation of the assets of the Group. The assets of the Group will be realized in an orderly manner, returning cash to Shareholders at such times and in such manner as the Board may, in its absolute discretion, determine. The Board will endeavour to realise all of the Group's investments in a manner that achieves a balance between maximising the net value received from those investments and making timely returns to Shareholders. Further details have been covered under the Objective and Investment Policy section.

The Company has appointed Starwood European Finance Partners Limited as the Investment Manager (the "Investment Manager"), a company incorporated in Guernsey and regulated by the GFSC. The Investment Manager has appointed Starwood Capital Europe Advisers, LLP (the "Investment Adviser"), an English limited liability partnership authorised and regulated by the FCA, to provide investment advice pursuant to an Investment Advisory Agreement. The administration of the Company is delegated to Apex Fund and Corporate Services (Guernsey) Limited (the "Administrator").

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

a) Going Concern

Note 17 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of financial instruments and exposure to credit risk and liquidity risk. The Directors, at the time of approving these Annual Accounts, are required to satisfy themselves that they have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. At the EGM of the Company held on 27 January 2023, following a recommendation from the Board as published in the Circular and EGM Notice dated 28 December 2022, the resolutions for the Proposed Orderly Realisation received shareholder votes in favour amounting to 99.97% of the shareholder votes cast, voting for a change to the Company's Objective and Investments Policy which would lead to the orderly realisation of the Company's assets and a return of capital to shareholders. The Directors have undertaken a rigorous review of the Group's ability to continue as a going concern, reviewing the ongoing cash flows and the level of cash balances and available liquidity facilities.

After making enquiries of the Investment Manager and the Administrator and reviewing the viability model prepared by the Investment Adviser, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date the consolidated financial statements were signed. Accordingly, the Directors continue to adopt a going concern basis in preparing these consolidated financial statements.

In addition to a going concern statement, the Directors have undertaken a longer term viability assessment of the Group, the results of which can be found in the Strategic Report. A range of scenarios have been evaluated as part of this analysis. The worst case scenario evaluated was an interest payment default on all Stage 2 loans, and simultaneously the repayment of the loan principal is not received until 6 to 12 months after their maturity dates and that Sonia and Euribor rates fall to 0% from 2024. In this scenario the Group is still able to meet its liabilities as they fall due although the dividend might need to be reduced to reflect the reduced cash received.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

b) Statement of compliance

The Company has prepared its consolidated financial statements in accordance with The Companies (Guernsey) Law, 2008 (as amended) and International Financial Reporting Standards ("IFRS") as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Boards ("IASB") together with the interpretations of the IFRS Interpretations Committee ("IFRIC") as approved by the International Accounting Standards Committee ("IASC") which remain in effect and were adopted by the European Union. The Directors of the Company have taken the exemption in Section 244 of The Companies (Guernsey) Law, 2008 (as amended) and have therefore elected to only prepare consolidated and not separate financial statements for the year.

(i) Standards and amendments to existing standards effective 1 January 2022

Certain new accounting standards and interpretations have been published that are effective 1 January 2022 and have not been applied in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(ii) New standards, amendments and interpretations effective after 1 January 2022 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022, and have not been early adopted in preparing the Group's consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Group.

c) Basis of preparation

These consolidated financial statements have been prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain assets and liabilities to fair value.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements relate to:

(i) Critical accounting estimates and assumptions

- Models used for loans accounted at amortised cost use assumptions and estimates regarding the receipt and timing of scheduled and unscheduled payments of loans advanced. Changes in these assumptions and estimates could impact liquidity risk and the interest income (see note 17).
- The measurement of both the initial and ongoing expected credit loss allowance ("ECL") for financial assets measured at amortised cost is an area that requires the use of significant assumptions about credit behaviour such as likelihood of borrowers defaulting and the resulting losses (see note 2(h)). The determination of ECL using the LTV headroom analysis is a key estimate/judgement.

(ii) Critical accounting judgements

- The functional currency of subsidiary undertakings of the Company, which is considered by the Directors to be Euro for Luxco 3; Sterling for all other subsidiaries (see notes 2(e) and 2(k)).
- The operating segments, of which the Directors are currently of the opinion that the Company and its subsidiaries are engaged in a single segment of business, being the provision of a diversified portfolio of real estate backed loans (see note 2(f)).
- A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as determining the criteria for significant increase in credit risk, choosing the appropriate model and assumptions for the measurement of ECL, determining the probabilities of default and loss given default (see note 2(h)).

Subsidiary undertakings	Date of Control	Ownership %	Country of Establishment	Principal place of business
Starfin Lux S.à.r.l	11/30/2012	100	Luxembourg	Luxembourg
Starfin Public Holdco 1 Limited	9/11/2017	100	Guernsey	Guernsey
Starfin Public Holdco 2 Limited	9/11/2017	100	Guernsey	Guernsey
Starfin Lux 3 S.à.r.l	9/19/2017	100	Luxembourg	Luxembourg
Starfin Lux 4 S.à.r.l	12/11/2017	100	Luxembourg	Luxembourg

d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings) made up to the end of the reporting period. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits directly from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company also assesses existence of control where it does not have more than 50 per cent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations.

Acquisition-related costs are expensed as incurred. No consideration, other than for the par value of any share capital or capital contributions, has been paid in respect of the acquisition of subsidiary undertakings. The Company acquired the subsidiaries at the time of their initial establishment and hence they had no net assets at the date of the acquisition.

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

e) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Therefore, the Directors have considered in assessing the functional currency of each of the Group's entities:

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

The functional and presentation currency of each Group entity is Sterling, apart from Luxco 3 for which the functional currency is Euro. Luxco 3 holds loans and investments in Euro currencies. The Directors have also adopted Sterling as the Group's presentation currency (as the Group holds a significant proportion of its assets in the UK, although this may vary from

time to time, capital was raised in Sterling, Group expenses are primarily incurred in Sterling and performance is measured in Sterling) and, therefore, the consolidated financial statements for the Group are presented in Sterling.

f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board, as the Board makes strategic decisions. The Directors, after having considered the way in which internal reporting is provided to them, are of the opinion that the Company and its subsidiaries are engaged in a single segment of business, being the provision of a diversified portfolio of real estate backed loans. Equally, based on the internal reporting provided, the Directors do not analyse the portfolio based on geographical segments.

g) Financial assets and liabilities

Classification and subsequent measurement

The Group classifies its financial assets into the following measurement categories: at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2(h). Interest income from these financial assets is included in "Income from loans advanced" using the effective interest rate method.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Movements in the carrying amount are taken through other comprehensive income, except for the recognition

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of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial instruments that (a) either designated in this category upon initial recognition or subsequently or (b) not classified in any of the other categories. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the Consolidated Statement of Comprehensive Income. This category includes currency forward contracts. Gains or losses on currency forward contracts are recognised within "Net foreign exchange gains or losses".

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These comprise currency forward contracts which represent contractual obligations to purchase domestic currency and sell foreign currency on a future date.

