# REAL ESTATE CREDIT INVESTMENTS LIMITED

## CONDENSED INTERIM FINANCIAL REPORT

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

# Condensed Interim Financial Report
**For the six months ended 30 September 2017**

## Contents



This Condensed Interim Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report and Audited Financial Statements for the year ended 31 March 2017 and any public announcements made by Real Estate Credit Investments Limited (the "Company") during the interim reporting period.

The condensed unaudited interim financial statements of the Company were approved by the Directors on 30 November 2017.

The condensed unaudited interim financial statements have been reviewed but not audited.

## Financial Highlights

| - Balance Sheet | 30/09/2017 | 31/03/2017 |
|---|---|---|
| Fair Value of Loans | £109.8m | £109.3m |
| Fair Value of Bonds | £90.3m | £49.8m |
| Financing* | £(31.2m) | £(41.9m) |
| Cash, Cash Equivalents and Cash Held by Brokers** | £42.1m | £24.9m |
| Other Assets and Liabilities | £(3.4m) | £2.2m |
| Net Assets | £207.6m | £144.3m |

*Financing at 31 March 2017 comprised of Preference Shares which were redeemed in September 2017 and at 30 September 2017 comprised of short term financing.
**£39.8m held by brokers in respect of Ordinary Share issue.

| - Profit and Loss | 30/09/2017 | 30/09/2016 |
|---|---|---|
| Operating Income | £9.4m | £7.5m |
| Finance Costs | £(1.6m) | £(1.7m) |
| Operating Expenses | £(1.7m) | £(1.6m) |
| Net Profit | £6.1m | £4.3m |
| Weighted Average Yield of Loan Portfolio | 11.3% | 12.3% |
| Weighted Average Yield of Bond Portfolio (unlevered) | 5.5% | 4.6% |

## Key Performance Indicators

| - Balance Sheet | 30/09/2017 | 31/03/2017 |
|---|---|---|
| Net Asset Value per Ordinary Share | £1.63 | £1.63 |
| Share Price | £1.675 | £1.625 |
| Premium / (Discount) | 2.6% | (0.4%) |

| - Profit and Loss | 30/09/2017 | 30/09/2016 |
|---|---|---|
| Earnings Per Ordinary Share | 6.0p | 6.0p |
| Dividends per Ordinary Share declared for the period | 6.0p* | 6.2p** |
| NAV Total Return (including dividends) annualised | 7.5% | 6.2% |

*This amount comprises two dividends of 3p per Ordinary Share.
**This amount comprises two dividends of 2.7p per Ordinary Share and a special dividend of 0.8p per Ordinary Share.

## Further Information

A results presentation will be available on the Company's website : www.recreditinvest.com/investmentmanager

## About the Company

Real Estate Credit Investments Limited ("RECI" or the "Company") is a non-cellular company incorporated in Guernsey, having converted from a protected cell company called Real Estate Credit Investments PCC Limited on 25 October 2016. The Company is regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission. At the AGM in September 2017 the continuation vote was passed and a further continuation resolution will be proposed at the AGM to be held in 2021.

The Company invests in real estate debt secured by commercial or residential properties in Western Europe, focusing primarily on the United Kingdom and Germany and sees the changing dynamics in the real estate debt market offering a sustainable deal flow for the foreseeable future. The Company has adopted a long term strategic approach to investing and focuses on identifying value in real estate debt. In making these investments the Company uses the expertise and knowledge of its Alternative Investment Fund Manager ("AIFM"), Cheyne Capital Management (UK) LLP ("Cheyne" or the "Investment Manager").

The Ordinary Shares ("Ordinary Shares") are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and pay a quarterly dividend. On 16 September 2017, the Company redeemed all of its 41,930,419 Preference Shares at a total value, including the accrued interest up to redemption, of £42.6 million and cancelled the 3,032,415 Preference Shares which were held in Treasury. The listing of the Preference Shares ("Preference Shares"), on the Official List of the UK Listing Authority was cancelled on 18 September 2017 and trading in them on the Main Market of the London Stock Exchange plc ceased on the same date.

During the period 23 February 2017 to 30 September 2017 the Company raised gross proceeds of £89.4 million, through the issuance of new Ordinary Shares. Of this, £64.2 million was raised during the six months to 30 September 2017.

**Website and Share Price Information**
The Company has a dedicated website, which may be found at www.recreditinvest.com which contains information, including regulatory announcements, share price information, financial reports, investment objectives and strategy, investor contacts and information on the Board.

## Chairman’s Statement

**Introduction**

I am pleased to report that during the financial half year ended 30 September 2017, RECI continued to build on the positive momentum of last year. At the Annual General Meeting held on 11 September, shareholders voted overwhelmingly for the continuation of the Company. The Company’s capital structure has also been simplified and the liquidity of RECI’s Ordinary Shares has been enhanced by achieving a market capitalisation that now exceeds £220 million.

**Financial Performance**

RECI reported total net profit for the half year ended 30 September 2017 of £6.1 million, a 40% increase from £4.3 million in the half year ended 30 September 2016. During the half year the Company maintained its NAV and paid two quarterly dividends at the increased rate of 3p per Ordinary Share per quarter, first introduced in respect of the quarter ended 31 March 2017. While fluctuations in NAV from time to time are inevitable, the Board is focused on seeking to deliver a stable NAV while providing an attractive and sustainable dividend stream for our shareholders.

The NAV at 30 September 2017 was £1.63 per Ordinary Share, maintaining the £1.63 per Ordinary Share as at 31 March 2017.

The 30 September 2017 NAV reflects the payment of 6p per Ordinary Share during the half year in respect of the fourth interim dividend for the year ended 31 March 2017 and the first interim dividend of the current financial year, returning £5.7 million to Ordinary Shareholders and providing an annualised total return of 7.5% for the half year.

A second interim dividend of 3p per Ordinary Share was declared on 30 November 2017 for the quarter ended 30 September 2017.

As at close of trading on 30 September 2017, the Company’s Ordinary Shares stood at a premium of 2.6% to NAV, having traded at an average premium to NAV of 2.0% during the half year.

In accordance with their terms of issue, all of the Company’s Preference Shares, including those held in treasury, were redeemed and cancelled on 16 September 2017. During the half year, the Company paid a dividend of 2p per Preference Share in respect of the quarter ended 30 June 2017 and a final dividend of 1.7p per Preference Share in respect of the period from 1 July 2017 to the redemption date.

During the half year, the Company committed £78.3 million in four new loans and purchased £51.5 million of new bonds for the portfolio. RECI also received cash repayments and interest of £37.9 million in the period.

**Placing Programme Update**

My last Chairman’s statement reported the successful launch of a new Placing Programme in February 2017 and completion of the initial placing thereunder. I am now pleased to report that the combination of investor demand and attractive investment opportunities has enabled us to complete two further placings under the programme during the half year.

We announced on 4 July 2017 that RECI had raised gross proceeds of £23.5 million through a placing of 14,242,425 new Ordinary Shares at 165 pence per new Ordinary Share. On 27 September 2017, we announced the raising of further gross proceeds of £40.7 million through a placing of 24,500,000 new Ordinary Shares at 166 pence per share.

Following the three placings to date, which have raised aggregate gross proceeds of £89.4 million, 10.7 million new Ordinary Shares remain available to be issued under the current Placing Programme. Your Board and Cheyne continue to monitor the pipeline of investment opportunities and potential investor demand.

