

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 December 2020



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Objective and Investment Policy

INVESTMENT OBJECTIVE

The investment objective of Starwood European Real Estate Finance Limited (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"), is to provide its shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments in the UK and the European Union's internal market.

INVESTMENT POLICY

The Company invests in a diversified portfolio of real estate debt investments in the UK and the European Union's internal market. Whilst investment opportunities in the secondary markets will be considered from time to time, the Company's predominant focus is to be a direct primary originator of real estate debt investments on the basis that this approach is expected to deliver better pricing, structure and execution control and a client facing relationship that may lead to further investment opportunities.

The Company will attempt to limit downside risk by focusing on secured debt with both quality collateral and contractual protection.

The Company anticipates that the typical loan term will be between three and seven years. Whilst the Company retains absolute discretion to make investments for either shorter or longer periods, at least 75 per cent of total loans by value will be for a term of seven years or less.

The Company's portfolio is intended to be appropriately diversified by geography, real estate sector type, loan type and counterparty.

The Company will pursue investments across the commercial real estate debt asset class through senior loans, subordinated loans and mezzanine loans, bridge loans, selected loan-on-loan financings and other debt instruments. The split between senior, subordinated and mezzanine loans will be determined by the

Investment Manager in its absolute discretion having regard to the Company's target return objectives. However, it is anticipated that whole loans will comprise approximately 40-50 per cent of the portfolio, subordinated and mezzanine loans approximately 40-50 per cent and other loans (whether whole loans or subordinated loans) between 0-20 per cent (including bridge loans, selected loan-on-loan financings and other debt instruments). Pure development loans will not, in aggregate, exceed 25 per cent of the Company's Net Asset Value ("NAV") calculated at the time of investment. The Company may originate loans which are either floating or fixed rate.

The Company may seek to enhance the returns of selected loan investments through the economic transfer of the most senior portion of such loan investments which may be by way of syndication, sale, assignment, sub-participation or other financing (including true sale securitisation) 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. It is not anticipated that, under current market conditions, these techniques will be deployed with respect to any mezzanine or other already subordinated loan investments. The proceeds released by such strategies will be available to the Company for investment in accordance with the investment policy.

Loan to Value ("LTV")

The Company will typically seek to originate debt where the effective loan to real estate value ratio of any investment is between 60 per cent and 80 per cent at the time of origination or acquisition. In exceptional circumstances that justify it, the ratio may be increased to an absolute maximum of 85 per cent. In any event, the Company will typically seek to achieve a blended portfolio LTV of no more than 75 per cent (based on the initial valuations at the time of loan origination or participation acquisition) once fully invested.

Geography

The Company's portfolio will be originated from the larger and more established real estate markets in the UK and European Union's internal market. UK exposure is expected to represent the majority of the Company's portfolio. Investment in the European Union's internal market will mainly be focussed on Northern and Southern Europe. Northern European markets include Germany, France, Scandinavia, Netherlands, Belgium, Poland, Switzerland, Ireland, Slovakia and the Czech Republic. Southern European markets include Italy and Spain. The Company may however originate investments in other countries in the European Union's internal market to the extent that it identifies attractive investment opportunities on a risk adjusted basis.

The Company will not invest more than 50 per cent of the Company's NAV (calculated at the time of investment) in any single country save in relation to the UK, where there shall be no such limit.

In the event that a member state ceases to be a member of the European Union's internal market, it will not automatically cease to be eligible for investment.

Real Estate Sector and Property Type

The Company's portfolio will focus on lending into commercial real estate sectors including office, retail, logistics, light industrial, hospitality, student accommodation, residential for sale and multi-family rented residential. Investments in student accommodation and residential for sale are expected to be limited primarily to the UK, while multi-family investments are expected to be limited primarily to the UK, Germany and Scandinavia. Further, not more than 30 per cent, in aggregate, of the Company's NAV, calculated at the time of investment, will be invested in loans relating to residential for sale. No more than 50 per cent of the Company's NAV will be allocated to any single real estate sector of the UK, except for the UK office sector which is limited to 75 per cent of the Company's NAV.

Counterparty and Property Diversification

No more than 20 per cent of the Company's NAV, calculated at the time of investment, will be exposed to any one borrower legal entity.

No single investment, or aggregate investments secured on a single property or group of properties, will exceed 20 per cent of the Company's Net Asset Value, calculated at the time of investment.

Corporate Borrowings

Company or investment level recourse borrowings may be used from time-to-time on a short term basis for bridging investments, financing repurchases of Shares or managing working capital requirements, including foreign exchange hedging facilities and on a longer term basis for the purpose of enhancing returns to Shareholders and/or to facilitate the underwriting of whole loans with a view to syndication at a later point. In this regard, the Company is limited to aggregate short and long term borrowings at the time of the relevant drawdown in an amount equivalent to a maximum of 30 per cent of NAV but longer term borrowings will be limited to 20 per cent of NAV in any event.

Hedging

The Company will not enter into derivative transactions for purely speculative purposes. However, the Company's investments will typically be made in the currency of the country where the underlying real estate assets are located. This will largely be in Sterling and Euros. However, investments may be considered in other European currencies, and the Company may 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 are 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

Objective and Investment Policy

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.

Cash Strategy

Cash held by the Company pending investment or distribution will be held in either cash or cash equivalents, or various real estate related instruments or collateral, including but not limited to money market instruments or funds, bonds, commercial paper or other debt obligations with banks or other counterparties having a A- or higher credit rating (as determined by any reputable rating agency selected by the Company), Agency RMBS (residential mortgage backed securities issued by government-backed agencies) and AAA rated CMBS (commercial mortgage-backed securities).

Transactions with Starwood Capital Group or Other Accounts

Without prejudice to the pre-existing co-investment arrangements described below, the Company may acquire assets from, or sell assets to, or lend to, 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 order to manage the potential conflicts of interest that may arise as a result of 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 2018 issued by the Guernsey Financial Services Commission (the "Commission") under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and, where required by the Listing Rules, Shareholder approval is obtained in accordance with the listing rules issued by the UK Listing 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.

Co-investment Arrangements

Starwood Capital Group and certain Other Accounts are party to certain pre-existing co-investment commitments and it is anticipated that similar arrangements may be entered into in the future. As a result, the Company may invest alongside Starwood Capital Group and Other Accounts in various investments. Where the Company makes any such co-investments they will be made at the same time, and on substantially the same economic terms, as those offered to Starwood Capital Group and the Other Accounts.



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:

- 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 must, 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. The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. 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.

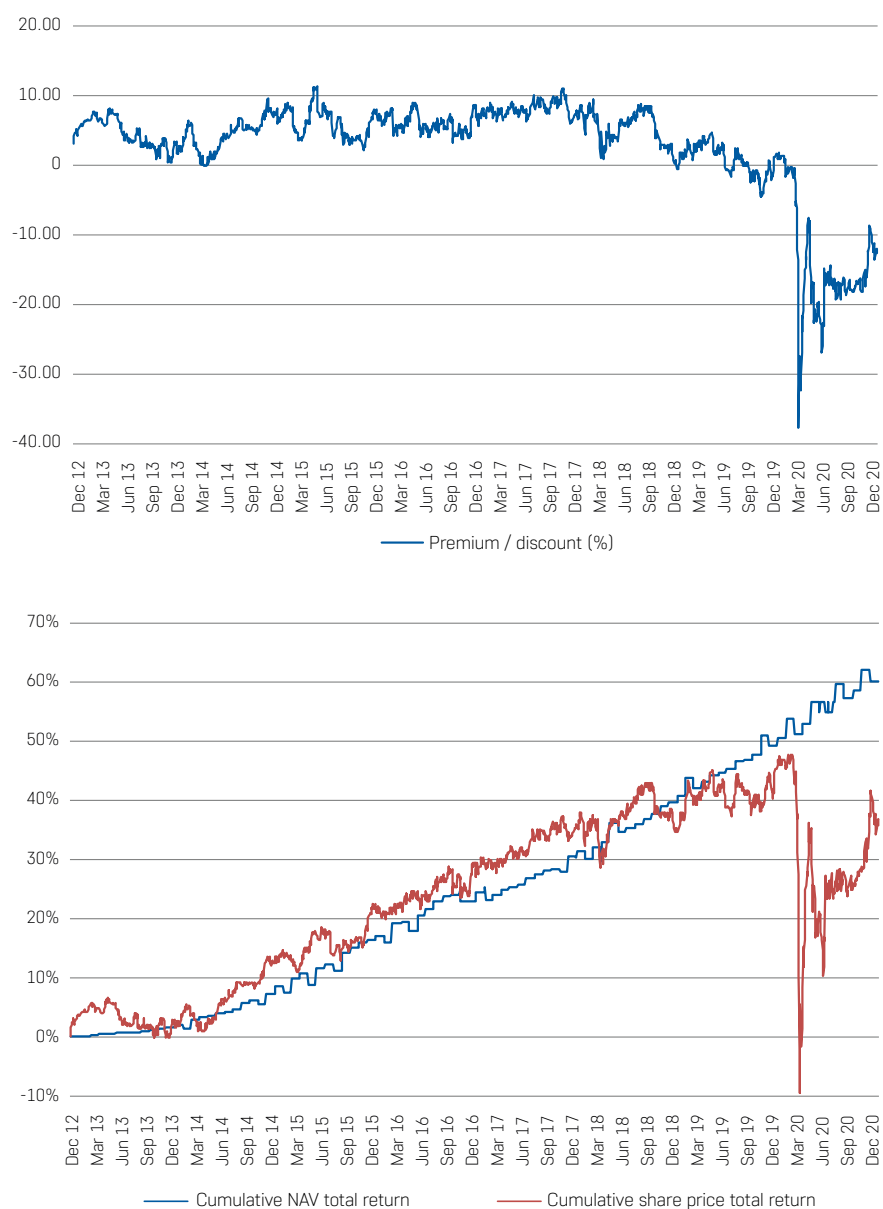
Financial Highlights

Key Highlights	Year ended 31 December 2020	Year ended 31 December 2019
NAV per Ordinary Share	104.18 p	103.23 p
Share Price	90.0 p	104.50 p
NAV total return ⁽¹⁾	6.3%	7.1%
Share Price total return ⁽¹⁾	-7.5%	9.1%
Total Net Assets	£426.7 m	£426.6 m
Loans advanced at amortised cost (including accrued income)	£442.7 m	£390.6 m
Financial assets held at fair value through profit or loss (including associated accrued income)	£0.9 m	£30.5 m
Cash and Cash Equivalents	£2.9 m	£36.8 m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£19.5 m	£29.7 m
Dividends per Ordinary Share	6.5 p	6.5 p
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	6.7%	7.1%
Invested Loan Portfolio levered annualised total return ⁽¹⁾	7.0%	7.0%
Ongoing charges percentage ⁽¹⁾	1.0%	1.0%
Weighted average portfolio LTV to Group first £ ⁽¹⁾	18.2%	18.4%
Weighted average portfolio LTV to Group last £ ⁽¹⁾	61.8%	63.0%

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

SHARE PRICE PERFORMANCE

As at 31 December 2020 the NAV was 104.18 pence per Ordinary Share (2019: 103.23 pence) and the share price was 90.0 pence (2019: 104.50 pence).



Source: Morningstar

The Company's share price has been volatile since March 2020. This volatility has been driven by market conditions and trading flows rather than a change in the Company's NAV.

Chairman's Statement



STEPHEN SMITH | Chairman

25 March 2021

Dear Shareholder,

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 2020. The last year has seen a great deal of turmoil and has placed a considerable burden on all of us, in both our professional and private lives. Our focus throughout the pandemic has been on the health and wellbeing of everyone associated with the Group while ensuring that our systems have remained fully functional throughout this period of intense disruption. My thanks to the Investment Adviser and all of our service providers for their perseverance in extraordinarily difficult times.

I am delighted to welcome Shelagh Mason and Charlotte Denton to the Board (Shelagh joined the Board on 1 September 2020 and Charlotte on 1 January 2021). Shelagh and Charlotte bring considerable experience to the Board as well as a range of skills that we believe will be both additive and complementary.

I would like to thank Jon Bridel, who left the Board in December 2020, for his contribution to the establishment and success of the Group. Jon's departure is in line with the Company's succession planning process for the phased retirement of Board members. Jon leaves with our very best wishes.

OVERVIEW

As at 31 December 2020, the Group had investments and commitments of £490.1 million (of which £49.2 million was committed but unfunded at the end of the year). The average remaining maturity of the Group's loan book was 2.4 years. The Group had net debt of £16.6 million and unused debt facilities of £106.5 million, available to fund the undrawn commitments of £49.2 million and new lending. The gross annualised levered total return at the year end was 7.0 per cent. The Net Asset Value ("NAV") was £426.7 million, being 104.18 pence per Ordinary Share.

INVESTMENT ACTIVITY

The Group started 2020 with a strong first quarter, making new commitments of £54.9 million. Loan origination is often slow in the first quarter and this was a promising start to the year. However, from March onwards, as the general level of economic activity spiralled downwards due to the Covid-19 pandemic, the focus of the Group understandably shifted to the management of the existing portfolio. In parallel, even though the pipeline at the time was healthy, the Group took a cautious approach to origination closing just one loan of £17.9 million in the second quarter. During the third quarter, the Group committed to fund an upside of £1.3 million to an existing loan. There was no origination in the fourth quarter.

As activity in the investment and financing markets slowed, there was in the market, in general, a significant reduction in the volume of early repayments. As might be expected, borrowers who had previously decided to refinance or sell, were unable or became reluctant to do so.

We received repayment in full of two loans prior to the pandemic totalling £14.1 million and a repayment in full of the credit linked notes totalling £21.8 million in June 2020. During the year to 31 December 2020, we received a further £45.5 million of partial loan repayments.

The Group funded a further £23.9 million in relation to loan commitments made in prior years so net cash invested in the year increased by £16.6 million. This was primarily due to the redevelopment of the Hotel, Spain.

	2017	2018	2019	2020
New loans to borrowers (commitment)	£245.8m	£208.0m	£224.7m	£74.1m
Loan repayments and amortisation	-£213.1m	-£137.2m	-£198.3m	-£81.4m
Net Commitment	£32.7m	£70.8m	£26.4m	-£7.3m

PORTFOLIO PERFORMANCE

All loan interest and scheduled amortisation payments up to 31 December 2020 have been paid in full and on time, in accordance with their respective initial or amended terms, as applicable.

In the Board's opinion the Investment Manager and Investment Adviser have performed well during this period of disruption. Robust underwriting, detailed due diligence and considered loan structuring and restructuring have been combined to produce a resilient portfolio which continues to perform in spite of very considerable and obviously stressed market conditions.

