REAL ESTATE CREDIT INVESTMENTS PCC LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

Contents

Chairman's Statement

Real Estate Credit Investments Core ("RECI" or the "Company") has made substantial progress on several fronts in this past financial year. It has delivered robust operating income, reporting £13.7m in the financial year ended 31 March 2014, up from £12.9m in the prior year. Net gains taken through the profit and loss account amounted to £1.0m, resulting in total net profits of £8.1 million for the year ended 31 March 2014, compared to £19.0 million in the prior year, which were boosted by net gains of £12.3 million as a result of the significant rally in the CMBS and RMBS markets.

Net asset value ("NAV") at 31 March 2014 was £1.54 per RECI ordinary share, a 2.7% increase on the previous year end figure of £1.50. Total return per share for the year, combining the dividends and the increase in NAV, was 10.1%

The investment manager, Cheyne Capital, (the "Manager") has made good progress in implementing its strategy to increase its investments in the direct real estate loan market, where the retreat of many banks has left continuing opportunities for achieving attractive returns, despite increasing competition from other non-bank lenders. Loans funded increased during the financial year from £20 million to more than £50 million and the fund raising completed in November has given the Company the capacity to increase this further.

Accordingly, the Company enters the new financial year well positioned to build on the momentum of the past two years. The Investment Manager has a strong pipeline of potential new loans in which RECI can participate, while the bond market continues to offer attractive opportunities to combine liquidity and superior risk adjusted returns.

Successful share placing and expansion of loan portfolio

November's successful placing of £50 million of new ordinary shares, was the springboard for a period of intensive bond and loan market investment. The issue provided the capital that has enabled RECI to put into motion an investment strategy which should help to maintain strong performance from an attractive portfolio of real estate loans and bonds. It can also be seen as an endorsement by the market of that strategy and of the investment manager's track record in real estate debt investments.

RECI's portfolio strategy to invest in both loans and bonds, gives the Company flexibility to adjust investment strategy as market sentiment shifts. The Company initially invested the new capital in real estate bonds, to minimise cash drag, pending the closing of attractive loan opportunities that were in the pipeline. Those opportunities have emerged swiftly and the Company has subsequently sold down bond positions to fund its commitments to new loans.

During the financial year, the Company made six new loans and since year-end has completed a further two loans. The continuing loan pipeline being seen by the Manager is strong and RECI therefore has the potential to allocate further funds in the coming months to new loan commitments, at yields in excess of 10%.

Increased target dividend

At the time of the fund raising the Company announced an increased target dividend of 7 per cent per annum of the placing price of £1.522. I am therefore pleased to say that the Directors have announced a dividend of 2.7p for the quarter ended 31 March 2014, in line with that target annualised dividend yield of 7 per cent. The new target level of dividend reflects RECI's confidence in its ability to continue delivering good returns from real estate debt investments, combined with the improved total expense ratio arising from the reduction in the investment management fee and other economies of scale consequential on the fund raising.

Outlook and Strategy

The Board remains confident of RECI's ability to continue delivering superior risk-adjusted total returns as a result of the Manager's encouraging pipeline and access to new loan investments, its leading position in the CMBS and RMBS markets and the benefits of the Company's enhanced scale. The Company will seek to run the portfolio combining the liquidity offered from the bonds with the enhanced yields on offer in real estate loans.

Chairman's Statement (continued)

Outlook and Strategy (continued)

Loans are likely to form the majority of new investments over the months ahead. The Manager has many loans in advanced stages of progress and, looking further ahead, expects its pipeline to continue growing. The sector fundamentals are strong while bank lending capacity is weak.

RECI's partnership with the Manager plays an essential role in delivering the Company's target returns through the origination and management of real estate loan and bond investments, in which markets it has a leading position, with over $2.1 billion of real estate assets under management.

The Manager has continued to build its real estate debt team, notably through the appointment of Graham Emmett, who has long experience in the real estate loan market. Graham took over as the Company's portfolio manager on 1st February 2014 from Shamez Alibhai, whose commitment and energy over the past six years have played an important part in RECI's success.

Following the retirement from the board of John Hawkins at the end of the last financial year, I am very pleased to welcome Mark Burton to the board, as well as thanking John for his significant contribution in the period since the original IPO in 2005. Mark's experience as both a real estate lender and as an investor at leading sovereign wealth funds, gives him an exceptional perspective on the markets, from which I am delighted RECI now has the chance to benefit.

ERII dividend and cash returns

The European Residual Income Investments Cell ("ERII" or the "Cell") was created in August 2011 to house the Company's non-core assets. ERII ordinary shares give investors direct exposure to the remaining residuals. The Cell has performed ahead of expectations and continues to generate cash flows. The Company is declaring a Cell dividend of 3.2 cents per ERII Ordinary Share. The Company will continue with its policy of distributing available Cell cash subject to satisfying the Preference Share Cover Test and the cash flow needs of the Company.

Annual General Meeting

The Company's Annual General Meeting will be held at the registered offices of the Company on 13 August 2014. The notice of the Annual General Meeting and a form of proxy will accompany the annual report to be distributed to shareholders in the Company.

Tom Chandos, Chairman

11th June 2014

Investment Manager's Report

Portfolio Overview: Balancing liquidity and returns across bonds and loans

RECI's portfolio strategy is to maintain a balance between loans and bonds, taking into consideration liquidity and market opportunities. RECI is aware of the need to maintain sufficient liquidity to cover the redemption of its preference shares in September 2017, as well as investing in a portfolio which provides cover for ongoing dividend payments.

As previously stated, the Company is continuing to pursue its aim of investing approximately 75% of the new capital raised into loans.

Loan Portfolio as at 31 March 2014

Significant portfolio growth
RECI significantly expanded its real estate loan portfolio to £51.0 million from £20.0 million in the financial year ending 31 March 2014. It made a total of £40 million of new commitments within six deals whose aggregate total commitments exceeded £120 million. During the year one of the loans was successfully restructured, syndicating the senior tranche and retaining an enhanced Mezzanine loan.

RECI's deal participations ranged between £3mn and £10mn in lot size with 2 loans being whole loans and 4 loans being Mezzanine loans. In the UK the loans were secured on a well let retail park in the South East of England, an office to student accommodation refurbishment scheme in Bristol, a high quality Central London office portfolio and a multi-let central London office building. One deal was completed in Germany secured against a multifamily residential portfolio across North Rhine Westphalia. As an update on the latest figures, the average loan portfolio LTV exposure as at 31 May 2014 is 72% and the portfolio continues to provide attractive risk-adjusted returns with a weighted average yield of 13.7% pa.

RECI continues to benefit from Manager's position as one of Europe's largest real estate platforms. Furthermore, the Manager enables RECI to participate in whole loans, which puts RECI at the front of the queue with borrowers who prefer that structuring methodology.

Events after the year ended 31 March 2014
Subsequent to the year end two of the loans repaid at levels accretive to NAV, and another loan received an in specie distribution of shares in a company.

Pipeline value upwards of £30 million
As previously stated RECI's strong pipeline indicates that the loan portfolio could grow to approximately £80 million within the next three months. Since the end of the financial year RECI has participated with a £5.0 million commitment within a £15 million loan secured on high profile new build Central London hotel, and a £1.9 million investment in a Dutch mixed use portfolio.

The company has allocated £7.9 million for an additional loan, where legal documentation is agreed and conditions precedent are in the process of being met. Final due diligence is being undertaken on a further 4 loans where termsheets are agreed, with RECI commitments and participations totalling circa £22 million.

Focus on Europe's strongest markets
RECI's strong position in originating attractive new loans enables the Company to focus investments on Europe's most interesting markets – the UK, Germany and also, potentially, Ireland. These markets offer both strong deal flows and, crucially, a lender-friendly legal framework. The Company will avoid lending in more borrower-friendly jurisdictions such as Italy, Spain and Portugal.

Investment Manager's Report (continued)

Loan Portfolio Summary as at 31 March 2014

Number of loans	9
Drawn Dirty Fair Value (£ millions)	51.0
Total Loan Commitments (£ millions)	63.1
Loans as % of GAV (drawn loan balance)	33.0%
Weighted average yield of loan portfolio	12.9%
Weighted average LTV of portfolio	64.9%

Top 10 Investment Portfolio Exposures
[1] as at 31 March 2014

Market Value	£74.6 million
WA Original LTV[2]	60.0%
WA Cheyne Current LTV2	64.8%
WA Effective Yield[3]	9.8%

Type	Class	Collateral Description
Commercial	B	Bond - secured against government housing portfolio in the UK
Commercial	Loan	Loan secured against retail park near London
Commercial	Loan	Loan secured against commercial office property in London
Commercial	E	Bond - Portfolio of commercial loans secured by properties in Germany
Commercial	A	Bond - Portfolio of nursing homes operated by Four Seasons Health Care Group
Commercial	Loan	Loan secured against German multi-family properties
Commercial	Loan	Loan secured against a London Hotel
Commercial	Loan	Loan secured against German multi-family properties
Commercial	A	Bond - Portfolio of UK commercial loans secured against office and retail properties
Commercial	B	Bond - UK commercial loan secured against a property in London

Real estate bond portfolio records solid gains

RECI recorded mark-to-market ("MTM") gains of £0.5 million on the real estate bond portfolio for the second half of the financial year ended 31 March 2014, in excess of the bond portfolio's strong contribution to overall operating income. This compared with MTM gains of £0.5 million for the half ended 30 September 2013. In the past financial year the Company has not incurred any credit losses on any of its bond investments.

Balancing towards loans - reinvesting bond sale proceeds

As it continues its strategic shift towards loans, RECI continues to use proceeds from the capital raise as well as from amortisations and sales of bonds to increase allocations to its loan portfolio.

[1] Based on fair value of bonds and loans.

[2] The weighted average original loan to value has been calculated by reference to the original acquisition value of the relevant collateral as disclosed at the time of issue of the relevant bond or loan. The original LTV is weighted by the market value of the bonds and loans. The weighted average Cheyne current LTV has been calculated by the Investment Manager by reference to the current value ascribed to the collateral by the Investment Manager. In determining these values, the Investment Manager has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review. WA LTV figures are calculated with original notional using pool factor and FX rate as at 31 May 2014.

[3] WA effective yield is based on the effective yield as at most recent purchase and is based on Investment Manager's pricing assumptions and actual returns may differ materially from those expressed or implied herein. WA effective yield figures are calculated with original notional using pool factor and FX rate as at 31May 2014.

Investment Manager's Report (continued)

Positive returns from new investments

RECI also continues to make new bond investments. The weighted average expected yield to maturity of new bonds purchased in the second half of the financial year ended 31 March 2014 was 4.6% and RECI purchased the bonds at an average price of 91% of par. The majority of these bond purchases were made with cash raised from the new share issue, pending rotation into higher yielding loans.

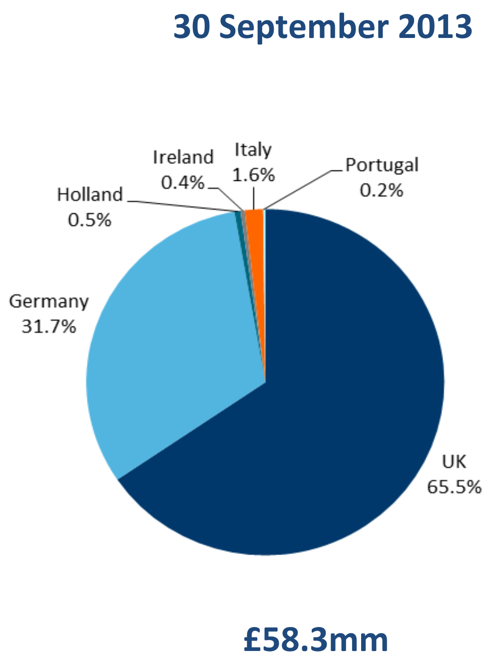
Portfolio value

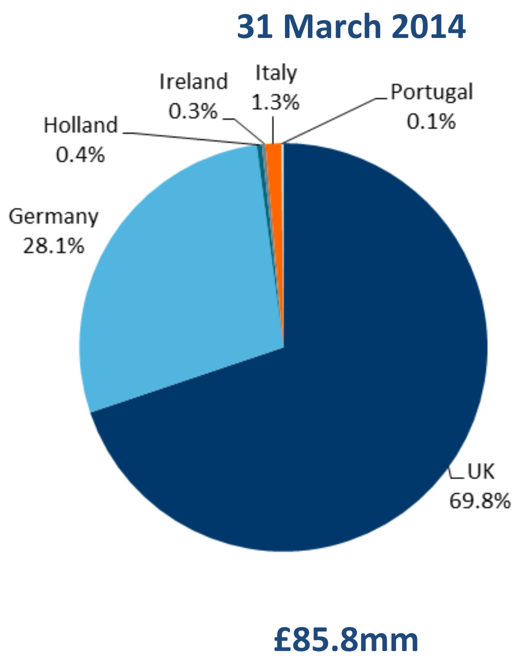
As at 31 March 2014, the portfolio of 79 bonds was valued at £85.8 million, with a nominal face value of £108.3 million[1]. The total gross return of the bond portfolio in the year ended 31 March 2014 was 11%. Due to the increase in bond prices over the past year, the weighted average effective yield to maturity of the portfolio at market prices as at 31 March 2014 was 6.2%, with a weighted average life of 6.8 years (the weighted average effective yield to maturity of the portfolio as at 31 March 2013, using market prices as at 31 March 2013, was 8.8%, with a weighted average life of 4.5 years). As at 31 March 2014, the average purchase price across the portfolio was 81% of par and assets were purchased with a weighted average expected yield to maturity of 9.9% (as at 31 March 2013, the average purchase price across the portfolio was 72% of par and assets were purchased with a weighted average expected yield to maturity of 14.9%).

As at 31 May 2014, the portfolio consisted of 78 bonds with a fair value of £86.1 million and a nominal face value of £105.6 million[4].

Real Estate Bond Portfolio Breakdown

Breakdown of RECI's bond portfolio as at 30 September 2013 and 31 March 2014 by jurisdiction (by reference to underlying assets)





Values may not sum to 100% due to rounding differences

[4] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 May 2014

Investment Manager's Report (continued)

Monthly Bond Performance Summary as at 31 March 2014

	November	December	January	February	March
% Fair Value Change	-0.71%	0.57%	1.11%	1.27%	0.73%
WA Purchase Price	0.94	0.86	0.93	0.87	0.93
WA Purchase Yield	4.46%	5.23%	4.37%	4.60%	8.67%

Asset Class Distribution of Bond Portfolio by Fair Value as at 31 March 2014

Bond Class	**UK CMBS**	**UK RMBS**	**Euro CMBS**	**Euro RMBS**	**Total**	Total as at 30 September 2013
A	15.2%	0.4%	4.9%	0.2%	20.7%	16.6%
B	23.9%	7.6%	2.5%	0.0%	33.9%	32.2%
C	2.1%	5.8%	4.9%	0.0%	12.8%	14.3%
D	1.0%	3.0%	7.2%	0.2%	11.4%	13.9%
E and Below	2.3%	9.3%	9.6%	0.0%	21.2%	23.0%
Total	44.5%	26.0%	29.1%	0.4%	100.0%	**100%**
Total as at 30 September 2013	58.5%	7.4%	33.5%	0.6%		

Values may not sum to 100% due to rounding differences

Outlook – Investment of new capital

At a time of improving economic growth, RECI believes that the fundamentals of Western European real estate are strong as a result of improving tenant demand, improving liquidity, greater transaction volumes and a shortage of flexible debt capital.

With a sizable pipeline and access to loans originated by the Manager, RECI is ideally positioned to continue building its real estate loan portfolio, while continuing to generate strong net total returns from continued bond opportunities.

The investment team expects to close several loan transactions in the coming months and has allocated upward of £30 million to these deals, all of which are in advanced stages. The Company expects the pipeline to continue growing, given the sector's strength, juxtaposed with reduced Commercial bank lending capacity.

RECI has seen competition among senior lenders for loan assets increasing, leading to a significant tightening of interest margins at low LTV's. However, RECI's reach into the market through the Manager's platform, alongside its ability to provide flexible loans, will enable it to pick the deals that it wants to pursue and often sell senior tranches down into a competitive market. These deals are being undertaken with experienced sponsors, in lender-friendly legal jurisdictions which offer a greater likelihood of achieving our risk / reward objectives.

The bond portfolio had a total gross return of approx 11% in the financial year ended 31 March 2014. Looking forward into the next financial year, the Investment Manager is confident of the potential for continued strong returns on the bonds as yield-hungry fixed income investors move towards the riskier parts of the credit stack or move further out in duration.

Strong bond portfolio performance is expected throughout 2014. The manager remains well-placed to participate in new issue bonds at attractive yields. We will rotate out of low yielding liquid bonds to fund new loan opportunities where the risk/reward dynamics deem it appropriate.

Investment Manager's Report (continued)

European Residual Income Investments (ERII)

It is the Company's objective, to the extent practicable, to realise the ERII portfolio and return cash to shareholders. Dividends from ERII will be payable to ERII's shareholders when the asset coverage ratio (the Preference Share Cover Test) is satisfied. As at 31 March 2014 the Preference Share Cover Test was well above the threshold of 2.39. As a result, the Company is declaring a dividend of 3.2 cents per ERII Ordinary Share, returning €0.5 million to investors. The table below shows figures as at 31 March 2014 compared to 31 March 2013.

ERII Key Quarter Financial Data	Q/E 31 March 2013	Q/E 31 March 2014
Cash balance	€1.1m	€1.1m
Residual Total Dirty Fair Value	€14.3m	€9.4m
Asset Coverage Ratio	2.66	3.95
Distribution/Dividend Declared	3.0c	3.2c
Net Asset Value per ERII Share	0.83	0.68
ERII Shares Outstanding	18.54m	15.4m

Investment Portfolio

Overview

ERII reported cash flows from investments for the year ended 31 March 2014 of €3.1 million, compared to €3.7 million in the previous year. The majority of write downs in the quarter ended 31 March 2014 were in the SME Portfolio.