Financial liabilities measured at amortised cost

Financial liabilities that are not classified through profit or loss, including bank loans, are measured at amortised cost.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Comprehensive Income. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are subsequently carried at fair value. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment using the expected credit loss model. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of financial assets or financial liability to the gross carrying amount of a financial asset (i.e., its amortised cost before any loss allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs and all fees paid or received that are integral to the effective interest rate.

Fair value estimation

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

h) Expected credit loss measurement

The following describes the valuation basis that is used in our calculation. As the vast majority of our portfolio is originated directly by the Investment Adviser, the Group has discretion over when and how to instruct valuations. We consider this to be a strength of our valuation process as we have control over timing and complete access to the detail of the valuation process and the output. Where loans are not directly originated the lender could have a lack of control over the timing and no input to the process which we prefer to avoid where possible. Further details on the valuation process are covered in the Investment Manager's Report.

The Group follows a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as Stage 1 and has its credit risk continuously monitored by the Group. The expected credit loss ("ECL") is measured over a 12 month period of time.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. The ECL is measured on a lifetime basis.
- If the financial instrument is credit-impaired it is then moved to Stage 3. The ECL is measured on a lifetime basis.

The Group's financial assets at amortised cost were all classified within Stage 1 at inception for the following reasons:

- 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 economic changes, and therefore the Group considers that value of losses given default ("LGD") currently have a nil value for all loans;
- Loans have very robust covenants in place which trigger as an early warning (long before there would be any indicators of significant increase in credit risk) and this enables the Investment Adviser to become highly involved in the execution of business plans to avoid ECL;
- Loans have strong security packages and many are amortising with relatively short terms which further reduces the risk; and
- All loans have significant loan-to-value headroom which further mitigates the risk of ECL.

During the year ended 31 December 2022 two loans with a carrying value of £46,909,623 (31 December 2021: three loans amounting to £59,031,888) have been classified as Stage 2, no loss allowance has been recognised on 12-month and lifetime expected credit losses for Stage 1 and Stage 2 loans advanced respectively, as based on the information available there is no reason to believe that there has been any impairment in the value of the loans held by the Group. For further information, see the Investment Manager's report. The paragraph below describes how the Group determines when a significant increase in credit risk has occurred, such that a loan would move from Stage 1 to Stage 2. No loans have been moved to Stage 2 or to Stage 3 during 2022.

The Group considers that for prepayments and capitalised cost, the ECL is by default nil as these are non-monetary items with no credit risks. For trade and other receivables the Group applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Significant increase in credit risk - Stage 2

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;
- 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 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.

Default and credit-impaired assets - Stage 3

Non-performing financial assets would be classified with 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.

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practically recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Sensitivity analysis

The most significant period-end assumptions used for the expected credit loss estimates are the LGD and probability of default ("PD") as described above.

The default probabilities are based on initial loan-to-value ("LTV") headroom which the Investment Adviser believes to be a good predictor of the PD, in accordance with recent market studies of European commercial real estate loans.

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In measuring the LGD for this sensitivity analysis, the loans advanced have been assessed on a collective basis as they possess similar covenants and security package characteristics. The selected LGD of 0.30% is based on the aggregate losses of all AAA rated notes issued in Europe from 1995 to 2020 (totalling €177 billions), according to recent market studies of European commercial real estate loans. AAA rated notes are considered the most representative of the Group's loan portfolio. The Investment Adviser considers this to be a reasonable estimate for loss given default parameter.

As explained on Note 2 (b)(i), the year-end ECL are nil. Set out below is the sensitivity to the ECL as at 31 December 2022 and 31 December 2021 that could result from reasonable possible changes in the LTV and LGD actual assumptions used for calculation of ECL as at the respective year-end. On an individual loan basis, the LTV was increased by 25%, and a new PD determined, which was multiplied by a constant LGD of 0.30% for all loans and the loan exposure as at each year-end. All other variables are held constant.

	Reasonable possible shift (absolute value)	31 December 2022 ECL £	31 December 2021 ECL £
LTV	+25% (2021: +25%)	322,561	264,231
LGD	+0.3% (2021: +0.3%)		

Change in ECL allowance (+)

i) Cash and cash equivalents

In the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

j) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new Ordinary Shares are shown in equity as a deduction, net of tax, from the proceeds.

k) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses that relate to loans advanced, borrowings and cash and cash equivalents and all other foreign exchange gains and losses are

presented in the Consolidated Statement of Comprehensive Income within "net foreign exchange losses/(gains)".

Group companies

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

- i. assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the end of the reporting period;
- ii. income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- iii. share capital is translated at historical cost (translated using the exchange rates at the transaction date); and
- iv. all resulting exchange differences are recognised in other comprehensive income.

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

Luxco 3 has Euro as its functional currency.

l) Interest income

Interest income on financial assets within Stage 1 and 2 is recognised by applying the effective interest rate to the gross carrying amount of financial assets. For financial assets that are classified within Stage 3, interest revenue is calculated by applying the effective interest rate to their amortised cost (that is net of expected credit loss provision). Interest income on non-performing financial assets at amortised cost is recognised to the extent the Group expects to recover the interest receivable.

Interest on cash and cash equivalents is recognised at amortised cost basis.

m) Origination, exit and loan arrangement fees

Origination fees paid to the Investment Manager and exit and direct loan arrangement fees received will be recognised using the effective interest rate method under loans advanced and amortised over the lifetime of the related financial asset through income from loans advanced in the Consolidated Statement of Comprehensive Income. Syndication costs are recognised in the Consolidated Statement of Comprehensive Income when incurred.

n) Expenses

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

o) Taxation

The Company is a tax-exempt Guernsey limited liability company as it is domiciled and registered for taxation purposes in Guernsey where it pays an annual exempt status fee under The Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 (as amended). Accordingly, no provision for Guernsey tax is made.

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

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

p) Other receivables

Trade and other receivables are amounts due in the ordinary course of business. They are classified as assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for ECL.

q) Other payables

Trade and other payables are obligations to pay for services that have been acquired in the ordinary course of business. They are classified as liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

r) Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are declared by the Board of Directors.

s) Offsetting financial assets and liabilities

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

t) Financial liabilities at amortised cost

Financial liabilities at amortised cost, including bank loans are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the contractual obligation is discharged, cancelled or expires.

u) Capitalised expenses on credit facilities

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

3. MATERIAL AGREEMENTS

a) Investment management agreement

The Company and the Investment Manager have entered into an investment management agreement, dated 28 November 2012 (the "Investment Management Agreement"), (which was amended on 7 March 2014, 14 May 2014, 7 September 2015 and 6 October 2017) pursuant to which the Investment Manager has been given overall responsibility for the discretionary management of the Company's assets in accordance with the Company's investment objectives and policy.

The Investment Manager is entitled to a management fee which is calculated and accrued monthly at a rate equivalent to 0.75 per cent per annum of NAV. In calculating such fee, there shall be excluded from the NAV attributable to the Ordinary Shares the uninvested portion of the cash proceeds of any new issue of Shares (or C Shares) until at least 90 per cent of such proceeds are invested in accordance with the Company's investment policy (or deployed to repay borrowings under any credit facility of the Group or other liabilities of the Group) for the first time. The management fee is payable quarterly in arrears.

