REAL ESTATE CREDIT INVESTMENTS PCC LIMITED
(formerly Real Estate Credit Investments Limited)

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

REAL ESTATE CREDIT INVESTMENTS PCC LIMITED

Contents

Chairman's Statement

The past twelve months have seen Real Estate Credit Investments (RECI) continue to deliver positive results. The Company has capitalised on the stability established in 2011-2012, significantly improved profitability and set a trajectory towards a new period of sustainable growth. In the financial year ended 31 March 2013 RECI (or the "Core") recorded £19 million of profit and a 36.5% increase in net asset value (NAV). RECI is declaring a dividend of 2.2p per share on its Ordinary shares for the quarter ended 31 March 2013 and this equates to a 5.9% annualised yield on NAV.

The success over the last 12 months delivered by RECI's investment team at Cheyne Capital (the "Manager") has built on the firm financial footing established in the previous financial year ended 31 March 2012. During that year RECI successfully restructured, rebranded and completed the realignment to focus on real estate debt bonds and loans.

The Manager is determined to maintain the momentum of positive performance and capitalise on the many opportunities it sees across real estate bonds and loans. The real estate debt investment team at the Manager is continuing to be deepened and strengthened and is well-placed to secure the targeted double-digit returns across real estate bond and loan markets, thereby both maintaining a solid dividend for shareholders and growing NAV. We believe that RECI is maturing from the shareholder's perspective and becoming a valuable growth and income investment.

Strong performance financially

RECI's strong financial performance stemmed from gains in an established bond portfolio, a growing loan portfolio and an experienced team's excellent asset management skills.

The real estate bond portfolio recorded mark-to-market (MTM) gains of £5.1 million in the quarter ended 31 March 2013 and generated an annualised cash yield of 24.4%. In a still-volatile market it remains important to hedge against key macro-economic and market risks. RECI's hedging strategy has protected the Company against these risks without harming the scope to benefit from rising asset prices. The total cost of protecting our portfolio for the financial year ended 31 March 2013 was £0.6 million.

Investment Momentum

RECI was a net seller of bonds during the final half of the year, making £5.4 million of net sales in the final quarter and £9.4 million in the third quarter. The Manager has been investing part of the proceeds in the growing loan portfolio.

Loans are playing a greater role in delivering results. Our expanding loan portfolio has continued to provide attractive risk adjusted returns. The loan portfolio is currently offering an average yield of 14.2%. During the course of the past financial year the Company concluded the sale of the OMNI loan portfolio, recording a return of 12.6% on its investment.

Since August, RECI has invested in new loans in the Netherlands and London and has identified new investment opportunities elsewhere in the UK and Germany.

In August 2012, RECI made a €4.2 million commercial loan which is secured against a portfolio of commercial properties in the Netherlands, yielding in excess of 15%. In November 2012, the Company made a £10 million loan at a 65% LTV and yielding in excess of 10%, backed by a London office property. A month later the Company concluded a £5 million loan second lien loan backed by a hotel property in London with a yield in excess of 10%. As well as the financial measures already mentioned, I am pleased that RECI is developing in broader terms. The Manager's real estate debt investment team is growing with three important hires in new deal origination. Origination is increasingly important strategically for RECI as the firm looks to secure access to the best newly-issued loans and bonds.

Chairman’s Statement (continued)

Investment Momentum (continued)

The support of the whole Cheyne Capital group is a valuable complement to the expertise of the specialist real estate debt investment team. Cheyne Capital has the relationships that allow RECI to punch above its weight in the new issue market. As Europe’s largest alternative asset manager for real estate debt securities and loans, Cheyne’s ability to structure and place deals put it in a position to receive substantial allocations in oversubscribed transactions. RECI secured attractive participations in a number of new Commercial Mortgage-Backed Securities (CMBS) deals that Cheyne helped structure and anchor in 2012 and 2013. Looking ahead, a strong pipeline of real estate loans in the UK and Germany has been identified with yields in excess of 10% and reasonable loan to value ratios.

Growing shareholder base highlights potential

We have received endorsement of our growth strategy with a broadening of RECI’s shareholder base during the year. I believe that RECI’s ability to bring in new investors reflects not just the performance we have delivered to date, but also the potential to deliver excellent results in the future.

The Manager believes it will continue to generate growth through two strands. The first is the embedded value in the existing Core portfolio and the second is new investment opportunities.

The Core portfolio’s real estate debt holdings are trading at yields considerably greater than in other comparable areas of the credit markets. With more investors turning to real estate debt in their search for yield, we expect appetite for RMBS and CMBS bonds to increase further. RECI’s existing bond portfolio remains, therefore, well-positioned to benefit from continued mark to market gains as well as bonds maturing and being redeemed at par.

Opportunities for lenders with real estate debt expertise are highly attractive. A substantial volume of outstanding real estate loans come due for repayment in the next three years. The refinancing options for these borrowers are reducing however, as many major European banks step back and reduce their commitments. We anticipate that competition will remain weak for some time, especially for smaller ticket deals, and RECI is ready to bridge this gap.

The Manager has demonstrated its ability to shift between bond and loan markets in pursuit of optimal returns. This expertise ensures the Company is well-positioned to take advantage of weakened demand and dislocations in the European real estate finance markets in the year ahead. The loan pipeline reflects the Manager’s current conviction in reducing the strong bond bias of the Core portfolio and adopting a more balanced weighting between bonds and loans.

The Company will carefully manage its total exposure to real estate loans in order to maintain liquidity. We expect investment opportunities with double digit yields in the real estate loan markets based on typical loan-to-value ratios of 70%-75%. Even in stressed scenarios we believe these loans will deliver excellent risk-adjusted returns.

With the strong pipeline of investments and the strength of the bond and loan investments made to date, we remain confident of the Company’s ability to continue to generate attractive growth and income.