In some instances, the Investment Manager and Investment Adviser have worked closely with borrowers to agree loan amendments and changes to business plans, where appropriate, to ensure loan compliance and to maintain adequate capitalisation (if needed). 49.1 per cent of loans were subject to no modification, as a result of Covid-19, in 2020, a testament to the quality of underwriting standards and loan structuring. All economic modifications to date have been neutral to returns with no interest deferrals. In asset classes subject to greater Covid-19 impact we have sought additional sponsor equity, amortisation and / or deleveraging. The loan performance has been resilient. In the sectors that are most affected by the Covid-19 pandemic, hospitality and retail, borrowers continue to meet their obligations including regular interest and capital repayments in line with the agreed revised business plans. At 31 December 2020 six loans with exposure predominantly to hospitality and retail with a value of 35.3 per cent of NAV are classified as Stage 2 and the remaining loans are still

classified as Stage 1 in accordance with the Group's credit risk assessment in determining expected credit losses.

In light of the considerable disruption from Covid-19 the Board has sought to provide more detailed updates and disclosure to our shareholders during the year through its quarterly factsheets, which are available on the Company's website. Please refer to the Investment Manager's report on page 27 for detailed updates on portfolio performance.

STABILITY OF NET ASSET VALUE ("NAV")

Loans made by the Group are measured at amortised cost in line with the requirements of IFRS 9 with which we are obliged to comply. As our business model is to invest for interest and hold loans to maturity we do not follow fair value accounting for the vast majority of our loans. In our eight year history only one position has been recognised at fair value (the credit linked notes which repaid in the second quarter of this year). Therefore our NAV does not show significant fluctuations during periods of market volatility.

Had the underwriting, including loan to value ("LTV") headroom, on the Group's loans not been as strong as it is, the Group may well have faced more volatility in its NAV as the Group might have had to recognise expected credit losses ("ECLs"). However, after taking into consideration the current market conditions, independent valuations of the underlying assets secured against the Group's loans, the receipt of expected cash flows and the credit worthiness of the counter parties to the loans, the Group sees no need to recognise any ECLs in any of the Group's loans. The reasons, estimates and judgements

supporting our current assessment are described on page 19 of the Investment Manager's report.

BOARD COMPOSITION AND DIVERSITY

As the Company approaches its ninth year of existence, as articulated in previous reports, the Board has been mindful of the need to plan for succession accordingly. The Company is using this moment as an opportunity to promote new talent and diversity, whilst being mindful of passing on the experience that the Board has gained since IPO. The succession plan began late last year with the retirement of the first Director, as well as the excellent replacement found in Shelagh Mason. Additionally, we are delighted that Charlotte Denton has joined the Board recently to further help with the Company's development. Further details of the Board's succession planning can be found in the Corporate Governance Statement on page 37.

Chairman's Statement

SUCCESSION PLANNING

The Company enters its ninth year in 2021 and the Board has been mindful that a succession plan needs to be implemented for a lengthy period of time. During Q4 2019, the Directors devised a Succession Planning Memorandum. The Memo states that a new Director will be appointed to the Board during the second half of 2020 giving them time to embed themselves in the role prior to Jonathan Bridel standing down from the Board in December 2020. Shelagh Mason was duly appointed on 1 September 2020. In addition, the Company has decided that it is appropriate to appoint an additional Director to the Board to further improve the Company's skills, experience and diversity as well as to assist in the succession process. To that end, Charlotte Denton was duly appointed on 1 January 2021.

The Board's intention remains that Stephen Smith will retire from the Board in December 2021. At the point of Stephen Smith's retirement, only John Whittle would have served as a Director of the Company since its IPO. In context of John Whittle's familiarity with the Company, he will probably be appointed as Chairman until his own departure from the Board. In light of (i) John Whittle's extensive familiarity with the Company; (ii) the current challenging market circumstances facing the Company and; (iii) the extensive rotation of the Board in recent years, the Board are of the view that it is in shareholders' best interests that John Whittle remains on the Board until December 2023, a year longer than originally envisaged under the Succession Planning Memorandum. This will ensure that there is a phased and orderly succession of the Board which allows new Directors the opportunity to benefit from the significant experience John Whittle has developed since the Company's IPO.

In terms of the new appointments, 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. The Board also intend to consider diversity when making the new appointments to the Board.

SHARE BUYBACKS AND SHARE PRICE PERFORMANCE

The year end share price was 90 pence reflecting a 13.6 per cent discount to NAV. Despite continued market dislocation and fluctuation, the share price was starting to look less volatile in the second half of 2020 (compared to the first half of 2020), trading in a range between 83.6 pence and 94.0 pence and ending the period at 90.0 pence, although there is still certainly inherent value which is not being recognised in the market at this time. This price stability has been supported by the share buy-back programme which commenced at the end of the second quarter. The Board continue to believe that the shares represent very attractive value at this level and certain members of the Board and individuals at the Investment Adviser have made personal purchases during the year, as previously disclosed, and as referenced in note 22. We believe this reflects not only strong corporate governance demonstrating our alignment with our shareholders, but it also demonstrates the strong belief in the valuation of the portfolio.

The Company received authority at the most recent Annual General Meeting ("AGM"), to purchase up to 14.99 per cent of the Ordinary Shares in issue on 8 June 2020 and since then, in August 2020, the Board engaged Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. During the third and fourth quarters the Company bought back 3,648,125 shares at an average cost per share of 86.9 pence per share and these shares are held in treasury. Share buy backs are subject to sufficient cash being available.

FUTURE SHARE ISSUANCE

At the last 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.

The Covid-19 pandemic has caused dislocation in the real estate sector and we are partly through this now and potentially working to come out the other side. The market is still trying to ascertain what the longer term impact on real estate values will be. The Investment Adviser feels that the market reaction has been too cautious and that has led to considerable investment market opportunity which we feel will remain the case throughout 2021. Whilst the discount to NAV persists, we do not intend to raise additional equity. Nevertheless, we do expect the market to recognise the value in the shares during the year and the Board believes that the Group should maintain its capacity to access capital within a short time frame in expectation of improved markets. The Directors believe that as the market improves and the discount to NAV narrows, immediate access to capital could have the following additional benefits for the Company and shareholders:

- to enable the Company to pursue larger investment opportunities and broaden its lending range and capacity;
- to enable the Company to increase diversification and the depth of its portfolio;
- increased scale is attractive to a wider investor base;
- a greater volume of shares, creating increased secondary market activity; and
- fixed running costs spread across a larger equity capital base reducing the Company's ongoing expenses per share.

To take advantage of opportunities as and when they present themselves, the Directors believe it is appropriate for the Company to renew the existing authorities at the forthcoming AGM, in respect of issuance of up to 10 per cent of the Ordinary Shares in issue.

DIVIDENDS

Total dividends of 6.5 pence per Ordinary Share were declared in relation to the year ended 31 December 2020.

Period	Dividend declared	Payment date	Amount per share
1 January 2020 to 31 March 2020	23 April 2020	20 May 2020	1.625p
1 April 2020 to 30 June 2020	23 July 2020	28 August 2020	1.625p
1 July 2020 to 30 September 2020	22 October 2020	20 November 2020	1.625p
1 October 2020 to 31 December 2020	22 January 2021	05 March 2021	1.625p
Total			6.5p

The 2020 dividends were covered 0.9x by earnings (excluding unrealised FX gains and losses). We have held a dividend reserve (within retained earnings) built up over several years which we have been using to maintain the annual dividend at 6.5 pence per share over the last two years even though the dividend has not been covered by earnings more recently. As a result, dividends have not, to date, been paid out of capital reserves.

As announced on 24 July 2020, from 1 January 2021 the Board intends to target a dividend of 5.5 pence per annum (payable quarterly) which reflects the broader lower interest rate environment. This will provide a level of dividend which should be fully covered by earnings whilst ensuring the Company maintains strong credit discipline without having to increase the risk of the portfolio.

OUTLOOK

The focus of the Group for 2021 remains the continued robust asset management of the existing loan portfolio. We also expect that we will see good origination opportunities during the year. Disruption due to the Covid-19 pandemic may reduce as the year progresses and the vaccine roll out across the United Kingdom is particularly heartening. More stable conditions could herald greater market volumes to come.

Of particular note is the significant reduction in lending by balance sheet bank lenders, particularly to development, refurbishment and non-core property asset classes. This trend will inevitably produce interesting opportunities for alternative lenders and we fully expect to benefit.

Finally, the Board note that one positive outcome of the pandemic could be the recognition by the global business community of the need for affirmative action in relation to climate change and other related environmental, social and governance considerations.

The Board continues to work with the Investment Manager and Investment Adviser to enhance both origination capacity and portfolio construction in order to deliver attractive risk adjusted returns to its investors. The Board will continue to inform you of progress by way of the quarterly fact sheets.

On behalf of the Board, I would like to close by thanking shareholders for your commitment. I sincerely hope that we all have a more stable time in 2021 and I look forward to briefing you on the Group's progress later this year.

Stephen Smith | Chairman

25 March 2021

Strategic Report

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

CORPORATE PURPOSE

As an investment company, the general corporate purpose is to provide long-term prosperity to our shareholders through providing regular dividends and preserving capital by limiting downside risk. In addition to this, the Board and Investment Manager also recognise that by furthering their understanding of the needs of other relevant stakeholders, the Company can provide better returns to its shareholders.

OBJECTIVE, INVESTMENT POLICY AND BUSINESS MODEL

The Objective and Investment Policy set out on pages 2 to 4 describes the Group's strategy and business model.

The Investment Manager is Starwood European Finance Partners Limited, a Company incorporated in Guernsey with registered number 55819 and regulated by the Guernsey Financial Services Commission (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 on page 6.

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 its ability 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 below.

Principal Risks

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 is completed by Group's service providers and is 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.

Long Term Strategic Risk

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. In addition, the pace of investment has in the past and may in the future be slower than expected or the principal on loans may be repaid earlier than anticipated, causing the return on affected investments to be less than expected. Furthermore, if repayments are not promptly re-invested this may result in cash drag, which may lower portfolio returns. As a result, the level of dividends to be paid by the Company may fluctuate and there is no guarantee that any such dividends will be paid. Since the Covid-19 pandemic 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 monitors the level of premium or discount of share price to NAV per share and announced a share buyback programme during the year in order to support the share price. While the Directors may seek to mitigate any discount to NAV per share through the discount management mechanisms set out in this Annual Report, there can be no guarantee that they will do so or that such mechanisms will be successful. Please see page 33 for further information on the discount management mechanisms.

The Investment Adviser provides the Investment Manager and the Board with a regular report on pipeline opportunities, which includes an analysis of the strength of the pipeline and the returns available. The Directors also 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, the need for any loan amendments to allow the loans continue to perform in different economic circumstances which may impact returns.

The Board monitors investment strategy and performance on an ongoing basis and regularly reviews the Investment Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders.

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 Investment Adviser is monitoring the transition from LIBOR to SONIA and will manage any transition required on behalf of the Group. The Group has ensured that loan agreements for the current portfolio are in a form which accommodates the flexibilities required to manage the transition.

The loans in place at 31 December 2020 have been structured so that 20.8 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). In addition, whilst the remaining 79.2 per cent is classified as floating, 100 per cent of these 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. When reviewing future investments, the Investment Manager will continue to review such opportunities to protect against downward interest rate risk.

The Board considers that the following principal and emerging risks could impact both the performance and prospects of the Group and could also threaten its ability to continue its operations and meet its liabilities but has identified the mitigating actions in place to manage them.

Foreign Exchange Risk

The majority of the Group's investments are Euro denominated (circa 58.3 per cent as at 31 December 2020). The Group is subject to the risk that the exchange rates move unfavourably and that a) foreign exchange losses on the loan principal are incurred and b) that interest payments received are lower than anticipated when converted back to Sterling and therefore returns are lower than the underwritten returns.

The Group manages this risk by entering into forward contracts to hedge the currency risk. Most 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 £273.4 million of hedged notional exposure with Lloyds Bank plc at 31 December 2020 (converted at 31 December 2020 FX rates).

As at 31 December 2020 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 2020, the Company had sufficient liquidity and credit available on the revolving credit facility to meet any cash collateral requirements.

Market Deterioration Risk

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 significant loan defaults or impairments.

The Covid-19 pandemic has had a material impact on global economies and on the operations of the Group's borrowers during 2020 and this will continue in 2021. The Covid-19 pandemic presents a major risk to growth and the full impact of the consequences for the world economy is unclear. The Board have considered the impact of Covid-19 on the current and future operations of the Group and its portfolio of loans advanced. Because of the cash and loan facilities available to the Group and the underlying quality of the portfolio of loans advanced, both 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.

The United Kingdom's departure from the European Union represents a potential threat to the UK economy as well as wider Europe. On a cyclical view, national economies across Europe appear to be heading at best towards lower growth and alongside the economic impact of Covid-19, towards recession. The potential impact of Brexit could have a further destabilising effect as a result of Covid-19. To some extent the potential impact of an unsatisfactory UK exit from the EU has already been priced into markets and forecasts, but significant headwinds could still arise.

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.

However, the Group is mitigated against this with an average weighted loan to value of the portfolio of 61.8 per cent (see page 21 of the Investment Manager's report). Therefore, the portfolio should be able to withstand a significant level of deterioration before credit losses are incurred.

The Investment Adviser also mitigates the risk of credit losses by undertaking detailed due diligence on each loan. Whilst the precise scope of due diligence will depend on the proposed investment, such diligence will typically include 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 also manage these risks by ensuring a diversification of investments in terms of geography, market and type of loan. The Investment Manager and Investment Adviser operate in accordance with the guidelines, investment limits and restrictions policy determined by the Board. The Directors review the portfolio against these guidelines, limits and restrictions on a regular basis.

The Investment Adviser 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.

Six loans, predominantly in the retail and hospitality sectors with a value of 35.3 per cent of NAV were moved to Stage 2 during the year but no loan has been moved to Stage 3. However, at this point in time we have no reason to believe that any expected credit losses should be recognised against any of the loans, because of the strong LTVs across the loan portfolio, including these 6 loans. The reasons, estimates and judgements supporting our current assessment are described on pages 19-20 of the Investment Manager's report.

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 pipeline 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.

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 the risk matrix and identified climate change as an emerging risk. Cybercrime which was an emerging risk in the prior year, has been moved to Principal Risks.

Climate change

Extreme weather events and natural catastrophes and the consequences that climate change could have both on infrastructures and on nature 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 Adviser, is monitoring closely the regulation and any developments in this area (see 'Environmental, Social and Corporate' section on page 17 for further information).