Name	% of ERII Portfolio	Sector
Magellan 1	67.9%	European Mortgage Portfolio
Smart 2006-1	4.6%	SME Portfolio
Alba 05-1	5.8%	UK Mortgage Portfolio
Alba 06-1	10.9%	UK Mortgage Portfolio
Cash	10.8%	
TOTAL	100.0%	

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2014.

General Information

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

The Company is an authorised closed-ended protected cell company, being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI") and a cell segment (the "Cell" or "ERII Cell") each of which has its own portfolio of assets, investment objective and sub-section of the Company's Investment Policy.

The Company's Core Ordinary Shares have a premium listing on the London Stock Exchange and its Preference Shares have a standard listing. The Cell's Ordinary Shares are admitted to trading on the Specialist Fund Market on the London Stock Exchange. The registered office of the Company is First Floor Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ, Channel Islands.

"Group" is defined as the Company and Trebuchet Finance Limited. The Company holds a participation note in Trebuchet Finance Limited, a SPE over which the Company is exposed to the majority of its benefits and business risks.

Principal activity and business review

The principal activity of the Group during the year was that of an investment group investing in real estate debt investments. The Group is expecting to continue its activities in the coming year. For full details of the investment policy of the Group see pages 15 to 16.

Results and dividends

The results for the year and the Group's financial position at the end of the year are shown on pages 34 to 37. Dividends totalling £4,832,217 (31 March 2013: £2,957,577) were paid/declared on the Core Ordinary Shares during the year and £3,577,027 (31 March 2013: £3,684,025) were paid on the Core Preference Shares. Dividends of €1,787,713 were paid during the year in regard to the Cell Ordinary Shares (31 March 2013: €1,278,943). Redemptions were also made in relation the Cell Ordinary Shares in February 2014 whereby €2,410,812 was returned to investors.

A final dividend for the year ended 31 March 2014 of 2.7p per Core Ordinary Share (31 March 2013: 2.2p per share) and 3.2 cents per Cell Ordinary Share were approved by the Directors on 6 June 2014 and has not been included as a liability in these consolidated financial statements.

In the opinion of the Directors, the Company met the solvency requirements under Guernsey law in relation to all distributions paid during the year.

Capital structure

Details of the authorised and issued share capital and the Preference Shares issued and fully paid, together with details of the movements in the Company's issued share capital during the current and prior year are shown in Note 13. The Core has one class of Ordinary Shares which carry no right to fixed income. Each Core Ordinary Share carries the right to one vote at general meetings of the Company. The underlying assets in the Company's Investment Portfolio attributable to the Cell Ordinary Shares (the Cell Assets) are held separately from the assets within the Investment Portfolio attributed to the Core Ordinary Shares. The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote.

Capital structure (continued)
There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association and The Companies (Guernsey) Law, 2008. The Articles themselves may be amended by special resolution of the Shareholders. The powers of Directors are described in the Articles of Association and the Corporate Governance Statement on pages 17 to 22. Under its Articles of Association, the Company has authority to issue an unlimited number of Core Ordinary Shares of no par value.

Board of Directors
The Directors of the Company who served during the year and to date were:

Tom Chandos (Chairman)
Graham Harrison
Talmai Morgan
Christopher Spencer
Mark Burton (appointed 13 December 2013)

Tom Chandos (Chairman) (UK resident). Viscount Chandos, is chairman of the real estate investment company Invista European Real Estate Trust SICAV and sits on the board of a number of private companies. He has a background in investment banking and venture capital. He is a Trustee of the Esmee Fairbairn Foundation and a member of its investment committee. He is a Labour member of the House of Lords. Viscount Chandos has been a Board member of the Company for 8.5 years.

Graham Harrison (Guernsey resident). Mr Harrison is co-founder and managing director of Asset Risk Consultants Limited ("ARC"), an investment consulting practice based in Guernsey. After obtaining a Masters in Economics from the London School of Economics, he began his career working in structured finance for Midland Montagu in London and then as a project economist for the Caribbean Development Bank in Barbados. In 1993, he moved back to Guernsey to help develop investment-related business for the Bachmann Group and in 2002 he led a management buy-out which saw ARC become an independent business wholly owned by management. A Chartered Fellow of the Chartered Institute for Securities and Investment, he has been on the Board of the Company for 8.5 years. He is also currently a non-executive director of a number of investment companies including BH Global Limited* and F&C UK Real Estate Investments Limited.

Talmai Morgan (Guernsey resident). Mr Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr. Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr. Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr. Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. Mr. Morgan is now the chairman or a non-executive director of a number of investment companies including BH Global Limited*, BH Macro Limited, DCG Iris Limited, Global Fixed Income Realisation Limited, John Laing Infrastructure Fund Limited**, NB Distressed Debt Investment Fund Limited, NB Private Equity Partners Limited and Sherborne Investors (Guernsey) B Limited. He holds an M.A. in economics and law from the University of Cambridge. Mr Morgan has been on the Board of the Company for 8.5 years.

Directors' Report (continued)

Board of Directors (continued)

Christopher Spencer (Guernsey resident). Mr Spencer qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Mr. Spencer, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Mr. Spencer sits on the AIC Offshore Committee and is a past President of the Guernsey Society of Chartered and Certified Accountants, and a past Chairman of the Guernsey Branch of the Institute of Directors. Mr. Spencer sits on the board of directors of J.P.Morgan Private Equity Limited, Tamar European Industrial Fund Limited, John Laing Infrastructure Fund Limited** and Ruffer Investment Company Limited, each of which is listed on the London Stock Exchange. Mr Spencer has been on the Board of the Company for 8.5 years.

Mark Burton (UK resident) has long experience of real estate lending and investing, having been Chief Investment Officer, Real Estate, at both Abu Dhabi Investment Authority and Abu Dhabi Investment Council, and Chief Executive Officer, Real Estate at United Bank of Kuwait. He is currently a member of the Real Estate Advisory Board of Norges Bank Investment Management, adviser to Citic Capital Real Estate, a member of the investment committee of Internos Global Investors and a non-executive director of Value Retail plc. He was previously a non-executive director of London and Stamford Property and the Hudson's Bay Company. Mr Burton has been on the Board since 16 December 2013.

*Both Messrs Harrison and Morgan are on the Board of BH Global Limited
** Both Messrs Morgan and Spencer are on the Board of John Laing Infrastructure Fund Limited

The Directors' interests (number of Ordinary, Preference and Cell Shares) in the share capital of the Company at 31 March 2014 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Holding	Number of Preference Shares	% of Holding	Number of Cell Shares	% of Holding
Tom Chandos (Chairman)	280,000	0.38%	150,000	0.34%	11,136	0.07%
Graham Harrison	1,500	0.00%	1,875	0.00%	578	0.00%
Talmai Morgan	1,500	0.00%	1,875	0.00%	578	0.00%
Christopher Spencer	1,500	0.00%	1,875	0.00%	578	0.00%

Substantial interests in share capital

During the year, the Company received a number of notifications, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of major shareholder acquisitions or disposals in the Company.

During the year the Company received the following TR1 notifications relating to disclosures of holders of the Core ordinary shares over 5%. In each case the holding shown represents the amount held at 31 March 2014.

Shareholder	Holding
Premier Fund Management Limited	10.21%
Axa Investment Managers S.A.	5.02%

Directors' Report (continued)

Issued Share Capital
The issued share capital of the Core consists of 114,748,915 (31 March 2013: 84,959,819) shares, made up of 72,818,496 (31 March 2013: 39,996,985) Ordinary Shares and 41,930,419 (31 March 2013: 44,962,834) Preference Shares. During the year ended 31 March 2014, the Core issued a further 32,851,511 shares from the Placing of New Core Shares (Note 1). The new shares were issued to trading on 12 November 2013. The Company also has 15,392,148 (31 March 2013: 18,544,711) Cell Shares in relation to the ERII Cell.

Directors and Officers Liability Insurance
The Company maintains insurance in respect of directors' and officers liability in relation to their acts on behalf of the Company. Insurance is in place, and due for renewal on the 30 June 2014.

Listing Information
The Ordinary Shares of the Core have a premium listing on the London Stock Exchange, while the Cell Shares have been admitted to trading on the Specialist Fund Market of the London Stock Exchange. The Core's Preference Shares have a standard listing on the London Stock Exchange.

The Investment Manager
Having reviewed the performance of the Investment Manager, the Directors are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the Shareholders and the Group. The Investment Management Agreement was updated during the year following the issue of a new Prospectus on 16 October 2013 in respect of Placing of New Core Shares. Details of the changes in the Investment Management Agreement can be found in Note 18 of these financial statements.

Auditor
Deloitte LLP has been the Company's external auditor since the Company's incorporation. This is its 9th period of audit. A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

The Audit Committee will periodically review the appointment of Deloitte LLP and the Board will recommend the re-appointment. Further information on the work of the auditor is set out in the Audit Committee Report on pages 23 to 26.

Principal risks and uncertainties
Principal Risks and Uncertainties are discussed in the Corporate Governance Statement on pages 17 to 22.

Related party transactions
Related party transactions are disclosed in Note 18 of these financial statements. There has been no material changes in the related party transactions described in the last annual report.

Going concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the consolidated financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the on-going funding of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2014 (£19.3m), some of which will be used to pay the proposed dividends, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

Annual General Meeting
The Annual General Meeting ("AGM") of the Company will be held at 10.30 am on 13th August 2014 at First Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to Shareholders together with a copy of this Annual Report.

Members of the Board will be in attendance at the AGM and will be available to answer shareholder questions.

Directors' Report (continued)

Subsequent Events
Final dividends for the year ended 31 March 2014 of 2.7p per Core Ordinary Share and 3.2 cents per Cell Ordinary Share were approved by the Directors on 11 June 2014.

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

On behalf of the Board on 11 June 2014

Christopher Spencer
Director

Talmai Morgan
Director

Investment Policy

The Investment Policy of the Company is subdivided into an Investment Policy for the Core and an Investment Policy for the Cell. This reflects the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Core Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders are invested.

Investment Policy for the Core

Asset Allocation
In order to achieve its investment objective for the Core, the Company invests and will continue to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("**Real Estate Debt Investments**"). The Real Estate Debt Investments may take different forms but will likely be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS, together MBS; and (ii) secured real estate loans, debentures or any other form of debt instrument.

The Company generally invests, either directly or through SPVs and subsidiaries in new Real Estate Debt Investments on a buy-to-hold basis based on an analysis of the credit-worthiness of the underlying assets in the applicable investment. Therefore, the total return from any given investment (if held to maturity) will be driven by actual performance of the underlying real estate loans rather than by market prices. However, the Company will actively manage the Core Portfolio, and may from time to time dispose of an investment prior to its maturity if the Company so decides for reasons including, but not limited to, the price offered being sufficiently attractive, the credit view of the underlying assets changing or superior alternative investments being available. The Company's investments in Real Estate Debt Investments will have some or all of the following key characteristics:

- investments will be backed, directly or indirectly, by real-estate primarily located in Western Europe and the UK;
- investments will have a varied weighted average life profile, with the weighted average life of the individual investments generally ranging from six months to 15 years;
- investments in securities will be rated by one of Fitch, Moody's, Standard and Poor's or another recognised rating agency; and/or
- investments in loans must be secured by one or more commercial or residential properties and loans may not exceed 85 per cent LTV at the time of the investment.

For the purposes of the paragraph above, "Western Europe" shall mean Andorra; Austria; Belgium; Denmark; Finland; France; Germany; Gibraltar; Guernsey; Iceland; Ireland; Isle of Man; Italy; Jersey; Liechtenstein; Luxembourg; Monaco; the Netherlands; Norway; Portugal; San Marino; Spain; Sweden; and Switzerland.

While the Company will have the flexibility to invest in assets to be held in the Core that do not have some or all of the Characteristics listed above, such as, inter alia, direct real estate investments, it has adopted a policy which requires that at least 70 per cent. of the Core Portfolio comprises Real Estate Debt Investments, the Investment Manager has agreed with the Company to take such action, including the sale of assets, as would be necessary to correct this imbalance prior to acquiring any further assets which do not qualify as Real Estate Debt Instruments.

The Company will not make investments via derivatives unless the Company has fully collateralised the derivative position or cannot be exposed to margin calls. However, the Company intends to (but shall not be obliged to) reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements in respect of the Core for the purposes of efficient portfolio management. From time to time, the Company may also enter into derivative transactions to hedge the value of the Core Portfolio.

Investment Policy (continued)

Investment Policy for the Cell

Asset Allocation
In order to achieve its investment objective, the Cell holds and will continue to hold the Cell Assets comprising of Residual Income Positions, until maturity of the coupons unless opportunities for the sale of the Cell Assets arise prior to maturity. The Directors may, at their discretion, return cash to Cell Shareholders by dividends or other distribution. The Directors may also, at their discretion, effect a mandatory redemption of Cell Shares as a means of returning capital to the Cell Shareholders.

The Cell holds the Magellan 1 Notes, the ALBA 2005-1 Notes, the ALBA 2006-1 Notes through Trebuchet and the economic interest in those notes will pass up to the Cell through the Participation Note. The Cell holds the remaining Cell Assets directly – Eirles 236B and Cheyne High Grade ABS (the latter is held at zero value).

The total return from any given investment is primarily driven by the performance of the mortgage and SME loans that collateralise the Residual Income Positions.

The Cell Assets, being five Residual Income Positions (one position is held at zero value), have some or all of the following key characteristics:

- Euro, GBP or USD denominated;
- held in bearer form or book entry form;
- backed by portfolios of Prime Portuguese residential mortgages, Prime Italian residential mortgages, non-conforming UK residential mortgages, US residential mortgages and European SME loans; and
- mark-to-model and generally illiquid.

With the exception of potential investments in cash deposits and other cash equivalent investments, it is not currently intended that the Cell will make any further investments, either through actively increasing the investment in existing Cell Assets, or investing in further assets. However, as part of the Cell's overall investment objective, the Cell Assets will be actively managed and the Cell may, therefore, from time to time dispose of a Cell Asset prior to its maturity if the Investment Manager so decides for reasons including, but not limited to, the price offered being sufficiently attractive or the credit view of the underlying assets changing.

Corporate Governance Statement

Statement of compliance with Corporate Governance

The Board of the Company recognise the importance of sound corporate governance. Currently, The UK Listing Authority requires all overseas companies with a "Premium Listing" (which includes the Company) to "comply or explain" against the UK Corporate Governance Code (the "Code").

The Code of Corporate Governance issued by the Guernsey Financial Services Commission ("GFSC Code") provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies for Guernsey Domiciled member companies (AIC Guide) issued in February 2013.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

Throughout the year ended 31 March 2014, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code and AIC Code include provisions relating to:

- a remuneration committee;
- a management engagement committee;
- the role of the Chief Executive;
- Executive Directors' remuneration; and
- the need for an Internal Audit Function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers some of these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions and provided detail if it is going to consider them in the future.

The obligations under the EU Company Reporting Directive which are implemented by Disclosure and Transparency Rule 7.2, apply to all issuers of equities from 6 April 2010. Under this rule, a company must:

(i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and
(ii) describe its internal control and risk management arrangements.

Details of compliance or explanation of non-compliance are noted below.

Corporate Governance Statement (continued)

The Board

The Directors details are listed on pages 11 and 12 which set out their range of investment, financial and business skills and experience.

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Manager and the Administrator/Company Secretary. Further, the Board requires to be supplied in a timely manner with information by the Investment Manager, the Company Secretary and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

Duties and Responsibilities

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to shareholders for the overall management of the Company. The Board has delegated the day to day operation of the Company to the Investment Manager, and the Administrator and Company Secretary. The Board reserves the powers of decisions relating to the determination of investment policy, the approval of changes in strategy, capital structure, statutory obligations, public disclosure and the entering into any material contracts by the Company.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibilities Statement on Page 27 and 28. The Board is also responsible for issuing appropriate half-yearly financial reports, interim management statements and other price-sensitive public reports.

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2014 as well as the number of attendances at each meeting.

	Scheduled Board Meetings	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance
Board of Directors			
Tom Chandos	3/4	1	N/A
Graham Harrison	3/4	1	2/2
Talmai Morgan	3/4	1	2/2
Christopher Spencer	4/4	1	2/2
Mark Burton (appointed 13 December 2013)	1/1	0	N/A

There were 7 unscheduled committee meetings during the period to discuss the capital raise of the Company and a further 6 sub-committee meetings for various ad hoc business.

Chairman

The Chairman, Mr Tom Chandos, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman is responsible for effective communication with Shareholders.

Corporate Governance Statement (continued)

Directors Remuneration
Each of the Directors has signed a letter of appointment with the Group setting out the terms of their appointment, which are available for inspection at the Company's registered office.

During the year ended 31 March 2014, the Chairman received an annual fee of £92,500 (31 March 2013: £105,000) and Mr Morgan, Mr Spencer, Mr Harrison each received an annual fee of £30,000 (31 March 2013: £30,000) in each case payable quarterly in equal instalments in arrears. Each Directors, excluding the Chairman, received a one off bonus of £5,000 for the work conducted in relation to the November placing programme.

The Company has not established a Remuneration Committee as the Company does not have any executive Directors or employees. The total amounts for the Directors' remuneration for the year were as follows:

	Year ended 31 March 2014 GBP	Year ended 31 March 2013 GBP
Tom Chandos (Chairman)*	92,500	105,000
Graham Harrison	30,000	30,000
Talmai Morgan	30,000	30,000
Christopher Spencer	30,000	30,000
Mark Burton (appointed 13 December 2013)	8,877	-
John Hawkins (resigned effective 31 March 2013)	-	30,000
Total Directors' emoluments	191,377	225,000

During the year Graham Harrison received £10,543 (2013: £10,700) in consultancy fees in relation to Trebuchet Finance Limited.

* The fee payable to the Chairman was reduced from £105,000 per annum to £80,000 per annum with effect from 1 October 2013.