Chairman's Statement (continued)

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, even after a significant realisation continues to generate cash flows. The Company is declaring a Cell dividend of 3.0 cents per ERII Ordinary Share, returning €0.6 million to investors. In February 2013, following the realisation referred to above, ERII returned €17 million to investors in return for 21.4 million shares via a mandatory redemption. 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 12 August 2013. 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
6 June 2013

Investment Manager's Report

Key events in the year-ended 31 March 2013

Growth of loan portfolio: Portfolio increased from 4.4% to 19.0% of gross assets. The team had made three new investments by 31 March 2013.

New investment team hires in loan origination.

Significant purchases of new issue bonds totalling £24.0 million.

Material bond repayments of £18.3 million compared to an average bond portfolio value of £78.6 million.

Real estate bond portfolio recorded mark-to-market (MTM) profit of £5.1 million in the quarter ended 31 March 2013, with £12.9million in the financial year.

Continued policy of active hedging: Hedging against significant market risks in a volatile market has not limited upside and the manager has kept hedging costs to £0.6 million in the year.

Narrowing of share price discount and increasing share volumes: Discount to NAV has narrowed from 23.0% to 5.3% as at 15 May 2013 with share volumes of 7.9 million in the March quarter.

Full year dividend declared at equivalent of 6% of annualised NAV.

Real Estate Bond Portfolio Review

RECI[1] recorded MTM gains of £5.1 million on the real estate bond portfolio for the quarter ended 31 March 2013. This compared with MTM gains of £2.7 million for the quarter ended 31 December 2012. RECI recorded £12.9 million of MTM bond gains over the year ended 31 March 2013, offset only partially by £0.6 million in overall hedging costs.

In the past financial year the Company has not incurred any credit losses on any of its bond investments.

Reinvesting bond sale proceeds

RECI was a net seller of bonds during the quarter ended 31 March 2013, with net sales of £5.4 million versus net sales of £9.4 million in the previous quarter. Proceeds from sale investments were invested in a German multi-family loan that the Company completed in April 2013.

The weighted average expected yield to maturity of new investments in the quarter ended 31 March 2013 was 8.9% and RECI purchased the bonds at an average price of 91% of par. As at 15 May 2013, the weighted average price of these investments had increased to 95% of par.

Strong cash returns

The average cash return of the portfolio in the 2013 financial year (taking into account bond repayments and interest coupons) was approximately £22.1 million or an annual cash return of 24.4%. The Company received bond repayments of approximately £18.3 million throughout the financial year, equal to approximately 23.3% of the average portfolio value over the period.

[1] RECI refers to the core segment of Real Estate Credit Investments PCC Limited.

Investment Manager's Report (continued)

Strong cash returns (continued)

Significant bond repayments are listed in the table below.

Quarter Ending	Level of Bond Repayment (£mn)	Average Purchase Price of Bonds
30/06/2012	0.57	78.4
30/09/2012	15.28	82.0
31/12/2012	0.58	78.8
31/03/2013	1.88	48.5

Effective hedging

In a volatile market it remains necessary to hedge against key risks such as macro-economic and market risks. RECI's hedging strategy has protected the Company against these risks while avoiding limiting upside from gains in asset prices. The total cost of hedging activity for the financial year ended 31 March 2013 was £0.6 million.

Portfolio value

As at 31 March 2013, the portfolio of 87 bonds was valued at £75.4 million, with a nominal face value of £98.4 million[2]. 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%[3]. 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 2013 was 8.8% with a weighted average life of 4.5 years.

[2] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 March 2013

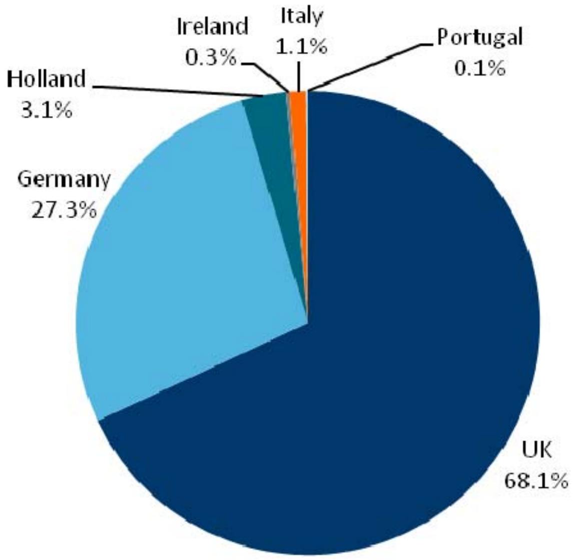
[3] Average expected yield to maturity based on cost price

Investment Manager's Report (continued)

Real Estate Bond Portfolio Breakdown

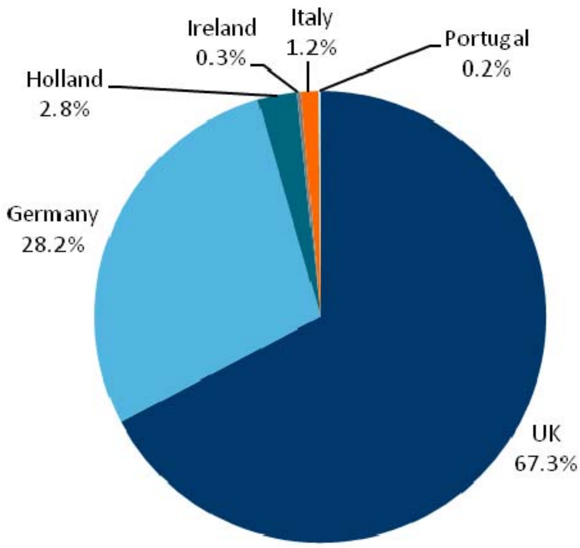
Breakdown of RECI's bond portfolio as at 31 December 2012 and 31 March 2013 by jurisdiction (by reference to underlying assets)

31 December 2012



£75.5mm

31 March 2013



£75.4mm

Values may not sum to 100% due to rounding differences

Bond purchases and sales since 31 March 2013

Between 1 April 2013 and 15 May 2013, the Company invested £0.7 million at an average price of 48% of par and a weighted average expected yield-to-maturity of 12.6%. RECI also sold £0.9 million of bonds during this period at an average price of 97% of par versus an average purchase price of 75% of par. As at 15 May 2013, the portfolio consisted of 87 bonds with a fair value of £76.9 million and a nominal face value of £100.9 million[4].