ASSESSMENT OF PROSPECTS

The Group's strategy is central to an understanding of its prospects. The Group's focus is twofold: i) to manage expected repayments, including proactively managing the investments already made to ensure that during times of economic instability on either a macro (as experienced during the year as a result of the Covid-19 pandemic) or micro level, the loans continue to perform and provide positive returns to the Group, and ii) continuing to grow the Group, by sourcing investments with good risk adjusted returns in order to minimise any potential for cash drag and improve the Group's returns. The Group's prospects are assessed primarily through its strategic review process, which the Board participates fully in. The Directors' have assessed the prospects of the Group over a period of three years which has been selected because the strategic review covers a three-year period. The Group updates its plan and financial forecasts on a monthly basis and detailed financial forecasts are maintained and reviewed by the Board regularly.

In addition the Directors have considered the realisation vote which will, under the Articles, take place no later than 28 February 2023. The Directors have concluded that the shareholders will most likely vote against this realisation vote and the Company will continue as constituted.

ASSESSMENT OF VIABILITY

Although the strategic review reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the review, 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 the 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 12 months after the loan maturity date; and
- An analysis of the robustness of the covenants under the revolving credit facility to withstand default of the underlying investments.

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 either of the risks identified over the period of the financial forecasts.

VIABILITY STATEMENT

In addition to the assessment of prospects and viability above, the Directors also have a reasonable expectation, based on the scenarios testing, that the Group will continue to meet its liabilities as they fall due over the three-year period ending 31 December 2023, and therefore the Group is expected to remain viable from both a business model, strategic opportunity and financial perspective.

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 Adviser consider the Group's activities to have a minimal direct impact on the environment.

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 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. 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 4,000 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.

The Group has no Greenhouse Gas Emissions, other than as noted below, to report from its operations for the current or prior year, nor does it have responsibility for any other emissions producing sources (including those within the underlying investment portfolio).

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.

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.

Stephen Smith | Chairman

25 March 2021

Investment Manager's Report – Investment Highlights

The Investment Manager and Investment Adviser are both part of the Starwood Capital Group (SCG), a leading global real estate investment group.

PORTFOLIO STATISTICS

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

As at 31 December 2020, the portfolio was invested in line with the Group's investment policy and is summarised below.

	31 December 2020	31 December 2019
Number of investments	18	18
Percentage of invested portfolio in floating rate loans ⁽¹⁾	79.2%	79.1%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	6.7%	7.1%
Invested Loan Portfolio levered annualised total return ⁽¹⁾	7.0%	7.0%
Weighted average portfolio LTV – to Group first £ ⁽¹⁾	18.2%	18.4%
Weighted average portfolio LTV – to Group last £ ⁽¹⁾	61.8%	63.0%
Average loan term (stated maturity at inception)	4.5 years	4.1 years
Average remaining loan term	2.4 years	2.8 years
Net Asset Value	£426.7 m	£426.6 m
Amount drawn under Revolving Credit Facility (including accrued interest)	(£19.6 m)	(£29.7 m)
Loans advanced at amortised cost (including accrued income)	£442.7 m	£390.6 m
Financial assets held at fair value through profit or loss (including associated accrued income and excluding the value of FX hedges)	-	£21.9 m
Cash	£2.9 m	£36.8 m
Other net assets / (liabilities) (including the value of FX hedges)	£0.7 m	£7.0 m

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

PORTFOLIO DIVERSIFICATION

Country	% of invested assets
UK	41.7
Spain	30.0
Republic of Ireland	20.2
Netherlands	3.8
Germany	3.2
Finland	1.1

Sector	% of invested assets
Hospitality	35.7
Office	23.2
Residential for sale	15.7
Retail	12.9
Healthcare	5.7
Logistics	4.1
Light Industrial	1.6
Residential for rent	0.9
Other	0.2

Loan type	% of invested assets
Whole loans	61.2
Mezzanine	38.8

Loan currency	% of invested assets*
Sterling	41.7
Euro	58.3

* 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.

EXPECTED CREDIT LOSSES

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

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

- underlying income performance is at a greater than 10 per cent variance to the underwritten loan metrics;
- LTV is greater than 75-80 per cent;
- LTV 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

- income rollover / tenant break options exist such that a lease up of more than 30 per cent of underlying property will be required within 12 months in order to meet loan covenants and interest payments; and
- borrower management team quality has adversely changed.

Stage 3: Default and credit-impaired assets

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.

At 31 December 2019 all loans were classified as Stage 1. At 31 December 2020 six loans with a value of 35.3 per cent of NAV are classified as Stage 2 and the remaining loans are still classified as Stage 1. The loans classified to Stage 2 are predominantly in the retail and hospitality sectors (but not all hospitality loans are in Stage 2). The main reason for moving the loans to Stage 2 in the second quarter of 2020 was expected income covenant breaches due to the disruption from Covid-19. Following loan amendments agreed with borrowers, no income breaches have occurred. The loan portfolio performance has been resilient. In 2020 the company collected all interest that was contractually due and all amortisation that was contractually due.

It is important to note that although these six loans have been classified as Stage 2 no ECLs have been recognised. This is because the formula for calculating the expected credit loss is:

$$\text{"Present Value of loan"} \times \text{"probability of default"} \times \text{"value of expected loss"}.$$

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

The Group has not recognised expected credit losses at initial recognition on any of its loans due to the detailed and conservative underwriting undertaken, robust loan structures in place and a strong equity cushion with an average LTV of 61.8 per cent (based on the latest available valuation for each asset).

Stage 2: significant increase in credit risk

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

- 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;

Investment Manager's Report – Investment Highlights

Although credit risk (and hence probability of default) has increased for these loans, we have considered a number of scenarios and as a result 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 these six loans given the present value of these loans in all scenarios considered).

This assessment has been made, despite the continued pressure on the hospitality and retail markets from Covid-19, 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 Three Shopping Centres and Shopping Centre, Spain (the "Spain retail assets") in particular continues to be closely monitored and analysed, and we have sought input, analysis and commentary from Spanish market advisers and an updated external valuation in this regard, 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:

- Sufficient headroom on the six loans with an average LTV of 67.9 per cent between them based on the latest independent valuations received.
- Performance of the retail centres where local restrictions were lifted following the first wave of Covid-19 was very encouraging for future recovery with the sites on average in September 2020 reaching 92 per cent of comparable month prior year footfall and we expect this will re-occur;
- 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;

- We believe that following the rollout of the vaccine and the loosening of lockdown restrictions, income in the retail centres is well positioned to recover as a result of the above; and
- We have reviewed valuations of listed peers of the borrower and valuations have not moved materially and therefore currently judge that the revised valuation on these assets, which is being appraised by the same markets experts, is unlikely to result in an ECL being recognised.

FAIR VALUES

The amortised cost loan recognition is required by IFRS 9 and we do not have a choice of methodology to follow – we are not eligible to follow fair value accounting for the vast majority of our loans, and in our eight year history only one position has ever been eligible to be recognised at fair value (the credit linked notes which repaid in the second quarter of this year). Therefore our NAV does not necessarily show significant fluctuations during periods of market volatility.

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

The effective interest rate ("EIR") – i.e. the discount rate at which future cash flows equal the amortised cost, is 6.8 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. Further, the Group considers the EIR of 6.8 per cent to be conservative as many of these loans were part of a business plan which involved transformation and many of these business plans are advanced in the execution and therefore significantly de-risked from the original underwriting and pricing (for example the Hotel, Spain). The volatility of the fair value to movements in discount rates is low due to the low remaining duration of most loans.

Discount Rate	Value Calculated	% of Book Value
4.8%	£ 464.6 m	104.9%
5.2%	£ 459.5 = fair value	103.8%
5.8%	£ 453.4 m	102.4%
6.3%	£ 448.0 m	101.2%
6.8%	£ 442.7 m = book value	100.0%
7.3%	£ 437.4 m	98.8%
7.8%	£ 432.3 m	97.7%
8.3%	£ 427.3 m	96.5%
8.8%	£ 422.4 m	95.4%

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 2.5 years and therefore our valuations have always been fresh. At 31 December 2020, 15.7 per cent of our total portfolio was originated in the last 12 months and 40.6 per cent in the last 18 months (including the 15.7 per cent in the last 12 months).
- 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. Of the 84.3 per cent of loans on our books which are older than 12 months, 44.5 per cent have had the valuation updated since the loan was originated (comprising 37.5% of the total loan book).
- A revised, independent valuation of the Spanish retail loan assets has been instructed by the Group post year-end. Initial indicative output confirms that the Group's loan exposure continues to have adequate headroom against the valuation basis but values have declined in line with expectation and the wider market trend given the current lack of certainty and liquidity for retail assets. Once these valuation reports are finalised, the Group will reflect the formal updated valuation basis in post year-end reporting. We expect the impact on the overall portfolio's last Sterling LTV to be low.
- The Group has not sought independent valuations on every position given consideration of the individual risk factors considered of each loan position. Instead, the Investment Adviser has undertaken desktop reviews of the last valuations for each of the assets and evaluated the key inputs based on the latest information they have, to update any valuations in the assessment of the LTV for each loan below, preferring to maintain the option of an independent valuation at a time when the valuation will provide better information to both the Group and borrower - as was decided for the Spain retail assets.
- 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.

On the basis of the methodology previously outlined, at 31 December 2020 the Group has an average last LTV of 61.8 per cent.

Investment Manager's Report – Investment Highlights

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-25%	80.9%	89.2%	76.9%	83.9%	82.3%
-20%	75.8%	83.6%	72.1%	78.6%	77.2%
-15%	71.4%	78.7%	67.8%	74.0%	72.6%
-10%	67.4%	74.3%	64.1%	69.9%	68.6%
-5%	63.9%	70.4%	60.7%	66.2%	65.0%
0%	60.7%	66.9%	57.7%	62.9%	61.8%
5%	57.8%	63.7%	54.9%	59.9%	58.8%
10%	55.1%	60.8%	52.4%	57.2%	56.1%
15%	52.7%	58.2%	50.1%	54.7%	53.7%

The table above shows the sensitivity of the LTVs for movements in the underlying property valuations, disclosed by sector, and demonstrates that the Group has considerable headroom within the currently reported last LTVs. The valuations used in the calculations for the table above are the most recent final valuations available for the assets against which loans are held. As previously disclosed the Group has instructed updated, independent valuations of the Spanish retail loan assets. These valuations are not yet final but the indicative results of these valuations indicate that the LTV of the Group as a whole will change from 61.8% (as set out in the table above) to 63.2%, a deterioration of 1.4%. We will update shareholders as to the final findings of the valuations in the quarterly factsheet following the finalisation of the valuations. We do not anticipate that the position on Expected Credit Losses (i.e. that currently no ECL is recognised) with regard to these assets will change as a result of these valuations.

FOREIGN EXCHANGE

The Group continues to recognise unrealised foreign exchange gains or losses relating to investment activity. The Group has fully hedged the principal of each individual non-Sterling denominated loan with forward contracts, together with interest receipts during the period of prepayment protection. If the loans repay at their scheduled repayment date, the Group would expect that this policy would be effective in protecting against realising FX losses on capital invested.

However, the accounting treatment for the non-Sterling denominated loans is to value the loan at the foreign exchange rate at the relevant valuation date, and to value the hedge based on the market forward rates at the valuation date to the maturity date of the relevant hedge (discounted back to present value). As a result of this accounting treatment, whilst the loan principal is economically fully hedged (if held to loan maturity), unrealised foreign exchange gains or losses are recognised in the accounts during the life of the loan due to changes in the shape of the relevant forward curves. For this reason, the Group disregards unrealised foreign exchange gains and losses when declaring dividends.

It is important to note that should any of the non-Sterling denominated loans repay early, and the Group has no alternative use for the funds repaid and therefore breaks the hedges early, foreign exchange gains or losses could be realised at that point. The size of this will depend on the shape of the relevant forward curve at the point at which the relevant hedge is broken. In general, a steeper curve would result in greater gains/losses.

DIVIDEND POLICY

The Company declared dividends of 6.5 pence per Ordinary Share in respect of the year ended 31 December 2020 (2019: 6.5 pence per Ordinary Share). These dividends are recognised in the Consolidated Statement of Changes in Equity when declared, which is usually within one month after the end of the financial period to which they relate. 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.

As announced on 24 July 2020, from 1 January 2021 the Board intends to target a dividend of 5.5 pence per annum (payable quarterly) which reflects the broader lower interest rate environment. This will provide a more sustainable level of dividend which should be fully covered by earnings whilst ensuring the Company maintains strong credit discipline. For the year ended December 2020 6.5 pence was paid out in dividends which was covered 0.9x by earnings (excluding unrealised FX gains and losses). The Company maintains a dividend reserve (within retained earnings) built up over several years which was partially utilised to ensure dividends were not paid out of capital.

INVESTMENT OUTLOOK AND MARKET SUMMARY

Many people were happy to wave good-bye to 2020's troubles as we entered 2021. While there is still some way to go dealing with COVID-19, the balance of news flow and sentiment since the beginning of 2021 has continued to be positive with better than expected vaccine timing and efficacy, an ultimately orderly handover of the US Presidency and significant continued stimulus. The vaccine roll-out in the UK has been a particular success. There are residual uncertainties including the impacts of Covid-19 mutations, the slower roll out of vaccines in Europe and the timing of easing of continuing lockdowns both in the UK and Europe. Markets are signalling that taken altogether the outlook is better than at the end of 2020 with the Dow Jones Industrial Average, the S&P 500 and Dax all hitting new all-time highs in early March.

The agreement of the trade deal with Europe was a landmark in the Brexit process which has delivered some elements of certainty, but it will take longer to understand the full impacts of the UK leaving the EU. In particular details around financial services have been delayed. While equivalence arrangements are likely to simplify matters significantly, the devil is often in the detail. Tariff free trade appears to be a success in principle but it also remains to be seen whether the red-tape introduced for trade between Europe and the UK creates its own barriers.

In the real estate markets, big box and last mile logistics and residential were the clear winners of 2020. Office and student accommodation have been subject to more nuanced case by case effects and hospitality and retail have faced the biggest challenges.

Over recent months, the outlook has become significantly clearer for hotels. As lockdowns ease we expect a rapid rebound in domestic tourism. The population is keen to go on holidays, concerts and events and with high savings rates during lockdowns people have the cash and are ready to spend. This demand will focus first domestically and then to short haul international resorts as practicalities allow. Long haul tourism, corporate and conference business are likely to take longer to resume.

While hotel investment volumes were down sharply in 2020, we are also now seeing a marked increase in investor sentiment in both hotel equity and debt. We have already tracked over 50 hotels transacting in Europe in the first two months of 2021.

While the 2020 sector themes are likely to continue in 2021, taking the longer view there are likely to be opportunities for the right assets with well thought out and well capitalised business plans in all sectors.