In addition, the Investment Manager is entitled to an asset origination fee of 0.75 per cent of the value of all new loan investments made or acquired by the Group (see note 22). The asset origination fee to be paid by the Group is expected to be paid upon receipt by the Group of loan arrangement fees received on the deployment of the Group's funds.

The Investment Management Agreement is terminable by either the Investment Manager or the Company giving to the other not less than 12 months' written notice. The Company is also able to terminate the appointment of the Investment Manager in the event of a change of control of the Investment Manager. A change of control shall be deemed to occur where a person acquires a direct or indirect interest in the Investment Manager, which is calculated

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by reference to 15 per cent or more of the voting rights. In addition the Investment Management Agreement can be terminated by the Company for any failure to act in good faith with the due skill, care and diligence which would reasonably be expected from an experienced manager in the sector and to exercise appropriate prudence in the management of the Group's portfolio.

Pursuant to the Investment Management Agreement's provisions, a performance fee would apply from 1 January 2018. The amount of such Performance Fee is 20 per cent of the excess (if any) of the returns generated by the Group over the Hurdle Total Return (described below). The measurement period over which the Performance Fee is calculated is two years, with the payment of any performance fee earned being made at the end of each such two year period.

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

To the extent that the Company makes further issues of Ordinary Shares and/or repurchases or redeems Ordinary Shares, the Hurdle Total Return will be adjusted accordingly, by reference to the issue proceeds of such further issues and dividends declared subsequent to such issues. Other corporate actions will also be reflected as appropriate in the calculation of the Hurdle Total Return.

The Investment Manager has appointed Starwood Capital Europe Advisers, LLP (the "Investment Adviser"), an English limited liability partnership authorised and regulated by the FCA, to provide investment advice pursuant to an Investment Advisory Agreement.

b) Administration agreement

The Company has engaged the services of Apex Fund and Corporate Services (Guernsey) Limited (the "Administrator") to act as Administrator and Company Secretary. Under the terms of the service agreement dated 25 September 2018, the Administrator is entitled to a fee of no less than £225,000 per annum for Guernsey registered companies of the Group, €96,000 for Luxembourg registered subsidiaries and further amounts as may be agreed in relation to any additional services provided by the Administrator. The Administrator is, in addition, entitled to recover third party expenses and disbursements.

c) Registrar's agreement

The Company and Computershare Investor Services (Guernsey) Limited (the "Registrar") entered into a Registrar agreement dated 28 November 2012, pursuant to which the Company appointed the Registrar to act as Registrar of the Company for a minimum annual fee payable by the Company of £7,500 in respect of basic registration.

d) Brokerage agreement

On 19 June 2020 Jefferies Group LLC ("Jefferies") was appointed to act as Broker. Jefferies is entitled to receive a fee of £50,000 per annum plus expenses. The previous brokerage agreement with Stifel Nicolaus Europe Limited was terminated on the same date.

e) Licence agreement

The Company and Starwood Capital Group Management, LLC (the "Licensor") have entered into a trade mark licence agreement dated 28 November 2012 (the "Licence Agreement"), pursuant to which the Licensor has agreed to grant to the Company a royalty-free, non-exclusive worldwide licence for the use of the "Starwood" name for the purposes of the Company's business.

Under the terms of the Licence Agreement, it may be terminated by the Licensor; (i) if the Investment Management Agreement or any other similar agreement between the Company and the Investment Manager (or either of their respective affiliates) is terminated for any reason whatsoever or expires; (ii) if the Company suffers an insolvency event or breaches any court order relating to the Licence Agreement; or (iii) upon two months' written notice without cause.

f) Hedging agreements

The Company and Lloyds Bank plc entered into an international forward exchange master agreement dated 5 April 2013 and on 7 February 2014 the Company entered into a Professional Client Agreement with Goldman Sachs, pursuant to which the parties can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between Sterling and other currencies. Both agreements are governed by the laws of England and Wales.

g) Revolving credit facility

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

On 4 December 2014, the Company entered into a £50 million revolving credit facility with Lloyds Bank plc (the "Lloyds Facility") which is intended for short-term liquidity. This facility was amended and extended on 7 January 2022. The current maturity date is 5 May 2023. Subsequent to year end the facility was extended for a further year from May 2023 to May 2024, albeit at a lower facility amount of £25.0 million. The facility is secured by a pledge over the bank accounts of the Company, its interests in Holdco 1 and the intercompany funding provided by the Company to Holdco 1. Holdco 1 also acts as guarantor of the facility and has pledged its bank accounts as collateral. The undertakings and events of default are customary for a transaction of this nature.

On 18 December 2017, the Group entered into a separate £64 million secured borrowing facility with Morgan Stanley (the "MS Facility"). This facility was amended and extended on 14 November 2019. The current maturity date is 14 November 2024 and the borrowing facility was increased to £76 million. The debt can be drawn in respect of underlying loans which are eligible under the facility. Certain loans will not be eligible, for example mezzanine loans and loans above 75 per cent loan to value. It is secured by a customary security package of bank account pledges, intercompany receivables security, share security over the two borrower entities (Luxco 3 and Luxco 4) and their shares. The MS Facility does not have recourse to the Company. The undertakings and events of default are customary for a facility of this nature.

4. DIRECTORS' FEES

	31 December 2022 £	31 December 2021 £
Directors' emoluments	197,000	190,212
Other expenses	6,373	5,198
	203,373	195,410

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5. AUDIT AND NON-AUDIT FEES

The following table discloses the audit and non audit fees paid to the auditors for audit and non-audit services and their associated network firms for non-audit services, where and as applicable.

	31 December 2022 £	31 December 2021 £
Audit and non-audit fees expensed in the Consolidated Statement of Comprehensive Income		
Audit of company	140,563	120,800
Audit of subsidiaries	68,215	84,756
Total audit	208,778	205,556
Audit related assurance services (Interim review)	24,995	23,831
Total assurance services	24,995	23,831
Non-audit services not covered above	-	-
Total non-audit services	24,995	23,831
Total fees expensed	233,773	229,387

6. NET FOREIGN EXCHANGE GAINS / (LOSSES)

	31 December 2022 £	31 December 2021 £
Loans advanced gains - realised	511,596	153,504
Loans advanced losses - realised	(996,010)	(1,929,067)
Forward contracts gains - realised	6,507,544	1,998,286
Forward contracts losses - realised	(428,644)	(330,105)
Other gains - realised	110,951	328,245
Other losses - realised	(38,684)	(49,430)
	5,666,753	171,433
Loans advanced gains - unrealised	9,987,926	-
Loans advanced losses - unrealised	(23,578)	(15,588,146)
Forward contracts gains - unrealised	2,337,351	13,707,768
Forward contracts losses - unrealised	(14,922,288)	(1,334,429)
	(2,620,589)	(3,214,807)
	3,046,164	(3,043,374)

On occasion, the Group may realise a gain or loss on the roll forward of a hedge if it becomes necessary to extend a capital hedge beyond the initial anticipated loan term. If this situation arises the Group will separate the realised FX gain or loss from other realised FX gains or losses and not consider it available to distribute (or as a reduction in distributable profits). The FX gain or loss will only be considered part of distributable reserves when the rolled hedge matures or is settled and the final net gain or loss on the capital hedges can be determined.

7. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

The calculation of basic earnings per Ordinary Share is based on the operating profit of £29,358,606 (2021: £19,292,919) and on the weighted average number of Ordinary Shares in issue during the year of 404,881,933 (2021: 408,939,505) Ordinary Shares.

The calculation of NAV per Ordinary Share is based on a NAV of £416,147,764 (2021: £421,556,600) and the actual number of Ordinary Shares in issue at 31 December 2022 of 395,592,696 (2021: 408,911,273).

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8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	31 December 2022 £	31 December 2021 £
Cash at bank	3,576,155	2,994,357
	3,576,155	2,994,357

Cash and cash equivalents comprises cash held by the Group and short term deposits held with various banking institutions with original maturities of three months or less. The carrying amount of these assets approximates their fair value. For further information and the associated risks refer to note 17.

9. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2022 £	31 December 2021 £
Prepayments	26,792	37,439
Investment proceeds receivable	-	213
	26,792	37,652

10. LOANS ADVANCED

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

	31 December 2022 £	31 December 2021 £
UK		
Hotel & Residential, UK	49,876,920	49,922,112
Hotel, Scotland	43,109,284	42,390,350
Hotels, United Kingdom	32,134,282	30,016,910
Industrial Estate, UK	27,435,196	-
Hospitals, UK	25,367,475	25,364,814
Hotel, Oxford	23,181,461	21,579,756
Life Science, UK	19,955,081	19,620,908
Office, London	19,336,450	14,156,850
Hotel, North Berwick	15,211,739	14,123,338
Hotel and Office, Northern Ireland	11,947,821	12,719,727
Office and Industrial Portfolio, UK	5,594,291	-
Office, Scotland	-	5,121,199
Ireland		
Hotel, Dublin	42,752,233	50,842,327
Office Portfolio, Ireland	21,950,119	26,570,048
Mixed Use, Dublin	11,469,547	5,108,054
Spain		
Three Shopping Centres, Spain	31,023,568	30,171,573
Office, Madrid, Spain	16,510,039	15,595,042
Shopping Centre, Spain	15,886,055	14,736,977
Office Portfolio, Spain	9,027,980	9,845,168
Germany		-
Logistics Portfolio	2,744,282	4,958,050
Europe		
Mixed Portfolio	7,946,143	21,789,309
	432,459,966	414,632,512

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

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10. LOANS ADVANCED (CONTINUED)

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

	31 December 2022 £	31 December 2021 £
Loans advanced at the start of the year	414,632,512	442,659,649
Loans advanced	61,420,419	91,935,602
Income from loans advanced	33,356,702	28,382,742
Foreign exchange gains/(losses)	9,478,582	(17,363,712)
Origination fees received for the year	872,020	300,456
Exit fees paid	(501,062)	(527,953)
Commitment fees paid	(710,782)	(586,841)
Arrangement fees paid	(820,118)	(1,125,342)
Interest payments received	(28,373,979)	(25,567,309)
Loan repayments	(56,894,392)	(103,474,780)
Loans advanced at the end of the year	432,459,966	414,632,512
Loans advanced at fair value	453,301,433	431,658,356

IFRS 7 requires the disclosure of the fair value of financial instruments not measured at fair value for comparison to their carrying amounts. The fair value of loans advanced has been determined by discounting the expected cash flows at a market rate of interest using the discounted cash flow model. For the avoidance of doubt, the Group carries its loans advanced at amortised cost in the consolidated 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.

The following table sets out the sensitivity to the above reported fair value to a change in the discount rate used in the discounted cash flow model (see the Investment Manager's report on page 18 for more information):

Discount Rate	Value calculated £	31 December 2022 Value increase / (decrease) £
6.0% (fair value)	453,301,433	20,841,467
6.9%	446,378,688	13,918,722
7.4%	442,812,482	10,352,516
7.9%	439,304,831	6,844,865
8.4%	435,854,418	3,394,452
8.9% (Carrying value)	432,459,966	-
9.4%	429,120,227	(3,339,739)
9.9%	425,833,994	(6,625,972)
10.4%	422,600,089	(9,859,877)
10.9%	419,417,368	(13,042,598)

Discount Rate	Value calculated £	31 December 2021 Value increase / (decrease) £
4.9%	432,710,809	18,078,297
5.1% (fair value)	431,658,356	17,025,843
5.4%	428,059,002	13,426,490
5.9%	423,496,872	8,864,360
6.4%	419,002,118	4,389,606
6.9% (Carrying value)	414,632,512	-
7.4%	410,325,896	(4,306,616)
7.9%	406,100,176	(8,532,336)
8.4%	401,953,326	(12,679,186)
8.9%	397,883,380	(16,749,132)

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

Financial assets at fair value through profit or loss comprise currency forward contracts which represent contractual obligations to purchase domestic currency and sell foreign currency on a future date at a specified price.

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.

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

31 December 2022	Notional contract amount ⁽¹⁾ £	Fair values		Total £
		Assets £	Liabilities £	
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	309,280,796	4,697,637	(3,990,976)	706,661
Total	309,280,796	4,697,637	(3,990,976)	706,661

⁽¹⁾ Euro amounts are translated at the year end exchange rate

31 December 2021	Notional contract amount ⁽¹⁾ £	Fair values		Total £
		Assets £	Liabilities £	
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	305,663,797	14,394,963	(1,103,365)	13,291,598
Total	305,663,797	14,394,963	(1,103,365)	13,291,598

⁽¹⁾ Euro amounts are translated at the year end exchange rate

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for the year ended 31 December 2022

12. 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. The Group has two credit facilities as described in note 3(g) of these financial statements.

As at 31 December 2022 an amount of £19,000,000 (2021: £8,500,000) was drawn and interest of £181,907 (2021: £7,997) 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 £319,675 (2021: £593,004) was netted off against the loan facilities outstanding.

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

	31 December 2022 £	31 December 2021 £
Borrowings at the start of the year	7,914,993	18,626,837
Proceeds during the year	94,223,490	63,800,000
Repayments during the year	(84,158,141)	(75,128,132)
Interest expenses recognised for the year	707,171	236,071
Interest paid during the year	(533,577)	(262,221)
Credit facility amortisation of fees	373,328	563,496
Foreign exchange and translation difference	335,940	78,942
Borrowings at the end of the year	18,863,204	7,914,993

13. TRADE AND OTHER PAYABLES

	31 December 2022 £	31 December 2021 £
Investment management fees payable	777,556	791,344
Audit fees payable	289,457	98,896
Accrued expenses	273,183	103,470
Administration fees payable	203,420	87,815
Commitment fees payable	164,855	169,746
Tax provision	25,727	19,742
Loan amounts payable	24,408	212,953
Directors' expense payable	-	560
	1,758,606	1,484,526

14. COMMITMENTS

As at 31 December 2022, the Group had outstanding commitments in respect of loans not fully drawn of £49,063,014 (2021: £44,543,155).