[4] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 15 May 2013

Investment Manager's Report (continued)

Monthly Bond Performance Summary as at 15 May 2013

	December	January	February	March	April	May
% Fair Value Change	1.12%	3.43%	2.65%	1.12%	1.75%	0.40%
WA Purchase Price	0.81	0.97	0.84	0.66	0.48	0.32
WA Purchase Yield	7.37%	8.54%	8.66%	11.70%	12.11%	20.00%

Asset Class Distribution of Bond Portfolio by Fair Value as at 15 May 2013

Bond Class	UK CMBS	UK RMBS	Euro CMBS	Euro RMBS	Total	Total as at 31 March 13
A	16.6%	0.0%	2.2%	0.2%	**19.0%**	18.6%
B	21.9%	0.0%	8.7%	0.0%	**30.5%**	29.0%
C	4.0%	0.5%	6.1%	0.0%	**10.7%**	11.1%
D	2.8%	2.7%	11.0%	0.2%	**16.7%**	17.2%
E and Below	10.6%	7.9%	4.6%	0.0%	**23.1%**	24.0%
Total	**55.8%**	**11.1%**	**32.6%**	**0.5%**	**100.0%**	
Total as at 31 March 13	56.9%	10.5%	32.2%	0.4%		

Values may not sum to 100% due to rounding differences

Loans - Progress with new investment opportunities

The Company's loan portfolio has continued to provide attractive risk adjusted returns. The average yield on the loan portfolio is currently 14.2%. In the past financial year the Company has concluded the sale of the OMNI loan portfolio. It has invested in new loans backed by Dutch commercial property, a London hotel and a London office property, and has identified new investment opportunities in the UK and Germany.

Dutch Commercial property loan

In August 2012, the Company made a €4.2million commercial loan which is secured against a portfolio of commercial properties in the Netherlands. This loan has a yield in excess of 15%, an LTV of 64.1% and a weighted average life of 3.5 years.

OMNI sale

By 31 October 2012, the Company had sold the OMNI assets secured by residential properties in London and the South East. The Company exited its position at par and recorded a return of 12.6% on its investment.

London office property loan

On 21 November 2012, the Company made a £10 million loan second lien at a 65% LTV and a yield in excess of 10% secured by a London office property. The loan ranks behind a senior loan which has a 50% LTV.

London hotel property loan

On 17 December 2012, the Company made a £5.7 million loan. This is a 65% LTV second lien loan backed by a hotel property in London with a yield in excess of 10%.

Post quarter-end investment

Subsequent to the quarter end the Company has made a further loan investment. In April 2013 the Company completed a €5.8 million loan backed by German multi-family properties with an expected return in excess of 15%.

Investment Manager's Report (continued)

Pipeline
Looking ahead, the Company has a strong pipeline of real estate loans in the UK and Germany with high visibility on new loans with yields in excess of 10%. Asset classes that RECI is focussing on include German multi-family, UK offices, UK shopping centres and UK hotels.

Loan Portfolio Summary as at 15 May 2013	
Number of loans	4
Dirty Fair Value (£ millions)	25.1
Loans as % of GAV	23.5%
Weighted average yield of loan portfolio[5]	14.2%
Weighted average LTV of portfolio[6]	65.5%

Top 10 Investment Portfolio Exposures[7] as at 15 May 2013

Market Value	£58.3 million
WA Original LTV[8]	58.4%
WA Cheyne Current LTV[8]	61.3%
WA Effective Yield[9]	12.0%

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

Outlook for RECI
The Company's management team is confident it will continue to generate growth through both significant embedded value in the Core portfolio and new investment opportunities.

5 WA effective yield is based on the effective yield using prices as at 15 May 2013 and is based on Cheyne's pricing assumptions and actual returns may differ materially from those expressed or implied herein.
6 The Weighted Average LTV has been calculated by Cheyne by reference to the current value ascribed to the collateral by Cheyne. In determining these values, Cheyne has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review.
7 Based on fair value of bonds and loans.
8 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 15 May 2013.
9 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 15 May 2013.

Investment Manager’s Report (continued)

Outlook for RECI (continued)

Embedded value in existing bonds

The Core portfolio’s real estate debt holdings are trading at attractive discounted valuations and the Investment Manager expects them to repay at par in the medium term. However yields on real estate bonds remain considerably wider than in other credit markets. As investors broaden their search for yield, the Investment Manager expect appetite for RMBS and CMBS bonds to increase further. RECI’s existing bond portfolio remains, therefore, well-positioned to benefit from continued mark to market gains as well as bond redemptions. The Investment Manager expects bond prices to rise at a rate faster than the yield implied by current prices.

Market environment creating attractive investment conditions

Opportunities for new lenders with real estate debt expertise are highly attractive. A substantial volume of outstanding real estate loans come due for repayment in the next three years, but the withdrawal of banks, mezzanine funds and securitisation markets has left a large gap in available funding. The Investment Manager anticipates that competition will remain weak for some time, especially for smaller ticket deals.

Maximising relative value in loans and bonds

RECI is also well-positioned to take advantage of weakened demand and dislocations in the European real estate finance markets. Our ability to shift between loan and bond markets will help to optimise returns. Over the past year the team has identified better risk-adjusted investment opportunities in loans and shifted from a strong bond bias into a more balanced weighting between bonds and loans. The loan pipeline should enable this trend to continue.