Board Independence
For the purposes of assessing compliance with the AIC Code Principle 1 and 2, the Board considers all of the current Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Committees of the Board
In accordance with the AIC Code, the Board has established an Audit Committee and a Nomination Committee, in each case with formally delegated duties and responsibilities within written terms of reference.

The Board has not established a remuneration committee as the Group has no executive Directors or employees.

The Board has not established a management engagement committee as the Board undertakes the review of the contractual arrangements of the Company's service providers.

Audit Committee
The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan and Mr Harrison. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Group's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditor at least once a year. The report of the role and activities of this committee and its relationship with the external auditor is contained in the Audit Committee Report on pages 23 to 26.

Corporate Governance Statement (continued)

Nomination Committee
The Nomination Committee is chaired by Mr Chandos and its other members are Mr Morgan, Mr Harrison, Mr Burton (appointed 16 December 2013) and Mr Spencer. The members of the Nomination Committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year, will have responsibility for considering the size, structure and composition of the Board, and retirements and appointments of additional and replacement Directors and that the Nomination Committee will make appropriate recommendations to the Board.

The Board aims to have a balance of skills, experience, diversity (including gender) and length of service and knowledge of the Company. The Board undertakes an evaluation of its performance on an annual basis. The performance of each Director is considered as part of a formal review by the Nomination Committee.

The holders of the position of the Chairman of the committees referred to above will be reviewed on an annual basis by the Nomination Committee. The membership of these committees and their terms of reference will be kept under review.

The performance of the Chairman of the Board will be assessed by another of the independent Directors through discussions with the other Directors.

Director Re-Election & Tenure and Induction
The Nomination Committee has considered the question of a policy on board tenure. It is strongly committed to striking the correct balance between the benefits of continuity and those that come from the introduction of new perspectives to the Board. In the past year, following the retirement of John Hawkins, Mark Burton was appointed to the Board, as the first step in the progressive refreshing of its composition. As provided for in the Association of Investment Companies' guidelines and in order to phase future retirements and appointments (as all the directors other than Mr Burton were appointed at the same time), the Board has not at this stage adopted any specific limits to terms, but expects to rotate other board members over the coming years. The Board regards all directors as being fully independent.

The Committee and the Board engaged the consultants Odgers Berndston to advise on the search for a new board member, with a wide range of candidates having been considered prior to the appointment of Mr Burton.

The Board have adopted a policy whereby all directors will be put up for re-election every year and thus all Directors will be put forward for re-election at the forthcoming AGM.

Internal controls
The Board has applied principle 15 of the AIC Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the financial year to the date of approval of this report. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision 15 of the AIC Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from the Investment Manager to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

Corporate Governance Statement (continued)

Internal controls (continued)

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Investment management is provided by Cheyne Capital Management (UK) LLP. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and Group secretarial services are provided by State Street (Guernsey) Limited. Regular compliance reports from both the Investment Manager and the Administrator are received by the Board. In addition, the Administrator makes available its SSAE16 report to the Board on an annual basis.

Custody of assets is undertaken by State Street Custodial Services (Ireland) Limited.

The Directors of the Group clearly define the duties and responsibilities of their agents and advisers, whose appointments are made by the Board after due consideration. The Board monitors the on-going performance of such agents and advisers. Each of the above agents and advisers maintain their own systems of internal control on which they report to the Board. The systems are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

While no formal committee has been appointed to consider the continuation of engagement of the relevant service providers, the whole Board reviews their performance. The Directors are satisfied that the continued appointment of the relevant service providers is in the best interests of the Shareholders and the Group.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and Investment Manager, including their own internal controls and procedures, provide sufficient assurance that a sound system of risk management and internal control, which safeguards shareholders' investment and the Group and Company's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary. Full details are set out in the Audit Committee Report on pages 23 to 26.

Communication with Share Holders

The Group has appointed M:Communications as public relations consultant and Liberum Capital Limited and Investec Bank Plc as corporate brokers. Together with these parties, the Investment Manager assists the Board in communicating with the Company's major Shareholders.

Principal risk and uncertainties

Each Director is aware of the risk inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to manage these risks within acceptable limits and to meet all of its legal and regulatory obligations.

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an on-going basis and these risks are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld.

The Company's financial reporting risk factors are fully discussed in the Audit Committee Report and in Note 14 of these financial statements.

The Company's risk factors are fully discussed in the Company's prospectus, available on the Company's website (www.recreditinv.com) and should be reviewed by shareholders.

Corporate Governance Statement (continued)

Changes in Regulation

The Board monitors and responds to changes in regulation as it impacts the Group and its policies. A number of changes of regulation occurred during the period.

Alternative Investment Fund Management Directive ("AIFMD")

The Board has determined that the Investment Manager will be appointed AIFM. To this end, the Investment Manager has submitted its application to the FCA to register as the AIFM of the Company.

Foreign Account Tax Compliance Act ("FATCA")

FATCA became effective on 1 January 2013 and is being gradually implemented internationally. The legislation is aimed at determining ownership of US assets in foreign accounts and improving US Tax compliance with respect to those assets. The Board is in discussion with the Company's services providers and advisers to ensure that the Company will comply with FATCA's requirements to the extent relevant to the Company.

Non-Mainstream Pooled Investments ("NMPI")

On January 2014 the Financial Conduct Authority ("FCA") rules relating to the restrictions on the retail distribution for unregulated collective investment schemes and close substitutes came into effect.

The Board is seeking advice to confirm that the Company would qualify as an investment trust if it was resident in the UK. If confirmed the Board believes that the retail distribution of its shares would be unaffected by the proposed changes. If confirmed, it is the Board's intention that the Company will make all reasonable efforts to conduct its affairs in such a manner so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products.

European Market Infrastructure Regulation ("EMIR")

EMIR became effective in 2013 with transitional arrangements for third country entities ("TCE") coming into force in the fourth quarter of 2014. Currently the Company is classed as a TCE. The Board is currently taking guidance on the impact of EMIR once a registered AIFM has been appointed as the Company's status as a TCE will change to that of Financial Counterparty at that time.

Audit Committee Report

The Audit Committee
The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan and Mr Harrison. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Group's external Auditor and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditor at least once a year. The terms of reference include all matters indicated in the Disclosure and Transparency Rule 7.1 and the AIC Code.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect with all members being highly experienced and, in particular, the Chairman having a background as a chartered accountant.

Responsibilities
The Audit Committee has regard to the UK Code and the AIC Code. The Audit Committee examines the effectiveness of the Company's internal control systems, the integrity of the annual and half-yearly reports and Financial Statements and ensures that they are fair, balanced and understandable and provide the information necessary. They also consider the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. Other areas of responsibility include:

- Consideration of the accounting policies of the Company;
- consideration of the fair value of the Group's investments and income generated from the portfolio;
- meeting with the auditor to discuss the proposed audit plan and reporting;
- assess the effectiveness of the audit process;
- consideration of the need for an internal audit function and review of the Investment Manager and Administrator and Custodian independent reports;
- consideration of the risks facing the Company including the Company's Anti Bribery and Corruption obligations; and
- monitoring the Company's procedures for ensuring compliance with statutory regulations and other reporting requirements.

In all of the above considerations, the Audit Committee would seek the appropriate input from the Auditors, Investment Manager, Administrator, Legal Counsel and make a recommendation to the Board of the Company as appropriate.

Meetings
The Audit Committee meets at least twice annually, shortly before the Board meets to consider the Company's half-yearly and annual financial reports, and reports to the Board with its deliberations and recommendations and also has an annual planning meeting with the Auditor.

The Audit Committee operates within clearly defined terms of reference and provides a forum through which the Company's external auditors report to the Board. The Audit Committee receives information from the Company's service providers with the majority of information being directly sourced from the Secretary, Administrator and the external auditors. The terms of reference of the Audit Committee are available from the Company's registered office. The Audit Committee considers the nature, scope and results of the Auditor's work and reviews annually prior to providing a recommendation to the Board on the re-appointment or removal of the Auditor. When evaluating the external auditor the Committee has regard to a variety of criteria including industry experience, independence, reasonableness of audit plan, ability to deliver constructive criticism, effectiveness of communication with the Board and the Company's service providers, quality control procedures, management of audit process and added value beyond assurance in audit opinion.

Audit Committee Report (continued)

Principal risks and uncertainties over financial reporting
The Audit Committee determined that the key risks of misstatement of the Group's Financial Statements relate to the valuation of the Cell and Core portfolio and the judgements over fair value.

On an on-going basis, the Board reviews a report from the Investment Manager at each Board meeting which sets out a review of the portfolio and the performance of the portfolio. The report also details earnings forecasts and asset class analysis. As a result, the Board is able to interrogate the Investment Manager on the basis of the assumptions made and the validity of the expected forecasts.

Valuation of Cell Residual Portfolio

The Audit Committee has considered the judgements made by the Investment Manager with regards to the inputs into the valuation models used by the manager, the cash flows against the modelled cash flows, and the competence of the Company's independent validation agent with regards to the Cell Portfolio. Whilst the Committee believes that there is an on-going risk that the value of the assets may be misstated in the future, the Committee is satisfied that the values attributed during the period are reasonable.

Valuation of Core Portfolio

With regards to the Core's Bond investments the Audit Committee has considered the pricing source, validity of the liquidity profile and the cash received from sale versus the cash attributed at fair value. The Committee found that the assumptions used were sound and that the Group interest income had been recognised in line with the requirements of the International Financial Reporting Standards.

With regards to the Core's Real Estate Loan investments the Audit Committee has considered and challenged the Investment Manager the projected effective yields, the stated credit quality of the borrower and the quality of the underlying collateral. The Committee found that the assumptions used were reasonable and the valuations had been recognised in line with the requirements of the International Financial Reporting Standards.

Income Recognition

The Audit Committee and the Board as a whole regularly considered and challenged the Investment Managers expected realisation or maturity dates and the resultant expected cash flows. The Committee found that the assumptions used were sound and that whilst there is an on-going risk that the expected realisation or maturity dates may be misstated in the future, the Committee and the Board is satisfied that the dates attributed during the period and the Investment Managers methods of calculating them are reasonable.

Risk Management
The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The work of the Audit Committee is driven primarily by the Group's assessment of its principal risks and uncertainties as set out above and in Note 14 of the Financial Statements and it receives reports from the Investment Manager on the groups risk evaluation process and reviews changes to significant risks identified.

Internal Audit
The Committee considers at least once a year whether or not there is a need for an internal audit function. Currently the Committee believes that, given the Company has no employees, the external audit report provided by the Administrator and the reporting provided by the Investment Manager are sufficient.

External Audit
Deloitte LLP has been the Company's external Auditor since the Company's inception. This is the 9th period of audit.

Audit Committee Report (continued)

External Audit (continued)

The objectivity of the Auditor is reviewed by the Committee which also reviews the terms under which the external Auditor may be appointed to perform non-audit services. Auditor independence is maintained through limiting non-audit services to tax reporting and audit-related work that falls within defined categories, for example the verification of the Company's calculations in respect of a newly issued shares. All engagements with the Auditor are subject to pre-approval from the Audit Committee and fully disclosed within the Annual Financial Report for the relevant period. A new lead audit partner is appointed every five years and the Audit Committee ensures the Auditor has appropriate internal mechanisms in place to ensure its independence.

John Clacy has been appointed lead audit partner during and has served in that capacity since 2011. The Audit Committee has recommended to the Board that the re-appointment of Deloitte LLP as the Company's external auditors be proposed to shareholders at the 2014 Annual General Meeting. The Audit Committee will consider arranging for the external audit contract to be tendered in due course with the aim of ensuring a continuing high quality and effective audit.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees. During the period, Deloitte LLP was engaged to provide agreed upon procedures in relation to the November placing programme and tax services after the period end.

In order to maintain auditor independence, Deloitte LLP ensured the following safeguards were in place:

- the use of review partners from outside of the core audit team to ensure professional scepticism was applied appropriately; and
- Second partner and Independent Partner reviews, together with a quality assurance review were undertaken as part of the interim review and the final audit stage.

Notwithstanding such services, the Audit Committee considers Deloitte LLP to be independent of the Company and that the provision of such non audit services is not a threat to the objectivity and independence of the conduct of the audit as appropriate safeguards are in place.

To fulfil its responsibility regarding the independence of the Auditor, the Audit Committee considers:

- discussions with or reports from the Auditor describing its arrangements to identify, report and manage any conflicts of interests; and
- The extent of non-audit services provided by the Auditor and arrangements for ensuring the independence, objectivity and robustness and perceptiveness of the auditor and their handling of key accounting and audit judgements.

To assess the effectiveness of the Auditor and the audit process, the Committee will review:

- the Auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit;
- feedback from other service providers evaluating the performance of the audit team;
- arrangements for ensuring independence and objectivity; and
- Robustness of the Auditor in handling key accounting and audit judgements.

Audit Committee Report (continued)

The Audit Committee is satisfied with the audit process and Deloitte LLP's effectiveness and independence as an Auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above and having satisfied itself that the Auditor remains independent and effective, the Audit Committee has recommended to the Board that Deloitte LLP be reappointed as Auditor for the year ending 31 March 2015.

On behalf of the Audit Committee

Christopher Spencer
Chairman of the Audit Committee

11 June 2014

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 ("IAS 1") requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

1. The consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

2. The Chairman's Statement and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

3. So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 249 of the Companies (Guernsey) Law, 2008 (as amended).

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

Christopher Spencer
Director

Talmai Morgan
Director

11 June 2014

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company")

Opinion on financial statements of Real Estate Credit Investments PCC Limited	In our opinion the financial statements: • give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its profit for the year then ended; • have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and • have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.
Emphasis of matter- fair value of investments held in European Residual Income Investments Cell	We have considered the adequacy of the disclosures made in Note 3 to the consolidated financial statements, which describe the policies adopted by the Directors for fair valuing the Group's investments held in the European Residual Income Investment Cell (the "Cell"). In accordance with these policies and the requirements of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement', the Directors have estimated the fair value of the investments held in the Cell at €9,375,888 as at 31 March 2014. As described in Note 3 of the consolidated financial statements, the Cell's investments in Residual Income Positions are illiquid. As a result of this, fair value estimates included in the financial statements are subject to considerable uncertainty. Different assumptions will impact the measurement of the investments which may have an effect on the financial statements. It is not possible to quantify the potential effects of the resolution of this uncertainty. We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.
Going concern	We have reviewed the directors' statement on page 13 that the Group is a going concern. We confirm that: • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Risk	How the scope of our audit responded to the risk
Valuation of the Cell's investments in Residual Income portfolio	
Given the Cell's investments in illiquid residual income positions as explained above in the Emphasis of matter - fair value of investments held in European Residual Income Investments Cell, we considered valuation to be a key risk.	We evaluated and challenged management's valuation methodology of the Cell's investments, as described in Note 1 to the financial statements. Our procedures included: • verifying the inputs in the valuation models against financial information available on the residual income positions; • verifying cash flows received subsequent to 31 March 2014 against the modelled cash flows; • assessing the competence of the Company's independent validation agent and making enquiries as to the reasonableness of the Investment Manager's methodology, inputs and assumptions used in the valuation models; and • verifying any proceeds received from the sale of investments within the Residual Income Portfolio subsequent to 31 March 2014, against the fair value recognised at balance sheet date.
Valuation of the Core's investments in Real Estate Debt Bonds and Real Estate Loans portfolios	
The Core's investments are the key value driver for the Core's Net Asset Value (NAV) and interest income. Judgements over fair value estimates could significantly affect these key performance indicators.	We evaluated and challenged management's valuation methodology of the Core's investments, as described in Note 1 to the financial statements. Our procedures in respect of the Real Estate Debt Bonds included: • obtaining independent prices of the investments held by the Core within the Real Estate Debt Bond Portfolio; • independently verifying the liquidity profile of the Real Estate Debt Bond Portfolio for their classification in the Fair Value Hierarchy; and • verifying any proceeds received from the sale of investments within the Real Estate Debt Bond Portfolio, both during the year and subsequent to 31 March 2014, against their fair value recognised prior to sale. Our procedures in respect of the Real Estate Loans included: • evaluating effective yields against current market rates for similar instruments with similar characteristics; • reviewing the credit quality of the borrower and other financial information available to assess the ability of the borrower to meet future payment commitments of both interest and principal; and • reviewing the performance and credit quality of the underlying collateral.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Risk	How the scope of our audit responded to the risk
Revenue recognised on the Core and Cell's investments The portfolios' expected realisation or maturity dates and expected cash flows used in arriving at the effective interest rate may have a significant impact on the level of income recorded in the year thus affecting the level of distributable income.	Our procedures included: • recalculating the effective interest rate on a sample basis, which included challenging the Investment Manager on the expected realisation or maturity dates; and • recalculating interest income on a sample basis using the effective interest rate method.