As at 31 December 2022, the Group has entered into forward contracts under the Hedging Master Agreement with Lloyds Bank plc to sell €309,280,796 (2021: €219,050,014) to receive Sterling. At the end of the reporting period, these forward contracts have a fair value of £706,661 asset (2021: £13,291,598 asset).

Notes to the Consolidated Financial Statements

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15. SHARE CAPITAL

The authorised share capital of the Company consists of an unlimited number of redeemable Ordinary Shares of no par value which upon issue the Directors may classify into such classes as they may determine. The Ordinary Shares are redeemable at the discretion of the Board.

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

	31 December 2022 Number of shares	31 December 2021 Number of shares
Ordinary Shares of no par value Issued and fully paid	413,219,398	413,219,398
Shares held in treasury	(17,626,702)	(4,308,125)
Total Ordinary Shares, excluding those in treasury	395,592,696	408,911,273

Rights attached to shares

The Company's share capital is denominated in Sterling. At any general meeting of the Company each Ordinary Share carries one vote. The Ordinary Shares also carry the right to receive all income of the Company attributable to the Ordinary Shares, and to participate in any distribution of such income made by the Company, such income shall be divided pari passu among the holders of Ordinary Shares in proportion to the number of Ordinary Shares held by them.

Significant share movements

1 January 2022 to 31 December 2022:

Ordinary Shares	Number	£
Balance at the start of the year	408,911,273	415,730,000
Shares bought back in 2022	(13,318,577)	(12,364,455)
Balance at the end of the year Issue costs since inception	395,592,696	403,365,545 (8,289,989)
Net proceeds		395,075,556

1 January 2021 to 31 December 2021:

Ordinary Shares	Number	£
Balance at the start of the year	409,571,273	416,321,533
Shares bought back in 2021	(660,000)	(591,533)
Balance at the end of the year Issue costs since inception	408,911,273	415,730,000 (8,289,989)
Net proceeds		407,440,011

16. DIVIDENDS

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

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

The Group paid the following dividends in respect of the year to 31 December 2022:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2022	1.375	5,622,530	27 May 2022
30 June 2022	1.375	5,606,271	26 August 2022
30 September 2022	1.375	5,439,400	25 November 2022
31 December 2022 ⁽¹⁾	1.375	5,439,400	24 February 2023

⁽¹⁾ Declared after year end and to be paid on 24 February 2023 to shareholders on the register as at 3 February 2023. This was declared after year end hence was not accrued at year end.

In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023. As this special dividend was declared after year end it was not accrued for at year end.

The Group paid the following dividends in respect of the year to 31 December 2021:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2021	1.375	5,622,530	4 June 2021
30 June 2021	1.375	5,622,530	3 September 2021
30 September 2021	1.375	5,622,530	3 December 2021
31 December 2021 ⁽¹⁾	1.375	5,622,530	24 February 2022

⁽¹⁾ Declared after year end and were paid on 25 February 2022 to shareholders on the register as at 4 February 2022.

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17. RISK MANAGEMENT POLICIES AND PROCEDURES

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

It is the role of the Board to review and manage all risks associated with the Group, mitigating these either directly or through the delegation of certain responsibilities to the Audit Committee, Investment Manager and Investment Adviser.

The Board of Directors has established procedures for monitoring and controlling risk. The Group has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

In addition, the Investment Manager monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Further details regarding these policies are set out below:

a) Market risk

Market risk includes market price risk, currency risk and interest rate risk.

i) Market price 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 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.

ii) 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.

The Group and Lloyds Bank plc entered into an international forward exchange master agreement dated 5 April 2013 and on 7 February 2014 the Group entered into a Professional Client Agreement with Goldman Sachs, pursuant to which the parties can enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between Sterling and other currencies. The Group does not trade in derivatives but holds them to hedge specific exposures and have maturities designed to match the exposures they are hedging. The derivatives are held at fair value which represents the replacement cost of the instruments at the reporting date and movements in the fair value are included in the Consolidated Statement of Comprehensive Income under net foreign exchange losses/ (gains). The Group does not adopt hedge accounting in the financial statements. At the end of the reporting period the Group had 109 (2021: 134) open forward contracts.

As at 31 December 2022 the Group had the following currency exposure:

31 December 2022	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	-	273,150,000	159,309,966	432,459,966
Financial assets at fair value through	-	706,661	-	706,661
Other receivables and prepayments	-	16,792	10,000	26,792
Cash and cash equivalents	49	3,496,721	79,385	3,576,155
Liabilities				
Revolving credit facility	-	(18,863,204)	-	(18,863,204)
Trade and other payables	-	(1,462,729)	(295,877)	(1,758,606)
Net currency exposure	49	257,044,241	159,103,474	416,147,764

31 December 2021	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	-	192,279,327	222,353,185	414,632,512
Financial assets at fair value through	-	13,291,598	-	13,291,598
Other receivables and prepayments	-	17,094	20,558	37,652
Cash and cash equivalents	101	2,858,545	135,711	2,994,357
Liabilities				
Revolving credit facility	-	(7,914,993)	-	(7,914,993)
Trade and other payables	-	(1,375,329)	(109,197)	(1,484,526)
Net currency exposure	101	199,156,242	222,400,257	421,556,600

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Currency sensitivity analysis

Should the exchange rate of the Euro against Sterling increase or decrease by 10 per cent with all other variables held constant, the net assets of the Group at 31 December 2022 would increase or decrease by £15,910,347 (2021: £22,240,026). Should the exchange rate of the Danish Krone against Sterling increase or decrease by 10 per cent with all other variables held constant, the net assets of the Group at 31 December 2022 would increase or decrease by £5 (2021: £10). These percentages have been determined based on potential volatility and deemed reasonable by the Directors. This does not include the impact of hedges in place which would be expected to reduce the impact.

In accordance with the Group's policy, the Investment Manager monitors the Group's currency position, and the Board of Directors reviews this risk on a regular basis.

iii) Interest rate risk

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

The majority of the Group's financial assets are loans advanced at amortised cost, credit linked notes, receivables and cash and cash equivalents. The Group's investments have some exposure to interest rate risk but this is limited to interest earned on cash deposits and floating interbank rate exposure for investments designated as loans advanced.

Loans advanced have been structured to include a combination of fixed and floating interest and 78.6% (2021: 76.8%) of investments designated as loans advanced at 31 December 2022 have a floating interbank interest rate. The interest rate risk is mitigated by the inclusion of interbank rate floors on floating rate loans, preventing interest rates from falling below certain levels.