**Redemption of Preference Shares**

On 16 September 2017, the Company redeemed and cancelled all of its 44,962,834 Preference Shares (3,032,415 of which were held in treasury) in accordance with the Company’s Articles of Incorporation at a total value, including the accrued interest up to redemption, of £42.6 million.

Since redemption, RECI has replaced some of this Preference Share leverage, which carried a coupon of 8% per annum, with short term leverage at a significantly lower cost of borrowing (the weighted average cost being 1.35% per annum as at 30 September 2017). The Board believes that this, combined with the reduction in the Management Fee (which is only payable on net assets post the Preference Shares’ redemption), should enhance the risk adjusted returns and the overall yield of the Company. The Company continues to evaluate a range and combination of potential leverage options.

## Chairman’s Statement (continued)

**Outlook**

While the uncertainty caused by Brexit continues to overshadow markets and the real estate sector, RECI’s ability to invest in opportunities in the UK and in our Investment Manager’s preferred Western European countries, utilising a flexible range of lending instruments and structures, positions the Company well to build upon the progress achieved in the first half of our financial year.

The Board is grateful for the support of our existing shareholders and new investors in growing the Company and remains encouraged by the pipeline of investment opportunities sourced by Cheyne and RECI’s ongoing ability to deliver attractive returns for our shareholders. We maintain our ambition to continue to grow, enhance the liquidity and broaden the shareholder base of your Company.

**Bob Cowdell**
**Chairman**

**30 November 2017**

## Investment Manager's Report

**State of the markets – UK and Europe**

RECI's core investment area is in the provision and trading of real estate credit investments (predominantly loans and bonds) with a geographical focus on the UK and Western Europe.

Over the last six months, we have seen continued momentum in the continental European real estate markets, reflecting the strength and stability of those underlying economies. In contrast, valuations for most UK assets have not recovered from their post-Brexit vote lows.

Buyers in the UK market today are broadly divided into two profiles:

- The opportunistic buyer looking to benefit from lower valuations and a weaker exchange rate. These buyers typically target "value-add" assets (assets that require some measure of value enhancing work such as refurbishment, redevelopment and leasing). Buyers here are able to price in very conservative assumptions that are likely to already reflect a downside Brexit scenario (longer void periods, lower rents, wider yields).
- The buyer of "core" income (assets that do not require value enhancement and already provide for long term stable income) assets. The buyer here is likely to be looking to benefit from the weaker exchange rate and the provision of better long term income yields than those available in competing developed countries.

For both asset types, we note the return of liquidity to the UK market at these new clearing levels and the selective opportunities this presents.

Real estate lending markets across Europe, including the UK, remain constrained for asset types, projects and leverage ratios that do not readily comply with regulatory capital constraints within the traditional lending banks. In addition to this, lending in the UK is further curtailed by the risk aversion arising from the Brexit vote thus creating an opportunity for alternative lending sources.

**The continuing opportunity set for RECI**

RECI benefits from being able to invest, finance and trade real estate credit alongside the wider real estate debt platform at Cheyne. Cheyne's real estate debt business has in excess of £3 billion invested in this sector, with a mandate to be flexible across the capital structure (senior, mezzanine and special situations) and instrument types (predominantly bonds and loans).

RECI is, therefore, able to move quickly to address the ever-changing landscape of risk and reward in the UK and Continental European real estate credit markets. Today, we believe the most compelling opportunities are:

- secured lending at conservative loan to value ratios, against value-add or development assets in primary cities across the UK;
- senior and mezzanine loans, secured by long term income-producing assets across Europe, with the ability to securitise, finance, tranche and trade the risk.

**The challenges facing RECI**

Whilst the result of the Brexit referendum provides RECI with a very compelling opportunity to secure attractive returns on a much lower risk profile in the UK markets, it presents borrowers with a challenge in terms of lower asset valuations and longer times to realisation. In the last twelve months Cheyne has successfully worked with RECI's UK borrowers and exited from four UK loans with realisations of £20 million. There remain six pre-referendum UK private credit loans in its portfolio, with a value of £46 million. However, in each of these deals, given RECI's conservative risk position and robust controls, it has been able to work constructively with its borrowers towards preserving the value of its debt and its investment returns despite the challenging market conditions.

Both for pre-referendum deals as well as current investments, Cheyne works, as it does for the other Cheyne funds, to ensure that RECI maintains an appropriate risk position, along with a strong covenant and control rights over its loans. This level of control allows RECI to have a significant influence over the recovery path for all of its investments and to preserve its economic returns in challenging markets.

**Accretive capital structure**

Following the inception of the Placing Programme in February 2017 for up to 65 million Ordinary Shares, RECI has successfully concluded three capital placings of an aggregate 54.3 million Ordinary Shares, raising gross proceeds of £89.4 million.

In addition to this, in September 2017, RECI redeemed and cancelled all of its outstanding 41.9 million of Preference Shares, not already held in treasury, which were paying a coupon of 8 per cent. RECI has replaced its Preference Shares with short term low cost financing and, at the period end, RECI had £31 million of leverage that had been arranged through a repurchase agreement programme. The weighted average cost of this short term leverage was approximately 1.35% per annum as at 30 September 2017.

**Capital deployment and pipeline**

In this half year period, RECI has committed £78.3 million towards new loans and invested £51.5 million in bonds. In contrast to the lull in investment activity immediately post the UK referendum vote, the last six months have seen a significant amount of new investment activity, particularly in the UK senior lending sector.

The current pipeline for RECI is dominated by senior, low LTV loans in the UK and listed bonds secured by core income assets across Europe. The current loan pipeline comprises 4 deals under consideration with a potential commitment (for RECI) of up to £62 million.

**In summary**

We continue to believe that the combination of regulatory capital pressures on traditional lenders and the impact of the Brexit vote presents RECI with a very compelling opportunity to deploy capital and grow market presence as the alternative lender of choice for real estate credit (in all its forms) across Europe, and especially in the UK. We note the risks posed to real estate and real estate credit in the UK from the Brexit vote, and remain confident in Cheyne's ability to deploy capital at a commensurately lower risk point (whilst maintaining returns) as well as working to exit the remaining pre-Brexit positions in a timely manner, on behalf of RECI.

RECI has successfully raised capital, simplified its capital structure and reduced its cost of leverage to position itself to capture this opportunity set alongside the other Cheyne real estate credit funds.