Based on the current balance sheet size, the Company will limit its exposure to real estate loans in order to maintain liquidity on the asset side of the balance sheet. The Investment Manager expects yields in the real estate loan markets to remain in double digits with average LTVs of between 70-75%. The downside for these loans is expected to be limited even in stressed scenarios.

RECI benefits from the strength and size of the Investment Manager’s real estate finance business which exceeds $1.6 billion. This allows RECI to be involved in financing opportunities that would not be otherwise available. For example, RECI has secured full participation in a number of new CMBS deals that the Investment Manager helped structure and anchor in 2012 and 2013.

Given the strong pipeline of investments and the strength of the bond and loan investments made to date RECI remains confident of the portfolio’s ability to continue to generate NAV growth.

European Residual Income Investments (ERII)

It is the Company’s objective, to the extent practicable, to liquidate 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. For the period ended 31 March 2013 the Preference Share Cover Test was 2.66, above the threshold of 2.39. As a result, the Company is declaring a dividend of 3.0 cents per ERII Ordinary Share, returning €0.6 million to investors. In February 2013 ERII returned €17.2 million to investors in return for 21.4 million shares via a mandatory redemption.

Investment Manager's Report (continued)

European Residual Income Investments (ERII) (continued)

The table below shows figures as at 31 March 2013 compared to 31 December 2012.

ERII Key Quarter Financial Data	Q/E 31 December 2012	Q/E 31 March 2013
Cash balance	€17.7m	€1.1m
Residual Total Dirty Fair Value	€15.8m	€14.3m
Cash Flows in periods	€1.8m	€1.0m
Asset Coverage Ratio	2.81	2.66
Dividend Declared	43.0c	3.0c
Net Asset Value per ERII Share	0.84	0.83
ERII Shares Outstanding	39.97m	18.54m

Investment Portfolio

Overview

ERII reported cash flows for the quarter ended 31 March 2013 of €1.0 million, compared to €1.8 million in the previous quarter and net write ups of €0.3 million. Write downs in the European mortgage portfolio were offset in part by gains in the UK mortgage and SME portfolios.

European Mortgage Portfolio

The European Mortgage Portfolio generated €0.3 million of cash flows for the quarter ended 31 March 2013, compared to €0.2 million in the previous quarter. Net write-downs in the portfolio totalled €0.4 million and included a €0.5 million write down in the Sestante mortgage portfolio.

SME Portfolio

The Company has increased the fair value of Smart 06-1 to €2.2 million, versus €1.7 million in the previous quarter. Cash flows for Smart 06-1 in the quarter ended 31 March 2013 totalled €0.1 million, unchanged from the previous quarter.

UK Mortgage Portfolio

The UK Mortgage Portfolio recorded cash flows of £0.5 million in the quarter ended 31 March 2013 compared to £1.2 million in the previous quarter. Gains in the portfolio totalled £0.2 million with all investments recording a gain in their market value. The NGATE litigation claim was settled during the year, and following this the assets were sold at a price accretive to NAV.

Name	% of ERII Portfolio	Sector
Magellan 1	53.8%	European Mortgage Portfolio
Sestante 1	12.3%	European Mortgage Portfolio
Smart 2006-1	14.3%	SME Portfolio
Alba 06-1	8.1%	UK Mortgage Portfolio
Alba 05-1	4.3%	UK Mortgage Portfolio
Cash	7.2%	
TOTAL	100.0%	

Cheyne Capital Management (UK) LLP
6 June 2013

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2013.

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 (the "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 have a separate listing 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. The Group is expecting to continue its activities in the coming year.

Results and dividends
The results for the year and the Group's financial position at the end of the year are shown on pages 27 to 30. Dividends totalling £2,957,577 (31 March 2012: £1,666,567) were paid/declared on the Core Ordinary Shares during the year. A dividend of €1,278,943 was paid during the year in regard to the Cell Ordinary Shares (31 March 2012: €1,039,142). Redemptions were made in relation the Cell Ordinary Shares in February 2013 whereby €17,185,804 was returned to investors.

A final dividend for the year ended 31 March 2013 of 2.2p per Core Ordinary Share (31 March 2012: 1.7p per share) and 3.0 cents per Cell Ordinary Share were approved by the Directors on 6 June 2013 and has not been included as a liability in these consolidated financial statements. Preference dividends amounting to £3,684,025 (31 March 2012: £3,940,278) were paid on the Preference Shares during the year.

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.

Directors' Report (continued)

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 19 to 22. Under its Articles of Association, the Company has authority to issue an unlimited number of Ordinary Shares of no par value.

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

Tom Chandos (Chairman)
Graham Harrison
John Hawkins (resigned 31 March 2013)
Talmai Morgan
Christopher Spencer

The Directors' interests (number of Ordinary, Preference and Cell Shares) in the share capital of the Company at 31 March 2013 (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)	302,500	0.76%	33,625	0.12%	13,224	0.70%
Graham Harrison	1,500	0.00%	1,875	0.00%	696	0.00%
Talmai Morgan	1,500	0.00%	1,875	0.00%	696	0.00%
Christopher Spencer	1,500	0.00%	1,875	0.00%	696	0.00%

Mr John Hawkins resigned as Director of the Company effective 31 March 2013.

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 over 5%.

Shareholder	**Holding**
Premier Fund Managers Limited	14.76%
Credit Suisse Group AG	11.25%
Ironsides Partners LLC	26.11%

Directors' Report (continued)

Issued Share Capital
The issued share capital of the Core consists of 84,959,819 shares, made up of 39,996,985 Ordinary Shares and 44,962,834 Preference Shares. The Company also has 18,544,711 Cell Shares in relation to the ERII Cell.

Listing Information
The Ordinary Shares of the Core have a premium listing on the London Stock Exchange, while the Cell Shares have a separate listing on the Specialist Fund Market of the London Stock Exchange. The Company'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.