The following table shows the portfolio profile of the financial assets at 31 December 2022:

	31 December 2022 £	31 December 2021 £
Floating rate		
Loans advanced ⁽¹⁾	340,705,532	318,642,491
Cash and cash equivalents	3,576,155	2,994,357
Fixed rate		
Loans advanced	91,754,434	95,990,021
Total financial assets subject to interest rate risk	436,036,121	417,626,869

⁽¹⁾ Loans advanced at floating rates include loans with interbank rate floors.

At 31 December 2022, if interest rates had changed by 50 basis points, with all other variables remaining constant, the effect on the net profit and equity would have been as shown in the table below:

	31 December 2022 £	31 December 2021 £
Floating rate		
Increase of 50 basis points ⁽¹⁾	1,721,408	1,608,184
Decrease of 50 basis points	(1,721,408)	(1,608,184)

⁽¹⁾ Loans advanced at floating rates include loans with interbank rate floors.

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

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b) 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, where the Group invests in whole loans and also subordinated and mezzanine debt which rank behind senior debt for repayment in the event that a borrower defaults. There is a spread concentration of risk as at 31 December 2022 due to several loans being advanced since origination. There is also credit risk in respect of other financial assets as a portion of the Group's assets are cash and cash equivalents or accrued interest. The banks used to hold cash and cash equivalents have been diversified to spread the credit risk to which the Group is exposed. The Group also has credit risk exposure in its financial assets classified as financial assets through profit or loss which is diversified between hedge providers in order to spread credit risk to which the Group is exposed. At year-end the derivative exposures were with one counterparty.

The total exposure to credit risk arises from default of the counterparty and the carrying amounts of financial assets best represent the maximum credit risk exposure at the year-end date. As at 31 December 2022, the maximum credit risk exposure was £436,742,782 (2021: £430,918,680).

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 ECL using probability of default, exposure at default and loss given default. The Directors consider both historical analysis and forward looking information in determining any ECL. 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. During the year ended 31 December 2022, two loans with a value of £46,909,623 (31 December 2021: the three loans with a value of £59,031,888) remain classified as Stage 2 and the remaining loans are classified as Stage 1. The main reason for moving the loans to Stage 2 in thesecond quarter of 2020 was expected income covenant breaches due to the disruption from Covid-19. Following loan amendments agreed with borrowers, no income breacheshave occurred. Since origination these loans have been classified as Stage 2 loans, noexpected credit loss has been recognised at 31 December 2022 (2021: £nil) as although the credit risk has increased for these loans, the Group does not anticipate realising a loss in the event of a default.

The Group uses both quantitative and qualitative criteria for monitoring the loan portfolio as described in note 2(h). The gross carrying amount of loan portfolio is presented in the table below and also represents the Group's maximum exposure to credit risks on these assets.

	Stage 1 £	Stage 2 £	Stage 3 £	Total as at 31 December 2022 £	Total as at 31 December 2021 £
Loans advanced	385,550,343	46,909,623	-	432,459,966	414,632,512
Gross carrying amount	385,550,343	46,909,623	-	432,459,966	414,632,512
Carrying amount	385,550,343	46,909,623	-	432,459,966	414,632,512

A reconciliation of changes in the loss allowance was not presented as the allowance recognised at the end of the reporting period was £nil (2021: £nil).

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

	Total as at 31 December 2022 £	Total as at 31 December 2021 £
Barclays Bank plc	2,276,081	2,980,544
ING Luxembourg, SA	1,299,092	12,743
Lloyds Bank plc	698	778
HSBC Bank plc	154	227
Royal Bank of Scotland International	130	65
Total cash and cash equivalents	3,576,155	2,994,357

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

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c) 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 of total of £126,000,000 (2021: £126,000,000) of which £19,000,000 (2021: £85,00,000) was drawn at the end of the reporting period.

The table below shows the maturity of the Group's non-derivative financial assets and liabilities arising from the advancement of loans by remaining contractual maturities at the end of the reporting date. The amounts disclosed under assets are contractual, undiscounted cash flows and may differ from the actual cash flows received in the forecast future as a result of early repayments and interest rate changes:

31 December 2022	Up to 3 months	Between 3 and 12 months	Over 12 months	Total
	£	£	£	£
Assets				
Loans advanced	42,752,233	145,719,555	243,988,178	432,459,966
Liabilities and commitments				
Loan commitments ⁽¹⁾	(3,258,958)	(20,660,608)	(25,143,447)	(49,063,014)
Credit facilities	(182,879)	(19,000,000)	-	(19,182,879)
Trade and other payables	(1,758,606)	-	-	(1,758,606)
	37,551,790	106,058,947	218,844,731	362,455,467

⁽¹⁾ Loan commitments are estimated forecasted drawdowns at year end.

31 December 2021	Up to 3 months	Between 3 and 12 months	Over 12 months	Total
	£	£	£	£
Assets				
Loans advanced	14,736,977	90,989,466	308,906,069	414,632,512
Liabilities and commitments				
Loan commitments ⁽¹⁾	(8,324,454)	(15,850,277)	(19,186,697)	(43,361,428)
Credit facilities	(7,997)	(8,500,000)	-	(8,507,997)
Trade and other payables	(1,484,526)	-	-	(1,484,526)
	4,920,000	66,639,189	289,719,372	361,278,561

⁽¹⁾ Loan commitments are estimated forecasted drawdowns at year end.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the reporting date. The amounts disclosed are the contractual undiscounted cash flows:

31 December 2022

Derivatives	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total as at 31 December 2022 £
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow ⁽¹⁾	(45,083,803)	(44,996,439)	(72,650,196)	(162,730,438)
Inflow	45,342,288	45,603,942	74,248,795	165,195,025

⁽¹⁾ Euro amounts translated at year end exchange rate.

31 December 2021

Derivatives	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total as at 31 December 2021 £
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow ⁽¹⁾	(3,104,840)	(51,449,438)	(129,195,826)	(183,750,104)
Inflow	3,115,540	52,103,985	132,586,030	187,805,555

⁽¹⁾ Euro amounts translated at year end exchange rate.

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Capital management policies and procedures

The Group's capital management objectives are:

- To ensure that the Group will be able to continue as a going concern; and
- To maximise the income and capital return to equity shareholders through an appropriate balance of equity capital and long-term debt.

The capital of the Company is represented by the net assets attributable to the holders of the Company's shares.

In accordance with the Group's investment policy, the Group's principal use of cash (including the proceeds of the IPO and subsequent tap issues and placings) has been to fund investments in the form of loans sourced by the Investment Adviser and the Investment Manager, as well as initial expenses related to the issue, ongoing operational expenses and payment of dividends and other distributions to shareholders in accordance with the Company's dividend policy.

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. The Company has no imposed capital requirements.

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

	31 December 2022 £	31 December 2021 £
Equity		
Equity share capital	395,075,556	407,440,011
Retained earnings and translation reserve	21,072,208	14,116,589
Total capital	416,147,764	421,556,600

18. FAIR VALUE MEASUREMENT

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

- a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- b) 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).
- c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

31 December 2022

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	706,661	-	706,661
Total	-	706,661	-	706,661

31 December 2021

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	13,291,598	-	13,291,598
Total	-	13,291,598	-	13,291,598

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There have been no transfers between levels for the year ended 31 December 2022 (2021: nil).