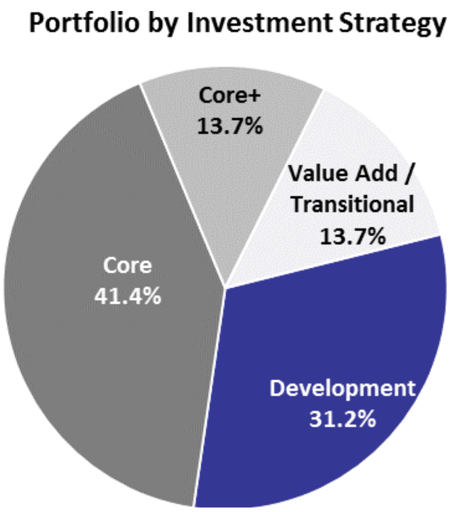
**Portfolio Analysis**

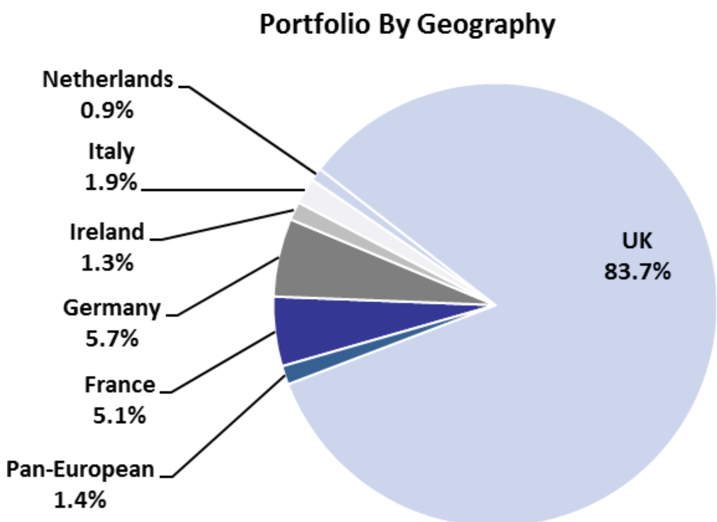
The portfolio as at 30 September 2017 comprises 19 loans with a NAV of £109.8 million, 28 bonds with a NAV of £90.3 million and £1.3 million of cash.

The portfolio of loans and bonds are secured by the following asset profiles:

- **Core** – assets that benefit from having long term income;
- **Core +** – assets that benefit from having strong current income, but require some measure of asset management to optimise their income profile and term;
- **Value add / transitional** – assets that require asset management (typically refurbishment) and re-letting to secure a core income profile; and
- **Development** – assets that are either to be built from the ground up or are in need of substantial refurbishment works.

The following charts analyse the combined Investment Portfolio of loans and bonds:



## Investment Manager's Report (continued)

**Loan Portfolio**
The loan portfolio comprises mainly senior and mezzanine loans.

**Loan Portfolio Summary as at 30 September 2017**

| | |
|---|---|
| Number of loans | 19 |
| Fair Value (£ millions) | 109.8 |
| Total Loan Commitments (£ millions) | 178.5 |
| Loans as % of NAV (drawn loan balance) | 53% |
| Loans as a % of NAV (committed loan balance) | 86% |
| Weighted average yield of loan portfolio | 11.3% |
| Weighted average LTV of portfolio | 68% |
| Weighted average life of portfolio (years) | 2.5 |

**Loan Portfolio activity**
The drawn fair value of the loan portfolio, excluding accrued interest, has increased marginally from £109.3 million at 31 March 2017 to £109.8 million as at 30 September 2017. During the period, the Company made £78.3 million of new commitments over four new deals, taking total loan commitments to £178.5 million as at 30 September 2017. The weighted average loan portfolio LTV as at 30 September 2017 was 68%. The portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 11.3% per annum. In addition to this expected yield, some loans may also benefit from profit sharing arrangements.

Per the latest released Fact Sheet, as at 31 October 2017, the loan portfolio consisted of 19 loans, with a drawn fair value of £111.0 million and a weighted average yield of 11.2%.

**Real Estate Bond Portfolio**

As at 30 September 2017, the bond portfolio of 28 bonds was valued at £90.3 million, with a nominal face value of £94.7 million. Taking both the positive recorded interest income and the fair value losses on the bonds in the half year, the total gross return of the bond portfolio (reportable segment profit) in the half year ended 30 September 2017 was £3.2 million compared to £2.0 million in the half year ended 30 September 2016.

Per the latest released Fact Sheet, as at 31 October 2017, the bond portfolio consisted of 30 bonds with a fair value of £94.7 million and a nominal face value of £97.5 million.

**Yield and Total Return Analysis**

NAV per share as at 30 September 2017 was £1.63, maintaining the £1.63 per Ordinary Share as at 31 March 2017. Combined with dividends of 6.0p (3p per quarter) in the half year, this represents a total return of 6.1p per share (7.48% annualised). In the half year ended 30 September 2017, the Company reported the following per share and percentage returns:

| | Absolute £m | Per Share | *Annualised Performance |
|---|---|---|---|
| Bond coupon income | 2.21 | 0.02 | 2.73% |
| Loan interest income | 6.13 | 0.06 | 7.58% |
| Other income | 0.15 | 0.00 | 0.19% |
| | 8.49 | 0.09 | 10.49% |
| Finance costs | (1.58) | (0.02) | (1.95%) |
| Expenses (including Management Fee) | (1.73) | (0.02) | (2.14%) |
| | (3.31) | (0.04) | (4.09%) |
| FVTPL | 0.87 | 0.01 | 1.07% |
| Net Profit | 6.05 | 0.06 | 7.48% |

*percentage returns based on annualised figures (taking half year figures multiplied by two) over the NAV per share as at 31 March 2017. Please note columns in the above table may not sum due to roundings.

**Preference Shares and Leverage**
The Preference Shares were repaid in September 2017, so incurred almost a full half year's costs in the above. The Preference Shares paid an annual coupon of 8% and the Company was subject to a Management Fee in respect of the Preference Shares. The new flexible short term leverage had a weighted average cost of 1.35% per annum (as at 30 September 2017).

## Directors' Responsibility Statement

We confirm to the best of our knowledge:

a) the condensed unaudited interim financial report has been prepared in accordance with IAS 34 “Interim Financial Reporting”;
b) the interim management report (contained in the Chairman’s Statement and Investment Manager’s report) includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and a description of principal risks and uncertainties for the remaining six months of the year); and
c) the interim management report (contained in the Chairman’s Statement and Investment Manager’s report) includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

| | |
|---|---|
| **Bob Cowdell (Chairman)**<br>**Director** | **John Hallam**<br>**Director** |
| **30 November 2017** | **30 November 2017** |

## Independent review report to the members of Real Estate Credit Investments Limited

We have been engaged by Real Estate Credit Investments Limited (the "Company") to review the condensed unaudited financial statements in the half-yearly interim financial report for the six months ended 30 September 2017 which comprises the Condensed Unaudited Statement of Comprehensive Income, the Condensed Unaudited Statement of Financial Position, the Condensed Unaudited Statement of Changes in Equity and the Condensed Unaudited Statement of Cash Flows and related Notes 1 to 19. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed unaudited financial statements.

This report is made solely to the Company's members in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdoms' Financial Conduct Authority.

As disclosed in Note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The condensed unaudited financial statements included in this interim financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed unaudited financial statements in the interim financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed unaudited financial statements in the interim financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as issued by the International Accounting Standards Board and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
**Recognised Auditor**
**Guernsey, Channel Islands**
**30 November 2017**

## Condensed Unaudited Statement of Comprehensive Income
**For the period from 1 April 2017 to 30 September 2017**

| | Note | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|---|
| Interest income | 5 | 8,490,474 | 6,816,742 |
| Net gains on financial assets and liabilities at fair value through profit or loss | 3 | 867,750 | 726,639 |
| Operating Income | | 9,358,224 | 7,543,381 |
| Operating expenses | 4 | (1,731,371) | (1,551,107) |
| Profit before finance costs | | 7,626,853 | 5,992,274 |
| Finance costs | 5 | (1,576,621) | (1,732,217) |
| Net profit | | 6,050,232 | 4,260,057 |
| Earnings per Ordinary Share | | | |
| Basic and Diluted | 9 | 6.0p | 6.0p |
| Weighted average Ordinary Shares outstanding | | Number | Number |
| Basic and Diluted | 9 | 95,120,954 | 72,818,496 |

All items in the above statement are derived from continuing operations.