Auditor
A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

Each of the persons who is a Director at the date of approval of the financial statements confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(2) the Director has taken all steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is 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.

Principal risks and uncertainties
Details of the principal risks and uncertainties facing the Company are set out in this 2013 Annual Report on pages 55 to 70, a copy of which is available on the Company's website *(www.recreditinv.com)*.

The principal risks and uncertainties, being market risk, credit risk, liquidity risk, valuation of financial instruments, prepayment and re-investment risk, default and severity rates, residual interest risk and country risk, and the policies and procedures for minimising these risks and uncertainties remain unchanged and each of them has the potential to affect the Company's results during the remaining six months of the financial year.

Related party transactions
Related party transactions are disclosed in Note 18 to the condensed set of financial statements. There have been no material changes in the related party transactions described in the last annual report, except for the change in holding pertaining to Cheyne ABS Opportunities Fund L.P. and the Company's £10 million mezzanine loan investment to finance the purchase of an office property in London, as another Cheyne managed fund, Cheyne Real Estate Credit Holdings Fund L.P. has also invested in the deal via a subordinated loan and equity both of which are subordinated to the Company's investment.

Going concern
As stated in Note 2 to the condensed financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Directors' Report (continued)

Subsequent Events

Final dividends for the year ended 31 March 2013 of 2.2p per Core Ordinary Share and 3.0 cents per Cell Ordinary Share were approved by the Directors on 6 June 2013.

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 6 June 2013

Christopher Spencer	**Graham Harrison**
Director	**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 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 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.

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 will 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 and the Sestante 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 six 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
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") replaces the existing GFSC guidance, "Guidance on Corporate Governance in the Finance Sector". The 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 (AIC Guide).

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 2013, 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 includes provisions relating to:

- 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 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.

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 are noted below. There have been no instances of non-compliance noted.

Throughout the year ended 31 March 2013, the Company has been in compliance with the AIC Code provisions set out in of the AIC Code.

Corporate Governance Statement (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 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 2013 (£9.4m) 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.

Board effectiveness
For the purposes of assessing compliance with the AIC Code, 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.

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.

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 Audit Committee is responsible for overseeing the Group's relationship with the external Auditor, including making recommendations to the Board on the appointment of the external Auditor and their remuneration. The Audit Committee is required to consider the nature, scope and results of the Auditor's work and reviews, and develop and implement policy on the supply of any non-audit services that are to be provided by the external Auditor.

It receives and reviews reports from the Investment Manager and the Group's external Auditor relating to the Group's annual and interim reports and accounts. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Group does not have an internal audit function but due to internal control processes put in place by the Administrator, Sub-Administrator, Custodian and Investment Manager, the Board has decided to place reliance on their systems and internal control procedures.

Nomination Committee
The Nomination Committee is chaired by Mr Chandos and its other members are Mr Morgan, Mr Harrison 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.

At its last meeting the Committee undertook a formal review of the balance, independence and effectiveness of the Board. The Committee concluded it did not have any objection to the current commitments of its members and that no changes to the composition of the Board were required. Should this view change the Nomination Committee would have regard to maintaining the balance and composition of the Board when recruiting Directors, a comparative analysis of candidates' qualifications and experience, applying pre-established clear, neutrally formulated and unambiguous criteria will be utilized to determine the most suitable candidate for the specific position sought.

Corporate Governance Statement (continued)

Board effectiveness
The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2013 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	4/4	1	n/a
Graham Harrison	4/4	1	2/2
John Hawkins (resigned 31 March 2013)	3/4*	-	2/2
Talmai Morgan	3/4	1	2/2
Christopher Spencer	4/4	1	2/2

* John Hawkins appointed Christopher Spencer as his alternate on the occasion that he did not attend a board meeting during the year.

There were five other unscheduled Board Meetings held for specific purposes which were attended by some but not all of the Directors.

None of the Directors have a service contract with the Company.

Directors Mr Tom Chandos and Graham Harrison will be put forward for re-election at the forthcoming AGM. Their biographies are as follows:

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 other 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.

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 is also currently a non-executive director of a number of investment and asset management companies.

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 Company currently rotates the re-election of the Directors considering length of term and the number of Directors standing for election. The Board has not yet adopted a policy on length of tenure or terms of tenure.

The holders of the position of the Chairman of the committees referred to above will be reviewed on an annual basis. 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.

Corporate Governance Statement (continued)

Board effectiveness (continued)

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.

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 should ensure effective communication with Shareholders.

Board balance and independence

Following a review by the Nominations Committee, the Committee is comfortable that the Board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board’s composition can be managed without undue disruption. The Board will continue to review the composition of the Board and consider if any further appointments are required.

Internal controls

The Board has applied principle C.2 of the 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 year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). 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 C.2.1 of the 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 management 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.

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. Custody of assets is undertaken by State Street Custodial Services (Ireland) Limited. Regular compliance reports are received by the Board.

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 ongoing 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.

Directors' Remuneration Report

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.

From 1 April 2012, Directors remuneration amounted to £30,000 per annum instead of €35,000 per annum and the Chairman's fee amounted to £105,000 per annum instead of €125,000 per annum.

At 31 March 2013, the Chairman received an annual fee of £105,000 and Mr Morgan, Mr Spencer, Mr Harrison and Mr Hawkins each received an annual fee of £30,000 in each case payable quarterly in equal instalments in arrears.

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 2013 GBP	**Year ended 31 March 2012 GBP**
Tom Chandos (Chairman)	105,000	105,450
Graham Harrison	30,000	28,759
John Hawkins (resigned effective 31 March 2013)	30,000	28,759
Talmai Morgan	30,000	28,759
Christopher Spencer	30,000	28,759
Total Directors' emoluments	225,000	220,486

During the year Graham Harrison received £10,700 (2011: £10,400) in his capacity as Director of Trebuchet Finance Limited.

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.