The Directors were 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 following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2022 but for which fair value is disclosed:

31 December 2022

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	453,301,433	453,301,433	432,459,966
Total	-	-	453,301,433	453,301,433	432,459,966
Liabilities					
Credit facility	-	18,863,204	-	18,863,204	18,863,204
Total	-	18,863,204	-	18,863,204	18,863,204

31 December 2021

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	431,658,356	431,658,356	414,632,512
Total	-	-	431,658,356	431,658,356	414,632,512
Liabilities					
Credit facility	-	7,914,993	-	7,914,993	7,914,993
Total	-	7,914,993	-	7,914,993	7,914,993

For cash and cash equivalents, other receivables and prepayments, trade and other payables and credit facilities the carrying amount is a reasonable approximation of the fair value. The Group carries its loans advanced at amortised cost in the consolidated financial statements. Refer to note 10 for further information.

The carrying amounts of the revolving credit facilities included in the above tables are considered to approximate its fair values. The fair value of loans advanced have been determined by discounting the expected cash flows using a discounted cash flow model based on the variable interest rates. For avoidance of doubt the Group carries its loans advanced at amortised cost in the financial statements. Refer to note 10 for further information.

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

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19. CONTROLLING PARTY

In the opinion of the Directors, on the basis of shareholdings advised to them, the Company has no immediate or ultimate controlling party.

20. TAXATION

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

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

	31 December 2022 £	31 December 2021 £
Current tax		
Tax expenses on profit of the reporting period	90,287	100,452
Total current tax	90,287	100,452

Luxco had no operating gains on ordinary activities before taxation and was therefore for the year ended 31 December 2022 subject to the Luxembourg minimum corporate income taxation at €4,815 (2021: €4,815). 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% (2021: 24.94%).

21. RECONCILIATION OF IFRS TO US GAAP

To meet the requirements of Rule 206(4)-2 under the Investment Advisors Act 1940 (the "Custody Rule") the consolidated financial statements of the Group have also been audited in accordance with Generally Accepted Auditing Standards applicable in the United States ("US GAAS"). As such two independent Auditor's reports are included on pages 47-56, one under International Standards on Auditing as required by the Crown Dependencies Audit Rules and the other under US GAAS. Compliance with the Custody Rule also requires a reconciliation of the operating profit and net assets under IFRS to US GAAP.

The principal differences between IFRS and US GAAP relate to accounting for financial assets that are carried at amortised cost. Under US GAAP the calculation of the effective interest rate is based on contractual cash flows over the asset's contractual life, however, under the IFRS basis, the effective interest rate calculation is based on the estimated cash flows over the expected life of the asset.

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

22. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Details on the Investment Manager and other related party transactions are included in note 3 to the consolidated financial statements.

The following tables summarise the transactions occurred with related parties during the reporting period and outstanding at 31 December 2022 and 31 December 2021:

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

The following tables summarise the transactions occurred with related parties during the reporting period and outstanding at 31 December 2022 and 31 December 2021:

2022

Fees, expenses and other payments	Outstanding at 31 December 2022 £	For the year ended 31 December 2022 £
Directors' fees and expenses paid		
John Whittle	-	60,000
Shelagh Mason	-	45,000
Charlotte Denton	-	50,000
Gary Yardley	-	42,000
Expenses paid	-	6,373
Investment Manager		
Investment management fees	777,556	3,122,755
Origination fees	-	501,936
Expenses	-	120,099

2021

Fees, expenses and other payments	Outstanding at 31 December 2021 £	For the year ended 31 December 2021 £
Directors' fees and expenses paid		
Stephen Smith (resigned 31 December 2021)	-	50,000
John Whittle	-	45,000
Shelagh Mason	-	42,500
Charlotte Denton (appointed 1 January 2021)	-	40,000
Gary Yardley (appointed 6 September 2021)	-	12,712
Expenses paid	560	5,198
Investment Manager		
Investment management fees	791,344	3,147,075
Origination fees	380,000	300,456
Expenses	-	68,107

The following tables summarise the dividends paid to related parties during the reporting period and number of Company's shares held by related parties at 31 December 2022 and 31 December 2021:

2022

Shareholdings and dividends paid	Dividends paid during the year ended 31 December 2022 £	As at 31 December 2022 Number of shares
Starwood Property Trust Inc.	502,700	9,140,000
SCG Starfin Investor LP	125,675	2,285,000
John Whittle	1,725	33,866
Charlotte Denton	1,833	44,444
Shelagh Mason	6,205	112,819
Duncan MacPherson*	8,333	133,333
Lorcain Egan*	3,818	61,093

* Employees at the Investment Adviser

2021

Shareholdings and dividends paid	Dividends paid during the year ended 31 December 2021 £	As at 31 December 2021 Number of shares
Starwood Property Trust Inc.	525,550	9,140,000
SCG Starfin Investor LP	131,388	2,285,000
Stephen Smith (resigned 31 December 2021)	4,538	78,929
John Whittle	1,372	23,866
Shelagh Mason	6,487	112,819
Duncan MacPherson*	7,667	133,333
Lorcain Egan*	3,513	61,093

* Employees at the Investment Adviser

Notes to the Consolidated Financial Statements for the year ended 31 December 2022

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. The Group also acted as co-lender with Starwood European Real Estate Debt Finance I LP ("SEREDF I") an affiliate entity.

Loan	Related party co-lenders
Hotel and Residential, UK	STWD
Hotels, United Kingdom	STWD
Mixed Portfolio, Europe	STWD
Office Portfolio, Spain	STWD
Office Portfolio, Ireland	STWD
2 Hotels, UK	SEREDF I

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2022, the following amounts have been drawn under existing commitments, up to 23 March 2023:

	Local currency
Mixed Use, Dublin	€109,357

Subsequent to 31 December 2022, the following loan amortisation (both scheduled and unscheduled) has been received up to 23 March 2023:

	Local currency
Hotel, Dublin	€2,449,200
Hotel and Office, Northern Ireland	£1,000,000
Mixed Portfolio, Europe	€1,516,035
Three Shopping Centres, Spain	€359,732

Subsequent to 31 December 2022, the following loans have been repaid in full up to 23 March 2023:

	Local currency
Hotel, Oxford	£22,950,000
Office and Industrial Portfolio, UK	£5,500,000

During January and February 2023, a total amount of £19,000,000 was paid to Morgan Stanley as repayment of amounts owed as at 31 December 2022 under the credit facility held with them.

On 21 January 2023, the Directors declared a dividend in respect of the fourth quarter of 1.375 pence per Ordinary Share payable on 24 February 2023 to shareholders on the register at 3 February 2023.

In addition, on 23 March 2023, the Company declared a special dividend of 2 pence per Ordinary Share in respect of the year ending 31 December 2022 to be paid on 21 April 2023 to shareholders on the register as at 31 March 2023.