The accompanying notes form an integral part of the condensed unaudited financial statements.

## Condensed Unaudited Statement of Financial Position
**As at 30 September 2017**

| | Note | 30 Sept 2017 GBP | 31 Mar 2017 GBP |
|---|---|---|---|
| Non-current assets | | | |
| Investments at fair value through profit or loss | 11 | 200,058,747 | 159,046,597 |
| | | 200,058,747 | 159,046,597 |
| Current assets | | | |
| Cash and cash equivalents | | 1,252,420 | 24,931,855 |
| Cash collateral at broker | 14 | 1,070,000 | - |
| Derivative financial assets | 12 | 30,510 | 887,000 |
| Receivable for Ordinary Shares issued | 10 | 39,790,475 | - |
| Other assets | 6 | 3,158,672 | 4,405,924 |
| | | 45,302,077 | 30,224,779 |
| Total assets | | 245,360,824 | 189,271,376 |
| Equity and liabilities | | | |
| Equity | | | |
| Reserves | | 207,556,467 | 144,250,918 |
| | | 207,556,467 | 144,250,918 |
| Current liabilities | | | |
| Cash collateral due to broker | 14 | - | 390,000 |
| Preference Shares | 10 | - | 41,930,419 |
| Financing agreements | 2 | 31,166,785 | - |
| Payable for investments purchased | | 3,700,000 | - |
| Other liabilities | 7 | 2,937,572 | 2,700,039 |
| Total liabilities | | 37,804,357 | 45,020,458 |
| Total equity and liabilities | | 245,360,824 | 189,271,376 |
| Shares outstanding | 10 | 127,107,534 | 88,365,109 |
| Net asset value per share | | £1.63 | £1.63 |

The accompanying notes form an integral part of the condensed unaudited financial statements.

# Condensed Unaudited Statement of Changes in Equity

## For the period from 1 April 2017 to 30 September 2017

| | Note | GBP |
|---|---|---|
| Balance at 31 March 2017 | | 144,250,918 |
| Net profit for the period | | 6,050,232 |
| Issue of Ordinary Shares of the Company | 10 | 62,984,496 |
| Ordinary Share dividends | 8 | (5,729,179) |
| Balance at 30 September 2017 | | 207,556,467 |

## For the period from 1 April 2016 to 30 September 2016

| | Note | GBP |
|---|---|---|
| Balance at 31 March 2016 | | 118,821,280 |
| Net profit for the period | | 4,260,057 |
| Ordinary Share dividends | 8 | (4,514,747) |
| Balance at 30 September 2016 | | 118,566,590 |

The accompanying notes form an integral part of the condensed unaudited financial statements.

## Condensed Unaudited Statement of Cash Flows
**For the period from 1 April 2017 to 30 September 2017**

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| Profit before finance costs | 7,626,853 | 5,992,274 |
| Movement in investments at fair value through profit or loss | 3,370,126 | (4,831,211) |
| (Purchases of)/Proceeds from sales of investments | (40,721,105) | 24,015,767 |
| Movement in financial derivative instruments | 856,490 | 1,739,979 |
| Operating cash flows before movement in working capital | (28,867,636) | 26,916,809 |
| Decrease/(Increase) in receivables | 1,247,252 | (93,296) |
| Increase in payables | 237,533 | 48,934 |
| Movement in working capital | 1,484,785 | (44,362) |
| Net cash (outflow)/inflow from operating activities | (27,382,851) | 26,872,447 |
| Financing activities | | |
| Ordinary Shares issued | 23,194,021 | - |
| Distributions paid to Ordinary Shareholders | (5,729,179) | (4,514,747) |
| Preference coupon paid | (1,551,425) | (1,677,217) |
| Redemption of Preference Shares | (41,930,419) | - |
| Net drawings under financing agreements | 31,180,418 | - |
| Movement in cash held by/due to broker | (1,460,000) | - |
| Net cash inflow/(outflow) from financing activities | 3,703,416 | (6,191,964) |
| Net (decrease)/increase in cash and cash equivalents | (23,679,435) | 20,680,483 |
| Cash and cash equivalents at the start of the period | 24,931,855 | 5,345,668 |
| Cash and cash equivalents at end of period | 1,252,420 | 26,026,151 |

The accompanying notes form an integral part of the condensed unaudited financial statements.

# Notes to the Condensed Unaudited Financial Statements
**For the six months ended 30 September 2017**

## 1. General information

Real Estate Credit Investments Limited ("RECI") was incorporated in Guernsey, Channel Islands on 6 September 2005 with registered number 43634. The Company commenced its operations on 8 December 2005.

The Company is a non-cellular company, having converted from a protected cell company called Real Estate Credit Investments PCC Limited on 25 October 2016. The Company is regulated as an authorised, closed-ended investment scheme by the Guernsey Financial Services Commission ("GFSC").

The investment strategy is to invest in debt secured by commercial or residential properties in Western Europe, focussing primarily on the United Kingdom and Germany ("Real Estate Credit Investments"). The Real Estate Credit Investments may take different forms but will be likely to be: (i) secured real estate loans; and (ii) debentures or any other form of debt instrument, securitised tranches of secured real estate related debt securities, for example, Retail Mortgage Backed Securities ("RMBS") and Commercial Mortgage Backed Securities ("CMBS") (together Mortgage Backed Securities ("MBS")).

The Ordinary Shares are currently listed on the premium segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc. Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and aim to pay a quarterly dividend. On 16 September 2017, the Company redeemed all of its 41,930,419 Preference Shares at a total cost, including the accrued interest up to redemption, of £42.6 million and cancelled the 3,032,415 Preference Shares which were held in Treasury. The listing of the Preference Shares on the Official List of the UK Listing Authority was cancelled on 18 September 2017 and trading in them on the Main Market of the London Stock Exchange plc ceased on the same date.

The Company continued to fulfill its obligations towards the Preference Shareholders with respect to the payment of Preference Dividends until the Preference Share redemption in September 2017.

The real estate credit investment strategy of the Company focuses on secured residential and commercial debt in the UK and Western Europe. In making these investments the Company uses the expertise and knowledge of its investment manager, Cheyne Capital Management (UK) LLP (the "Investment Manager"), an investment management firm authorised and regulated by the UK Financial Conduct Authority. The Company has adopted a long term strategic approach to investing and focuses on identifying value in real estate debt.

The Company's investment management activities are managed by the Investment Manager, who is also the Alternative Investment Fund Manager ("AIFM"). The Company has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Company is an Alternative Investment Fund ("AIF") within the meaning of the Alternative Investment Fund Manager ("AIFM") Regulations and accordingly the Investment Manager has been appointed as AIFM of the Company, which has no employees of its own. For its services, the Investment Manager receives a monthly Management Fee, expense reimbursements and accrues a Performance Fee (see Note 15). The Company has no ownership interest in the Investment Manager.

State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Company in this capacity.

## 2. Significant accounting policies

### Statement of compliance

The condensed unaudited financial statements for the period ended 30 September 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board. With the exception of those described below, the same accounting policies, presentation and methods of computation have been followed in these condensed unaudited financial statements as were applied in the preparation of the Company's audited financial statements for the year ended 31 March 2017.