Interest rates remain stable with Sterling Libor at 0.08% per cent and the curve remaining extremely flat with the Sterling 5-year swap rate at only 0.52% per cent. With rates so low investors are keen to find yield which has supported record European issuance in both investment grade and non-investment grade credit in 2020. Yields in the high yield market have been near or around all-time lows.

In real estate lending, 2020 volumes were down significantly. As we move in to 2021 we expect market conditions to become more liquid as the market adjusts to the COVID-19 and post COVID-19 environments. While we expect dislocations to remain in the market during 2021, we are seeing willingness from the market to engage on all asset classes also including hotels and retail. The lending appetite is coming from diverse sources reflecting an increasingly fragmented market. There continues to be a significantly lower participation from balance sheet bank lenders particularly for development financing and for financing other non-vanilla business plans and asset classes. We see this pattern persisting as a long-term theme that will support the Group's strategy of sourcing attractive new investment opportunities in 2021 and beyond.

Investment Manager's Report – Portfolio Review

INVESTMENT DEPLOYMENT

As at 31 December 2020, the Group had investments (excluding accrued interest) and commitments of £490.1 million (Sterling equivalent at year-end exchange rates) 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 Scotland	£4.8 m	£0.2 m	£5.0 m
Office, London	£13.3 m	£7.3 m	£20.6 m
Residential, London	£24.5 m	£1.1 m	£25.6 m
Hotel, Oxford	£16.7 m	£6.3 m	£23.0 m
Hotel, Scotland	£27.2 m	£15.5 m	£42.7 m
Hotel, North Berwick	£10.5 m	£4.5 m	£15.0 m
Logistics Portfolio, UK ⁽²⁾	£12.0 m	-	£12.0 m
Total Sterling Loans	£183.9 m	£34.9 m	£218.8 m
Three Shopping Centres, Spain	£33.3 m	-	£33.3 m
Shopping Centre, Spain	£15.4 m	-	£15.4 m
Hotel, Dublin	£54.2 m	-	£54.2 m
Hotel, Spain	£47.7 m	£1.3 m	£49.0 m
Office & Hotel, Madrid, Spain	£16.7 m	£0.9 m	£17.6 m
Mixed Portfolio, Europe	£29.5 m	-	£29.5 m
Mixed Use, Dublin	£3.2 m	£10.1 m	£13.3 m
Office Portfolio, Spain	£19.3 m	£2.0 m	£21.3 m
Office Portfolio, Ireland	£31.8 m	-	£31.8 m
Logistics Portfolio, Germany ⁽²⁾	£5.9 m	-	£5.9 m
Total Euro Loans	£257.0 m	£14.3 m	£271.3 m
Total Portfolio	£440.9 m	£49.2 m	£490.1 m

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

⁽²⁾ Logistics Portfolio, UK and Logistics Portfolio, Germany is one single loan agreement with Sterling and Euro tranches.

During the financial year, the following significant investment activity occurred (included in the table above):

New Loans

The table below shows new commitments made in 2020 together with amounts funded under both the new commitments and under the existing commitments.

	Period of Commitment	New Commitments ⁽¹⁾	Funded in 2020 ⁽²⁾
Office Portfolio, Ireland	January 2020	£29.9 m	£29.9 m
Hotel, Berwick	February 2020	£15.0 m	£10.5 m
Residential, London (extension)	February 2020	£10.0 m	£10.0 m
Logistics Portfolio, UK	June 2020	£12.0 m	£12.0 m
Logistics Portfolio, Germany	June 2020	£5.9 m	£5.9 m
Hotel, Scotland	Pre 2020 (extended in 2020)	£1.3 m	£1.3 m
Hotel, Spain	Pre 2020	-	£19.9 m
Office, Scotland	Pre 2020	-	£0.3 m
Office, London	Pre 2020	-	£0.7 m
Residential, London	Pre 2020	-	£4.6 m
Mixed use, Dublin	Pre 2020	-	£2.4 m
Office Portfolio, Spain	Pre 2020	-	£0.4 m
Total		£74.1 m	£97.8 m

⁽¹⁾ Euro amounts converted at rate on date of first loan drawdown.

⁽²⁾ Euro amounts converted at rate of each drawdown.

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

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

Loan Upsize: Hotel & Residential, UK:

On 27th February 2020 the Group also committed to fund a £20.0 million upsize to an existing fixed rate mezzanine loan to support the development of a mixed-use scheme in London. Starwood Property Trust, Inc (through a wholly owned subsidiary) is participating in 50 per cent of the loan amount, providing the Group with a net commitment of £10.0 million. The remaining loan term at the date of the extension was 1.75 years with a 1 year extension option.

New Loan: Logistics, UK and Germany:

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

Extension: Hotel, Scotland: In August 2020, the Group increased (and funded) the total commitment to this loan by an additional £1.3 million to allow the borrowers to acquire three additional assets in the same perimeter as the hotel which will add 9 keys when refurbished.

Investment Manager's Report – Portfolio Review

Repayments

The following loans were repaid in full during the year:

	Month	Amount ⁽¹⁾	Reason
Office, Paris	February	£13.4 m	Repayment from borrower equity
Mixed use Development, South East UK	March	£0.7 m	Completion of sales
Credit Linked Notes	June	£21.8 m	Repayment by issuers
Total		£35.9 m	

⁽¹⁾ Sterling equivalent for Euro loans using the spot rate on date of repayment.

The repayment of the Credit Linked Notes in the above table was earlier than the contractual settlement date but was anticipated given the relatively high yield that was being earned on the credit linked notes compared to the current market conditions.

In addition to the above full repayments, the Group continued to receive scheduled (i.e. contractual) and unscheduled amortisation on other loans as borrowers continue to execute their business plans in the amounts shown in the table below.

	Amount ⁽¹⁾	Reason
Residential, London	£29.1 m	Sale of selected assets in line with business plan
Mixed Portfolio, Europe	£15.4 m	Sale of selected assets in line with business plan
Office Portfolio, Spain	£0.4 m	Sale of small asset
Three Shopping Centres, Spain	£0.6 m	Scheduled amortisation
Total	£45.5 m	

⁽¹⁾ Sterling equivalent for Euro loans using the spot rate on date of repayment.

The average remaining term of the loans is 2.4 years, which is split as shown in the table below.

Remaining years to contractual maturity ⁽¹⁾	Funded loans (£m) ⁽²⁾	% of invested portfolio
0 to 1 years	79.2	18.0%
1 to 2 years	94.7	21.5%
2 to 3 years	155.8	35.3%
3 to 5 years	111.2	25.2%
Total	440.9	100.0%

⁽¹⁾ excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

⁽²⁾ excluding accrued interest.

PORTFOLIO PERFORMANCE UPDATE

All loan interest and scheduled amortisation payments up to 31 December 2020 have been paid in full and on time, either in accordance with the original or the revised contractual terms of the loans.

Notwithstanding the Covid 19 pandemic-related disruption continuing to be experienced, the portfolio continues to be robust and portfolio performance is in line with current expectations. In the sectors that are most impacted, hospitality and retail, borrowers continue to pay loan interest and capital repayments despite the latest lockdown measures.

Key updates up to 31 December 2020 are outlined below. Further updates throughout the year will be provided via the quarterly factsheets in order to keep shareholders informed.

Hospitality (35.7 per cent of Investment Portfolio)

- The largest hotel exposure (Hotel, Dublin), at 27 per cent of hospitality exposure has benefitted from a licence in place to the Irish Government's Health Service Executive since early in the pandemic and continues to benefit. This has de-risked the impact of the pandemic in the medium term. In addition, the sponsor has continued to work on their wider business plan in relation to the extensive land adjacent to the hotel that also forms part of the loan's collateral. In the last quarter, the sponsor has been successful in achieving planning permission for a residential scheme of over 220 apartments on a small site that forms part of the wider land collateral. This has enhanced the value and future liquidity of this site.

- The UK hotel exposures (Hotel Oxford, Scotland and North Berwick, accounting for 35 per cent of hotels in the portfolio) all successfully re-opened during the summer following the lifting of domestic travel restrictions. Trading was generally positive despite the backdrop of the wider market uncertainty. This reflected the domestic demand for staycation breaks in the UK, particularly for leisure destinations with nearby outdoor facilities such as golf which is offered by the Hotel Scotland and North Berwick. This trend is expected to continue into 2021 with market commentators such as VisitBritain.org forecasting that the recovery of domestic tourism in 2021 will be significantly stronger than inbound tourism. While 2021 is not expected to recover to pre-Covid-19 levels and international visitor numbers will be down materially, VisitBritain.org (as of mid December 2020) forecast that the value of domestic tourism spending could reach up to 84 per cent of 2019 levels by December 2021. All three of these UK hotels have comprehensive re-positioning capex plans in place, which sees each sponsor injecting material additional equity into the properties. In line with the underwritten capex plan, each hotel has now closed and refurbishment projects are underway as planned. The hotels will re-open during spring/summer 2021 upon the later completion of the refurbishment projects and lifting of UK pandemic restrictions. Each hotel will have an attractive new brand and a fully refurbished offering which is expected to be well placed to benefit from pent up UK domestic leisure travel demand.

Investment Manager's Report – Portfolio Review

- Hotel, Spain (accounting for 30 per cent of hospitality exposure) completed a heavy refurbishment project in late summer 2020 and opened for a very successful short marketing period before closing for winter 2020/21. The underwritten business plan and hotel operating model sees this hotel closing annually during the winter months in any event. Ordinarily the hotel would open in April 2021, however contingency plans are in place to delay this should substantial travel restrictions remain in place by that time. The sponsor remains well capitalised to fund any operational cash shortfalls in the event of further delays to opening. Forward customer bookings for summer 2021 are strong and the hotel is expected to trade well once the pandemic restrictions are lifted.

Retail (12.9 per cent of Investment Portfolio)

- Retail re-opened across Europe during summer 2020 following the lifting of local restrictions, before new measures to reduce the autumn / winter virus infection rates were re-introduced. By September 2020 we saw encouraging signs of footfall and sales recovery, whereby on the Group's largest retail loan exposure (a portfolio of three shopping centres), footfall had recovered on a weighted average basis to approximately 92 per cent of the prior year comparable month.
- While new restrictions introduced in late Q4 2020 and early 2021 have meant that footfalls and sales have again materially reduced, the sponsors have worked intensively to support tenants by signing specific pandemic related discounts in line with wider industry practice. As part of these pandemic related tenant measures, the sponsors have also extended the term under certain leases, which is advantageous and provides greater certainty of future income.

- A revised, independent valuation of the Spain retail loan assets has been instructed by the Group post year-end. Initial indicative output confirms that the Group's loan exposure continues to have adequate headroom against the valuation basis but values have declined in line with expectation and the wider market trend given the current lack of certainty and liquidity for retail assets. Once these valuation reports are finalised, the Group will reflect the formal updated valuation basis in post year-end reporting. We expect the impact on the overall portfolio's last Sterling LTV to be low.
- Loans with retail exposure continue to have adequate cash reserves to pay interest, with detailed business plans in place to deal with any underlying income displacement related to granting tenants concessions during shutdown and recovery periods.

Construction & Heavy Refurbishment (21.2 per cent of Investment Portfolio)

- The Group's construction and heavy refurbishment exposure has decreased by 28 per cent since mid- 2020 with the successful completion of the Hotel, Spain project in late summer and completion of the Residential, London project.
- While some construction programme disruption has been experienced by mandated site shutdowns and the adjustment of work practices to new Covid-19 related industry regulations, all sites re-opened in summer 2020. Despite the latest restrictive measures introduced in December 2020, construction sites in the UK remain open. Construction sites in the Republic of Ireland were mandated by the government to close on 8th January 2021, however we note that the Group's exposure to Irish construction loans is limited to under 1 per cent of loans invested as of 31 December 2020. In any event all construction loans remain adequately capitalised with funding in place to complete projects.

- Please note that the construction & heavy refurbishment exposure noted above will include assets also included in Hospitality and in Office, Industrial, Logistics & Residential.

Office, Industrial, Logistics & Residential (45.5 per cent of Investment Portfolio)

- These sectors continue to display resilient characteristics in terms of rent collection.
- All of the Group's material exposure to residential is either under construction or newly completed, held for-sale product. Residential sales of both completed and under construction units have continued throughout the pandemic. Factors such as stamp duty reductions , weak Sterling and continued foreign investor interest in the capital have assisted in incentivising purchasers to transact. Average selling prices continue to track ahead of underwritten values on the residential portfolio.
- The Logistics and Industrial portfolios are proving to be very robust with property sales continuing to transact during the second half of 2020 at prices ahead of underwritten levels.

EVENTS AFTER THE REPORTING PERIOD

No new investments have been made since the year end.

The following amounts have been drawn under existing commitments, up to 25 March 2021:

	Local Currency
Hotel, Scotland	£3,867,454
Hotel, Spain	€1,442,051
Mixed Use, Dublin	€279,309
Office Portfolio, Spain	€214,854
Office, London	£154,634

The following loan amortisation (both scheduled and unscheduled) has been received since the year-end up to 25 March 2021:

	Local Currency
Residential, London	£20,959,870
Logistics Portfolio, UK	£7,808,392
Mixed Portfolio, Europe	€1,765,799
Logistics Portfolio, Germany	€644,207
Shopping Centre, Spain	€317,344

The Company has repaid £14.0 million of funding on its credit facilities following the amortisation of the loans above. In addition, the Company has drawn £3.0 million of funding on its credit facilities to fund the amounts drawn under existing commitments. At 25 March 2021 the amounts drawn under each facility are:

- Morgan Stanley - £8.5 million
- Lloyds - £0.0 million

No loans have been repaid in full since the year-end up to 25 March 2021. The term of the loan provided to Hotel 8 Residential, UK (£49.9m) has been extended by one year to December 2022.

On 22 January 2021 the Directors declared a dividend in respect of the fourth quarter of 1.625 pence per Ordinary Share payable on 05 March 2021 to shareholders on the register at 04 February 2021.

**Starwood European Finance
Partners Limited** | Investment Manager
25 March 2021

Board of Directors



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

Stephen is Chairman of The PRS REIT which currently trades on the SFS of the London Stock Exchange. He is also Chairman of AEW UK Long Lease REIT plc which trades on the Main Market of the London Stock Exchange. Previously, he was the Chief Investment Officer of British Land Company PLC, the FTSE 100 real estate investment trust from January 2010 to March 2013 with responsibility for the group's property and investment strategy. He was formerly Global Head of Asset Management and Transactions at AXA Real Estate Investment Managers, where he was responsible for the asset management of a portfolio of more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Prior to joining AXA in 1999 he was Managing Director at Sun Life Properties for five years. Stephen is a UK resident.