The Audit Committee's consideration of these risks is set out on pages 24 and 25.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £3.2 million, having regard for the Net Asset Value and Preference Share liability of the Group as this represents total shareholders' interest. This approximates to 2.6% of the Net Asset Value of the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £60,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group comprises of the Company and a special purpose vehicle ("SPV"). The Company is a protected cell company, whereby the Company's assets and liabilities are held in the Core and those held by the SPV are consolidated in the Cell. The audit work to respond to the risks of material misstatement in the Core and Cell was performed directly by the Group audit engagement team.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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; or
- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited (the "Company") (continued)

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Clacy FCA
For and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands

11 June 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Note	RECI Core 31-Mar-2014 GBP	ERII Cell 31-Mar-2014 EUR	Total 31-Mar-2014 GBP
Interest income	6	13,745,995	1,843,343	15,300,754
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	4	978,047	(1,952,500)	(668,780)
		14,724,042	(109,157)	14,631,974
Operating expenses	5	(2,900,614)	(552,566)	(3,366,673)
Profit/(loss) before finance costs		11,823,428	(661,723)	11,265,301
Finance costs	6	(3,687,027)	-	(3,687,027)
Net profit/(loss)		**8,136,401**	**(661,723)**	**7,578,274**
Profit/(loss) per Ordinary Share				
Basic	8	£0.15	€(0.04)	
Diluted	8	£0.15	€(0.04)	
Weighted average Ordinary Shares outstanding		**Number**	**Number**	
Basic	8	52,677,063	16,722,270	
Diluted	8	52,677,063	16,722,270	

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	RECI Core 31-Mar-2013 GBP	ERII Cell 31-Mar-2013 EUR	Total 31-Mar-2013 GBP
Interest income	6	12,921,004	3,621,241	15,878,982
Net gains on financial assets and liabilities at fair value through profit or loss	4	12,275,235	9,819,131	20,295,904
		25,196,239	13,440,372	36,174,886
Operating expenses	5	(2,384,649)	(1,836,069)	(3,884,426)
Profit before finance costs		22,811,590	11,604,303	32,290,460
Finance costs	6	(3,792,724)	-	(3,792,724)
Net profit		**19,018,866**	**11,604,303**	**28,497,736**
Profit per Ordinary Share				
Basic	8	£0.48	€0.30	
Diluted	8	£0.48	€0.30	

Weighted average Ordinary Shares outstanding		**Number**	**Number**
Basic	8	39,966,985	38,147,558
Diluted	8	39,966,985	38,147,558

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

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

Consolidated Statement of Financial Position

As at 31 March 2014

	Note	RECI Core 31-Mar-2014 GBP	ERII Cell 31-Mar-2014 EUR	Total 31-Mar-2014 GBP
Non-current assets				
Investments at fair value through profit or loss	9	133,516,951	9,375,888	141,268,091
		133,516,951	9,375,888	141,268,091
Current assets				
Cash and cash equivalents	16	18,346,637	1,143,441	19,291,931
Derivative financial assets - options held for trading	10	1,587,027	-	1,587,027
Derivative financial assets - unrealised gain on forward foreign exchange contracts	10	274,079	-	274,079
Other assets	11	3,270,188	53,438	3,314,366
		23,477,931	1,196,879	24,467,403
Total assets		**156,994,882**	**10,572,767**	**165,735,494**
Equity and liabilities				
Equity				
Reserves		112,215,175	10,517,460	120,910,064
		112,215,175	10,517,460	120,910,064
Current liabilities				
Derivative financial liabilities - options held for trading	10	230,756	-	230,756
Fair value of credit default swaps - liability balance	10	309,622	-	309,622
Payable for preference shares repurchased		1,559,258	-	1,559,258
Other liabilities	12	1,116,151	55,307	1,161,874
		3,215,787	55,307	3,261,510
Non-current liabilities				
Preference Shares	13	41,563,920	-	41,563,920
Total liabilities		44,779,707	55,307	44,825,430
Total equity and liabilities		**156,994,882**	**10,572,767**	**165,735,494**
Shares outstanding	13	72,818,496	15,392,148	
Net asset value per share		£1.54	€0.68	

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

These financial statements were approved by the Board of Directors on 11 June 2014.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

Talmai Morgan
Director

Consolidated Statement of Financial Position

As at 31 March 2013

	Note	RECI Core 31-Mar-2013 GBP	ERII Cell 31-Mar-2013 EUR	Total 31-Mar-2013 GBP
Non-current assets				
Investments at fair value through profit or loss	9	94,573,642	12,588,496	105,219,281
		94,573,642	12,588,496	105,219,281
Current assets				
Cash and cash equivalents	16	8,500,017	1,112,210	9,440,573
Derivative financial assets - options held for trading	10	2,285,621	-	2,285,621
Fair value of credit default swaps - asset balance	10	411,798	-	411,798
Derivative financial assets - unrealised gain on forward foreign exchange contracts	10	65,998	-	65,998
Other assets	11	847,301	1,816,782	2,383,689
		12,110,735	2,928,992	14,587,679
Total assets		**106,684,377**	**15,517,488**	**119,806,960**
Equity and liabilities				
Equity				
Reserves		60,035,991	15,377,708	73,040,367
		60,035,991	15,377,708	73,040,367
Current liabilities				
Derivative financial liabilities - options held for trading	10	1,111,728	-	1,111,728
Fair value of credit default swaps contracts	10	48,514	-	48,514
Derivative financial liabilities - unrealised loss on forward foreign exchange contracts	10	784	-	784
Other liabilities	12	1,001,025	139,780	1,119,232
		2,162,051	139,780	2,280,258
Non-current liabilities				
Preference Shares	13	44,486,335	-	44,486,335
Total liabilities		46,648,386	139,780	46,766,593
Total equity and liabilities		**106,684,377**	**15,517,488**	**119,806,960**
Shares outstanding	13	39,966,985	18,544,711	
Net asset value per share		£1.50	€0.83	

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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Note	RECI Core GBP	ERII Cell EUR	Total GBP
Balance at 31 March 2012		43,974,682	22,238,152	62,509,828
Net profit for the year		19,018,866	11,604,303	28,497,736
Redemptions of Cell Shares	13	-	(17,185,804)	(14,801,447)
Distribution to the Ordinary Shareholders of the Company	7	(2,957,557)	(1,278,943)	(3,994,873)
Foreign currency translation adjustment		-	-	829,123
Balance at 31 March 2013		**60,035,991**	**15,377,708**	**73,040,367**
Balance at 31 March 2013		60,035,991	15,377,708	73,040,367
Net profit/(loss) for the year		8,136,401	(661,723)	7,578,274
Issue of Ordinary Shares of the Company		50,000,000	-	50,000,000
Redemptions of Cell Shares		-	(2,410,812)	(2,033,388)
Issuance expenses in respect of Placing of New Core Shares		(1,125,000)	-	(1,125,000)
Distribution to the Ordinary Shareholders of the Company		(4,832,217)	(1,787,713)	(6,340,055)
Foreign currency translation adjustment		-	-	(210,134)
Balance at 31 March 2014		**112,215,175**	**10,517,460**	**120,910,064**

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	RECI Core 31-Mar-2014 GBP	ERII Cell 31-Mar-2014 EUR	Total 31-Mar-2014 GBP
Profit/(loss) before finance costs	11,823,428	(661,723)	11,265,301
Movement in investments at fair value through profit or loss*	(38,943,309)	3,212,608	(36,233,650)
Movement in financial derivative instruments*	281,663	-	281,663
Operating cash flows before movement in working capital	**(26,838,218)**	**2,550,885**	**(24,686,686)**
(Increase)/decrease in receivables	(2,422,887)	1,763,344	(965,113)
Increase/(decrease) in payables	1,674,384	(84,473)	1,604,549
Cash (used in)/provided by operations	**(748,503)**	**1,678,871**	**639,436**
Net cash (outflow)/inflow from operating activities	**(27,586,721)**	**4,229,756**	**(24,047,250)**
Financing activities			
Redemptions paid to Shareholders	-	(2,410,812)	(2,033,388)
Distributions paid to Ordinary Shareholders	(4,832,217)	(1,787,713)	(6,340,055)
New Core Shares issued	50,000,000	-	50,000,000
Issuance expenses in respect of placing of New Core Shares	(1,125,000)	-	(1,125,000)
Preference dividends paid	(3,577,027)	-	(3,577,027)
Preference shares repurchased	(3,032,415)	-	(3,032,415)
Net cash inflow/(outflow) from financing activities	**37,433,341**	**(4,198,525)**	**33,892,115**
Net increase in cash and cash equivalents	9,846,620	31,231	9,844,865
Cash and cash equivalents at the start of the year	8,500,017	1,112,210	9,440,573
Foreign currency translation adjustment	-	-	6,493
Cash and cash equivalents at end of year	**18,346,637**	**1,143,441**	**19,291,931**

* The Group made sales of £81,854,056 and purchases of £114,637,229 during the year ended 31 March 2014 (including purchases and sales of financial derivative instruments and paydowns/payups).

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	RECI Core 31-Mar-2013 GBP	ERII Cell 31-Mar-2013 EUR	Total 31-Mar-2013 GBP
Profit before finance costs	22,811,590	11,604,303	32,290,460
Movement in investments at fair value through profit or loss*	(8,319,373)	5,252,573	(4,028,856)
Movement in financial derivative instruments*	545,873	-	545,873
Operating cash flows before movement in working capital	**15,038,090**	**16,856,876**	**28,807,477**
Increase in receivables	(288,077)	(533,132)	(738,928)
Decrease in payables	(281,231)	(418,620)	(281,231)
Cash used in operations	**(569,308)**	**(951,752)**	**(1,020,159)**
Net cash inflow from operating activities	14,468,782	15,905,124	27,787,318
Financing activities			
Redemptions paid to Shareholders	-	(17,185,804)	(14,801,447)
Distributions paid to Ordinary Shareholders	(2,957,557)	(1,278,943)	(3,994,873)
Preference dividends paid	(3,684,025)	-	(3,684,025)
Preference shares repurchased	(2,174,970)	-	(2,174,970)
Net cash outflow from financing activities	**(8,816,552)**	**(18,464,747)**	**(24,655,315)**
Net increase/(decrease) in cash and cash equivalents	5,652,230	(2,559,623)	3,132,003
Cash and cash equivalents at the start of the year	2,847,787	3,671,833	5,908,201
Foreign currency translation adjustment	-	-	400,369
Cash and cash equivalents at end of year	**8,500,017**	**1,112,210**	**9,440,573**

* The Group made sales of £122,103,216 and purchases of £98,092,424 during the year ended 31 March 2013 (including purchases and sales of financial derivative instruments and paydowns/payups).

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

Notes to the Consolidated Financial Statements
For the year ended 31 March 2014

1. General information

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

"Group" is defined as the Company and Trebuchet Finance Limited ("Trebuchet"). The Company holds a participation note in Trebuchet, a SPE over which the Company is exposed to the majority of its benefits and business risks. Trebuchet is consolidated in the financial statements of the Group under SIC 12, Consolidation - special purpose entities.

The Company is an authorised closed-ended protected cell company, being a cellular company governed by the Companies (Guernsey) Law 2008, comprising a core segment (the "Core" or "RECI" and a cell segment (the "Cell" or "ERII Cell") each of which has its own portfolio of assets, investment objective and sub-section of the Company's Investment Policy.

The investment policy of the Company is sub-divided into an investment policy for the Core and an investment policy for the Cell. This is to reflect the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders are invested.

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

The investment objective of the Cell is to pay to Cell Shareholders the Net Cell Proceeds and to provide Cell Shareholders with exposure to an amortising portfolio of Residual Income Positions. The Directors currently intend that the Company pays distributions to the Cell Shareholders from the Net Cell Proceeds when it is able and appropriate to do so and intend that the Company sells the Residual Income Positions during the life of the Cell if deemed appropriate.

The Core Ordinary Shares reflect the performance of the Core's real estate debt strategy. The Core 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 (ticker RECI). The Core Ordinary Shares offer investors a levered exposure to a portfolio of real estate credit investments and aim to pay a quarterly dividend. Such leverage is provided by the Preference Shares which confer the right to a preferential cumulative preference dividend (which is an amount in Sterling equal to 8 per cent per annum of the Preference Share Notional Value) payable quarterly on each Payment Date. The Core Preference Shares are currently listed on the standard segment of the Official List of the UK Listing Authority and trade on the Main Market of the London Stock Exchange plc (ticker RECP).

The real estate debt investment strategy of the Core 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 Services Authority. The Company has adopted a long term strategic approach to investing and focuses on identifying value.

1. General information (continued)

The Cell Ordinary Shares trade on the Specialist Fund Market of the London Stock Exchange plc (ticker ERII). Dividends or distributions are only paid by the Cell to the extent that the asset cover ratio (the Preference Share Cover Test) for the Core Preference Shares is satisfied. The Cell holds Residual Income Positions, which are legacy assets of an investment policy which is no longer pursued by the Group. The Company intends to hold the Residual Income Positions until maturity or prior to maturity if the Investment Manager so decides for reasons including, but not limited to, the price offered being sufficiently attractive or the credit view of the underlying assets changing. The Directors may, at their discretion, return cash to Cell Shareholders by dividends or other distribution. The Directors may also, at their discretion, effect a mandatory redemption of Cell Shares as a means of returning capital to the Cell Shareholders.

The liabilities in relation to the Preference Shares, being both quarterly Preference Dividends and the repayment of the final capital entitlement of the Preference Shares (the "Final Capital Entitlement"), are borne by the Company. The Company has protected the ability of the Company to meet the Final Capital Entitlement through the introduction of a cover test (the "Preference Share Cover Test"). The Preference Share Cover Test is intended to prevent the erosion of the Company's asset base through the payment of dividends or other distributions from the Cell. Prior to the payment of dividends or other distributions from the Cell, the Preference Share Cover Test will need to be satisfied.

The Preference Share Cover Ratio is calculated based on the ratio of total Company assets (i.e. Total Core Assets plus Cell Assets) to the Final Capital Entitlement. The Preference Share Cover Test has been set at 2.39. The Company was not in breach of this test as at 31 March 2014.

Notwithstanding the Company's ability to satisfy the Preference Share Cover Test, the Company will continue to fulfil its obligations towards the Preference Shareholders with respect to the distribution of Preference Dividends. Such obligations are met using the income available in the Core and, if necessary, the Core Assets themselves. Should the Core Income and Assets be insufficient to meet the Company's liabilities in respect of Preference Dividends and/or the Final Capital Entitlement when they fall due, it is intended that the Directors will call upon the income of the Cell and, where such income is insufficient to satisfy such liabilities, the assets of the Cell to satisfy the liabilities (the "Inter-Cellular Arrangement") (Note 17).

The Group's investment management activities are managed by the Investment Manager. The Group 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 Investment Management Agreement was amended during the year. Note 18 provides details of the changes in this agreement. The Group has no direct employees. For its services, the Investment Manager receives a monthly management fee (which includes a reimbursement of expenses) and if applicable a quarterly performance-related fee on the Core. The Company and the Investment Manager have agreed that an Incentive Fee will no longer be charged on the Cell Assets.

On 16 October 2013, the Company announced it had completed a Placing of New Core Shares to raise £50 million (the "Placing"). The Company has utilised the net proceeds from the Placing to achieve the investment objective of the Core. Arising from the Placing, a new prospectus was issued on 16 October 2013. The main changes following the issue of this new prospectus, including changes to the Investment Management Agreement and the Continuation Resolution, are detailed in Note 18 of these financial statements.

The Group has no ownership interest in the Investment Manager. State Street (Guernsey) Limited is the Administrator and provides all administration and secretarial services to the Group in this capacity.

2. Significant accounting policies

Statement of compliance
The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority.

New standards, amendments and interpretations issued and effective for annual periods beginning 1 January 2013

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 1 January 2013, and have been applied in preparing these financial statements as follows:

IFRS 7, "Financial instruments: Disclosures" amendment requires disclosures which are intended to facilitate comparison between IFRS and accounting principles generally accepted in the United States of America ("U.S. GAAP"). The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013. The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2014. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements. The disclosures focus on quantitative information about recognised financial instruments that are offset in the Statement of Financial Position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new standard does not have any impact on the Company's financial position or performance but has resulted in additional disclosures, (see Note 14 (b))

IFRS 11, "Joint Arrangements" effective for annual periods beginning on or after 1 January 2013, establishes principles for financial reporting by parties to a joint arrangement. The new standard did not have any impact on the Company's financial position or performance.

IFRS 12, "Disclosure of Interest in Other Entities", effective for periods beginning on or after 1 January 2013, has been adopted by the Company. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard did not have any impact on the Company's financial position or performance, but may result in additional disclosures.

IFRS 13, "Fair value measurement", effective for annual periods beginning on or after 1 January 2013, has been adopted by the Company. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements. The Company has changed its valuation inputs for listed financial assets and liabilities to mid prices to be consistent with the inputs prescribed in the Prospectus for the purpose of determining net asset value per share for subscriptions and redemptions. The mid-market price is used as a practical expedient for fair value measurements within the bid-ask spread, in accordance with IFRS 13. The change in valuation inputs is considered to be a change in estimate in accordance with IAS 8.

In circumstances where the mid-market price is not deemed to be representative of fair value, the Investment Manager will determine the point within the bid-ask spread that is most representative of fair value. When market quotations are not available or are unrepresentative, estimation methods and valuation models may be used to calculate fair value.

2. Significant accounting policies (continued)

New standards, amendments and interpretations issued but not yet effective and not early adopted

IFRS 9 "Financial Instruments", addressed the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10 “Consolidated Financial Statements” Investment Entities Amendment as issued provides an exception to consolidation requirements for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IAS 39. The standard is effective for annual periods beginning on or after 1 January 2014. The Company is yet to fully assess the impact of the Investment Entities Amendment, however it is likely that the Company will meet the definition of an investment entity. The Investment Entities Amendment state that if an investment entity has a subsidiary that provides investment related services or activities, whether directly or through a subsidiary, it shall consolidate that subsidiary. The Directors note that following its meeting on 29/30 January 2014, the International Financial Reporting Interpretations Council (“IFRIC”) has proposed that the IASB should clarify the position on accounting for investment entity subsidiaries engaged in investment related activities, such as Trebuchet. If consequent IASB amendments to IFRS 10 require such subsidiaries to be held at fair value rather than consolidated, the fair value of the net assets of Trebuchet which at 31 March 2014 principally comprised of investments, interest receivable from investments and cash balances, would be required to be included in the carrying value of investments. This change would not materially affect the Group’s net assets. At present it is uncertain as to whether the accounting standard will be amended. The Directors believe that the treatment of consolidation adopted in these accounts is the most appropriate to the Group’s circumstances as the transactions of both the Company and Trebuchet are relevant to investors. The Company intends to adopt the Investment Entities Amendment for its accounting period beginning on 1 April 2014.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

Basis of preparation

The consolidated financial statements of the Group are prepared under International Financial Reporting Standards 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 principal accounting policies of the Group have been applied consistently during the year and are consistent with those used in the prior year, with the exception of the changes in the functional and presentation currency as outlined below.

2. Significant accounting policies (continued)

Going Concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the consolidated financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding of the Group's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2014 (£19.3m), some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

Basis of consolidation
The Company did not own any subsidiaries at 31 March 2014 or during the year then ended.