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 2. Significant accounting policies (continued)

**Statement of compliance (continued)**
The condensed unaudited financial statements do not contain all the information and disclosures required in a full set of annual financial statements and should be read in conjunction with the audited financial statements of the Company for the year ended 31 March 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The comparative information for the year ended 31 March 2017 does not constitute Statutory Accounts as defined by Guernsey Law. A copy of the Statutory Accounts for that year has been delivered to the Shareholders and is available on the Company's website.

**Basis of preparation**
The unaudited financial statements of the Company are prepared under IFRS on the historical cost or amortised cost basis modified by the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated at fair value through profit or loss.

The functional and presentation currency of the Company is GBP (£), which the Board considers best represents the economic environment in which the Company operates.

**There are a number of new standards, amendments and interpretations issued but not effective and not early adopted as detailed below**

| | | Effective for periods beginning on or after |
|---|---|---|
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers* | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

*The IASB deferred the effective date of IFRS 15 to 1 January 2018.

IFRS 9 will replace the existing guidance in IAS 39 and includes revised guidance on the classification and measurement of financial instruments; it will be effective for RECI for annual reporting period beginning on 1 April 2018.

The Directors have considered the above new standards and while they do not anticipate that they will have a significant impact on the Financial Statements in future periods their assessment of these changes is ongoing.

**Going Concern**
The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

In reaching their opinion the Directors note that the Company raised £39.7 million after costs through a placing of 24,500,000 new Ordinary Shares which was received post period end on 2 October 2017 and is disclosed on the Statement of Financial Position as Receivable for Ordinary Shares issued. The Directors consider that the cash resources available at 30 September 2017 of £1.3m, cash held at the broker of £1.07m, along with financing available through activities such as repurchase agreements, in addition to the proceeds from the issue of the Ordinary Shares, are sufficient to cover normal operational costs and current liabilities, including the proposed dividend, as they fall due for the foreseeable future.

**Repurchase Agreements**

The Company enters into repurchase agreements for the purpose of efficient portfolio management. There are no material revenues arising from the use of repurchase agreements and transaction costs are embedded in the price of the investments and are not separately identifiable. Securities purchased under agreements to resell are valued at fair value and adjusted for any movements in foreign exchange rates. Interest rates vary for each repurchase agreement and are set at the initiation of each agreement. It is the Company's policy to take custody of securities purchased under repurchase agreements and to value the securities on a daily basis to protect the Company in the event the securities are not repurchased by the counterparty. The Company will generally post additional collateral if the market value of the underlying securities declines is less than the face value of the repurchase agreements plus any accrued interest. In the event of default on the obligation to repurchase, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the counter-party to the agreement, realisation and/or retention of the collateral or proceeds may be subject to legal proceedings.

The Company entered into repurchase arrangements in the period with several banks to provide leverage to replace that provided by the Preference Shares. This financing is collateralised against the Company's bond portfolio with a weighted average cost at 30 September 2017 of 1.35% per annum. The average period to maturity of the repurchase arrangements is 2 months.

This short-term financing is shown as a current liability in the Statement of Financial Position.

## 3. Net gains and losses on financial assets and liabilities at fair value through profit or loss

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| Net gains/(losses) | | |
| Net gains on investments at fair value through profit or loss | 2,166,152 | 4,848,171 |
| Net losses on options | (875,946) | (2,119,380) |
| Net losses on foreign exchange instruments and other foreign currency transactions | (422,456) | (2,002,152) |
| Net gains | 867,750 | 726,639 |

## 4. Operating expenses

| | Note | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|---|
| Investment management, depositary and administration fees | | | |
| Investment management fee | 15 | 1,234,086 | 1,016,705 |
| Performance fee | 15 | 128,099 | 95,465 |
| Administration fee | 15 | 81,308 | 74,270 |
| Depositary fee | 15 | 22,142 | 27,600 |
| | | 1,465,635 | 1,214,040 |

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| Other operating expenses | | |
| Audit fees | 55,321 | 55,000 |
| Directors fees | 77,500 | 91,417 |
| Legal fees | 85,233 | 85,000 |
| Other expenses | 47,682 | 105,650 |
| | 265,736 | 337,067 |
| Total operating expenses | 1,731,371 | 1,551,107 |

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 5. Interest income and finance costs

The following table details interest income and finance costs from financial assets and liabilities for the period:

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| Interest income: | | |
| Real Estate Credit Investments - bonds | 2,205,748 | 1,261,384 |
| Real Estate Credit Investments - loans | 6,132,246 | 5,535,617 |
| Receivables (including cash and cash equivalents) | 152,480 | 19,741 |
| Total interest income | 8,490,474 | 6,816,742 |

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| Finance costs: | | |
| Preference Shares issuance expenses amortised | - | 55,000 |
| Dividends - paid to Preference Shareholders | 1,551,425 | 1,677,217 |
| Net cost of financing agreements | 25,196 | - |
| Total finance costs | 1,576,621 | 1,732,217 |

The Company redeemed all of its 41,930,419 Preference Shares (and cancelled the 3,032,415 Preference Shares which were held in Treasury) on 16 September 2017.

### 6. Other assets

| | 30 Sept 2017 GBP | 31 Mar 2017 GBP |
|---|---|---|
| Bond interest receivable | 1,023,098 | 773,107 |
| Loan income receivable | 2,135,574 | 3,632,817 |
| | 3,158,672 | 4,405,924 |

### 7. Other Liabilities

| | 30 Sep 2017 GBP | 31 Mar 2017 GBP |
|---|---|---|
| Investment management, depositary and administration fees payable | | |
| Investment management fee payable | 202,788 | 180,778 |
| Performance fee payable* | 1,814,838 | 1,686,739 |
| Administration fee payable | 15,133 | 23,799 |
| Depositary fee payable | 884 | 44,832 |
| Other expense accruals | 903,929 | 763,891 |
| Total liabilities | 2,937,572 | 2,700,039 |

*The Performance Fee payable was determined as at the quarter end following the first Continuation Resolution in September 2017 and paid shortly thereafter. Futures fees will be accrued and will become payable on the passing of the next continuation vote to be held at the AGM in 2021.

## 8. Dividends

| | 30 Sept 2017 GBP |
|---|---|
| **Ordinary Share Dividends** | |
| Fourth interim dividend for the year ending 31 March 2017 (£0.030 per Ordinary Share) | 2,650,953 |
| First interim dividend for the year ending 31 March 2018 (£0.030 per Ordinary Share) | 3,078,226 |
| Ordinary Share dividends in the period | 5,729,179 |

| | 30 Sept 2016 GBP |
|---|---|
| **Ordinary Share Dividends** | |
| Fourth interim dividend for the year ending 31 March 2016 (£0.035 per Ordinary Share)* | 2,548,648 |
| First interim dividend for the year ending 31 March 2017 (£0.027 per Ordinary Share) | 1,966,099 |
| Ordinary Share dividends in the period | 4,514,747 |

*The amount of £0.035 per Ordinary Share includes a special dividend of £0.008 per Ordinary Share, which was declared on 17 June 2016.

Under Guernsey Law, companies can pay dividends provided they satisfy the solvency test prescribed under the Companies (Guernsey) Law, 2008 which considers whether a company is able to pay its debts when they become due and whether the value of a company's assets is greater than its liabilities.