By order of the Board

Christopher Spencer	**Graham Harrison**
Director	**Director**

6 June 2013

Independent Auditor's report to the members of Real Estate Credit Investments PCC Limited

We have audited the consolidated financial statements of Real Estate Credit Investments PCC Limited (the "Company") for the year ended 31 March 2013 which 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 related Notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS).

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 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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibility 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.

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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Emphasis of matter- fair value of investments held in European Residual Income Investments Cell
In forming our opinion on the financial statements, which is not modified, 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. 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 European Residual Income Investments Cell at €12,588,496 as at 31 March 2013.

As described in Note 3 of the consolidated financial statements, the European Residual Income Investments 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.

continued on next page/

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

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Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code for our review.

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

6 June 2013

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 Comprehensive Income

For the year ended 31 March 2012

	Note	RECI Core 31-Mar-2012 GBP	ERII Cell 31-Mar-2012* EUR	Total 31-Mar-2012 GBP
Interest income	6	11,654,483	3,008,770	14,218,320
Net losses on financial assets and liabilities at fair value through profit or loss	4	(5,584,389)	(391,274)	(5,917,802)
		6,070,094	2,617,496	8,300,518
Operating expenses	5	(2,934,063)	(586,634)	(3,433,946)
Profit before finance costs		3,136,031	2,030,862	4,866,572
Finance costs	6	(3,867,880)	-	(3,867,880)
Net (loss)/profit		(731,849)	2,030,862	998,692
(Loss)/profit per Ordinary Share				
Basic	8	£(0.02)	€0.05	
Diluted	8	£(0.02)	€0.05	
Weighted average Ordinary Shares outstanding		**Number**	**Number**	
Basic	8	39,966,985	39,966,985	
Diluted	8	39,966,985	39,966,985	

* As disclosed in Note 1 to the consolidated financial statements, the Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above, refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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 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 balances	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 - liability balance	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.

These financial statements were approved by the Board of Directors on 6 June 2013.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

Graham Harrison
Director

Consolidated Statement of Financial Position

As at 31 March 2012

	Note	RECI Core 31-Mar-2012 GBP	ERII Cell 31-Mar-2012 EUR	Total 31-Mar-2012 GBP
Non-current assets				
Investments at fair value through profit or loss	9	86,254,269	17,841,069	101,124,516
		86,254,269	17,841,069	101,124,516
Current assets				
Cash and cash equivalents	16	2,847,787	3,671,833	5,908,201
Derivative financial assets - options held for trading	10	2,453,717	-	2,453,717
Fair value of credit default swaps - asset balance	10	485,444	-	485,444
Derivative financial assets - unrealised gain on interest rate swap agreements	10	37,872	-	37,872
Derivative financial assets - unrealised gain on forward foreign exchange contracts	10	31,427	-	31,427
Other assets	11	559,224	1,283,650	1,629,126
		6,415,471	4,955,483	10,545,787
Total assets		92,669,740	22,796,552	111,670,303
Equity and liabilities				
Equity				
Reserves		43,974,682	22,238,152	62,509,828
		43,974,682	22,238,152	62,509,828
Current liabilities				
Derivative financial liabilities - options held for trading	10	820,269	-	820,269
Derivative financial liabilities - unrealised loss on forward foreign exchange contracts	10	295	-	295
Derivative financial liabilities - unrealised loss on total return equity swaps	10	39,632	-	39,632
Other liabilities	12	1,282,256	558,400	1,747,673
		2,142,452	558,400	2,607,869
Non-current liabilities				
Preference Shares	13	46,552,606	-	46,552,606
Total liabilities		48,695,058	558,400	49,160,475
Total equity and liabilities		92,669,740	22,796,552	111,670,303
Shares outstanding	13	39,966,985	39,966,985	
Net asset value per share		£1.10	€0.56	

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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

	Note	RECI Core GBP	ERII Cell* EUR	Total GBP
Balance at 31 March 2011		**67,808,829**	**-**	**67,808,829**
Transfer of assets associated with conversion to a PCC		(18,690,263)	21,246,432	-
Foreign currency translation adjustment in relation to the conversion to a PCC in August 2011		(2,745,468)	-	(3,761,435)
Net (loss)/profit for the year/period		(731,849)	2,030,862	998,692
Distribution to the Ordinary Shareholders of the Company	7	(1,666,567)	(1,039,142)	(2,536,258)
Balance at 31 March 2012		**43,974,682**	**22,238,152**	**62,509,828**
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 to Cell Shareholders	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**

* As disclosed in Note 1 to the consolidated financial statements, the Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above, refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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 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.

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	RECI Core 31-Mar-2012 GBP	ERII Cell* 31-Mar-2012 EUR	Total 31-Mar-2012 GBP
Profit before finance costs	3,136,031	2,030,862	4,866,572
Movement in investments at fair value through profit or loss**	4,088,454	1,730,941	5,563,423
Movement in financial derivative instruments**	(1,118,882)	-	(1,118,882)
Operating cash flows before movement in working capital	6,105,603	3,761,803	9,311,113
Increase/(decrease) in receivables	1,568,181	(1,109,227)	643,662
(Decrease)/increase in payables	(645,414)	558,399	(180,000)
Cash from/(used in) operations	922,767	(550,828)	463,662
Net cash inflow from operating activities	7,028,370	3,210,975	9,774,775
Financing activities			
Distributions paid to Ordinary Shareholders	(2,232,695)	(1,039,142)	(3,118,169)
Preference dividends paid	(3,940,278)	-	(3,940,278)
Preference shares repurchased	(2,618,467)	-	(2,618,467)
Net cash outflow from financing activities	(8,791,440)	(1,039,142)	(9,676,914)
Net increase in cash and cash equivalents	(1,763,070)	2,171,833	97,861
Transfer of cash on creation of ERII Cell	(1,304,730)	1,500,000	-
Cash and cash equivalents at the start of the year	5,915,587	-	5,915,587
Foreign currency translation adjustment	-	-	(105,247)
Cash and cash equivalents at end of year	2,847,787	3,671,833	5,908,201

** The Group made sales of £73,073,337 and purchases of £75,770,552 during the year ended 31 March 2012 (including purchases and sales of financial derivative instruments and paydowns/payups).