In accordance with the Standing Interpretations Committee Interpretation 12 "Consolidation-Special Purpose Entities" (SIC 12), the Company consolidates entities over which control is indicated by activities, decision making, benefits and residual risks of ownership. In accordance with SIC 12 the Company does not consolidate an SPE in which it holds less than a substantial interest in the Residual Income Position. Where it holds more than a substantial interest, it does not consolidate the SPE where the Residual Income Position represents only a small part of the gross assets of the SPE and the Company was neither involved in the establishment of the SPE or the origination of the assets owned by the SPE, on the basis that the Company is not exposed to the majority of the risks and benefits of the assets owned by the SPE, provided control is not otherwise indicated by the Company's activities, decision making, benefits and residual risks or ownership.

The Company holds a Participation Note in Trebuchet Finance Limited. The economic interest in investments held by Trebuchet Finance Limited is passed to the Company through the Participation Note. All the investments of the Trebuchet Finance Limited are subject to this Participation Note. As such Trebuchet Finance Limited is consolidated in the financial statements of the Group under SIC 12.

Investments
Investments in Residual Income Positions and Real Estate Debt Investments are recognised initially at their acquisition cost (being fair value at acquisition date) as debt securities. Thereafter they are re-measured at fair value and are designated as fair value through profit or loss investments in accordance with the Amendment to International Accounting Standard 39 ("IAS 39") Financial Instruments: Recognition and Measurement-The Fair Value Option, as the Group is an investment group whose business is investing in financial assets with a view to profiting from their total return in the form of interest and changes in fair value.

Financial assets classified as at fair value through profit or loss are recognised/derecognised by the Group on the date it commits to purchase/sell investments.

Cash and cash equivalents
Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities with original maturities of less than three months.

Derivative financial instruments
Derivative financial instruments used by the Group to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities that do not qualify for hedge accounting are accounted for as held for trading instruments. Derivative financial instruments are recognised initially at fair value.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

2. Significant accounting policies (continued)

Derivative financial instruments (continued)
The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties as at the Statement of Financial Position date.

The fair value of credit default swaps is the net present value of all future cash flows of the fixed side of the swap discounted to their present value using the appropriate interest rate and all future cashflows of the default side of the swap are discounted to the default payer. This cost is determined by the recovery rate, notional amount of the contract and default probability among other factors.

The fair value of a total return equity swap is based on the fair value of the underlying portfolio of equity securities and costs of the associated funding leg. The fair value of the underlying reference assets are based on quoted prices received from brokers at the reporting date without deduction for any selling costs. The net income or expense on the TRS agreement is reflected in the Statement of Comprehensive Income. Unrealised gains are reported as an asset and unrealised losses are reported as a liability in the Statement of Financial Position.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the Consolidated Statement of Comprehensive Income. Realised gains and losses are recognised on the expiry or sale of the option.

The fair value of an open forward foreign currency exchange contract is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the reporting date. The change in value is recorded in net gains/(losses) in the Consolidated Statement of Comprehensive Income. Realised gains and losses are recognised on the maturity of a contract, or when the contract is closed out and they are transferred to realised gains or losses in the Consolidated Statement of Comprehensive Income.

Fair value
All financial assets carried at fair value are initially recognised at cost and subsequently re-measured at fair value. If independent prices are unavailable, the fair value of the financial asset is estimated by reference to market information which includes but is not limited to broker marks, prices of comparable assets and using pricing models incorporating discounted cash flow techniques.

These pricing models apply assumptions regarding asset-specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset. The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants on the measurement date; rather than the price arrived at in a forced liquidation or distressed sale. Where the Group has considered all available information and there is evidence that the transaction was forced, it will not use such a transaction price as being determinative of fair value.

With regard to Residual Income Positions, historical performance and observable market data is analysed to determine the average level of these factors and their volatility over time. These assumptions are typically derived by reference to the historical delinquencies, defaults, recoveries and prepayments actually realised by the originator of the underlying assets and any empirical data that may be available in respect of any of these factors for the particular asset class.

2. Significant accounting policies (continued)

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported within assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Gains or losses on derecognition are calculated on an average cost basis.

Interest-bearing loans and borrowings
Interest-bearing borrowings are recognised initially at fair value. Transaction costs are expensed in the Consolidated Statement of Comprehensive Income. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method.

Preference Shares
The value of the Preference Shares represent an obligation on the Group to pay the Preference Share's Notional Value on winding up of the Group or on redemption of the Preference Shares in accordance with their terms. The fair value of the Preference Shares amounts to the Notional Value of the Preference Shares, less the costs arising from the issue of these shares. Subsequent to initial measurement, the Preference Shares are remeasured at amortised cost using the effective interest rate method over the life of the Preference Shares of seven years.

The Preference Shares have been classified as non-current liabilities in these consolidated financial statements. The amortisation of the Preference Shares are treated as a finance cost through the Consolidated Statement of Comprehensive Income. The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividends are accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a finance cost in the Consolidated Statement of Comprehensive Income on an accruals basis.

Expenses attributable to the Placing and Open Offer and the Bonus Issue
The expenses of the Company attributable to any Placing and Open Offer and the Bonus Issues are those which are necessary to implement the Placing and Open Offer and the Bonus Issues. Such expenses included registration, listing and admission fees, corporate finance fees, printing, advertising and distribution costs, legal fees and other applicable expenses.

These expenses are allocated to the Ordinary and Preference Shareholders based on a pro-rata allocation as appropriate. Expenses attributable to the Ordinary Shareholders are expensed as incurred and are included as a reduction to Reserves in the Consolidated Statement of Changes in Equity. Expenses attributable to the Preference Shareholders are being amortised over the remaining life of the Preference Shares and the amortisation is included in Finance Costs in the Consolidated Statement of Comprehensive Income.

2. Significant accounting policies (continued)

Treasury Shares
Where the Company purchases the Company's shares in issue (Core Ordinary, Preference and Cell Ordinary Shares), the consideration paid is deducted from the total Equity in the case of Core Ordinary and Cell Ordinary Shares and from the total Preference Shares liability in the case of Preference Shares and classified as Treasury Shares until they are cancelled. Where such shares are subsequently sold or reissued any consideration received is included in total Equity or Preference Share liability as the case may be.

Functional and presentation currency
The functional and presentation currency of the Company and Core is GBP (£). The functional and presentation currency of the Cell is Euro (€). These functional currencies of the Core and Cell best represent the economic environment in which the Core and Cell operate. The presentation currency of the combined consolidated financial statements is GBP.

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Consolidated Statement of Financial Position date are translated to GBP or Euro at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in gains and losses on financial assets and liabilities at fair value through profit or loss in the Consolidated Statement of Comprehensive Income. Foreign currency denominated non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GBP at foreign exchange rates ruling at the reporting date. Differences arising on translation of these non-monetary assets and liabilities between valuation points are recognised in the Consolidated Statement of Comprehensive Income.

Interest income
Interest income is accrued based on the expected realisation date of the investments using the effective interest method as defined under International Accounting Standard 39. Where the Group adjusts its expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in Interest Income in the Consolidated Statement of Comprehensive Income by reflecting changes in a revised amortised cost value of the investment calculated using the original effective interest rate and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

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

Taxation
The Company is a tax-exempt Guernsey limited company. Accordingly, no provision for income tax is made. Trebuchet Finance Limited is a "qualifying company" within the meaning of Section 110 of the Irish Taxes Consolidation Act, 1997 and accordingly its taxable profits are subject to tax at a rate of 25 per cent. Payments under the Participation Note are paid gross to the Company and the income portion of such payments is tax deductible by Trebuchet Finance Limited.

Consequently, Trebuchet Finance Limited has a minimal amount of taxable income. The activities of Trebuchet Finance Limited are exempt for Irish Value Added Tax (VAT) purposes under the Irish VAT Act of 1972.

Liabilities relating to uncertain tax positions are accrued only when such liabilities are probable and can be estimated with reasonable accuracy.

2. Significant accounting policies (continued)

Other receivables
Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity
Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities and equity are initially recorded at the proceeds received, net of issue costs and subsequently at amortised cost. The Core Ordinary Shares and Cell Ordinary Shares have been classified as equity and the Preference Shares of the Company have been classified as liabilities.

Other accruals and payables
Other accruals and payables are not interest-bearing and are stated at their accrued value.

Segment information
The Group has two reportable segments, being the Core and the Cell. The real estate debt investment strategy of the Core focuses on secured residential and commercial debt in the UK and Western Europe. The Cell holds Residual Income Positions. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors who fulfils the role of Chief Operating Decision Maker for performance assessment purposes.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies (described in Note 2 above), the Group has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the consolidated financial statements:

Income recognition of Residual Income Positions
The Group invests in real estate debt and a diversified portfolio of Residual Income Positions, being the subordinated tranches of asset-backed securities (ABS). The Group follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income using the effective interest rate (EIR) method in accordance with paragraph 30 of IAS 18 "Revenue" and in accordance with IAS 39.

ABS are securities that are typically backed by consumer finance receivables (such as mortgage loans) and commercial loans and receivables (including commercial mortgage loans and loans to small-and-medium sized enterprises).

Residual Income Positions are typically unrated or rated below investment grade and are often referred to as the "equity" or "first loss" position of a securitisation transaction.

Unlike a more conventional debt instrument and the more senior tranches of ABS (real estate debt, which generally hold the rights to fixed levels of income), the cash flow profile of a Residual Income Position does not generally include a contractually established schedule of fixed payments divided between interest and principal. Instead, the cash flows generally vary over time, and the periodic cash flows associated with a Residual Income Position may include a significant element of principal repayment as well as income payments.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Income recognition of Residual Income Positions (continued)
Where the cash payments generated by Residual Income Positions do not typically follow the pattern of a standard cash-pay debt instrument (in that there is not a constant level of income in each period followed by a repayment of the principal amount at maturity), a given cash payment received in respect of a Residual Income Position can generally be considered to represent a combination of the return on the investment and the repayment of some of the capital initially invested.

As a result, the stream of expected cash flows associated with a particular Residual Income Position may have an uneven payout profile, in that the cash payment expected in one period (and the proportion of that payment that represents principal repayment versus interest income) may vary significantly from the cash payments expected in other periods.

The amortised value of a Residual Income Position, at any given measurement date after the Group's initial acquisition of the asset, reflects repayments of principal in accordance with the effective interest method. This revised amortised value (adjusted to account for the accrual of interest and principal paydowns) is subject to further adjustment on the basis of market conditions and other factors that are likely to affect the fair value of the asset.

Where actual performance data or expectations regarding defaults, delinquencies and prepayments received in respect of a given asset is notably different from the default, delinquency and prepayment assumptions incorporated in the pricing model for the asset, the assumptions are revised to reflect this data and the pricing model is updated accordingly. In addition to the actual performance data observed in respect of a particular asset, market factors are also taken into account within the model.

Broker marks (where available) and any other available indicators are assessed to determine whether or not the market is attributing higher or lower default, delinquency or prepayment expectations to similar assets in determining whether or not the assumptions incorporated in the pricing model remain reasonable.

Interest income is recorded based on the original EIR calculated on acquisition for each individual Residual Income Position. Where there is a carry value reduction driven by lower cashflow expectations, interest income will be reduced as it reflects the reduced cashflow expectations.

Valuation of investments
In accordance with the Group's accounting policies, the fair value of financial assets is based on quoted prices where such prices are available from a third party in a liquid market. At 31 March 2014 quoted prices were not available for any of the Cell's residual portfolio investments.

Mortgage Backed Securities held in the Core are valued using independent market prices (supplied by Markit).

The market for Residual Income Positions is illiquid and regular traded prices are generally not available for such investments. There is no active secondary market in Residual Income Positions and, further, there is no industry standard agreed methodology to value Residual Income Positions.

As quoted prices are unavailable, the fair value of the Residual Income Positions is estimated by reference to market information, which includes but is not limited to broker marks, prices of comparable assets, estimated fair value from the previous period updated for current period cash flows and a pricing model, that incorporates discounted cash flow techniques as required by IAS 39. The Group may use all or a combination of the prices from these sources in estimating the fair value of the investments. Due to the current market conditions, the Group has relied on pricing models to fair value its investments in Residual Income Positions as broker marks have become less reliable or are not available.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of investments (continued)

Any changes to assumptions surrounding the pricing models may result in changes to the fair values of the investments. Such changes in the fair value are reported in the Consolidated Statement of Comprehensive Income following the reassessment of the cash flows discounted at the current discount rate for the investment. The fair values of the Group's investments are set out in Note 9.

The Core's investments in real estate loans are measured at fair value. The fair value of the Core's holdings are linked directly to the value of the underlying real estate loans, which are measured at amortised cost less any impairment in its accounting records. Fair value of the real estate loans is adjusted for any credit events and market movements in the interest rate curve.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques (such as modelling).

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

For the year ended 31 March 2014:	**RECI Core 31-Mar-14 GBP**	**ERII Cell 31-Mar-14 EUR**	**Total 31-Mar-14 GBP**
Net gains/(losses) on investments at fair value through profit or loss	1,608,725	(1,560,417)	292,598
Net losses and movement in unrealised losses on credit default swaps	(303,813)	-	(303,813)
Net losses on options	(23,558)	-	(23,558)
Net losses on foreign exchange instruments and other foreign currency transactions	(303,307)	(392,083)	(634,007)
Net gains/(losses)	**978,047**	**(1,952,500)**	**668,780**

For the year ended 31 March 2013:	**RECI Core 31-Mar-13 GBP**	**ERII Cell 31-Mar-13 EUR**	**Total 31-Mar-13 GBP**
Net gains on investments at fair value through profit or loss	12,898,215	10,114,938	21,160,511
Net gains on credit default swaps	22,084	-	22,084
Net losses on interest rate swap agreements	(37,872)	-	(37,872)
Net losses on options	(468,455)	-	(468,455)
Net gains on total return equity swaps	39,632	-	39,632
Net realised losses on foreign exchange instruments and other foreign currency transactions	(178,369)	(295,807)	(419,996)
Net gains	**12,275,235**	**9,819,131**	**20,295,904**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

5. Operating expenses

For the year ended 31 March 2014:	Note	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Investment management, custodian and administration fees				
Investment management fee	18	(1,896,642)	(219,960)	(2,082,166)
Administration fee	18	(142,012)	(66,241)	(197,883)
Custodian fee	18	(4,970)	(767)	(5,617)
		(2,043,624)	**(286,968)**	**(2,285,666)**
Other operating expenses				
Audit fees		(91,266)	(46,374)	(130,380)
Directors' fees payable to Directors of Real Estate Credit Investments PCC Limited		(140,000)	(60,913)	(191,376)
Consultancy fees payable to Directors of Trebuchet Finance Limited		-	(12,500)	(10,543)
Legal fees		(188,906)	(30,719)	(214,816)
Other expenses		(436,818)	(115,092)	(533,892)
		(856,990)	**(265,598)**	**(1,081,007)**
Total operating expenses		**(2,900,614)**	**(552,566)**	**(3,366,673)**

For the year ended 31 March 2013:

	Note	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar 13 GBP
Investment management, custodian and administration fees				
Investment management fee	18	(1,725,987)	(418,357)	(2,067,718)
Administration fee	18	(71,408)	(76,445)	(133,851)
Custodian fee	18	(16,065)	(13,279)	(26,912)
		(1,813,460)	**(508,081)**	**(2,228,481)**
Other operating expenses				
Audit fees		(63,000)	(51,418)	(105,000)
Directors' fees payable to Directors of Real Estate Credit Investments PCC Limited		(135,000)	(110,181)	(225,000)
Directors' fees payable to Directors of Trebuchet Finance Limited		-	(13,099)	(10,700)
Legal fees		(176,756)	(898,778)	(910,915)
Other expenses		(196,433)	(254,512)	(404,330)
		(571,189)	**(1,327,988)**	**(1,655,945)**
Total operating expenses		**(2,384,649)**	**(1,836,069)**	**(3,884,426)**

The Group has no employees.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

6. Interest income and finance costs

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

For the year ended 31 March 2014:

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Interest income			
Investments designated at fair value through profit or loss upon initial recognition	13,743,280	1,837,430	15,293,052
Loans and receivables (including cash and cash equivalents)	2,715	5,913	7,702
Total interest income	**13,745,995**	**1,843,343**	**15,300,754**
Finance costs:			
Preference Shares issuance expense amortised	(110,000)	-	(110,000)
Dividend paid to Preference Shareholders (Note 7)	(3,577,027)	-	(3,577,027)
Total finance costs	**(3,687,027)**	**-**	**(3,687,027)**

For the year ended 31 March 2013:

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Interest income			
Investments designated at fair value through profit or loss upon initial recognition	12,918,229	3,607,750	15,865,187
Loans and receivables (including cash and cash equivalents)	2,775	13,491	13,795
Total interest income	**12,921,004**	**3,621,241**	**15,878,982**
Finance costs:			
Preference Shares issuance expense amortised	(108,699)	-	(108,699)
Dividend paid to Preference Shareholders (Note 7)	(3,684,025)	-	(3,684,025)
Total finance costs	**(3,792,724)**	**-**	**(3,792,724)**

7. Dividends

For the year ended 31 March 2014:

Ordinary Share Dividends	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Final dividend for the year ended 31 March 2013	879,274	556,341	1,348,517
First interim dividend for the year ended 31 March 2014	919,240	-	919,240
Second interim dividend for the year ended 31 March 2014	1,358,878	738,823	1,982,035
Third interim dividend for the year ended 31 March 2014	1,674,825	492,549	2,090,263
Amounts recognised as distributions to Ordinary Equity Holders in the year	**4,832,217**	**1,787,713**	**6,340,055**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

7. Dividends (continued)

For the year ended 31 March 2014

Dividends per Share (Core and Cell)	RECI Core 31-Mar-14 GBP / Share	ERII Cell 31-Mar-14 EUR / Share
Final dividend for the year ended 31 March 2013	0.022	0.030
First interim dividend for the year ended 31 March 2014	0.023	-
Second interim dividend for the year ended 31 March 2014	0.034	0.048
Third interim dividend for the year ended 31 March 2014	0.023	0.032
Amounts recognised as distributions to Ordinary Equity Holders in the year	**0.102**	**0.110**

For the year ended 31 March 2013:

Ordinary Share Dividends	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Final dividend for the year ended 31 March 2012	679,439	-	679,439
First interim dividend for the year ended 31 March 2013	679,439	1,278,943	1,716,755
Second interim dividend for the year ended 31 March 2013	799,340	-	799,340
Third interim dividend for the year ended 31 March 2013	799,339	-	799,339
Amounts recognised as distributions to Ordinary Equity Holders in the year	**2,957,557**	**1,278,943**	**3,994,873**

Dividends per Share (Core and Cell)	RECI Core 31-Mar-13 GBP / Share	ERII Cell 31-Mar-13 EUR / Share
Final dividend for the year ended 31 March 2012	0.017	-
First interim dividend for the year ended 31 March 2013	0.017	0.032
Second interim dividend for the year ended 31 March 2013	0.020	-
Third interim dividend for the year ended 31 March 2013	0.020	-
Amounts recognised as distributions to Ordinary Equity Holders in the year	**0.074**	**0.032**

Under Guernsey Law, companies can pay dividends provided they satisfy the solvency test prescribed under The Companies (Guernsey) Law, 2008. The solvency test 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 passed the solvency test for each dividend payment for the years ended 31 March 2014 and 31 March 2013.