The Directors considered that the Company satisfied the solvency test for each dividend payment during the period from 1 April 2016 to 30 September 2017.

**Preference Share Dividends**
The Preference Shareholders were entitled to a preference coupon equal to 8% per annum of the Preference Share Notional Value. The preference coupon was accrued at each valuation point, paid as a quarterly dividend and shown as a finance cost in the Statement of Comprehensive Income using the effective interest rate method.

## 9. Earnings per Ordinary Share

| | 30 Sept 2017 GBP | 30 Sept 2016 GBP |
|---|---|---|
| The calculation of the basic earnings per share is based on the following data: | | |
| Net earnings attributable to Ordinary Shares | 6,050,232 | 4,260,057 |
| Weighted average number of Ordinary Shares for the purposes of basic and diluted earnings per share | 95,120,954 | 72,818,496 |
| Earnings per Ordinary Share | | |
| Basic and Diluted (Pence) | 6.0 | 6.0 |

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 10. Share capital

The issued share capital of the Company consists of Ordinary Shares. The Company's capital as at the period end is represented by the value of the shares issued to date. The Company does not have any externally imposed capital requirements. At 30 September 2017 the Company had capital of £207,556,467 (31 March 2017: £144,250,918).

| Authorised Share Capital | 30 Sept 2017 Number of Shares | 31 Mar 2017 Number of Shares |
|---|---|---|
| Ordinary Shares of no par value each | Unlimited | Unlimited |
| Preference Shares at par | - | 44,962,834 |

| Company Ordinary Shares Issued and fully paid | 30 Sept 2017 Number of Shares | 31 Mar 2017 Number of Shares |
|---|---|---|
| Balance at start of the period/year | 88,365,109 | 72,818,496 |
| Ordinary Shares issued during the period/year | 38,742,425 | 15,546,613 |
| Balance at end of the period/year | 127,107,534 | 88,365,109 |

No Ordinary Shares were either bought back or cancelled during the period ended 30 September 2017 or during the year ended 31 March 2017.

During the period 23 February 2017 to 30 September 2017 the Company raised gross proceeds of £89.4 million, through the issuance of new Ordinary Shares. Gross proceeds of £64.2 million were raised during the six months ended 30 September 2017. Net proceeds from the issue of new Ordinary Shares in the Company of £39.79 million which had not yet settled to Cash at period end, but were received shortly after, are disclosed as Receivable for Ordinary Shares issued in the Statement of Financial Position.

| Preference Shares Issued and fully paid | 30 Sept 2017 Number of Preference Shares | 30 Sept 2017 GBP | 31 Mar 2017 Number of Preference Shares | 31 Mar 2017 GBP |
|---|---|---|---|---|
| Preference Shares at start of period/year | 41,930,419 | 41,930,419 | 41,930,419 | 41,840,528 |
| Amortised issue costs allocated to Preference Shares | - | - | - | 89,891 |
| Shares redeemed | (41,930,419) | (41,930,419) | - | - |
| Balance at end of period/year | - | - | 41,930,419 | 41,930,419 |

The value of the Preference Shares represented an obligation on the Company to pay the Preference Shares par value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. On 16 September 2017, the Company redeemed and cancelled all of its outstanding 41.9 million Preference Shares, (the 3 million Preference Shares which were held in Treasury were also cancelled at the same time) at a total cost, including the accrued interest up to redemption, of £42.6 million. The listing of the Preference Shares on the Official List of the UK Listing Authority was cancelled on 18 September 2017 and trading of the Preference Shares on the Main Market of the London Stock Exchange plc ceased on the same date.

The holders of Preference Shares were entitled to receive a coupon of 8% per annum of the Preference Share notional value (8 pence), did not have voting rights and, on redemption, were only entitled to a return of the notional value which is classified as a liability.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The Company's overall strategy was outlined in the new prospectus which was published as part of the Placing Programme on 23 February 2017. The capital structure of the Company consists of the equity of the Company (Statement of Changes in Equity disclosed on page 14).

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 11. Valuation of Financial Instruments

IFRS 13 Fair Value Measurement requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Significant Accounting Policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

The Company categorises investments using the following hierarchy as defined by IFRS 13:

- Level 1 – Quoted market prices in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities measured at fair value at the period/year end date:

| As at 30 September 2017: | Level 1<br>GBP | Level 2<br>GBP | Level 3<br>GBP | Total<br>GBP |
|---|---|---|---|---|
| Non-current assets | | | | |
| Real Estate Credit Investments – bonds | - | 90,304,993 | - | 90,304,993 |
| Real Estate Credit Investments - loans | - | - | 109,753,754 | 109,753,754 |
| Current assets | | | | |
| Forward foreign exchange contracts | - | 30,510 | - | 30,510 |
| Current liabilities | | | | |
| Real Estate Credit Investments - repurchase agreements | - | (31,166,785) | - | (31,166,785) |
| | - | 59,168,718 | 109,753,754 | 168,922,472 |

| As at 31 March 2017: | Level 1<br>GBP | Level 2<br>GBP | Level 3<br>GBP | Total<br>GBP |
|---|---|---|---|---|
| Non-current assets | | | | |
| Real Estate Credit Investments – bonds | - | 49,774,418 | - | 49,774,418 |
| Real Estate Credit Investments - loans | - | - | 109,272,179 | 109,272,179 |
| Current assets | | | | |
| Options | - | 808,105 | - | 808,105 |
| Forward foreign exchange contracts | - | 78,895 | - | 78,895 |
| | - | 50,661,418 | 109,272,179 | 159,933,597 |

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Cash and cash equivalents and cash on deposit held with banks and other short-term investments in an active market are categorised as Level 1.

Receivable for investments sold and other receivables include the contractual amounts for settlement of trades and other obligations due to the Company. Payable for investments sold and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses. All receivable and payable balances are categorised as Level 2.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. These are included in Level 2 of the fair value hierarchy.

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 11. Valuation of Financial Instruments (continued)

The fair value of forward contracts is the difference between the contracts price and reported market prices of the underlying contract variables. These are included in Level 2 of the fair value hierarchy.

The fair values of investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds (Real Estate Credit Instruments), repurchase agreements and over-the-counter derivatives.

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The Company makes loans into structures to gain exposure to real estate secured debt in the UK, and Western Europe. These loans are not traded in an active market and there are no independent quotes available for these loans. Such holdings are classified as Level 3 investments. The fair value of these loans are linked directly to the value of the real estate loans, the underlying structures invests in, which are determined based on modelled expected cash flows (drawdown principal and interest repayments, and maturity dates) with effective yields ranging from 7.6% to 26% (the unobservable input).

Fair value of the real estate loans is adjusted for changes in the credit quality of both the borrower and the underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager performs due diligence on the borrower and related security/property. This includes obtaining a valuation of the underlying property (to assess loan-to-value of the investment). In most instances the terms of the loan require periodic revaluation of the underlying property to check against loan-to-value covenants.

The majority of the Company's investments in loans are made though a Luxembourg based entity Stornoway Finance SARL via Loan Note instruments. As and when market information, such as market prices from recognised financial data providers becomes available, the Company will assess the impact on its portfolio of loans and whether there should be any transfers between levels in the fair value hierarchy. There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the period ended 30 September 2017 or during the year ended 31 March 2017.