JOHN WHITTLE | Non-executive Director – Audit Committee Chairman and Senior Independent Director

John is a Fellow of the Institute of Chartered Accountants in England and Wales and holds the Institute of Directors Diploma in Company Direction. He is a Non-Executive Director of Globalworth Real Estate Investments Limited, GLI Finance Ltd (both 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.



SHELAGH MASON | NON-EXECUTIVE DIRECTOR (appointed 1 September 2020)

Shelagh Mason is a solicitor specialising in English commercial property who retired as a consultant with Collas Crill LLP on 31st October 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 is a Non-Executive Director of the Renewables Infrastructure Fund a FTSE 250 company. In addition to the Company she has this year taken up a non-executive position with Ruffer Investment Company Limited. Previously Shelagh was a member of the board of directors of Standard Life Investments Property Income Trust, a property fund listed on the London Stock Exchange for 10 years until December 2014. She retired from the board of Medicx Fund Limited, a main market listed investment company investing in primary healthcare facilities in 2017 after 10 years on the board. She is a past Chairman of the Guernsey Branch of the Institute of Directors and a member of the Chamber of Commerce, the Guernsey International Legal Association and she also holds the IOD Company Direction Certificate and Diploma with distinction. Shelagh is a resident of Guernsey.



CHARLOTTE DENTON | NON-EXECUTIVE DIRECTOR (appointed 1 January 2021)

During Charlotte's executive career she worked in various locations through roles in diverse organisations, including KPMG, Rothschild, Northern Trust, a property development start up and a privately held financial services group. She has served on boards for over fourteen 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 Next Energy. 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. 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 on pages 2 to 5.

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 had a target dividend of 6.5 pence per Ordinary Share per annum, based on quarterly dividend payments. From 1 January 2021 the Board intends to target a dividend of 5.5 pence per annum (payable quarterly), which reflects the broader lower interest rate environment.

DIVIDENDS PAID

The Company declared dividends of 1.625 pence for each of the calendar quarters of 2020. The Company paid a total of £26,824,860 in respect of 2020 (6.5 pence per Ordinary share) (2019: £25,617,761: 6.5 pence per Ordinary Share).

BUSINESS REVIEW

The Group's performance during the year to 31 December 2020, 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 on pages 8 to 29.

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 IPO:

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

As disclosed in the Chairman's Statement on page 10, during the year ended 31 December 2020 the Company bought back 3,648,125 Ordinary Shares at an average price of 86.9 pence per share. Following these issues and buybacks, the Company had an issued share capital consisting of 409,571,273 Ordinary Shares as at 31 December 2020. Since the year end the Company has bought back 660,000 Ordinary Shares at an average price of 89.54 pence per share. Ordinary shares bought back are held in treasury.

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 2020 and as at the date of this report.

Name	% holding of Ordinary Shares at 31 December 2020	% holding of Ordinary Shares at 5 March 2021 (the latest available)
BlackRock	19.59	19.63
Close Brothers Asset Management	7.42	7.58
Schroder Investment Management	7.23	7.29
SG Private Banking	6.40	6.22
Quilter Cheviot Investment Management	5.05	4.83
Fidelity International	4.90	4.86
Premier Miton Investors	4.63	4.64
Waverton Investment Management	4.47	4.42
Transact (EO)	3.48	3.54
Liontrust Asset Management	3.36	3.30

DIRECTORS' INTERESTS IN SHARES

The Directors' interests in shares are shown opposite:

Name	Ordinary Shares at 31 December 2020	Ordinary Shares at 31 December 2019
Stephen Smith	78,929	78,929
John Whittle	23,866	11,866
Jonathan Bridel (resigned 31 December 2020) and Spouse	11,866	11,866
Shelagh Mason (appointed 1 September 2020)	17,688	-

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 Board of Directors elected to appoint PricewaterhouseCoopers CI LLP as Auditor to the Company at the inaugural meeting of the Company on 22 November 2012 and they have been re-appointed at each AGM held since. PricewaterhouseCoopers CI LLP has 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.

DISCOUNT CONTROL

The Company maintains share repurchase powers 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. In addition, the Company may raise fresh capital including through a placing programme (subject to the publication of a prospectus of the Company) and through opportunistic tap issues. Tap issues enable issuers such as the Company (subject to obtaining the requisite Shareholder authorities) to issue up to 20 per cent of the securities already listed by way of such issues over 12 months without any requirement to publish a prospectus.

DISCOUNT-TRIGGERED REALISATION

If the Ordinary Shares trade at an average discount to Net Asset Value per Share of five per cent or more during the six-month period to the end of a calendar year, the Directors at their absolute discretion may put a realisation offer to Shareholders, subject to applicable law including the requirements of the Companies (Guernsey) Law, 2008 (a "Realisation Offer").

The provisions relating to the Realisation Offer will first apply by reference to the last six months of the financial year ending 31 December 2022 and the Realisation Vote mechanism would apply (where the discount-triggered realisation mechanism has not been activated) by no later than 28 February 2023 and in each case on successive five year anniversaries of such dates.

REALISATION VOTE

In the event that the discount-triggered realisation mechanism is not activated, the Directors shall exercise their discretion under the Articles to put forward a realisation vote (as an ordinary resolution) to Shareholders by no later than 28 February 2023. If Shareholders vote in favour of this resolution, then the Company will procure that a Realisation Offer on substantially the same terms as that described above is offered to Shareholders. Following the receipt of all elections, if either: (i) more than 75 per cent of the Ordinary Shares then in issue were elected for realisation; or (ii) the NAV of the Company following the realisation would be less than £100 million, the Directors may exercise their discretion not to proceed with the Realisation Offer and instead put forward alternative proposals which are no less favourable to electing Shareholders and which may include the reorganisation or winding up of the Company.

If Shareholders vote against the realisation vote, then the Company will continue in existence as it is then constituted without any liquidity event for Shareholders.

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 8 June 2020 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 2021. The Directors intend to seek annual renewal of this buyback authority from Shareholders each year at the Company's AGM.

As included on page 31 and in the Chairman's statement on page 10 the Company has bought back 3,648,125 shares during the year ended 31 December 2020 at an average price per share of 86.9 pence. These shares are held in treasury.

John Whittle | Director
25 March 2021

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 £200,000. 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 on the opposite table.

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.

Director	Total Fee 2020 £	Total Fee 2019 £
Stephen Smith	50,000	50,000
John Whittle	45,000	45,000
Jonathan Bridel (resigned 31 December 2020)	42,500	42,500
Shelagh Mason (appointed 1 September 2020)	13,333	-
Aggregate fees	150,833	137,500
Aggregate expenses	1,731	2,828
Total	152,564	140,328

None of the Directors have a service contract with the Company. Each of the Directors has entered into a letter of appointment with the Company. The letters of appointment were reviewed and amended in the prior year 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 | Director
 25 March 2021

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 2020, 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. 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 permanent position of Chairman of the Board on 22 November 2012, Stephen Smith 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.

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 the Chairman was sufficiently aware of the time needed for his role and agreed to upon signature of his letter of appointment. Other significant business commitments of the Chairman were disclosed to the Company prior to appointment to the Board and were publicly disclosed in the Company's Prospectus dated 28 November 2012. Any subsequent changes have been declared. Certain of these commitments, and their subsequent changes, can be identified in his biography on page 30.

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 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.



STEPHEN SMITH | Chairman

Corporate Governance Statement

BOARD

Independence and Disclosure

The Chairman confirms the initial Board 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. During the year, Shelagh Mason was appointed as non-executive Director on 1 September 2020 in accordance with the Boards Succession Planning Memorandum. The Memorandum states that a new Director will be appointed to the Board during the second half of 2020 giving them time to get up to speed prior to Jonathan Bridel standing down from the Board in December 2020. In addition, the Company decided that it is appropriate to appoint an additional Director to the Board to further improve the Company's skills, experience and diversity as well as to assist in the succession process when Stephen Smith retires from the Board in December 2021 and when John Whittle retires from the Board in December 2023 (as proposed in the Chairman's Statement on page 10). Charlotte Denton was duly appointed on 1 January 2021. The Board is composed entirely of 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 when the two new directors were appointed to the Board this year 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 30. 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 reviewed in the prior year 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. Appointing an additional Director as part of the succession planning ensures stability during any transition period.

The Board's position on diversity can be seen in the Strategic Report on page 17. 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, John Whittle and Stephen Smith are therefore submitting themselves for re-election, whilst Shelagh Mason and Charlotte Denton will have an election vote at the AGM on 15 June 2021.

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. Following this process, the Board formally appointed Shelagh Mason and Charlotte Denton in 2020 and announced the two appointments to the market in August 2020. The Board engaged OSA Recruitment, an independent search consultancy with no connection to the Company or its Directors, to assist in the above appointments.

Succession Planning

The Company enters its ninth year in 2021 and the Board has been mindful that a succession plan needs to be implemented. During Q4 2019, the Directors devised a Succession

Planning Memorandum. The Memo states that a new Director will be appointed to the Board during the second half of 2020 giving them time to get up to speed prior to Jonathan Bridel standing down from the Board in December 2020. Shelagh Mason was duly appointed on 1 September 2020.

In addition, the Company have decided that it is appropriate to appoint an additional Director to the Board to further improve the Company's skills, experience and diversity as well as to assist in the succession process when Stephen Smith retires from the Board in December 2021 and when John Whittle retires from the Board in December 2023 (as proposed in the Chairman's Statement on page 10). Charlotte Denton was duly appointed on 1 January 2021.

Upon the retirement of Stephen Smith from the Board, John Whittle will probably be appointed as Chairman until his retirement in December 2023.

In terms of the new appointments, 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. The Board also intend to consider diversity when making the new appointments to the Board. The Board will consider the need to appoint a formal search contractor to assist with the appointments of new directors.

At present the Directors wish to leave the succession and the tenure policy of the Chairman open until Mr Whittle's departure from the Board in 2023.

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 report; 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 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 on page 38 of 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 all members have sufficient financial skills and experience, and competence relevant to the Company's sector. John Whittle is the Audit Committee Chairman.

The Audit Committee met four times during 2020 (2019: three times); the meeting attendance record is displayed on page 38. 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 Company 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 Company assets.

The Audit Committee is intended to assist the Board in discharging its responsibilities for the integrity of the Company's consolidated financial statements, as well as aiding the assessment of the Company'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 on page 42.

Corporate Governance Statement

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 Jonathan Bridel as the Chairman of the Committee. Following Jonathan Bridel's resignation on 31 December 2020, the Board will look to appoint a new Chairman in 2021. 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 once during 2020 (2019: 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.

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 below:

	Scheduled Board	Ad hoc Board ⁽¹⁾	Audit Committee	Management Engagement Committee
Stephen Smith ²	4	4	3	0
John Whittle	4	6	4	1
Jonathan Bridel (resigned 31 December 2020)	4	7	4	1
Shelagh Mason (appointed 1 September 2020)	1	2	1	1
Total Meetings for year	4	7	4	1

⁽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.

⁽²⁾Meetings attended telephonically.

In addition to the scheduled quarterly and additional ad hoc meetings, the Directors and the Investment Manager have been provided with a number of 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 on page 34.

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, 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 2020 is provided in the Statement of Directors' Responsibilities on page 47.

For the purposes solely of the audit of the consolidated financial statements, the Auditors have reviewed the Company's compliance with certain of the AIC Code's provisions, the FCA's Listing Rules and other applicable rules as reported on pages 49 to 55.

Further information enabling shareholders to assess the Company's performance, business model and strategy can be sourced in the Chairman's Statement on pages 8 to 11, the Strategic Report on pages 12 to 17 and the Report of the Directors on pages 31 to 33.

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 of the financial statements.

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 and 6 May 2016;
- 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.

Corporate Governance Statement

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 2020.

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.

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.

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 AIF, with Starwood European Finance Partners Limited appointed to act as the Non-EU 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 note 22, as a result of acting as the AIFM. The Board of the Investment Manager received an aggregate fee of £60,000 for the year ended 31 December 2020.

The marketing of shares in AIFs that are established outside the EU (such as the Company) to investors in an EU member state 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 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 pages 12-16 of the Strategic Report and pages 39-40 of the Corporate Governance Statement.

Our People

The Company has no employees, however, to succeed we need to manage 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 page 37 of 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 page 17 for more details in connection with the impact of the Company'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 2021, 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.

All Directors are available for discussions with the shareholders, in particular the Chairman and the Audit Committee Chairman, 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.

On 8 June 2020 at the Company's AGM, 27 per cent of total votes cast were cast against resolution 3 (to re-elect as a Director of the Company, Stephen Smith). The Company noted

that it would seek to engage with the relevant shareholders who voted against resolution 3 in order to understand further the reasons for their votes and address their concerns. Following such consultation with shareholders, who expressed concerns over the diversity of the Board at that time, the Board announced on 3 August 2020 that the Company had appointed Shelagh Mason with effect from 1 September 2020 and Charlotte Denton with effect from 1 January 2021 as Non-Executive Directors of the Company. The appointments were in line with the Company's succession planning for the phased retirement of Directors over the period to December 2022 and its intention to consider diversity when making any new appointments to the Board. The appointments bring significant talent as well as new skills and experience to the Board and the Company was pleased to be able to make the appointments early in the rotation, ensuring a smooth transition. Any perceived imbalances in Board composition (including those leading to votes against resolution 3 at the prior AGM) have thus been addressed.

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 | Director

25 March 2021

Report of the Audit Committee

The Board is supported by the Audit Committee, which comprises of John Whittle, as chairman, Jonathan Bridel (until his resignation on 31 December 2020) and Shelagh Mason (appointed on 8 September 2020 to the Audit Committee). The Board has considered the composition of the Audit Committee and is satisfied 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:

- Monitoring the integrity of the consolidated financial statements of the Group and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgements contained within said statements and announcements;
- 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 on page 38. The main matters discussed at those meetings were:

- Review and approval of the annual audit plan of the external Auditor;
- 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 plan 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 Auditor as described below;
- Assessment of the independence of the external Auditor;
- Review of the Group's key risks and internal controls; and
- Consideration of the AIC Code, FRC Guidance on Audit Committees and other regulatory guidelines.

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 focussing 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 2020 were assessed so as to ensure compliance with IFRS 9 and while 6 loans amounting to £150,331,450 have been moved from Stage 1 to Stage 2, as disclosed in note 2 and on page 19 of the Investment Manager's report during the year ended 31 December 2020, no expected credit losses were considered necessary based on the loan to value ratios headroom as at 31 December 2020 and strong security packages in place.</p>
<p>Risk of fraud 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 semi-annual 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.

The Audit Committee is satisfied with the Auditor's effectiveness, and therefore does not consider it necessary to require the Auditor to tender for the audit work.