* As disclosed in Note 1 to the consolidated financial statements, the Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above, refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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

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. 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. Trebuchet Finance Limited is consolidated in the financial statements of the Group under SIC 12.

The Company is an authorised closed-ended protected cell company (the "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 converted to a cellular company during the 2012 financial year. On 11 August 2011, following an extraordinary meeting of the Company, the Board of Directors announced the conversion of the Company to a protected cell company (PCC) under Guernsey Law.

Following conversion in August 2011, the investment policy of the Company was sub-divided into an investment policy for the Core and an investment policy for the Cell. This was to reflect the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Existing 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 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. The 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

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 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 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 2013.

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 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 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. 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.

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.

2. Significant accounting policies

New standards, amendments and interpretations issued but not yet effective and not early adopted
IFRS 9 "Financial Instruments", effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements of IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Group's financial position or performance, as it is expected that the Group will continue to classify its financial assets and financial liabilities (both long and short) as being at fair value through profit or loss.

IFRS 10, "Consolidated financial statements", effective for annual periods beginning on or after 1 January 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

Under IFRS 10, reporting entities were required to consolidate all entities they control. In response to feedback from preparers and users of financial statements in the investment management industry an amendment to IFRS 10 requiring investment entities to measure particular subsidiaries at fair value through profit or loss rather than consolidate them has been introduced. The amendment to IFRS 10 requires qualifying investment entities to apply fair value accounting and not consolidate subsidiaries if they meet the investment entity definition and provide disclosures where typical investment entity characteristics are not met. This amendment is not effective until 1 January 2014. The Directors are currently assessing the impact of IFRS 10 on the financial statements.

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

IFRS 12, "Disclosure of interests in other entities", effective for annual periods beginning on or after 1 January 2013, 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 standard is not expected to have any impact on the Group's financial position or performance.

IFRS 13, "Fair Value Measurement", effective for annual periods beginning on or after 1 January 2013. 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 for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard is not expected to have any impact on the Group's financial position or performance. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread.

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 Group.

2. Significant accounting policies (continued)

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.

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 2013 (£9.4m), 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 2013 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 which 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.

2. Significant accounting policies (continued)

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.

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.

2. Significant accounting policies (continued)

Fair value (continued)
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.

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 Dividend 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 accrual basis.

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

2. Significant accounting policies (continued)

Expenses attributable to the Placing and Open Offer and the Bonus Issue (continued)
These expenses were allocated to the Ordinary and Preference Shareholders based on a pro-rata allocation. Expenses attributable to the Ordinary Shareholders were 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.

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 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.

Investment in Joint Venture
Investments in joint ventures are accounted for at fair value under the fair value option available under IAS 31 – Interests in Joint Ventures.

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.

2. Significant accounting policies (continued)

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.

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 recorded at the proceeds received, net of issue costs. 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).

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

Income recognition of Residual Income Positions (continued)
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.

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 2013 quoted prices were not available for any of the Cell's residual portfolio investments.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

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

Valuation of investments (continued)

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.

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 real estate loans the entity invests in which are measured at amortised cost less any impairment in its accounting records.

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 2013:	**RECI Core 31-Mar-13 GBP**	**ERII Cell 31-Mar-13 EUR**	**Total 31-Mar-13 GBP**
Net realised gains/(losses)			
Net realised gains on investments at fair value through profit or loss	9,515,174	10,414,893	18,022,486
Net realised gains on credit default swaps	28,905	-	28,905
Net realised gains on options	1,284,100	-	1,284,100
Net realised losses on foreign exchange instruments and other foreign currency transactions	(220,093)	(246,123)	(421,136)
Net realised gains	10,608,086	10,168,770	18,914,355
Net movement in unrealised gains/(losses)			
Net movement in unrealised gains/(losses) on investments at fair value through profit or loss	3,383,041	(299,955)	3,138,025
Net movement in unrealised gains on credit default swaps	(6,821)	-	(6,821)
Net movement in unrealised losses on interest rate swap agreements	(37,872)	-	(37,872)
Net movement in unrealised losses on options	(1,752,555)	-	(1,752,555)
Net movement in unrealised gains on total return equity swaps	39,632	-	39,632
Net movement in unrealised gains/(losses) on foreign exchange instruments and other foreign currency transactions	41,724	(49,684)	1,140
Net movement in unrealised gains/(losses)	1,667,149	(349,639)	1,381,549
Net gains and losses on financial assets and liabilities at fair value through profit or loss	**12,275,235**	**9,819,131**	**20,295,904**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

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

For the year ended 31 March 2012:	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP
Net realised (losses)/gains			
Net realised losses on investments at fair value through profit or loss	(6,378,673)	(193,009)	(6,543,140)
Net realised losses on options	(835,259)	-	(835,259)
Net realised gains/(losses) on foreign exchange instruments	168,572	141,734	289,347
Net realised losses	(7,045,360)	(51,275)	(7,089,052)
Net movement in unrealised gains/(losses)			
Net movement in unrealised gains/(losses) on investments at fair value through profit or loss	192,637	(349,632)	(105,292)
Net movement in unrealised losses on credit default swaps	(3,113)	-	(3,113)
Net movement in unrealised losses on interest rate swap agreements	(84,286)	-	(84,286)
Net movement in unrealised gains on options	1,179,419	-	1,179,419
Net movement in unrealised gains on foreign exchange bank balances	105,402	9,633	113,610
Net movement in unrealised gains on foreign exchange instruments	70,912	-	70,912
Net movement in unrealised gains/(losses)	1,460,971	(339,999)	1,171,250
Net gains and losses on financial assets and liabilities at fair value through profit or loss	(5,584,389)	(391,274)	(5,917,802)