At 30 September 2017, the Investment Manager was not aware of any significant movement in the market rates, any indications of impairment, significant credit events or significant negative performance of the underlying property structures, which might affect the fair value of the loans. Whilst no defaults in the underlying investments are expected, a 1% decrease in the discount rate would increase the fair value by £3,704,013 (31 March 2017: increase £2,128,158) and increase net profit by an equal amount; an equal change in the opposite direction would increase the equity of the loan portfolio within the Company and increase net profit by an equal amount.

**Level 3 reconciliation**

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the financial period:

| | Level 3<br>30 Sept 2017<br>GBP | Level 3<br>31 Mar 2017<br>GBP |
|---|---|---|
| Financial assets designated at fair value through profit or loss | | |
| Opening Balance | 109,272,179 | 113,242,257 |
| Total gains and losses recognised in the statement of comprehensive income for the period/year | 1,115,406 | 2,510,998 |
| Purchases | 25,347,649 | 48,502,706 |
| Sales | (25,981,480) | (54,983,782) |
| Closing balance | 109,753,754 | 109,272,179 |
| Unrealised gain/(loss) on investments classified as Level 3 at period/year end | 1,674,357 | (874,807) |

The Company also has credit exposure in relation to its derivative contracts. The Company was invested in derivative contracts with Goldman Sachs at 30 September 2017 and 31 March 2017 with the following credit quality:

| Rating | 30 Sept 2017<br>GBP | 31 Mar 2017<br>GBP |
|---|---|---|
| Goldman Sachs* – A+ (Derivatives) | 30,510 | 887,000 |

Transactions involving derivative instruments are usually with counterparties with whom the Company has signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk from the amounts shown as derivative financial assets on the condensed unaudited Statement of Financial Position. The credit risk associated with derivative financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised.

The exposure to credit risk reduced by master netting arrangements may change significantly within a short period of time as a result of transactions subject to the arrangement. The corresponding assets and liabilities have not been offset on the condensed unaudited Statement of Financial Position.

Below are the derivative assets and liabilities by counterparty as at 30 September 2017 and 31 March 2017.

**Forward foreign exchange contracts**
The following forward foreign exchange contracts were open as at 30 September 2017:

| Counterparty | Settlement Date | Buy currency | Buy amount | Sell currency | Sell amount | Unrealised Gain/(Loss) GBP |
|---|---|---|---|---|---|---|
| Goldman Sachs* | 20 Dec 2017 | GBP | 31,151,648 | EUR | 35,250,000 | 30,510 |
| Unrealised gain on forward foreign exchange contracts | | | | | | 30,510 |

**Options:**
The following options contracts were open as at 31 March 2017:

| Counterparty | Expiration | Description | Currency | Notional Amount | Strike price | Fair Value GBP |
|---|---|---|---|---|---|---|
| Options purchased | | | | | | |
| Goldman Sachs* | 30 Jun 2017 | EUR Put GBP Call | GBP | 30,432,500 | 0.870 | 808,105 |
| Options purchased at fair value | | | | | | 808,105 |

*Goldman Sachs International

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 12. Derivative Contracts (continued)

**Forward foreign exchange contracts:**
The following forward foreign exchange contracts were open as at 31 March 2017:

| Counterparty | Settlement Date | Buy currency | Buy amount | Sell currency | Sell amount | Unrealised Gain/(Loss) GBP |
|---|---|---|---|---|---|---|
| Goldman Sachs* | 20 Jun 2017 | GBP | 1,655,401 | EUR | 1,900,000 | 27,334 |
| Goldman Sachs* | 20 Jun 2017 | GBP | 3,470,159 | EUR | 4,000,000 | 42,649 |
| Goldman Sachs* | 20 Jun 2017 | GBP | 694,414 | EUR | 800,000 | 8,912 |
| Unrealised loss on forward foreign exchange contracts | | | | | | 78,895 |

*Goldman Sachs International

### 13. Segmental Reporting

The Company has adopted IFRS 8 ‘Operating Segments’. The standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes.

Whilst the Investment Manager may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager. The Board retains full responsibility as to the major allocation decisions made on an ongoing basis and is therefore considered the “Chief Operating Decision Maker” under the IFRS 8.

The Company invests in Real Estate Credit Investments. The Real Estate Credit Investments may take different forms but will be likely to be: (i) secured real estate loans; and (ii) debentures or any other form of debt instrument, securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS (together MBS). The real estate debt strategy focuses on secured residential and commercial debt in the UK and Western Europe, seeking to exploit opportunities in publicly traded securities and real estate loans.

The Company has two reportable segments, being the Loan Portfolio and the Bond Portfolio.

For each of the segments, the Board of Directors reviews internal management reports prepared by the Investment Manager on a quarterly basis. The Investment Manager has managed each of the Loan Portfolio and the Bond portfolio separately, thus two reportable segments are displayed in the financial statements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss), as included in the internal management reports that are reviewed by the Board of Directors. Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results.

| 6 month period ended 30 September 2017: | Loan Portfolio GBP | Bond Portfolio GBP | Total GBP |
|---|---|---|---|
| Reportable segment profit | 7,400,131 | 3,217,666 | 10,617,797 |

| 6 month period ended 30 September 2016: | Loan Portfolio GBP | Bond Portfolio GBP | Total GBP |
|---|---|---|---|
| Reportable segment profit | 9,691,526 | 1,973,387 | 11,664,913 |

| As at 30 September 2017 | Loan Portfolio GBP | Bond Portfolio GBP | Total GBP |
|---|---|---|---|
| Total Assets | | | 245,360,824 |
| Non-segmental assets | | | 42,143,405 |
| Reportable segment assets | 111,889,328 | 91,328,091 | 203,217,419 |

| As at 31 March 2017 | Loan Portfolio | Bond Portfolio | Total |
|---|---|---|---|
| | GBP | GBP | GBP |
| Total assets | | | 189,271,376 |
| Non-segmental assets | | | 25,818,855 |
| Reportable segment assets | 112,904,996 | 50,547,525 | 163,452,521 |

Information regarding the basis of geographical segments is presented in the Investment Manager's Report and is based on the countries of the underlying collateral.

All segment revenues are from external sources. There are no inter-segment transactions between the reportable segments during the period. Certain income and expenditure is not considered part of the performance of either segment. This includes gains/losses on net foreign exchange and derivative instruments, expenses and interest on borrowings.

The following table provides a reconciliation between net reportable income and operating profits.

| | 30 Sep 2017 | 30 Sep 2016 |
|---|---|---|
| | GBP | GBP |
| Reportable segment profit | 10,617,797 | 11,664,913 |
| Net gains on repurchase agreements | 38,829 | - |
| Net losses on options | (875,946) | (2,119,380) |
| Net losses on foreign exchange instruments and other foreign currency transactions | (422,456) | (2,002,152) |
| | 9,358,224 | 7,543,381 |
| Operating expenses | (1,731,371) | (1,551,107) |
| Finance costs | (1,576,621) | (1,732,217) |
| Net profit | 6,050,232 | 4,260,057 |

Certain assets and liabilities are not considered to be attributable to either segment, these include, other receivables and prepayments, cash and cash equivalents and derivative financial assets.