AUDITOR'S TENURE AND OBJECTIVITY

The Group has developed an audit tender policy which the Board will re-consider after five years from the appointment date of the current Auditor. The Board re-considered this during 2017 and it was deemed to still be applicable.

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 third year of five as engagement partner.

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.

As a result of its review, the Audit Committee is satisfied that PwC remains independent of the Group, the Investment Manager and other service providers and the Audit Committee has no current plans for re-tendering for the position of auditor to the Company. The Audit Committee therefore recommends the continuing appointment of PwC 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 2020, 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 on page 47.

The Audit Committee has recommended to the Board that the external auditor is re-appointed.

John Whittle | Audit Committee Chairman
25 March 2021

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.

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 42 to 46. Furthermore, the Board believes that the disclosures set out on pages 6 to 29 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 2020, 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 2020, 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

Stephen Smith | Chairman
25 March 2021



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 2020, 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 2020;
- 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We are also independent in accordance with SEC Independence Rules.

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 complete financial information of the Guernsey and Luxembourg components of the group.
- The components of the group where we performed full scope audit procedures accounted for 100% of the consolidated net assets and operating profit for the year.

KEY AUDIT MATTERS

- Carrying amount and impairment/expected credit losses of loans advanced.
- Risk of fraud in income from loans advanced.
- Management and the directors' consideration of the impact of COVID-19.

MATERIALITY

- Overall group materiality was £8.5 million (2019: £8.5 million) based on 2% of consolidated net assets.
- Performance materiality: £6.4 million.

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

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 our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matter	How our audit addressed the Key audit matter
<p>Carrying amount and impairment/expected credit losses of loans advanced</p> <p>Loans advanced at the year-end of £442.7 million (note 10) 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 ongoing recoverability and impairment is subject to judgement and estimation, including the calculation of expected credit losses ("ECL").</p> <p>The judgements exercised in determining the potential for ECL 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 2c of the consolidated financial statements.</p> <p>The specific areas of judgement include:</p> <ul style="list-style-type: none"> • How management determine the underlying assumptions when preparing impairment/ECL 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, the ability of the borrowers to deliver in accordance with their business plans and their projected financial performance figures; and • The impact of changes in the expected cash flows for each loan on the carrying amount of the loans measured at amortised cost. 	<p>We evaluated management's processes and assumptions used to measure the loans at amortised cost and used to determine the level of impairment (if any) required on the loans advanced, either at inception, or on an ongoing basis, using the expected credit loss model. 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 the assumptions and inputs into the amortised cost models and inspecting the associated agreements and other legal documentation; • Back-testing procedures were also performed to assist in our conclusions as to the cash flow forecasting reliability applied by the Investment Adviser; • Understanding of and evaluating 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 the estimation of probability of default, exposure at default and loss given default, and how forward-looking information was considered in this regard; • Evaluating 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 impact caused by COVID-19; • Inspecting the Investment Adviser's application of its impairment/expected credit loss 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; and • Inspecting a sample of compliance certificates signed by each respective underlying borrower in respect of compliance with covenants as at the year-end. <p>We did not identify any significant issues or concerns from our procedures which required reporting to those charged with governance.</p>

Key audit matter	How our audit addressed the Key audit matter
<p>Risk of fraud in income from loans advanced</p> <p>Income from loans advanced for the year was £29.1 million (Note 10) and was measured in accordance with the effective interest rate method. 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.</p> <p>The requirement to estimate the expected cash flows when forming 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:</p> <ul style="list-style-type: none"> • Expected timing of repayments; • Expectations of partial or full prepayments; and • Associated exit fees and make-whole payments. <p>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 2c of the consolidated financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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; • 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 debt investments also held at 31 December 2019, comparing the estimated future cash flows in the amortised cost models as at 31 December 2020 and evaluating the rationale behind any significant changes to those cash flows from the 31 December 2019 models. <p>We did not identify any significant issues or concerns from our procedures which required reporting to those charged with governance.</p>

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>Management and the directors' consideration of the impact of COVID-19</p> <p>Management and the directors have considered the impact of the COVID-19 pandemic on the current and future operations of the group. In doing so, they have made estimates and judgements that are critical to the outcomes of these considerations with a particular focus on the group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements.</p> <p>As a result of the impact of COVID-19 on the wider financial markets and the company's share price, we have determined management and the directors' consideration of the impact of COVID-19 (including their associated estimates and judgements) to be a key audit matter.</p> <p>Refer to the Chairman's Statement and Investment Manager's Report for management and the directors' consideration of COVID-19's impact to the group.</p>	<ul style="list-style-type: none"> • We obtained from management the latest model that supports the assessment and conclusion with respect to the going concern statement; • We discussed with management the critical estimates and judgements applied in their assessment so we could understand and challenge the rationale for the factors incorporated into the model and the sensitivities applied as a result of COVID-19; • We inspected the assessment provided to evaluate consistency with our understanding of the operations of the group, the portfolio of loans advanced and with any market commentary already made by the group. We also agreed any key amendments, estimates and judgements to underlying supporting information and fact patterns where and as appropriate; • We reviewed the model's stress testing to evaluate whether management and the directors have considered a balanced range of outcomes in their assessment of the impact of COVID-19 on the group; • We considered the appropriateness of the disclosures made by management and the directors in respect to the impact of COVID-19 on the current and future operations of the group; • From our review of directors' meetings minutes, we noted that the directors have analysed and are satisfied with the business continuity plans of all key service providers as part of their COVID-19 operational resilience review; • In discussing, challenging and evaluating the estimates and judgments made by management in their assessment, we noted the following factors that were considered to be fundamental by management and the directors in their consideration of the impact of COVID-19 on the current and future operations of the group and which support the going concern statement: <ul style="list-style-type: none"> • The group has low levels of leverage with debt of £19.5m as of 31 December 2020; • The group has undrawn and available credit facilities of £106.5m as of 31 December 2020; • The group currently has no experience of notice of default within its portfolio of loans advanced; • Management has identified that the loans advanced to the retail and hospitality sectors are the most exposed due to the adverse impact of COVID-19 on these sectors. The directors remain confident in the fundamentals of the markets in which the group's assets are located and the borrower's business plans for the assets in these sectors over the medium to long term; and • The portfolio of loans advanced (including those with retail and hospitality exposure) are considered by management to have sufficient levels of headroom with respect to the portfolio's loan-to-values ratios as disclosed in the Investment Manager's Report. <p>Based on our procedures, we have not identified any matters to report with respect to both management's and the directors' consideration of the impact of COVID-19 on the current and future operations of the group.</p>

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, and the industry in which the group operates.

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.

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 and controlled 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 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.

As noted in the overview, the components of the group for which we performed full scope audit procedures accounted for 100% of the consolidated net assets and operating profit for the year.

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	£8.5 million (2019: £8.5 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 investors when assessing financial performance. It is also a generally accepted measure used for companies in this industry.

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% of overall materiality, amounting to £6.4 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 end 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 (2019: £0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

REPORTING ON OTHER
INFORMATION

The directors are responsible for the 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.

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.

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

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.

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 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 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 financial statements;
- 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 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 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 MATTER

As explained in note 21 to the 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 on page 56.

Roland Mills

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

25 March 2021

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

We have audited the accompanying consolidated financial statements of Starwood European Real Estate Finance Limited and its subsidiaries (together "the group"), which comprise the consolidated statements of financial position as of 31 December 2020 and 31 December 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; this includes 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the group's preparation and fair

presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Starwood European Real Estate Finance Limited and its subsidiaries as of 31 December 2020 and 31 December 2019, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

OTHER MATTER

This report, including the opinion, has been prepared for and only for the directors of Starwood European Real Estate Finance Limited as a body in relation to the requirements of Rule 206(4)-2 of the Investment Advisers Act 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
25 March 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
Income			
Income from loans advanced	10	29,052,521	26,890,182
Net foreign exchange gains	6	5,993,767	4,921,541
Net changes in fair value of financial assets at fair value through profit or loss	18	1,097,722	2,339,222
Income from cash and cash equivalents		-	535
Total income		36,144,010	34,151,480
Expenses			
Investment management fees	22	3,186,943	3,077,665
Credit facility commitment fees		762,074	520,218
Credit facility interest		558,323	1,003,580
Credit facility amortisation of fees		387,448	390,350
Administration fees	3(b)	331,591	338,604
Legal and professional fees		288,111	263,725
Audit and non-audit fees	5	227,386	241,048
Other expenses		198,350	195,244
Directors' fees and expenses	4, 22	152,564	140,328
Broker's fees and expenses	3(d)	50,000	167
Facility agent fees		10,781	22,023
Total operating expenses		6,153,571	6,192,952
Operating profit for the year before tax		29,990,439	27,958,528
Taxation	20	81,953	60,898
Operating profit for the year		29,908,486	27,897,630
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		232,417	6,451
Other comprehensive income for the year		232,417	6,451
Total comprehensive income for the year		30,140,903	27,904,081
Weighted average number of shares in issue	7	412,469,890	399,195,288
Basic and diluted earnings per Ordinary Share (pence)	7	7.25	6.99

Consolidated Statement of Financial Position

as at 31 December 2020

	Notes	As at 31 December 2020 £	As at 31 December 2019 £
Assets			
Cash and cash equivalents	8	2,939,408	36,793,674
Other receivables and prepayments	9	17,094	28,935
Financial assets at fair value through profit or loss	11	918,259	30,480,689
Loans advanced	10	442,659,649	390,647,516
Total assets		446,534,410	457,950,814
Liabilities			
Credit facility	12	18,626,837	28,359,047
Trade and other payables	13	1,210,066	3,036,686
Total liabilities		19,836,903	31,395,733
Net assets		426,697,507	426,555,081
Capital and reserves			
Share capital	15	408,031,544	411,205,161
Retained earnings		18,369,871	15,286,245
Translation reserve		296,092	63,675
Total equity		426,697,507	426,555,081
Number of Ordinary Shares in issue	15	409,571,273	413,219,398
Net asset value per Ordinary Share (pence)		104.18	103.23

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2021, and signed on its behalf by:

Chairman

Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

Year ended 31 December 2020

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2020	411,205,161	15,286,245	63,675	426,555,081
Share buy backs	(3,173,617)	-	-	(3,173,617)
Dividends paid	-	(26,824,860)	-	(26,824,860)
Operating profit for the year	-	29,908,486	-	29,908,486
Other comprehensive income:				
Other comprehensive income for the year	-	-	232,417	232,417
Balance at 31 December 2020	408,031,544	18,369,871	296,092	426,697,507

Year ended 31 December 2019

	Share capital £	Retained earnings £	Translation reserves £	Total Equity £
Balance at 1 January 2019	371,929,982	13,006,376	57,224	384,993,582
Issue of share capital	40,014,500	-	-	40,014,500
Cost of issues	(739,321)	-	-	(739,321)
Dividends paid	-	(25,617,761)	-	(25,617,761)
Operating profit for the year	-	27,897,630	-	27,897,630
Other comprehensive income:				
Other comprehensive income for the year	-	-	6,451	6,451
Balance at 31 December 2019	411,205,161	15,286,245	63,675	426,555,081

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	1 January 2020 to 31 December 2020 £	1 January 2019 to 31 December 2019 £
Operating activities:		
Operating profit for the year before tax	29,990,439	27,958,528
Adjustments:		
Net interest income	(29,052,521)	(26,890,182)
Interest income on cash and cash equivalents	-	(535)
Net changes in fair value of financial assets at fair value through profit or loss	(1,097,722)	(2,339,222)
Decrease in prepayments and receivables	11,841	-
Decrease in trade and other payables	(159,467)	(4,279)
Net unrealised losses / (gains) on foreign exchange derivatives	7,676,819	(17,376,510)
Net foreign exchange (gains) / losses	(12,848,644)	10,824,860
Credit facility interest	558,323	1,003,580
Credit facility amortisation of fees	387,448	390,350
Credit facility commitment fees	762,074	520,218
Currency translation difference	(463,709)	471,376
Corporate taxes paid	(151,052)	(106,807)
	(4,386,171)	(5,548,623)
Loans advanced ⁽¹⁾	(98,731,281)	(185,959,804)
Loan repayments and amortisation	59,619,767	198,311,623
Credit linked note repayments	21,773,000	-
Origination fees paid	(577,233)	(1,962,601)
Interest, commitment and exit fee income from loans advanced	28,256,205	28,411,123
Interest received on Credit Linked Notes	1,210,333	2,339,946
Net cash inflow from operating activities	7,164,620	35,591,664
Cash flows from investing activities		
Interest income from cash and cash equivalents	-	535
Net cash inflow from investing activities	-	535
Cash flows from financing activities		
Share issue proceeds received	-	40,014,500
Shares buy backs	(3,088,030)	-
Cost of share issue	-	(739,321)
Dividends paid	(26,824,860)	(25,617,761)
Proceeds under credit facility	41,985,860	148,035,219
Repayments under credit facility	(52,067,717)	(185,401,045)
Credit facility interest paid	(492,331)	(1,137,413)
Credit facility commitment fees paid	(616,146)	(499,063)
Credit facility arrangement fees and expenses paid	-	(572,358)
Net cash outflow from financing activities	(41,103,224)	(25,917,242)
Net increase in cash and cash equivalents	(33,938,604)	9,674,957
Cash and cash equivalents at the start of the year	36,793,674	28,248,515
Net foreign exchange gains / (losses) on cash and cash equivalents	84,338	(1,129,798)
Cash and cash equivalents at the end of the year	2,939,408	36,793,674

⁽¹⁾ Net of arrangement fees of £780,584 (2019: £2,389,453) 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 2020

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 as 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 Listing Authority'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 buy-back agent to effect share buy backs on behalf of the Company. As at year end 31 December 2020, the Company had repurchased 3,648,125 Ordinary Shares at an average price of 86.9 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 2020.

The Company's investment objective is to provide its shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and wider European Union's internal market. To pursue its investment objective, the Company, through the Holdco 1 and Holdco 2 (the "Holdcos"), invests in the Luxco, Luxco 3 and Luxco 4 (the "Luxcos") through both equity and profit participation instruments or other funding instruments. The Luxcos then grant or acquire loans (or other debt instruments) to borrowers in accordance with the Group's investment policy. The Group expects all of its investments to be debt obligations of corporate entities domiciled or with significant operations in the UK and wider European Union's internal market.

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 Financial Conduct Authority, 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 have undertaken a rigorous review of the Group's ability to continue as a going concern including assessing the possible impact of the COVID-19 pandemic on the Group's portfolio, reviewing the ongoing cash flows and the level of cash balances and available liquidity facilities as of the reporting date as well as taking forecasts of future cash flows into consideration.