Subsequent to year end the Lloyds credit facility agreement was extended to May 2024 with a reduced facility amount of £25.0 million.

Alternative Performance Measures

In accordance with ESMA Guidelines on Alternative Performance Measures (“APMs”) the Board has considered what APMs are included in the Annual Financial Report and Audited Consolidated Financial Statements which require further clarification. An APM is defined as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. APMs included in the financial statements, which are unaudited and outside the scope of IFRS, are deemed to be as follows:

NAV PER ORDINARY SHARE

The NAV per Ordinary Share represents the net assets attributable to equity shareholders divided by the number of Ordinary Shares in issue, excluding any shares held in treasury. The NAV per Ordinary Share is published monthly. This APM relates to past performance and is used as a comparison to the share price per Ordinary Share to assess performance. There are no reconciling items between this calculation and the Net Asset Value shown on the balance sheet (other than to calculate by Ordinary Share).

NAV TOTAL RETURN

The NAV total return measures the combined effect of any dividends paid, together with the rise or fall in the NAV per Ordinary Share. This APM relates to past performance and takes into account both capital returns and dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in the assets of the Company at its NAV per Ordinary Share.

SHARE PRICE TOTAL RETURN

The share price total return measures the combined effects of any dividends paid, together with the rise or fall in the share price. This APM relates to past performance and assesses the impact of movements in the share price on total returns to investors. Any dividends received by a shareholder are assumed to have been reinvested in additional shares of the Company at the time the shares were quoted ex-dividend.

NAV TO MARKET PRICE DISCOUNT / PREMIUM

The discount / premium is the amount by which the share price of the Company is lower (discount) or higher (premium) than the NAV per Ordinary Share at the date of reporting and relates to past performance. The discount or premium is normally expressed as a percentage of the NAV per Ordinary Share.

INVESTED LOAN PORTFOLIO UNLEVERED ANNUALISED TOTAL RETURN

The unlevered annualised return is a calculation at the quarterly reporting date of the estimated annual return on the portfolio at that point in time. It is calculated individually for each loan by summing the one-off fees earned (such as up-front arrangement or exit fees charged on repayment) and dividing these over the full contractual term of the loan, and adding this to the annual returns. Where a loan is floating rate (partially or in whole or with floors), the returns are based on an assumed profile for future interbank rates, but the actual rate received may be higher or lower. The return is calculated only on amounts funded at the quarterly reporting date and excludes committed but undrawn loans and excludes cash uninvested. The calculation also excludes origination fees paid to the Investment Manager, which are accounted for within the interest line in the financial statements.

An average, weighted by loan amount, is then calculated for the portfolio.

Alternative Performance Measures

This APM gives an indication of the future performance of the portfolio (as constituted at the reporting date). The calculation, if the portfolio remained unchanged, could be used to estimate “income from loans advanced” in the Consolidated Statement of Comprehensive Income if adjusted for the origination fee of 0.75 basis points amortised over the average life of the loan. As discussed earlier in this report the figure actually realised may be different due to the following reasons:

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

Generally speaking, the actual annualised total return is likely to be higher than the reported return for these reasons, but this is not incorporated in the reported figure, as the benefit of these items cannot be assumed.

PORTFOLIO LEVERED ANNUALISED TOTAL RETURN

The levered annualised total return is calculated on the same basis as the unlevered annual return but takes into account the amount of leverage in the Group and the cost of that leverage at current SONIA rates.

ONGOING CHARGES PERCENTAGE

Ongoing charges represents the management fee and all other operating expenses excluding finance costs and transactions costs, expressed as a percentage of the average monthly net asset values during the year and allows users to assess the running costs of the Group. This is calculated in accordance with AIC guidance and relates to past performance. The charges include the following lines items within the Consolidated Statement of Comprehensive Income:

- Investment management fees
- Administration fees
- Audit and non-audit fees
- Other expenses
- Legal and professional fees
- Directors’ fees and expenses
- Broker’s fees and expenses
- Agency fees

The calculation adds back any expenses unlikely to occur absent any loan originations or repayments and as such, the costs associated with hedging Euro loans back to sterling have been added back. The calculation does not include origination fees paid to the Investment Manager; these are recognised through “Income from loans advanced”.

WEIGHTED AVERAGE PORTFOLIO LTV TO GROUP FIRST AND LAST £

These are calculations made as at the quarterly reporting date of the loan to value ("LTV") on each loan at the lowest and highest point in the capital stack in which the Group participates. LTV to "Group last £" means the percentage which the total loan commitment less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the quarterly reporting date. LTV to "first Group £" means the starting point of the loan to value range of the loan commitments (when aggregated with any other indebtedness ranking senior to it). For development projects, the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

An average, weighted by the loan amount, is then calculated for the portfolio.

This APM provides an assessment of future credit risk within the portfolio and does not directly relate to any financial statement line items.

PERCENTAGE OF INVESTED PORTFOLIO IN FLOATING RATE LOANS

This is a calculation made as at the quarterly reporting date, which calculates the value of loans, which has an element of floating rate in part, in whole and including loans with floors, as a percentage of the total value of loans. This APM provides an assessment of potential future volatility of the income on loans, as a large percentage of floating rate loans would mean that income would move up or down with changes in SONIA.

AVERAGE LOAN TERM AND AVERAGE REMAINING LOAN TERM

The average loan term is calculated at the quarterly reporting date by calculating the average length of each loan from initial advance to the contractual termination date. An average, weighted by the loan amount, is then calculated for the portfolio.

The average remaining loan term is calculated at the quarterly reporting date by calculating the average length of each loan from the quarterly reporting date to the contractual termination date. An average, weighted by the loan amount, is then calculated for the portfolio.

This APM provides an assessment of the likely level of repayments occurring in future years (absent any early repayments) which will need to be reinvested. In the past, the actual term of loans has been shorter than the average contractual loan term due to early repayments and so the level of repayments is likely to be higher than this APM would suggest. However, this shorter actual loan term cannot be assumed as it may not occur and therefore it is not reported as part of this APM.

Alternative Performance Measures

NET CASH

Net cash is the result of the Group's total cash and cash equivalents minus total credit facility utilised as reported on its consolidated financial statements.

UNUSED LIQUID FACILITIES

Unused liquid facilities is the result of the Group's total cash and cash equivalents plus the available balance to withdraw under existing credit facilities at the reporting date.

PORTFOLIO DIVERSIFICATION

The portfolio diversification statistics are calculated by allocating each loan to the relevant sectors and countries based on the value of the underlying assets. This is then summed for the entire portfolio and a percentage calculated for each sector / country.

This APM provides an assessment of future risk within the portfolio due to exposure to specific sectors or countries and does not directly relate to any financial statement line items.

Corporate Information

Directors

John Whittle (Non-executive Director)
Shelagh Mason (Non-executive Director)
Charlotte Denton (Non-executive Director)
Gary Yardley (Non-executive Director)
(all care of the registered office)

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