The Preference Share Cover Test is intended to prevent the erosion of the Company's asset base through the payment of dividends or other distributions out of the Cell. Prior to the Company declaring a dividend or making a distribution (including for these purposes a redemption) to holders of Cell Ordinary Shares, the Preference Share Cover Test also needs to be satisfied. The Company satisfied the Preference Share Cover Test in relation to distributions paid out of the Cell during the years ended 31 March 2014 and 31 March 2013.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

7. Dividends (continued)

Preference Share Dividends

The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividend will be accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a Finance Cost in the Consolidated Statement of Comprehensive Income on an effective yield basis.

For the year ended 31 March 2014:

Preference Share Dividends	Payment Date	31 March 2014 GBP
Period 1 April 2013 to 30 June 2013	27-Jun-13	899,257
Period 1 July 2013 to 30 September 2013	24-Sep-13	899,257
Period 1 October 2013 to 31 December 2013	27-Dec-13	899,257
Period 1 January 2014 to 31 March 2014	31-Mar-14	879,256
Total distributions to Preference Shareholders		**3,577,027**

For the year ended 31 March 2013:

Preference Share Dividends	Payment Date	31 March 2013 GBP
Period 1 April 2012 to 30 June 2012	30-Jun-12	942,756
Period 1 July 2012 to 30 September 2012	30-Sept-12	942,756
Period 1 October 2012 to 31 December 2012	31-Dec-12	899,256
Period 1 January 2013 to 31 March 2013	31-Mar-13	899,257
Total distributions to Preference Shareholders		**3,684,025**

8. Profit/(loss) per Ordinary Share

For the year ended 31 March 2014:

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR
The calculation of the basic and diluted earnings per share is based on the following data:		
Profit/(loss) for the purposes of basic earnings per share being net profit attributable to equity holders	8,136,401	(661,723)
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	52,677,063	16,722,270
Effect of dilutive potential Ordinary Shares:		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**52,677,063**	**16,722,270**

8. Profit/(loss) per Ordinary Share (continued)

For the year ended 31 March 2013:

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR
The calculation of the basic and diluted earnings per share is based on the following data:		
Profit for the purposes of basic earnings per share being net profit attributable to equity holders	19,018,866	11,604,303
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	39,966,985	38,147,558
Effect of dilutive potential Ordinary Shares:		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**39,966,985**	**38,147,558**

There is no dilution as at 31 March 2014 and 31 March 2013 as the share price was below the option price (see Note 18) on that date.

9. Categories of financial instruments

The following table details the categories of financial assets and liabilities held by the Group at the year end date.

As at 31 March 2014:

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Assets			
Financial assets designated at fair value through profit or loss:			
Real Estate Debt Investments – bonds	85,124,008	-	85,124,008
Real Estate Debt Investments – loans	48,392,943	-	48,392,943
Residual Income Positions	-	9,375,888	7,751,140
Investments at fair value through profit or loss	133,516,951	9,375,888	141,268,091
Derivative financial assets held for trading			
Call and put options	1,587,027	-	1,587,027
Forward foreign exchange contracts	274,079	-	274,079
Loans and receivables:			
Cash and cash equivalents	18,346,637	1,143,441	19,291,931
Other assets	3,270,188	53,438	3,314,366
Total assets	**156,994,882**	**10,572,767**	**165,735,494**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

9. Categories of financial instruments (continued)

As at 31 March 2014 (continued):

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Liabilities			
Derivative financial liabilities held for trading			
Call and put options	230,756	-	230,756
Credit default swaps	309,622	-	309,622
Liabilities held at amortised cost:			
Other liabilities	2,675,409	55,307	2,721,132
Preference Shares	41,563,920	-	41,563,920
Total liabilities	**44,779,707**	**55,307**	**44,825,430**

As at 31 March 2013:

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Assets			
Financial assets designated at fair value through profit or loss:			
Real Estate Debt Investments – bonds	74,582,876	-	74,582,876
Real Estate Debt Investments – loans	19,990,766	-	19,990,766
Residual Income Positions	-	12,588,496	10,645,639
Investments at fair value through profit or loss	94,573,642	12,588,496	105,219,281
Derivative financial assets held for trading			
Call and put options	2,285,621	-	2,285,621
Forward foreign exchange contracts	65,998	-	65,998
Credit default swaps	411,798	-	411,798
Loans and receivables:			
Cash and cash equivalents	8,500,017	1,112,210	9,440,573
Other assets	847,301	1,816,782	2,383,689
Total assets	**106,684,377**	**15,517,488**	**119,806,960**
Liabilities			
Derivative financial liabilities held for trading			
Call and put options	1,111,728	-	1,111,728
Credit default swaps	48,514	-	48,514
Forward foreign exchange contracts	784	-	784
Liabilities held at amortised cost:			
Other liabilities	1,001,025	139,780	1,119,232
Preference Shares	44,486,335	-	44,486,335
Total liabilities	**46,648,386**	**139,780**	**46,766,593**

See Note 14 for a summary of the movement in fair value in the Group's investments for the year, analysed by the Core and Cell.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

10. Derivative contracts

Options:

The following options contracts were open as at 31 March 2014:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	31 Dec 14	EUR Call GBP Put	GBP	31,500,000	0.900	82,814
Goldman Sachs	31 Dec 14	EUR Put GBP Call	GBP	30,275,000	0.865	1,504,213
Options purchased at fair value						**1,587,027**
Options written						
Goldman Sachs	31 Dec 14	EUR Call GBP Put	GBP	30,275,000	0.865	(230,756)
Options written at fair value						**(230,756)**

The following options contracts were open as at 31 March 2013:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	31 Dec 2014	EUR Call GBP Put	GBP	31,500,000	0.900	706,356
Goldman Sachs	31 Dec 2014	EUR Put GBP Call	GBP	30,275,000	0.865	1,579,265
Options purchased at fair value						**2,285,621**
Options written						
Goldman Sachs	31 Dec 2014	EUR Call GBP Put	GBP	30,275,000	0.865	(1,111,728)
Options written at fair value						**(1,111,728)**

Credit default swaps:

The following credit default swaps were held at 31 March 2014:

Counterparty	Notional Amount (EUR)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Goldman Sachs	30,000,000	Receiving 3 month credit event, paying fixed 1%	20-Jun-19	(309,622)
Fair value of credit default swaps - net liability balance				**(309,622)**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

10. Derivative contracts (continued)

Credit default swaps (continued):

The following credit default swaps were held at 31 March 2013:

Counterparty	Notional Amount (EUR)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
* J.P. Morgan	54,000,000	iTraxx Main	19 Jun 2013	199,994
Goldman Sachs	20,000,000	iTraxx Main	20 Jun 2018	211,804
* J.P. Morgan	54,000,000	iTraxx Main	19 Jun 2013	(48,514)
Fair value of credit default swaps - asset balances				411,798
Fair value of credit default swaps - liability balance				(48,514)
Fair value of credit default swaps - net asset balance				**363,284**

*Credit default Swaptions

Forward foreign exchange contracts:

The following forward foreign exchange contracts were unsettled at 31 March 2014:

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	27 Jun 14	GBP	24,876,427	EUR	29,754,000	265,550
Goldman Sachs	27 Jun 14	GBP	788,807	USD	1,300,000	8,529
Net unrealised gain on forward foreign exchange contracts						**274,079**

The following forward foreign exchange contracts were unsettled at 31 March 2013:

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	28 Jun 2013	GBP	5,857,332	EUR	6,841,000	65,998
Goldman Sachs	28 Jun 2013	GBP	1,607,685	EUR	1,900,000	(784)
Net unrealised gain on forward foreign exchange contracts						**65,214**

11. Other assets

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Interest receivable on investment portfolio	3,270,188	53,438	3,314,366
	3,270,188	**53,438**	**3,314,366**

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Interest receivable on investment portfolio	847,301	1,816,782	2,383,689
	847,301	**1,816,782**	**2,383,689**

The Directors consider that the carrying amounts of other assets approximate their recoverable amounts.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

12. Other liabilities

	RECI Core 31-Mar-14 GBP	ERII Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Due to related parties – Investment Manager (Note 18)	165,982	15,655	178,924
Accrued expenses	950,169	39,652	982,950
	1,116,151	**55,307**	**1,161,874**

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Due to related parties – Investment Manager (Note 18)	298,102	40,550	332,394
Accrued expenses	702,923	99,230	786,838
	1,001,025	**139,780**	**1,119,232**

Other liabilities principally comprise amounts outstanding in respect of interest payable and ongoing costs.

13. Share capital

The capital structure of the Company consists of Preference Shares and equity attributable to equity holders of Core and Cell Ordinary Shares, comprising issued share capital and reserves, as disclosed on the Consolidated Statement of Financial Position. The Company's capital managed as at the year end is represented by the value of the shares issued to date. During the year ended 31 March 2014, the Core issued a further 32,851,511 shares from the Placing of New Core Shares (Note 1). The new shares were issued to trading on 12 November 2013. The Company does not have any externally imposed capital requirements. At 31 March 2014 the Company had capital of £120,561,037 (31 March 2013: £73,040,367).

Authorised Share Capital

	31 March 2014 Number of Shares	31 March 2013 Number of Shares
Core Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	44,962,834	49,958,704
Cell Shares of no par value each	Unlimited	Unlimited

Core Ordinary Shares Issued and fully paid

	31 March 2014	31 March 2013
Balance at start of year	39,966,985	39,966,985
Ordinary Shares issued during the year	32,851,511	-
Balance at end of year	**72,818,496**	**39,966,985**

No Core Ordinary Shares were bought back or cancelled during the year.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

13. Share capital (continued)

Cell Ordinary Shares Issued and fully paid

	31 March 2014	31 March 2013
Balance at start of year	18,544,711	39,966,985
Cell Ordinary Shares redeemed during the year	(3,152,563)	(21,422,274)
Balance at end of year	**15,392,148**	**18,544,711**

Preference Shares Issued and fully paid

	31-Mar- 2014 Number of Preference Shares	31-Mar-2014 GBP	31-Mar- 2013 Number of Preference Shares	31-Mar-2013 GBP
Preference Shares at start of year	44,962,834	44,486,335	47,137,804	46,552,606
Preference Shares repurchased during the year at par net of issue costs	(3,032,415)	(3,032,415)	(2,174,970)	(2,174,970)
Amortised issue costs allocated to Preference Shares	-	110,000	-	108,699
Balance at end of year	**41,930,419**	**41,563,920**	**44,962,834**	**44,486,335**

On 13 August 2013, the Company announced that approximately 17% of the Cell's issued share capital would be redeemed at the close of business on 2 September 2013 (the "Redemption Date") by way of compulsory redemption of Cell Shares following the sale of the Company's position in Sestante. The Redemption was effected pro rata to holdings of Cell Shares on the register at the close of business on the Redemption Date and the aggregate payment made to Cell Shareholders was EUR 2,410,812. All of the Cell Shares redeemed on the Redemption Date were cancelled.

The value of the Preference Shares represents 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. The liability with respect to the Preference Shares remains in the Core subject to meeting the requirements of the Preference Share Cover Test as disclosed in Note 1.

The Core repurchased 4,995,870 in total of the Preference Shares during the years ended 31 March 2013 and 31 March 2012 and held them in Treasury. On 5 June 2013, the Board of Directors resolved to cancel these Treasury Preference Shares. These were cancelled effective 27 June 2013. The Core repurchased 3,032,415 of Preference shares during the financial year ended 31 March 2014 which are still held in Treasury.

At 31 March 2014, 41,930,419 Preference Shares were in issue with a par value of GBP 1 per share (31 March 2013: 44,962,834 Preference Shares). All issued shares are fully paid.

The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote. The holders of Preference Shares participate only to the extent of the face value of the shares. The Preference Shares are classified as liabilities.

13. Share capital (continued)

Preference Shares Issued and fully paid (continued)
The Preference Shares shall be redeemed by the Company in the following circumstances:
a) at any time, by way of the purchase of any such Preference Shares by the Company through the facilities of the London Stock Exchange; or
b) upon a change of control of the Company (defined as the acquisition by a single person or persons acting in concert of more than 50% of the voting rights attached to the Ordinary Shares), but only if a majority of Preference Shareholders attending and voting at a special class meeting of Preference Shareholders (which shall be convened within 60 days of the change of control) so resolve by way of an ordinary resolution, at a price equal to the Repayment Amount; or
c) if more than 75% of the Preference Shares have been redeemed before the expiration of the seven year period referred to under paragraph (d) below, by way of a mandatory redemption programme launched by the Company at its sole discretion, at a price equal to the higher of (i) the Repayment Amount, or (ii) the average mid-market closing price over the five Business Days prior to the announcement of the launch of such programme; or

d) if not redeemed earlier pursuant to paragraphs (a), (b) or (c) above, on a date that is seven years after their issue at the Repayment Amount.

14. Financial instruments and associated risks

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The Group's risk management policies seek to minimise the potential adverse effects of these risks on the Group's financial performance.

The principal risks to which the Group is exposed are market price risk, interest rate risk, liquidity risk, currency risk, credit risk, prepayment and re-investment risk and residual interest risk. In certain instances as described more fully below, the Group enters into derivative transactions in order to help mitigate particular types of risk. Save where the Group enters into swap arrangements to gain exposure to an underlying cash asset or assets, or to comply with asset transfer restrictions or similar legal restrictions which prevent the Group from owning a target investment directly, derivative transactions are only used for the purpose of efficient portfolio management.

(a) Market risk

Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk and other price risk.

The Group's strategy on the management of market risk is driven by the Core and the Cell's investment objectives detailed in Note 1 which in respect of the Core is to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom, and in respect of the Cell is to hold Cell Assets until maturity or prior to maturity if the Investment Manager so decides for reasons including, but not limited to, the price offered being sufficiently attractive or the credit view of the underlying assets changing. As the Core and the Cell have different investment objectives, the risk management approach for the Core and Cell may vary and will be presented separately below.

The Group's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

The sensitivity analysis below is based on a change in one variable while holding all other variables constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in foreign currency rate and change in market values. In addition, as the sensitivity analysis uses historical data as a basis for determining future events, it does not encompass all possible scenarios, particularly those that are of an extreme nature.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Core is exposed to currency risk to the extent that foreign exchange rates fluctuate as it has financial instruments that are denominated in currencies other than GBP.

The Core has elected to hedge its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 10.

The currency profile of the Core, including derivatives at fair value, at the year end date was as follows:

As at 31 March 2014:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	81,405,713	66,728,058	34,271,314	(41,794,676)	(2,675,409)	24,876,426
EUR	29,167,110	40,745,796	14,122,090	(309,622)	-	(25,391,154)
USD	1,642,352	853,545	-	-	-	788,807
	112,215,175	**108,327,399**	**48,393,404**	**(42,104,298)**	**(2,675,409)**	**274,079**

As at 31 March 2013:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)	Forward FX Contracts GBP
GBP	31,423,807	53,585,980	16,905,900	(45,598,063)	(1,001,025)	7,531,015
EUR	28,542,195	32,075,829	3,932,167	-	-	(7,465,801)
USD	69,989	69,989	-	-	-	-
	60,035,991	**85,731,798**	**20,838,067**	**(45,598,063)**	**(1,001,025)**	**65,214**

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Cell is exposed to currency risk to the extent that foreign exchange rates fluctuate as it has financial instruments that are denominated in currencies other than the Euro.

The currency profile of the Cell, including derivatives at fair value, at the year end date was as follows:

As at 31 March 2014:

Cell	Net currency exposure (in EUR)	Monetary Assets (in EUR)	Non-Monetary Assets (in EUR)	Monetary Liabilities (in EUR)	Non-Monetary Liabilities (in EUR)
GBP	1,894,077	1,894,077	-	-	-
EUR	8,621,315	8,676,622	-	-	(55,307)
USD	2,068	2,068	-	-	-
	10,517,460	**10,572,767**	**-**	**-**	**(55,307)**

As at 31 March 2013:

Cell	Net currency exposure (in EUR)	Monetary Assets (in EUR)	Non-Monetary Assets (in EUR)	Monetary Liabilities (in EUR)	Non-Monetary Liabilities (in EUR)
GBP	2,511,357	2,485,758	25,599	-	-
EUR	12,859,401	11,207,998	1,791,183	-	(139,780)
USD	6,950	6,950	-	-	-
	15,377,708	**13,700,706**	**1,816,782**	**-**	**(139,780)**

At 31 March 2014, had the GBP or the Euro strengthened by 5% in relation to all currencies respectively, with all other variables held constant (and not taking into account any currency hedges that were in place at year end), equity of the Core and the Cell respectively and the net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and Cell respectively would have changed by the amounts shown below. The analysis is performed on the same basis for 2013.