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, including the impact of Covid-19, the results of which can be found on page 16 of 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 12 months after their maturity dates. In this scenario the Group is still able to meet its liabilities as they fall due although the dividend would need to be reduced to reflect the reduced cash received.

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 as adopted by the European Union ("IFRS"), 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

(i) Standards and amendments to existing standards effective 1 January 2020

Certain new accounting standards and interpretations have been published that are effective 1 January 2020 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 2020 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 2020, 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 discounted cash flow models used to calculate the fair value of the credit linked notes (which were repaid in June 2020) involved approximates and estimates of the timing of cash flows and used significant unobservable inputs that directly impacted the valuation of financial assets at fair value through profit or loss (see note 11).
- The measurement of both the initial and ongoing expected credit loss allowance 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)).

(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)).
- The valuation of the credit linked notes (which were repaid in June 2020) was derived from a model prepared by the Investment Adviser. The main inputs into the valuation model for the CLNs were discount rates, market risk factors, probabilities of default, expected credit loss levels and cash flow forecasts. The key area of judgement was the methodology and approach to model the fair value of credit linked notes.
- 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)).

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

Subsidiary undertakings	Date of Control	Ownership %	Country of Establishment	Principal place of business
Starfin Lux S.à.r.l	30/11/12	100	Luxembourg	Luxembourg
Starfin Public Holdco 1 Limited	11/09/17	100	Guernsey	Guernsey
Starfin Public Holdco 2 Limited	11/09/17	100	Guernsey	Guernsey
Starfin Lux 3 S.à.r.l	19/09/17	100	Luxembourg	Luxembourg
Starfin Lux 4 S.à.r.l	11/12/17	100	Luxembourg	Luxembourg

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 Lux 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 Starfin Lux 3 S.à.r.l for which the functional currency is Euro. Starfin Lux 3 S.à.r.l 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 Company 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 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.

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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 statement of profit or loss. This category includes currency forward contracts and credit linked notes. Gains or losses on credit linked notes measured at fair value through profit or loss are recognised in profit or loss net of interest income received from these financial assets and presented in the profit or loss statements within "Net changes in fair value of financial assets at fair value through profit or loss" in the period in which it arises. 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 financial instruments such as credit linked notes ("CLNs"), not traded in an active market, was determined using valuation techniques. The fair value of the CLNs were determined by the Investment Adviser using a valuation model. The main inputs into the valuation model for the CLNs are discount rates, market risk premium adjustments to the discount rate, probabilities of default and cash flow forecasts. The Investment Adviser also performed a full analysis of the performance of each underlying loan and with reference to other inputs such as third party valuations of the underlying collateral.

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 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 sufficient loan-to-value headroom which further mitigates the risk of ECL.

During the year ended 31 December 2020 six loans with a value of £150,331,450 were classified as Stage 2 and the remaining loans are still classified as Stage 1. The loans classified to Stage 2 are predominantly in the retail and hospitality sectors (but not all hospitality loans are in Stage 2). The main reason for moving the loans to Stage 2 in the second quarter of 2020 was expected income covenant breaches due to the disruption from Covid-19. Following loan amendments agreed with borrowers, no income breaches have occurred. Although these loans have been classified as Stage 2 loans, no expected credit loss has been recognised as although the credit risk has increased for these loans, the Group does not anticipate realising a loss in the event of a default. For further information, see the page 39 of 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.

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;
- 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.

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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 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.

	Reasonable possible shift (absolute value)	31 December 2020 ECL £	31 December 2019 ECL £
LTV	+25%(2019: +5%)	304,219	351,780
LGD	+0.3%(2019: +0.3%)		

Change in ECL allowance (+)

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 2017 (totalling €177 billions), accordingly 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.

As explained on Note 2 (b)(i), the year-end ECL are nil. Set out in the table above is the sensitivity to the ECL as at 31 December 2020 and 31 December 2019 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% (2019: 5%), 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.

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 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:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the end of the reporting period;
- 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);
- share capital is translated at historical cost (translated using the exchange rates at the transaction date); and
- 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.

Starfin Lux 3 S.à.r.l 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 amortisation of fees".

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 Net Asset Value 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 by reference to 15 per cent or more of the voting rights. In addition

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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 Financial Conduct Authority, 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.

3. MATERIAL AGREEMENTS (CONTINUED)

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 10 February 2021. The current maturity date is 6 May 2022. The facility is secured by a pledge over the bank accounts of the Company, its interests in Starfin Public Holdco 1 Limited and the intercompany funding provided by the Company to Starfin Public Holdco 1 Limited. Starfin Public Holdco 1 Limited also acts as guarantor of the facility and has pledged its bank accounts as collateral. The undertakings and events of default are customary for a transaction of this nature.

On 18 December 2017, the Group entered into a 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 (Starfin Lux 3 S.à.r.l and Starfin Lux 4 S.à.r.l) and their shares. The MS Facility does not have recourse to the Company. The undertakings and events of default are customary for a facility of this nature.

4. DIRECTORS' FEES

	31 December 2020 £	31 December 2019 £
Directors' emoluments	150,833	137,500
Other expenses	1,731	2,828
	152,564	140,328

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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 2020 £	31 December 2019 £
Audit and non-audit fees expensed in the Consolidated Statement of Comprehensive Income		
Audit of company	119,300	125,800
Audit of subsidiaries	70,342	63,811
Total audit	189,642	189,611
Audit related assurance services (Interim review)	23,083	22,145
Total assurance services	23,083	22,145
Non-audit services not covered above	14,661	29,292
Total non-audit services	37,744	51,437
Total fees expensed	227,386	241,048

Other non-audit services of £14,661 (2019: £29,292) expensed in the Consolidated Statement of Comprehensive Income relate to tax service and other disbursements. From 15 March 2020, these services are now impermissible in accordance with the latest FRC Ethical Standard and the Board have appointed an alternative service provider as a result. The current charge relates to previously allowable and approved services.

6. NET FOREIGN EXCHANGE GAINS / (LOSSES)

	31 December 2020 £	31 December 2019 £
Loans advanced gains - realised	647,000	3,608,147
Loans advanced losses - realised	(1,134,619)	(1,053,256)
Forward contracts gains - realised	1,131,404	1,515,324
Forward contracts losses - realised	(328,698)	(3,145,524)
Other gains - realised	1,229	1,754,235
Other losses - realised	(422,347)	(636,329)
Loans advanced gains - unrealised	13,776,618	83,487
Loans advanced losses - unrealised	-	(14,581,053)
Forward contracts gains - unrealised	397,778	17,650,771
Forward contracts losses - unrealised	(8,074,598)	(274,261)
	5,993,767	4,921,541

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 £29,908,486 (2019: £27,897,630) and on the weighted average number of Ordinary Shares in issue during the year of 412,469,890 (2019: 399,195,288) Ordinary Shares.

The calculation of NAV per Ordinary Share is based on a NAV of £426,697,507 (2019: £426,555,081) and the actual number of Ordinary Shares in issue at 31 December 2020 of 409,571,273 (2019: 413,219,398).

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8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	31 December 2020 £	31 December 2019 £
Cash at bank	2,939,408	36,793,674
	2,939,408	36,793,674

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 2020 £	31 December 2019 £
Prepayments	17,094	28,935
	17,094	28,935

10. LOANS ADVANCED

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

	31 December 2020 £	31 December 2019 £
UK		
Residential, London	25,124,499	49,522,631
Hotel & Residential	49,914,595	39,861,178
Hospitals	25,362,367	25,354,300
Hotel, North Berwick	26,727,408	25,861,391
Hotel, Oxford	16,705,485	16,724,638
Hotel, Scotland	10,497,593	-
Logistics Portfolio	11,981,154	-
Office, London	13,368,457	12,697,122
Office, Scotland	4,894,738	4,470,792
Mixed Use Development, South East	-	766,877
Ireland		
Hotel, Dublin	54,730,169	51,576,017
Mixed Use, Dublin	3,112,893	592,335
Office Portfolio, Dublin	31,753,439	-
Spain		
Three Shopping Centres	33,367,582	31,709,624
Hotel	47,379,721	25,225,534
Office Portfolio	19,375,687	18,050,874
Office & Hotel, Madrid	16,792,398	15,832,398
Shopping Centre	15,653,661	14,672,253
France		
Office, Paris	-	13,854,691
Germany		
Logistics Portfolio	5,909,892	-
Europe		
Mixed Portfolio, Europe	30,007,911	43,874,861
	442,659,649	390,647,516

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

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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 2020 £	31 December 2019 £
Loans advanced at the start of the year	390,647,516	413,444,410
Loans advanced	97,794,862	189,678,726
Loan repayments and amortisation	(59,619,767)	(198,311,623)
Arrangement fees earned	(780,584)	(2,389,453)
Commitment fees earned	(1,215,996)	(688,884)
Exit fees earned	(250,772)	(1,983,925)
Origination fees for the year	546,194	1,684,798
Income from loans advanced	29,052,521	26,890,182
Interest payments received / accrued	(26,789,437)	(25,738,458)
Foreign exchange (losses) / gains	13,275,112	(11,938,263)
Loans advanced at the end of the year	442,659,649	390,647,516
Loans advanced at fair value	459,549,015	402,825,998

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 hold to collect the contractual cashflows of 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 20 for more information):

Discount Rate	31 December 2020 Value calculated £	31 December 2020 Value increase / (decrease) £
4.8%	464,563,596	21,903,947
5.2% (Fair value)	459,549,015	16,889,366
5.3%	458,928,617	16,268,968
5.8%	453,401,431	10,741,782
6.3%	447,979,319	5,319,670
6.8% (Carrying value)	442,659,649	-
7.3%	437,439,862	(5,219,787)
7.8%	432,317,488	(10,342,161)
8.3%	427,290,124	(15,369,525)
8.8%	422,355,444	(20,304,205)

Discount Rate	31 December 2019 Value calculated £	31 December 2019 Value increase / (decrease) £
4.8%	411,597,859	20,950,343
5.3%	406,113,142	15,465,626
5.6% (fair value)	402,825,998	12,178,482
5.8%	400,743,718	10,096,202
6.3%	395,486,430	4,838,914
6.8% (carrying value)	390,647,516	-
7.3%	385,296,155	(5,351,361)
7.8%	380,357,361	(10,290,155)
8.3%	375,519,084	(15,128,432)
8.8%	370,778,652	(19,868,864)

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

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

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

31 December 2020	Notional contract amount ⁽¹⁾ £	Fair values		Total £
		Assets £	Liabilities £	
Foreign exchange derivatives				
Currency forwards:				
Lloyds Bank plc	273,442,149	3,897,550	(2,979,291)	918,259
Total	273,442,149	3,897,550	(2,979,291)	918,259

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

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

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

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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 borrowings for this purpose, any liabilities incurred under the Company'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 2020 an amount of £19,500,000 (2019: £29,704,000) was drawn and interest of £69,585 (2019: £14,949) was payable.

The revolving credit facility capitalised costs are directly attributable costs incurred in relation to the establishment of the credit loan facilities and an amount of £942,748 (2019: £1,359,902) was netted off against the loan facilities outstanding.

The Group has maintained sufficient headroom against the measures under, and is full compliance with, all loan covenants.

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

	31 December 2020 £	31 December 2019 £
Borrowings at the start of the year	28,359,047	67,764,943
Proceeds during the year	41,985,860	148,035,219
Repayments during the year	(52,067,717)	(185,401,045)
Interest expenses recognised for the year	558,323	1,003,580
Interest paid during the year	(492,331)	(1,137,413)
Credit facility fees incurred	-	(537,981)
Credit facility amortisation of fees	387,448	390,350
Foreign exchange and translation difference	(103,793)	(1,758,606)
Borrowings at the end of the year	18,626,837	28,359,047

13. TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
Loan amounts payable	-	1,717,003
Investment management fees payable	799,584	801,074
Refinancing and restructuring fees payable	-	207,098
Commitment fees payable	161,430	104,055
Audit fees payable	98,902	86,131
Share buyback payable	85,587	-
Tax provision	9,713	76,773
Origination fees payable	-	31,572
Administration fees payable	7,771	12,980
Accrued expenses	17,079	-
Broker fees payable	25,000	-
Legal and professional fees payable	5,000	-
	1,210,066	3,036,686

14. COMMITMENTS

As at 31 December 2020 the Group had outstanding commitments in respect of loans not fully drawn of £49,104,643 (2019: £77,997,899).

As at 31 December 2020 the Group has entered into forward contracts under the Hedging Master Agreement with Lloyds Bank plc to sell €302,627,550 (2019: €270,913,327) to receive Sterling. At the end of the reporting period, these forward contracts have a fair value of £918,259 asset (2019: £8,595,078 asset).

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15. SHARE CAPITAL

The 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 2020 Number of shares	31 December 2019 Number of shares
Ordinary Shares of no par value Issued and fully paid	413,219,398	413,219,398
Shares held in treasury	(3,648,125)	-
Total Ordinary Shares, excluding those in treasury	409,571,273	413,219,398

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 2020 to 31 December 2020:

Ordinary Shares	Number	£
Balance at the start of the year	413,219,398	419,495,150
Shares bought back in 2020	(3,648,125)	(3,173,617)
Balance at the end of the year Issue costs since inception	409,571,273	416,321,533 (8,289,989)
Net proceeds		408,031,544

1 January 2019 to 31 December 2019:

Ordinary Shares	Number	£
Balance at the start of the year	375,019,398	379,480,650
Shares issued in 2019	38,200,000	40,014,500
Balance at the end of the year Issue costs since inception	413,219,398	419,495,150 (8,289,989)
Net proceeds		411,205,161

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 2020:

Period to:	Dividend rate per Share (pence)	Net dividend paid (£)	Payment date
31 March 2020	1.625	6,714,815	20 May 2020
30 June 2020	1.625	6,714,815	28 August 2020
30 September 2020	1.625	6,680,414	20 November 2020
31 December 2020 ⁽¹⁾	1.625	6,644,808	5 March 2021

⁽¹⁾ Declared after year end and to be paid on 5 March 2021 to shareholders on the register as at 5 February 2021.

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

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

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17. RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

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 Group's exposure to market price risk arose from credit linked notes held by the Group and classified as financial assets at fair value through profit or loss. The Investment Manager regularly monitored the fair value of credit linked notes (repaid in 2020 and no longer outstanding) and no specific hedging activities were undertaken in relation to this investment. The Investment Manager moderates market risk through a careful selection of loans within specified limits. The Group's overall market position is monitored by the Investment Manager and is reviewed by the Board of Directors on an ongoing basis.

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 138 (2019: 113) open forward contracts.