The following table provides a reconciliation between net total segment assets and total assets.

| | 30 Sep 2017 | 31 Mar 2017 |
|---|---|---|
| | GBP | GBP |
| Reportable segment assets | 203,217,419 | 163,452,521 |
| Cash and cash equivalents | 1,252,420 | 24,931,855 |
| Cash collateral at broker | 1,070,000 | - |
| Derivative financial assets | 30,510 | 887,000 |
| Receivable for Ordinary Shares sold | 39,790,475 | - |
| | 245,360,824 | 189,271,376 |

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 13. Segmental Reporting (continued)

The following is a summary of the movements in the Company's investments analysed by the Loan and Bond Portfolios for the period ended 30 September 2017:

| As at 30 September 2017: | Loan Portfolio GBP | Bond Portfolio GBP | Total GBP |
|---|---|---|---|
| Investments at fair value through profit or loss | | | |
| Opening fair value | 109,272,179 | 49,774,418 | 159,046,597 |
| Purchases | 25,347,649 | 51,767,110 | 77,114,759 |
| Repayments/Sales proceeds | (25,981,480) | (10,412,198) | (36,393,678) |
| Realised (loss)/gain on sales | (558,950) | 538,080 | (20,870) |
| Net movement in unrealised gains on investments at fair value through the profit or loss | 1,674,356 | 153,665 | 1,828,021 |
| Principal paydowns | - | (1,516,082) | (1,516,082) |
| Closing fair value | 109,753,754 | 90,304,993 | 200,058,747 |

| As at 31 March 2017: | Loan Portfolio GBP | Bond Portfolio GBP | Total GBP |
|---|---|---|---|
| Investments at fair value through profit or loss | | | |
| Opening fair value | 113,242,257 | 39,555,818 | 152,798,075 |
| Purchases | 48,502,706 | 30,501,983 | 79,004,689 |
| Repayments/Sales proceeds | (54,983,782) | (18,276,094) | (73,259,876) |
| Realised gain on sales* | 3,385,805 | 2,030,162 | 5,415,967 |
| Net movement in unrealised gains on investments at fair value through the profit or loss* | (874,807) | (166,373) | (1,041,180) |
| Principal paydowns | - | (3,871,078) | (3,871,078) |
| Closing fair value | 109,272,179 | 49,774,418 | 159,046,597 |

*Excludes effective interest adjustment of £415,188 relating to the bond portfolio for the year ended 31 March 2017, which has been included in the Interest income in the Statement of Comprehensive Income.

### 14. Collateral

The Company pledged £1,070,000 (31 March 2017, the Company received: £390,000) as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation for Goldman Sachs to repay the Company on settlement of the financial derivative instrument. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is shown as Cash collateral at broker on the Statement of Financial Position.

### 15. Material agreements and related party transactions

**Loan investments**
The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity, Stornoway Finance SARL, via Loan Note Instruments. This entity has separate compartments for each loan deal which effectively ring fences each loan deal. Other funds managed by the Investment Manager may invest pari passu in these compartments.

**Investment Manager**
The Company is party to an Investment Management Agreement with the Investment Manager, dated 22 February 2017, pursuant to which the Company has appointed the Investment Manager to manage its assets on a day-to-day basis in accordance with its investment objective and policies, subject to the overall supervision and direction of the Board of Directors.

The Company pays the Investment Manager a Management Fee and a Performance Fee.

## 15. Material agreements and related party transactions (continued)

### Management Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company an annual Management Fee of 1.25% on an adjusted net asset value, being the net asset value of the Ordinary Shares. Prior to the date of redemption of Preferences Shares a Management Fee was also charged on the notional value of the Preference Shares.

During the period ended 30 September 2017, the Management Fee totalled £1,234,086 (period ended 30 September 2016: £1,016,705), of which £202,788 (31 March 2017: £180,778) was outstanding at the period end.

### Performance Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Company a Performance Fee calculated as ((A-B) x 20% x C) where:

A = the Adjusted Performance Net Asset Value ("NAV"), as defined in the updated Prospectus.
B = the NAV per Company Share as at the first Business Day of the Performance Period increased by a simple annual rate of return of 7% over the Performance Period or, if no Performance Fee was payable in the previous Performance Period, the NAV per Company Share on the first Business Day of the Performance Period immediately following the last Performance Period in which a Performance Fee was paid (the "Starting Date") increased by a simple annual rate of return of 7 per cent. over the period since the Starting Date ("Hurdle Assets").
C = the time weighted average number of Company Shares in issue in the period since the Starting Date.

As the Performance Period (as defined in the Prospectus) is from 12 November 2013, to the end date of the quarter (30 September 2017) in which the first Continuation Resolution is passed being the date of the annual general meeting in 2017 (11 September 2017), this has the effect of resetting the NAV on which the Hurdle Rate will be determined for the further period to 2021.

During the period ended 30 September 2017, the Performance Fee totalled £128,099 (period ended 30 September 2016: £95,465), Performance Fees totalling £1,814,838 (31 March 2017: £1,686,739) had been accrued up to the period end. The Performance Fee for the current period was determined at 30 September 2017 being the quarter end following the first Continuation Resolution in September 2017 and paid shortly thereafter.

### Administration Fee

Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Company an administration fee of 0.125% of the net asset value of the Company up to £120,000,000 and 0.0375% of the net asset value of the Company greater than £120,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. The above is subject to a minimum monthly fee of £10,000. During the period ended 30 September 2017 the administration fee totalled £81,308 (30 September 2016: £74,270), of which £15,133 (31 March 2017: £23,799) was outstanding at the period end.

### Depositary Fee

Under the terms of the Depositary Agreement, State Street Custody Services (Guernsey) Limited as the Depositary is entitled to receive from the Company a Depositary fee of 0.02% of the net asset value of the Company. During the period ended 30 September 2017 the Depositary fee totalled £22,142 (30 September 2016: £27,600). The Company owed £884 to the Depositary at the period end date (31 March 2016: £44,832).

## 16. Contingencies and commitments

The Company has committed up to GBP £178.5m million into loans through compartments of Stornoway Finance SARL. As at 30 September 2017, it had funded GBP 109.8 million of this commitment (31 March 2017: GBP 125.9 million commitment of which GBP 109.3 million was funded).

## 17. Subsequent events

The Directors declared an interim dividend of 3.0 pence per Ordinary Share on 30 November 2017.

There have been no other significant events affecting the Company since the period end date that require amendment to or disclosure in the financial statements.

## Notes to the Condensed Unaudited Financial Statements (continued)
**For the six months ended 30 September 2017**

### 18. Foreign exchange rates applied to combined totals shown in the condensed unaudited financial statements

The following foreign exchange rates relative to the GBP were used as at the period/year end date:

| Currency | 30 Sept 2017 | 31 Mar 2017 |
|---|---|---|
| EUR | 1.13 | 1.17 |
| US Dollar | 1.34 | 1.25 |

### 19. Approval of the condensed unaudited financial statements

The condensed unaudited financial statements of the Company were approved by the Directors on 30 November 2017.

## Directors and Advisers

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Bob Cowdell (Chairman)
John Hallam
Graham Harrison
Sarah Evans

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**Delegated Administrator**
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## Alternative Investment Fund Managers (“AIFM”) Directive

Additional Information on the Company, including information on the Alternative Investment Fund Managers (“AIFM”) Directive, can be found either in the Annual Report or on the website at www.recreditinvest.com.