As at 31 March 2014:	**Core 31-Mar-14 GBP**	**Cell 31-Mar-14 EUR**	**Group 31-Mar-14 GBP**
EUR	(1,388,910)	N/A	(1,388,910)
GBP	N/A	(534,846)	(442,162)
USD	(78,207)	(99)	(78,289)
Total	**(1,467,117)**	**(534,945)**	**(1,909,361)**

As at 31 March 2013:	**Core 31-Mar-13 GBP**	**Cell 31-Mar-13 EUR**	**Group 31-Mar-13 GBP**
EUR	(1,359,153)	N/A	(1,359,153)
GBP	N/A	(197,007)	(166,602)
USD	(3,333)	(331)	(3,613)
Total	**(1,362,486)**	**(197,338)**	**(1,529,368)**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

A 5% weakening of the GBP and the Euro against the above currencies respectively would have resulted in an equal but opposite effect on the equity of the Core and the Cell respectively and net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and the Cell respectively to the amounts shown above, on the basis that all other variables remained constant.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk is managed by the Investment Manager in accordance with policies and procedures detailed below.

The Core invests in fixed and floating rate real estate related debt securities which include RMBS or CMBS (together MBS). Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. Floating rate debt investments will be exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations. These specific risks are discussed separately in Notes 14 (e) and 14 (f).

Should interest rates rise by 1.00% (100 basis points) in relation to the fixed rate securities held by the Core, the estimated impact on the net asset value of the Core is a decrease of £2,403,791. A decrease in interest rates by 100 basis points is estimated to result in an increase in the net asset value of the Core by a similar amount. These estimates are calculated based on the fair value of the fixed rate securities including accrued interest held by the Core at 31 March 2014 and their weighted average lives.

The Preference Shareholders are entitled to receive a preference dividend amounting to 8% per annum of the Preference Share Notional Value. As the rate is fixed, the exposure to interest rate risk is limited.

The interest rate profile of the Core at 31 March 2014 was as follows:

	Fixed 31-Mar-14 GBP	Floating 31-Mar-14 GBP	Non-interest bearing 31-Mar-14 GBP
Investments at fair value through profit or loss	70,616,745	62,900,206	-
Derivative financial assets			
- Options	-	-	1,587,027
- Forward foreign exchange contracts	-	-	274,079
Other assets	-	-	3,270,188
Cash and cash equivalents	-	18,346,637	-
Preference shares	(41,563,920)	-	-
Derivative financial liabilities			
- Options	-	-	(230,756)
- Credit default swaps	-	-	(309,622)
Other liabilities	-	-	(2,675,409)
Total	**(29,052,825)**	**81,246,843**	**1,915,507**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The maturity profile of the Core at 31 March 2014 was as follows:

	Net Assets 31-Mar-14 GBP	Within one year 31-Mar-14 GBP	One to five years 31-Mar-14 GBP	Over five years 31-Mar-14 GBP
Investments at fair value through profit or loss	133,516,951	469,355	22,505,909	110,541,687
Derivative financial assets				
- Options	1,587,027	1,587,027	-	-
- Forward foreign exchange contracts	274,079	274,079	-	-
Cash and cash equivalents	18,346,637	18,346,637	-	-
Other assets	3,270,188	3,270,188	-	-
Preference shares	(41,563,920)	-	(41,563,920)	-
Derivative financial liabilities				
- Options	(230,756)	(230,756)	-	-
- Credit default swaps	(309,622)	-	(309,622)	-
Other liabilities	(2,675,409)	(2,675,409)	-	-
Net Assets	**112,215,175**	**21,041,121**	**(19,367,633)**	**110,541,687**

The Cell investment portfolio is exposed to interest rate risk because changes in interest rates may have an effect on the prepayments and defaults on the underlying loans on the securitisations. These specific risks are discussed separately in Notes 14 (e) and 14 (f).

The interest rate profile of the Core at 31 March 2013 was as follows:

	Fixed 31-Mar-13 GBP	Floating 31-Mar-13 GBP	Non-interest bearing 31-Mar-13 GBP
Investments at fair value through profit or loss	44,072,366	50,501,276	-
Derivative financial assets			
- Options	-	-	2,285,621
- Credit default swaps	-	-	411,798
- Forward foreign exchange contracts	-	-	65,998
Other assets	-	-	847,301
Cash and cash equivalents	-	8,500,017	-
Preference shares	(44,486,335)	-	-
Derivative financial liabilities			
- Options	-	-	(1,111,728)
- Credit default swaps	-	-	(48,514)
- Forward foreign exchange contracts	-	-	(784)
Other liabilities	-	-	(1,001,025)
Total	**(413,969)**	**59,001,293**	**1,448,667**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The maturity profile of the Core at 31 March 2013 was as follows:

	Net Assets 31-Mar-13 GBP	Within one year 31-Mar-13 GBP	One to five years 31-Mar-13 GBP	Over five years 31-Mar-13 GBP
Investments at fair value through profit or loss	94,573,642	-	29,939,578	64,634,064
Derivative financial assets				
- Options	2,285,621	-	2,285,621	-
- Credit default swaps	411,798	199,994	211,804	-
- Forward foreign exchange contracts	65,998	65,998	-	-
Cash and cash equivalents	8,500,017	8,500,017	-	-
Other assets	847,301	847,301	-	-
Preference shares	(44,486,335)	-	-	(44,486,335)
Derivative financial liabilities				
- Options	(1,111,728)	-	(1,111,728)	-
- Credit default swaps	(48,514)	(48,514)	-	-
- Forward foreign exchange contracts	(784)	(784)	-	-
Other liabilities	(1,001,025)	(1,001,025)	-	-
Net Assets	**60,035,991**	**8,562,987**	**31,325,275**	**20,147,729**

The Cell investment portfolio is exposed to interest rate risk because changes in interest rates may have an effect on the prepayments and defaults on the underlying loans on the securitisations. These specific risks are discussed separately in Notes 14 (e) and 14 (f).

The value of the asset backed securities will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The loans in the Core are recorded at fair value on initial recognition and subsequent measurement.

The Residual Income Positions held in the Cell are model valued. The fair value of these Residual Income Positions will fluctuate as a result of a change in the discount rate applied when calculating the net present value of the investments.

The Cell currently applies a discount rate of 15% (2013: 15%) when valuing the European and UK Mortgages (excluding Sestante) and 20% (2013: 20%) for the SME portfolios and Sestante. A 10% increase in the discount rate would have decreased the equity of the Cell and net profit per the Consolidated Statement of Comprehensive Income by €590,329 (2013: €1,151,162); an equal change in the opposite direction would have increased net assets.

Using a discount rate of 15% for the European and UK Mortgages and 20% for the SME portfolios the NAV per share of the Cell is €0.65 (31 March 2013: €0.83). If different discount margin scenarios were applied to the Residual Income Positions it would have the following effect on the NAV per share of the Cell:

- All assets: 15% IRR: NAV/ share: €0.83 (31 March 2013: €0.94)
- All assets: 20% IRR: NAV/ share: €0.74 (31 March 2013:€0.73)
- European & UK Mortgages 15%, SME 25%: NAV / share: €0.83 (31 March 2013: €0.91)
- European & UK Mortgages 20%, SME 25%: NAV / share: €0.73 (31 March 2013: €0.71).

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. Credit risk is generally higher for a non-exchange traded financial instrument because the counterparty for non-exchange traded financial instruments is not backed by an exchange-clearing house.

The Group's financial assets, other than the investment portfolio discussed below, exposed to credit risk, at the year end date was as follows:

As at 31 March 2014:

	Core 31-Mar-14 GBP	Cell 31-Mar-14 EUR	Total 31-Mar-14 GBP
Cash and cash equivalents	18,346,637	1,143,441	19,291,931
Derivative financial assets			
- Options	1,587,027	-	1,587,027
- Forward foreign exchange contracts	274,079	-	274,079
Total	**20,207,743**	**1,143,441**	**21,153,037**

As at 31 March 2013:

	Core 31-Mar-13 GBP	Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
Cash and cash equivalents	8,500,017	1,112,210	9,440,573
Derivative financial assets			
- Options	2,285,621	-	2,285,621
- Credit default swaps	411,798	-	411,798
- Forward foreign exchange contracts	65,998	-	65,998
Total	**11,263,434**	**1,112,210**	**12,203,990**

Bonds

The Group is subject to the risk that issuers of asset backed securities in which it invests may default on their obligations under such instruments and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Group invests will not default or that an event which has an immediate and significant adverse effect on the value of such instruments will not occur, and that the Group will not sustain a loss on the transaction as a result. The Group seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its counterparties, on a monthly basis.

The following table summarises the asset class distribution of the bond portfolio at 31 March 2014 and 31 March 2013:

Bond class*	31 March 2014 GBP	31 March 2013 GBP
A	17,718,124	13,946,998
B	29,010,685	21,629,034
C	10,908,462	8,278,699
D	9,779,644	12,828,255
E and Below	18,150,584	17,899,890
Total	**85,567,499**	**74,582,876**

* Bond class relates to the order of pay in the security's waterfall with "A" being first.

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Loans
The Group is subject to the risk that the underlying borrowers to the loans in which it invests, may default on their obligations and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. Any loan may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. In the event of any default on the Company's investment in a loan by the borrower, the Company will bear a risk of loss of principal and accrued interest on the loan, which could have a material adverse effect on the Company's investment

There can be no assurance that a borrower will not default, that there will not be an issue with the underlying real estate security or that an event which has an immediate and significant adverse effect on the value of these loans will not occur, and that the Group will not sustain a loss on the transaction as a result. The Group seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its borrowers, performance of the underlying asset, and loan covenants compliance against financial information received and the performance of the security, on a quarterly basis.

Following on from the Placing of the New Core Shares, the Company has made further investments of approximately £23 million in various loans position bringing the total principal invested in loans during the year to £45 million. The Core's total investment in loans at 31 March 2014, amounted to £48,392,943 which includes any interest accrued on loans at this date,

Derivative contracts
The Group also has credit exposure in relation to its derivative contracts. The Group was invested in derivative contracts with, Goldman Sachs at 31 March 2014 and Goldman Sachs and JP Morgan at 31 March 2013 with the following credit quality:

Rating	**31-Mar-2014 GBP**	**31-Mar-2013 GBP**
Goldman Sachs – A (Derivatives)	1,320,728	1,450,911
JP Morgan – A+ (Derivatives)	-	151,480

Transactions involving derivative financial instruments are usually with counterparties with whom the Group 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 Consolidated 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 Consolidated Statement of Financial Position.

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Derivative contracts (continued)
The derivative assets and the derivative liabilities are subject to master netting agreements in place with the counterparties used by the Group. However, none of the derivative assets or the derivative liabilities are offset in the Statement of Financial Position. Below are the derivative assets and liabilities by counterparty and details of the collateral received and pledged by Group as at 31 March 2014:

Derivative Type	Counterparty	Value of derivative assets GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options purchased	Goldman Sachs	1,587,027	-	-	1,587,027
Forward foreign exchange contracts	Goldman Sachs	274,079	-	-	274,079

Derivative Type	Counterparty	Value of derivative liabilities GBP	Collateral received GBP	Collateral Pledged GBP	Net (if greater than zero) GBP
Options written	Goldman Sachs	(230,756)	-	230,756	-
Credit Default Swaps	Goldman Sachs	(309,622)	-	309,622	-

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Group monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

The Group monitors its risk by monitoring the credit quality of State Street Custodial Services (Ireland) Limited, as reported by Standard and Poor’s or Moody’s.

If the credit quality or the financial position of State Street Custodial Services (Ireland) Limited deteriorates significantly the Investment Manager will seek to move the Group’s assets to another bank.

State Street Custodial Services (Ireland) Limited is a State Street Bank and Trust Company. The credit rating of State Street Corporation, the parent company of the Custodian, was A1 at the reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. The Group’s liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below. Where needed, the Investment Manager will liquidate positions to increase cash.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(c) Liquidity risk (continued)

The following table details the current and long term financial liabilities of the Core at the year end date:

As at 31 March 2014:

	Less than 1 month	1-3 months	3 months to 1 year	Greater than 1 year
	31-Mar-14 GBP	**31-Mar-14 GBP**	**31-Mar-14 GBP**	**31-Mar-14 GBP**
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	41,563,920
Due to related parties	-	165,982	-	-
Accrued expenses	-	950,169	-	-
Derivatives settled gross				
- Options	-	-	230,756	-
- Credit default swaps	-	-	-	(309,622)
	-	**1,116,151**	**230,756**	**41,254,298**

As at 31 March 2013:

	Less than 1 month	1-3 months	3 months to 1 year	Greater than 1 year
	31-Mar-13 GBP	**31-Mar-13 GBP**	**31-Mar-13 GBP**	**31-Mar-13 GBP**
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	44,486,335
Due to related parties	-	382,060	-	-
Accrued expenses	-	618,965	-	-
Derivatives settled gross				
- Options	-	48,514	-	1,111,728
- Forward foreign exchange contracts	-	784	-	-
	-	**1,050,323**	**-**	**45,598,063**

At 31 March 2014, the only financial liabilities in the Cell consisted of accrued expenses of €55,307 (2013: €139,780) which are due within 3 months.

The market for subordinated asset-backed securities, including Residual Income Positions and real estate loans into which the Group is invested, is illiquid.

In addition, investments that the Group purchases in privately negotiated (also called "over the counter" or OTC) transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Group's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Group acquires investments for which there is not a readily available market, the Group's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments

IFRS 13 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 Consolidated 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 3, Significant Accounting Policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

The Group 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 Core's financial assets and liabilities measured at fair value at the year end date:

As at 31 March 2014:	**Level 1 31-Mar-14 GBP**	**Level 2 31-Mar-14 GBP**	**Level 3 31-Mar-14 GBP**	**Total 31-Mar-14 GBP**
Non-current assets				
Real Estate Debt Investments – bonds	-	85,124,008	-	85,124,008
Real Estate Debt Investments - loans	-	-	48,392,943	48,392,943
Current assets				
Options held for trading	-	1,587,027	-	1,587,027
Forward foreign exchange contracts	-	274,079	-	274,079
Current liabilities				
Options held for trading	-	(230,756)	-	(230,756)
Credit default swaps	-	(309,622)	-	(309,622)
	-	**86,444,736**	**48,392,943**	**134,837,679**

As at 31 March 2013:	**Level 1 31-Mar-13 GBP**	**Level 2 31-Mar-13 GBP**	**Level 3 31-Mar-13 GBP**	**Total 31-Mar-13 GBP**
Non-current assets				
Real Estate Debt Investments – bonds	-	74,582,876	-	74,582,876
Real Estate Debt Investments - loans	-	-	19,990,766	19,990,766
Current assets				
Options held for trading	-	2,285,621	-	2,285,621
Credit default swaps	-	411,798	-	411,798
Forward foreign exchange contracts	-	65,998	-	65,998
Current liabilities				
Options held for trading	-	(1,111,728)	-	(1,111,728)
Credit default swaps	-	(48,514)	-	(48,514)
Forward foreign exchange contracts	-	(784)	-	(784)
	-	**76,185,267**	**19,990,766**	**96,176,033**

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

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

As at 31 March 2014:	Level 1 31-Mar-14 EUR	Level 2 31-Mar-14 EUR	Level 3 31-Mar-14 EUR	Total 31-Mar-14 EUR
Non-current assets				
Investments at fair value through profit or loss	-	-	9,375,888	9,375,888
	-	**-**	**9,375,888**	**9,375,888**

As at 31 March 2013:	Level 1 31-Mar-13 EUR	Level 2 31-Mar-13 EUR	Level 3 31-Mar-13 EUR	Total 31-Mar-13 EUR
Non-current assets				
Investments at fair value through profit or loss	-	-	12,588,496	12,588,496
	-	**-**	**12,588,496**	**12,588,496**

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.

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.

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 Debt Instruments) 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 Core has made loans into structures to gain exposure to real estate secured debt in the UK and Germany. 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 8% to 17.6% (the unobservable input). Fair value of the real estate loans is adjusted for changes in the credit quality of the borrower and underlying property collateral, and changes in the market rate on similar instruments. On origination of the loan, the Investment Manager underwrites 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 re-valuation of the underlying property to check against loan-to-value covenants.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

At 31 March 2014, the investment manager is 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. Accordingly, the Investment Manager has determined that amortised cost reflects the fair value of these loans. Whilst no defaults in the underlying investments are expected, a 1% decrease on the yield would decrease the fair value by £1,081,268 and decrease net profit by an equal amount; an equal change in the opposite direction would increase the equity of the loan portfolio within the Core and increase net profit by an equal amount.

The fair values of investments in Residual Income Positions held by the Cell, for which there is currently no active market, are calculated using valuation models. The model uses discounted cash flow analysis which incorporates both observable and non-observable data. Observable inputs include broker marks where applicable and prices of comparable assets. Unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts. The fair value of such instruments is included within Level 3. Refer to Note 14 (a), (e), (f) and (g) for details of the significant inputs and assumptions used in determining the fair value of these investments.

There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2014 or during the year ended 31 March 2013.

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 year:

	Level 3 Core 31-Mar-14 GBP	**Level 3 Cell 31-Mar-14 EUR**
Financial assets designated at fair value through profit or loss		
Opening Balance	19,990,766	12,588,496
Total gains and losses recognised in the consolidated statement of comprehensive income for the year	(1,286,189)	(1,560,417)
Purchases	45,891,794	-
Sales	(16,203,428)	(1,652,191)
Closing balance	48,392,943	9,375,888
Unrealised loss on investments classified as Level 3 at year end	(1,264,554)	(774,881)

	Level 3 Core 31 Mar-13 GBP	**Level 3 Cell 31-Mar-13 EUR**
Financial assets designated at fair value through profit or loss		
Opening Balance	4,006,266	17,841,069
Total gains and losses recognised in the consolidated statement of comprehensive income for the year	1,026,236	10,114,938
Purchases	23,247,560	-
Sales	(8,289,296)	(15,367,511)
Closing balance	**19,990,766**	**12,588,496**
Unrealised gain/(loss) on investments classified as Level 3 at year end	**1,026,236**	**(299,955)**

14. Financial instruments and associated risks (continued)

(e) Prepayment and re-investment risk

The Core's real estate loans have the facility for prepayment. The Core's exposure to real estate debt securities also has exposure to potential prepayment risk which may have an impact on the value of the Core's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Core's control and consequently cannot be predicted with certainty.