As at 31 December 2020 the Group had the following currency exposure:

31 December 2020	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	-	184,576,296	258,083,353	442,659,649
Financial assets at fair value through profit or loss	-	918,259	-	918,259
Other receivables and prepayments	-	17,094	-	17,094
Cash and cash equivalents	422	2,409,377	529,609	2,939,408
Liabilities				
Revolving credit facility	-	(18,626,837)	-	(18,626,837)
Trade and other payables	-	(1,123,070)	(86,996)	(1,210,066)
Net currency exposure	422	168,171,119	258,525,966	426,697,507

31 December 2019	Danish Krone £	Sterling £	Euro £	Total £
Assets				
Loans advanced	-	125,736,298	264,911,218	390,647,516
Financial assets at fair value through profit or loss	-	30,480,689	-	30,480,689
Other receivables and prepayments	-	28,935	-	28,935
Cash and cash equivalents	671	6,566,136	30,226,867	36,793,674
Liabilities				
Revolving credit facility	-	-	(28,359,047)	(28,359,047)
Trade and other payables	-	(139,704)	(2,896,982)	(3,036,686)
Net currency exposure	671	162,672,354	262,522,154	426,555,081

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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 2020 would increase or decrease by £25,852,597 (2019: £21,435,943). 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 2020 would increase or decrease by £42 (2019: £67). 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 (repaid in 2020 and no longer outstanding), 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 79.2% (2019: 79.1%) of investments designated as loans advanced at 31 December 2020 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 2020:

	31 December 2020 £	31 December 2019 £
Floating rate		
Loans advanced ⁽¹⁾	347,477,400	309,007,305
Cash and cash equivalents	2,939,408	36,793,674
Financial assets at fair value through profit or loss	-	21,885,611
Fixed rate		
Loans advanced	95,182,249	81,640,211
Total financial assets subject to interest rate risk	445,599,057	449,326,801

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

At 31 December 2020, 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 2020 £	31 December 2019 £
Floating rate		
Increase of 50 basis points ⁽¹⁾	1,752,084	1,838,433
Decrease of 50 basis points	(1,752,084)	(1,838,433)

⁽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 and credit linked notes (repaid in 2020 and no longer outstanding) designated at fair value through profit or loss, where the Group invests in whole loans and also subordinated and mezzanine debt which rank behind senior debt for repayment in the event that a borrower defaults. There is a spread concentration of risk as at 31 December 2020 due to several loans being advanced since inception. There is also credit risk in respect of other financial assets as a portion of the Group's assets are cash and cash equivalents or accrued interest. The banks used to hold cash and cash equivalents have been diversified to spread the credit risk to which the Group is exposed. The Group also has credit risk exposure in its 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 our derivative exposures were with one counterparty.

With respect to the credit linked notes designated at fair value through profit or loss, the Group held junior notes linked to the performance of a portfolio of high quality UK real estate loans owned by a major commercial bank. The credit linked notes were repaid in June 2020. The transaction was structured as a synthetic securitisation with risk transfer from the bank to the Group achieved via the purchase of credit protection by the bank on the most junior tranches. The credit risk to the Group was the risk that one of the underlying borrowers defaults on their loan and the Group was required to make a payment under the credit protection agreement. Despite the different way in which the transaction was structured the Group considered the risks to be fundamentally the same as any other junior loan in the portfolio and monitored and managed this risk in the same way as the other loans advanced by the Group.

The total exposure to credit risk arises from default of the counterparty and the carrying amounts of financial assets best represent the maximum credit risk exposure at the year-end date. As at 31 December 2020, the maximum credit risk exposure was £446,517,316 (2019: £457,921,879).

The Investment Manager has adopted procedures to reduce credit risk exposure by conducting credit analysis of the counterparties, their business and reputation which is monitored on an ongoing basis. After the advancing of a loan a dedicated debt asset manager employed by the Investment Adviser monitors ongoing credit risk and reports to the Investment Manager, with quarterly updates also provided to the Board. The debt asset manager routinely stresses and analyses the profile of the Group's underlying risk in terms of exposure to significant tenants, performance of asset management teams and property managers against specific milestones that are typically agreed at the time of the original loan underwriting, forecasting headroom against covenants, reviewing market data and forecast economic trends to benchmark borrower performance and to assist in identifying potential future stress points. Periodic physical inspections of assets that form part of the Group's security are also completed in addition to monitoring the identified capital expenditure requirements against actual borrower investment.

The Group measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. The Directors consider both historical analysis and forward looking information in determining any expected credit loss. The Directors consider the loss given default to be close to zero as all loans are the subject of very detailed underwriting, including the testing of resilience to aggressive downside scenarios with respect to the loan specifics, the market and general macro changes. In addition to this, all loans have very robust covenants in place, strong security packages and sufficient loan-to-value headroom. Despite the fact that six loans with a carrying value of £150,331,450 have been moved from Stage 1 to Stage 2 during the year ended 31 December 2020 (refer to the Investment Manager's Report), no loss allowance has been recognised based on 12 month and lifetime ECLs 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.

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 2020 £	Total as at 31 December 2019 £
Loans advanced	292,328,199	150,331,450	-	442,659,649	390,647,516
Gross carrying amount	292,328,199	150,331,450	-	442,659,649	390,647,516
Less ECL allowance	-	-	-	-	-
Carrying amount	292,328,199	150,331,450	-	442,659,649	390,647,516

All loans advanced as at 31 December 2019 were in Stage 1. A reconciliation of changes in the loss allowance was not presented as the allowance recognised at the end of the reporting period was £nil (2019: £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 2020 £	Total as at 31 December 2019 £
Barclays Bank plc	1,275,464	35,818,792
Lloyds Bank plc	778	818
HSBC Bank plc	241	331
Royal Bank of Scotland International	-	81
ING Luxembourg, SA	1,662,925	973,652
Total cash and cash equivalents	2,939,408	36,793,674

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 (2019: £126,000,000) of which £19,500,000 (2019: £29,704,000) 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 future as a result of early repayments:

31 December 2020	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total £
Assets				
Loans advanced	15,653,661	79,933,826	347,072,162	442,659,649
Liabilities and commitments				
Loan commitments ⁽¹⁾	(16,310,931)	(25,822,395)	(6,598,132)	(48,731,458)
Credit facilities	(69,585)	(19,500,000)	-	(19,569,585)
Trade and other payables	(1,210,066)	-	-	(1,210,066)
	(1,936,921)	34,611,431	340,474,030	373,148,540

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

31 December 2019	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total £
Assets				
Loans advanced	766,877	28,526,943	361,353,696	390,647,516
Financial assets at fair value through profit or loss	-	-	21,885,611	21,885,611
Liabilities and commitments				
Loan commitments ⁽¹⁾	(14,896,152)	(31,183,758)	(25,455,384)	(71,535,294)
Credit facilities	(29,718,949)	-	-	(29,718,949)
Trade and other payables	(3,036,686)	-	-	(3,036,686)
	(46,884,910)	(2,656,815)	357,783,923	308,242,198

⁽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 2020

Derivatives	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total as at 31 December 2020 £
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow ⁽¹⁾	(3,619,250)	(14,976,399)	(254,846,500)	(273,442,149)
Inflow	3,584,355	14,874,088	256,024,869	274,483,312

31 December 2019

Derivatives	Up to 3 months £	Between 3 and 12 months £	Over 12 months £	Total as at 31 December 2019 £
Lloyds Bank plc:				
Foreign exchange derivatives				
Outflow ⁽¹⁾	(2,753,442)	(7,160,751)	(221,337,422)	(231,251,615)
Inflow	2,735,217	7,156,425	228,928,347	238,819,989

⁽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 2020 £	31 December 2019 £
Equity		
Equity share capital	408,031,544	411,205,161
Retained earnings and translation reserve	18,665,963	15,349,920
Total capital	426,697,507	426,555,081

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 2020

	Level 1 £	Level 2 £	Level 3 £	Total £
Assets				
Derivative assets	-	918,259	-	918,259
Total	-	918,259	-	918,259

31 December 2019

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

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There have been no transfers between levels for the year ended 31 December 2020 (2019: nil).

Investments classified within Level 3 consisted of Credit Linked Notes ("CLNs"). The fair value of the CLNs were determined by the Investment Adviser using a discounted cash flow valuation model. The main inputs into the valuation model for the CLNs were discount rates, market risk factors, probabilities of default, expected credit loss levels and cash flow forecasts. The Investment Adviser also considered the original transaction price and recent transactions of comparable instruments (where available), the credit quality on the underlying reference portfolios and adjusted the valuation model as deemed necessary.

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 most significant input to the valuation model was the discount rate applied to the cash flows. There were no CLNs held as at the year end. As at 31 December 2019, if the discount rate was increased/decreased by 1%, the fair value of the CLNs would have reduced/increased by £298,155 /£306,372.

The table below presents the movement in level 3 investments.

	31 December 2020 £	31 December 2019 £
Balance at the start of the year	21,885,611	21,886,335
Cash interest received	(1,210,333)	(2,339,946)
Net gains recognised in profit or loss ⁽¹⁾	1,097,722	2,339,222
Redemptions during the year	(21,773,000)	-
Balance at the end of the year	-	21,885,611
Changes in unrealised gains or losses for Level 3 assets held at year end and included in net changes in fair value of financial assets at fair value through profit or loss	-	-

⁽¹⁾ The net gains for the year ended 31 December 2020 comprise of £1,097,722 interest income on CLNs (31 December 2019: £2,339,222).

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2020 but for which fair value is disclosed:

31 December 2020

	Level 1 £	Level 2 £	Level 3 £	Total fair values £	Total carrying amount £
Assets					
Loans advanced	-	-	459,549,015	459,549,015	442,659,649
Liabilities					
Credit facility	-	18,626,837	-	18,626,837	18,626,837

The following table summarises within the fair value hierarchy the Group's assets and liabilities (by class) not measured at fair value at 31 December 2019 but for which fair value is disclosed:

31 December 2019

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

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.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

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 2020 £	31 December 2019 £
Current tax		
Tax expenses on profit of the reporting period	81,953	62,307
Tax adjustments on profit of previous periods	-	(395)
Tax refund for previous periods	-	(1,014)
Total current tax	81,953	60,898

The Luxco had no operating gains on ordinary activities before taxation and was therefore for the year ended 31 December 2020 subject to the Luxembourg minimum corporate income taxation at €4,815 (2019: €4,815). The Luxco 3 and Luxco 4 are subject to Corporate Income Tax and Municipal Business Tax based on a margin calculated on an arm's-length principle. The effective tax rate in Luxembourg during the reporting period was 24.94% (2019: 24.94%).

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 49 to 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. International Financial Reporting Standards, however, base the effective interest rate calculation 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

The following tables summarise the transactions occurred with related parties during the reporting period and outstanding at 31 December 2020 and 31 December 2019:

2020

Fees, expenses and other payments	Outstanding at 31 December 2020 £	For the year ended 31 December 2020 £
Directors' fees and expenses paid		
Stephen Smith	-	50,000
John Whittle	-	45,000
Jonathan Bridel (resigned 31 December 2020)	-	42,500
Shelagh Mason (appointed 1 September 2020)	-	13,333
Expenses paid	-	1,731
Investment Manager		
Investment management fees	799,584	3,186,943
Origination fees	-	546,194
Expenses	-	68,279

2019

Fees, expenses and other payments	Outstanding at 31 December 2019 £	For the year ended 31 December 2019 £
Directors' fees and expenses paid		
Stephen Smith	-	50,000
John Whittle	-	45,000
Jonathan Bridel	-	42,500
Expenses paid	-	2,828
Investment Manager		
Investment management fees	801,074	3,077,665
Origination fees	31,572	1,684,798
Expenses paid	-	100,624

2020

Shareholdings and dividends paid	Dividends paid during the year ended 31 December 2020 £	As at 31 December 2020 Number of shares
Starwood Property Trust Inc.	594,100	9,140,000
SCG Starfin Investor LP	148,525	2,285,000
Shelagh Mason (appointed 1 September 2020)	287	17,688
Stephen Smith	5,130	78,929
John Whittle	1,356	23,866
Jonathan Bridel (resigned 31 December 2020)	771	11,866
Duncan MacPherson*	8,333	133,333
Lorcain Egan*	3,818	61,093

* Employees at the Investment Advisor

Post year end Shelagh Mason, Duncan MacPherson and Lorcain Egan purchased 95,131, 116,667 and 22,585 shares respectively.

2019

Shareholdings and dividends paid	Dividends paid during the year ended 31 December 2019 £	As at 31 December 2019 Number of shares
Starwood Property Trust Inc.	594,100	9,140,000
SCG Starfin Investor LP	148,525	2,285,000
Stephen Smith	5,130	78,929
John Whittle	771	11,866
Jonathan Bridel (resigned 31 December 2020)	771	11,866
Duncan MacPherson*	-	-
Lorcain Egan*	-	-

* Employees at the Investment Advisor

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

Other

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

Loan	Related party co-lenders
Hotel & Residential, UK	STWD
Hotel, Spain	STWD
Mixed Portfolio, Europe	STWD
Office Portfolio, Spain	STWD
Office Portfolio, Ireland	STWD

23. EVENTS AFTER THE REPORTING PERIOD

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

	Local Currency
Hotel, Scotland	£3,867,454
Hotel, Spain	€1,442,051
Mixed Use, Dublin	€279,309
Office Portfolio, Spain	€214,854
Office, London	£154,634

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

	Local Currency
Residential, London	£20,959,870
Logistics Portfolio, UK	£7,808,392
Mixed Portfolio, Europe	€1,765,799
Logistics Portfolio, Germany	€644,207
Shopping Centre, Spain	€317,344

The term of the loan on Hotel & Residential, UK (£49.9m) has been extended by one year to 31 December 2022.

The Company has repaid £14.0 million of funding on its credit facilities following the amortisation of the loans above. In addition, the Company has drawn £3.0 million of funding on its credit facilities to fund the amounts drawn under existing commitments. At the date of publication of this report the amount drawn under each facility are:

- Morgan Stanley Facility: £8.5 million
- Lloyds Facility: £0.0 million

On 22 January 2021 the Directors declared a dividend in respect of the financial year ended 31 December 2020 of 1.625 pence per share, £6,644,808 to be paid on 5 March 2021 to shareholders on the register as at 5 February 2021.

On 1 January 2021 Charlotte Denton was appointed as a Director of the Company.

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 un-invested. 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.

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 LIBOR/EURIBOR 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”.

Alternative Performance Measures

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 have 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 EURIBOR or LIBOR.

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.

NET CASH / DEBT

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

Stephen Smith (Non-executive Chairman)
John Whittle (Non-executive Director)
Shelagh Mason (Non-executive Director,
appointed 1 September 2020)
Charlotte Denton (Non-executive Director,
appointed 1 January 2021)
(all care of the registered office)

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