The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Core's investments may have an adverse impact on the income earned by the Core from those investments.

Early prepayments also give rise to increased re-investment risk. If the Core is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the loan repaid, the Group's net income will be lower and, consequently, could have an adverse impact on the Group's ability to pay dividends.

The Cell's valuations of its Residual Income Positions take into account expected levels of prepayment of the loans that collateralise the securitisation transactions in which the Cell has purchased the equity positions.

The Investment Manager reviews the prepayment assumptions each quarter and will update as required. These assumptions are considered through a review of the underlying loan performance information of the securitisations.

The Cell's investments and the assets that collateralise them may prepay quicker than expected and have an impact on the value of the Cell's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Cell's control and consequently cannot be predicted with certainty. The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Cell's investments may have an adverse impact on the income earned by the Cell from those investments.

Early prepayments also give rise to increased re-investment risk. If the Core is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the loan repaid, the Group's net income will be lower and, consequently, could have an adverse impact on the Group's ability to pay dividends.

With respect to the granular mortgage portfolios in the Cell, the Investment Manager applies a prepayment rate in the range of 0%-5% (2013: 2%-5%). The specific prepayment rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the prepayment rates of the securities held would have decreased the equity of the Cell and decreased net profit of the Cell by €34,283 (2013: -€45,611); an equal change in the opposite direction would have increased the equity of the Cell and decreased the net profit for the year by an equal but opposite amount.

(f) Default and severity rates

While the Cell's valuations of its Residual Income Positions take into account expected levels of default rates and the expected loss given a default (severity loss rate), the Cell's Residual Income Positions and the assets that collateralise them may be subject to higher losses through a combination of higher default or severity rates. Default and severity rate risk is managed by the Investment Manager by regular review of the positions held. The Investment Manager reviews these assumptions each quarter and will update as required. These assumptions are considered by reviewing the underlying loan performance information of the securitisations.

14. Financial instruments and associated risks (continued)

(f) Default and severity rates (continued)

As prepayment rates above, default and severity rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Cell's control and consequently cannot be predicted with certainty. The level and timing of defaults made by borrowers in respect of the mortgage loans that collateralise certain of the Cell's Residual Income Positions may have an adverse impact on the income earned by the Cell from those Residual Income Positions. Severity rates are the amounts of expected loss should a borrower default.

In relation to the residual income positions in the Cell, the Investment Manager applies a default rate in the range of 1%-2% (2013: 0.6%-3.5%). The specific default rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the default rates of the Residual Income Positions held would have decreased the equity of the Cell and decreased net profit of the Cell by €49,837 (2013: €277,227); an equal change in the opposite direction would have increased the equity of the Cell and increased net profit of the Cell by an equal but opposite amount.

(g) Residual interest risk

The Cell's investments consist of interests in and/or economic exposures to limited recourse securities. These interests are subordinated in right of payment and ranked junior to other securities that are secured by or represent ownership of the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities are entitled to payments in priority to the Cell.

Some of the Cell's investments also have structural features that divert payments of interest and/or principal to more senior classes of securities secured by or representing ownership in the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels.

This may lead to interruptions in the income stream that the Group anticipates receiving from its investment portfolio, which may lead to the Cell having less income to distribute to Shareholders.

The Cell does not control the portfolio of assets underlying the ABS in which it invests and relies on the servicers of the ABS to administer and review the portfolios. Particularly, in the case of Residual Income Positions, the actions of the servicer, including its ability to identify and report on issues affecting the portfolio on a timely basis, may affect the Cell's return on its investments, in some cases significantly.

In addition, concentration of a significant number of the Cell's investments with one servicer could affect the Cell adversely in the event that the servicer fails to fulfil its function effectively or at all. In the event of fraud by any entity in which the Cell invests or by other parties involved with the entity, such as servicers or cash managers, the Cell may suffer a partial or total loss of the amounts invested in that entity.

Although holders of asset-backed securities generally have the benefit of first ranking security (or other priority rights) over any collateral, control of the timing and manner of the disposal of such collateral upon a default typically will devolve to the holders of the senior class of securities outstanding. There can be no assurance that the proceeds of any such sale of collateral will be adequate to repay in full the Group's investments.

The Company is indirectly exposed to the sovereign debt crisis as any escalation in the crisis could in turn affect the Company's investments.

14. Financial instruments and associated risks (continued)

(h) Country risk

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

In 2011, the economic crisis entered a new phase within increasing uncertainty surrounding the creditworthiness of some sovereign states and those financial institutions/entities with exposure to sovereign debt of those states.

The Directors and the Investment Manager actively manage the Company's portfolio of investments and exposures, monitoring performance and market data and reposition investments to remain in line with the investment policy and risk appetite of the Company.

In order to provide stakeholders with a better overall understanding of the Company's position and prospects in the context of country risk, the Investment Manager's Report includes a geographical breakdown of both the Core and Cell investment portfolios. The Directors believe that the Investment Manager Report provides sufficient detail of the country risk exposure faced by the Company.

Fears of a breakdown in Eurozone sovereign restructuring have eased, following substantial intervention from the US Federal Reserve and the European Central Bank. As such, the Directors have not factored the possible consequences of the collapse of the Euro into the valuation of the Company's investments.

15. Segmental Reporting

The Group 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 Group has two reportable segments, being the Core and the Cell.

The Core invests in Real Estate Debt Investments. 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 Cell holds Residual Income Positions, which are legacy assets of an investment policy which is no longer pursued by the Group. The Company intends to hold the Residual Income Positions until maturity or prior to maturity if the Investment Manager so decides for reasons including, but not limited to, the price offered being sufficiently attractive or the credit view of the underlying assets changing.

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 Real Estate Debt Investments and Residual Income Positions as part of either the Core or Cell investment policy respectively, with the view of monitoring performance of the Core and Cell separately.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2014

15. Segmental Reporting (continued)

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.

Year ended 31 March 2014:	**Core**	**Cell**	**Total**
	31-Mar-14	**31-Mar-14**	**31-Mar-14**
	GBP	**EUR**	**GBP**
Reportable segment profit/(loss)	8,136,401	(661,723)	7,578,274

As at 31 March 2014:	**Core**	**Cell**	**Total**
	31-Mar-14	**31-Mar-14**	**31-Mar-14**
	GBP	**EUR**	**GBP**
Reportable segment assets	156,994,882	10,572,767	165,735,494

Year ended 31 March 2013:	**Core**	**Cell**	**Total**
	31-Mar-13	**31-Mar-13**	**31-Mar-13**
	GBP	**EUR**	**GBP**
Reportable segment profit	19,018,866	11,604,303	28,497,736

As at 31 March 2013:	**Core**	**Cell**	**Total**
	31-Mar-13	**31-Mar-13**	**31-Mar-13**
	GBP	**EUR**	**GBP**
Reportable segment assets	106,684,377	15,517,488	119,806,960

Information regarding the basis of geographical segments is presented in the Investment Manager's Reports 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. The reportable segment profit/loss of both the Core and the Cell is equal to the loss of the Group and the reportable segment assets of both the Core and the Cell are equal to the total assets of the Group.

The following is a summary of the movements in the Group's investments analysed by the Core and Cell as at the year end date:

As at 31 March 2014:	**Core**	**Cell**	**Total**
	31-Mar-14	**31-Mar-14**	**31-Mar-14**
	GBP	**EUR**	**GBP**
Investments at fair value through profit or loss			
Opening fair value	94,573,642	12,588,496	105,219,281
Purchases	114,637,229	-	114,637,229
Sales proceeds	(79,880,882)	(1,899,865)	(81,483,315)
Realised gain/(loss) on sales*	14,772,930	(6,078,432)	9,646,104
Net movement in unrealised (losses)/gains on investments at fair value through the profit or loss*	(8,612,794)	4,518,015	(4,802,095)
Principal (paydowns)/payups	(1,973,174)	247,674	(1,764,274)
Foreign currency translation adjustment	-	-	(184,839)
Closing fair value	**133,516,951**	**9,375,888**	**141,268,091**

* Excludes effective interest rate adjustment of £4,551,411 for the year ended 31 March 2014, which has been included in the Interest Income in the Consolidated Statements of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2014

15. Segmental Reporting (continued)

As at 31 March 2013:	**Core 31-Mar-13 GBP**	**Cell 31-Mar-13 EUR**	**Total 31-Mar-13 GBP**
Investments at fair value through profit or loss			
Opening fair value	86,254,269	17,841,069	101,124,516
Purchases	88,829,847	-	88,829,847
Sales proceeds	(95,429,498)	(12,388,449)	(105,548,891)
Realised gain on sales	9,515,174	10,414,893	18,022,486
Net movement in unrealised gains/(losses) on investments at fair value through the profit or loss*	12,273,039	(299,955)	12,028,023
Principal payups	-	607,780	496,460
Principal paydowns	(6,869,189)	(3,586,842)	(9,799,069)
Foreign currency adjustment	-	-	65,909
Closing fair value	**94,573,642**	**12,588,496**	**105,219,281**

* Excludes effective interest rate adjustment of £8,889,998 for the year ended 31 March 2013 which have been included in the Interest Income in the Consolidated Statements of Comprehensive Income.

16. Collateral

The Core held £1,213,642 (31 March 2013: £2,097,700) as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation on the Core to repay Goldman Sachs on settlement of the financial derivative instrument and is not included in the Consolidated Statement of Financial Position of the Core. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is reported separately by means of this note only.

17. Contingent liability

The Cell's income and assets may be called upon under the Inter-Cellular Agreement to satisfy the liabilities relating to the distribution of Preference Dividends and/or the Final Capital Entitlement where the Core Assets are insufficient to meet these liabilities. Further details in relation to this are disclosed in Note 1.

As at 31 March 2014, the Directors consider that the Core's income and assets are sufficient to satisfy the Preference Dividends and/or Final Capital Entitlement and it is not probable that the Cell's income and assets will be called upon and accordingly no provision has been made in the Cell's financial statements.

18. Material agreements and related party transactions

Loan investments

The Company has provided a GBP 10 million mezzanine loan to finance the purchase of an office property in London. This loan was valued at 30 September 2013 at GBP 10 million. Another Cheyne managed fund, Cheyne Real Estate Credit Holdings LP, has also invested in the deal via a subordinated loan and equity, both of which are subordinated to RECI's investment.

The Company has made, and will continue to make, certain loan investments through a Luxembourg based entity Stornoway Finance SARL. This entity has separate compartments for each loan deal. Other funds also managed by the Investment Manager invest pari passu in these compartments. Any loans not co-invested on a pari passu basis will be noted separately as per above.

18. Material agreements and related party transactions (continued)

Investment Manager
The Company and Trebuchet Finance Limited are parties to an Investment Management Agreement with the Investment Manager (a related party), dated 8 December 2005, pursuant to which both the Company and Trebuchet Finance Limited have appointed the Investment Manager to manage their respective assets on a day-to-day basis in accordance with their respective investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

The Group pays Cheyne Capital Management (UK) LLP (the "Investment Manager") a Management Fee and Incentive Fee.

Management Fee
Up to 16 October 2013, under the terms of the Investment Management Agreement, the Investment Manager was entitled to receive from the Group an annual Management Fee of 1.75% of the net asset value of the Group other than to the extent that such value was comprised of any investment where the underlying asset portfolio was managed by the Investment Manager (as is the case with Cheyne High Grade ABS CDO Limited). The Management Fee was calculated and payable monthly in arrears.

Since 16 October 2013 and following the issue of a new prospectus the Investment Management Fee rate changed from 1.75% to 1.25% on the gross asset value of the Core Ordinary Shares.

During the year ended 31 March 2014, the Management Fee totalled £2,082,166 (2013: £2,067,718), of which £78,943 (2013: £332,394) was outstanding at the year end.

Incentive Fee/Performance Fee
Up to 16 October 2013, under the terms of the Investment Management Agreement, the Investment Manager was entitled to receive an incentive compensation fee in respect of each incentive period that was paid quarterly in arrears. An incentive period comprised each successive quarter. The Incentive Fee for each incentive period was an amount equivalent to 25% of the amount by which A exceeds (B × C) where:

A = The Group's consolidated net income taking into account any realised or unrealised losses (but only to the extent they had not been deducted in a prior incentive period) and excluding any gains from the revaluation of investments, as shown in the Group's latest consolidated management accounts for the relevant quarter, before payment of any Incentive Fee;
B = An amount equal to a simple interest rate equal to two per cent per quarter, subject to the reset mechanic described below (the "Hurdle Rate"); and
C = The weighted average number of Shares outstanding during the relevant quarter multiplied by the weighted average offer price of such Shares.

For the purposes of calculating the Incentive Fee, the Hurdle Rate was reset on 1 April each year equal to the greater of (i) a simple interest rate equal two per cent per quarter, or (ii) one quarter of the sum of the then-prevailing yield per annum on ten-year German Bunds and 300 basis points. While the Group would not pay a Management Fee in respect of that portion of its portfolio that is comprised of investments where the Investment Manager received fees for its management of the underlying asset portfolio, the income from such investments were included in the consolidated net income of the Group for the purpose of calculating the Incentive Fee.

The Company and the Investment Manager agreed that, following conversion of the Company to a protected cell company, an Incentive Fee would no longer be charged on the Cell Assets.

18. Material agreements and related party transactions (continued)

On 16 October 2013, a new Prospectus was issued and the incentive fee was replaced by 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 Core 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 Core 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 Core Shares in issue in the period since the Starting Date.

As the Performance Period is from 11 November 2013, this has the effect of resetting the NAV on which the Hurdle Rate will be determined.

There was no incentive/performance fee charged to the Company during the year ended 31 March 2014 or 31 March 2013.

Administration Fee
Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Group an administration fee of 0.125 per cent of the gross asset value of the Group up to £120,000,000 and 0.0375 per cent of the gross asset value of the Group 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 year ended 31 March 2014 the administration fee totalled £197,883 (2013: £133,851), of which £23,022 (2013: £37,988) was outstanding at the year end.

Custodian Fee
Under the terms of the Custodian Agreement, the Custodian is entitled to receive from the Group a custodian fee of 0.03 per cent of the gross asset value of the Group up to €80,000,000 and 0.02 per cent of the gross asset value of the Group greater than €80,000,000. During the year ended 31 March 2014 the custodian fee totalled £5,617 (2013: £26,912). The Group owed £13,921 to the Custodian at the year end date (2013: £49,419).

Investment Manager Options
In recognition of the work performed by the Investment Manager in raising capital for the Group, the Group granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10 per cent of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (€10.23). The Investment Manager Options are fully vested and immediately exercisable on the date of admission to the London Stock Exchange and will remain exercisable until the 10th anniversary of that date.

The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was €7,672,500 (reflecting a valuation of €3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 March 2014, these options were out of the money as the share price was below the Offer Price of EUR 10.23 (31 March 2013: share price was also below the Offer Price of EUR 10.23). As such there was no dilution as at 31 March 2014 as the average share price for the year then ended was below the option exercise price.

18. Material agreements and related party transactions (continued)

Investment Manager Options (continued)
The Group may grant further Investment Manager Options in connection with any future offering of Shares. Such options, if any, will represent the right to acquire Shares equal to not more than 10 per cent of the number of Shares being offered in respect of that future offering and will have an exercise price equal to the offer price for that offering.

19. Significant events during the year

On 16 October 2013, the Company announced and issued a Prospectus in respect of a Placing of New Core Shares. The purpose of this Placing was to raise gross proceeds of £50 million and invest the proceeds primarily in debt secured by commercial or residential properties in the United Kingdom and Western Europe. The new shares were admitted to trading on 12 November 2013.

A new Prospectus was issued on 16 October 2013 in respect of the Placing of New Core Shares. The main changes in this Prospectus relate to a change in the Investment Management Fee rate from 1.75% to 1.25% on the gross asset value of the Core Ordinary Shares and to replace the incentive fee with a performance fee as disclosed in Note 18.

The Investment Management Fee rate applicable to the Cell remains at 1.75% of the net asset value of the Cell Shares.

Additionally, the Articles of Association of the Company were amended to provide for a Continuation Resolution to be put to Shareholders at the annual general meeting of the Company to be held in 2017 and every fourth year thereafter, that the Company continue its business as a closed-ended investment company.

Following on from the Placing of the New Core Shares, the Company has made further investments of approximately £23 million in various loans position bringing the total principal invested in loans during the year to £45 million. The Core's total investment in loans at 31 March 2014, amounted to £48,392,943 which includes any interest accrued on loans at this date.

Mark Burton was appointed to the Board of Directors on 13 December 2013.

20. Subsequent Events

Final dividends for the year ended 31 March 2014 of 2.7p per Core Ordinary Share and 3.2 cents per Cell Ordinary Share were approved by the Directors on 11 June 2014.

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

21. Foreign Exchange Rates

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

Currency	31 Mar 2014	31 Mar 2013
EUR	1.2096	1.1825
US Dollar	1.6671	1.5184

21. Foreign Exchange Rates (continued)

The following average exchange rates relative to GBP were used in the preparation of the financial statements

Currency	**31 Mar 2014**	**31 Mar 2013**
EUR	1.1856	1.2243

22. Approval of the Consolidated Financial Statements

The financial statements were approved by the Directors on 11 June 2014.

Directors and Advisers

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Tom Chandos (Chairman)
Graham Harrison
Talmai Morgan
Christopher Spencer
Mark Burton (appointed 13 December 2013)

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