* The Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

5. Operating expenses

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)**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

5. Operating expenses (continued)

For the year ended 31 March 2012:

	Note	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar 12 GBP
Investment management, custodian and administration fees				
Investment management fee	18	(1,774,513)	(256,621)	(1,993,185)
Administration fee	18	(175,552)	(45,462)	(214,291)
Custodian fee	18	(24,951)	-	(24,951)
		(1,975,016)	(302,083)	(2,232,427)
Other operating expenses				
Audit fees		(150,202)	(84,811)	(222,471)
Directors' fees payable to Directors of Real Estate Credit Investments PCC Limited		(198,128)	(29,915)	(223,619)
Directors' fees payable to Directors of Trebuchet Finance Limited		(20,639)	(3,116)	(23,294)
Legal fees		(320,560)	(53,585)	(366,221)
Other expenses		(269,518)	(113,124)	(365,914)
		(959,047)	(284,551)	(1,201,519)
Total operating expenses		(2,934,063)	(586,634)	(3,433,946)

* The Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

The Group has no employees.

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 2013:

Interest income	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
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)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

6. Interest income and finance costs (continued)

For the year ended 31 March 2012:

Interest income	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP
Investments designated at fair value through profit or loss upon initial recognition	11,640,749	3,007,527	14,203,527
Loans and receivables (including cash and cash equivalents)	13,734	1,243	14,793
Total interest income	11,654,483	3,008,770	14,218,320
Finance costs:			
Gain on repurchase of Preference Shares of the Company	(202,433)	-	(202,433)
Preference Shares issuance expense amortised	130,035	-	130,035
Dividend paid to Preference Shareholders (Note 7)	3,940,278	-	3,940,278
Total finance costs	3,867,880	-	3,867,880

* The Company converted to a Protected Cell Company (PCC) during the year ended 31 March 2012. The ERII Cell financial statements detailed above refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

7. Dividends

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	0.0170	-
First interim dividend for the year ended 31 March 2013	0.0170	0.0320
Second interim dividend for the year ended 31 March 2013	0.0200	-
Third interim dividend for the year ended 31 March 2013	0.0200	-
Amounts recognised as distributions to Ordinary Equity Holders in the year	0.0740	0.0320

7. Dividends (continued)

For the year ended 31 March 2013: (continued)

For the year ended 31 March 2012:

Ordinary Share Dividends	**RECI Core 31-Mar-12 GBP**	**ERII Cell 31-Mar-12 EUR**	**Total 31-Mar-12 GBP**
Final dividend for the year ended 31 March 2011	490,803	-	490,803
First interim dividend for the year ended 31 March 2012	488,332	1,039,142	1,358,023
Second interim dividend for the year ended 31 March 2012	343,716	-	343,716
Third interim dividend for the year ended 31 March 2012	343,716	-	343,716
Amounts recognised as distributions to Ordinary Equity Holders in the year	1,666,567	1,039,142	2,536,258

Dividends per Share (Core and Cell)	**RECI Core 31-Mar-12 GBP / Share**	**ERII Cell 31-Mar-12 EUR / Share**
Final dividend for the year ended 31 March 2011	0.0123	-
First interim dividend for the year ended 31 March 2012	0.0122	0.0260
Second interim dividend for the year ended 31 March 2012	0.0086	-
Third interim dividend for the year ended 31 March 2012	0.0086	-
Amounts recognised as distributions to Ordinary Equity Holders in the year	0.0417	0.0260

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 Company passed the solvency test for each dividend payment for the years ended 31 March 2013 and 31 March 2012.

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 2013 and 31 March 2012.

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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

7. Dividends (continued)

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

For the year ended 31 March 2012:

Preference Share Dividends	**Payment Date**	**31 March 2012 GBP**
Period 1 April 2011 to 30 June 2011	30-Jun-11	999,174
Period 1 July 2011 to 30 September 2011	30-Sept-11	999,174
Period 1 October 2011 to 31 December 2011	31-Dec-11	999,174
Period 1 January 2012 to 31 March 2012	30-Mar-12	942,756
Total distributions to Preference Shareholders		3,940,278

8. Profit per Ordinary Share

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

8. Profit per Ordinary Share (continued)

For the year ended 31 March 2012:

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR
The calculation of the basic and diluted earnings per share is based on the following data:		
(Loss)/profit for the purposes of basic earnings per share being net (loss)/profit attributable to equity holders	(731,849)	2,030,862
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	39,966,985	39,966,985
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	39,966,985

There is no dilution as at 31 March 2013 or 31 March 2012 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 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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

9. Categories of financial instruments (continued)

As at 31 March 2013 (continued):

	RECI Core 31-Mar-13 GBP	ERII Cell 31-Mar-13 EUR	Total 31-Mar-13 GBP
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

As at 31 March 2012:

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP
Assets			
Financial assets designated at fair value through profit or loss:			
Investment in joint venture	4,006,266	-	4,006,266
Real Estate Debt Investments	82,248,003	-	82,248,003
Residual Income Positions	-	17,841,069	14,870,247
Derivative financial assets held for trading			
Call and put options	2,453,717	-	2,453,717
Forward foreign exchange contracts	31,427	-	31,427
Credit default swaps	485,444	-	485,444
Interest rate swap agreements	37,872	-	37,872
Loans and receivables:			
Cash and cash equivalents	2,847,787	3,671,833	5,908,201
Other assets	559,224	1,283,650	1,629,126
Total assets	**92,669,740**	**22,796,552**	**111,670,303**
Liabilities			
Derivative financial liabilities held for trading			
Call and put options	820,269	-	820,269
Forward foreign exchange contracts	295	-	295
Total return equity swaps	39,632	-	39,632
Liabilities held at amortised cost:			
Other liabilities	1,282,256	558,400	1,747,673
Preference Shares	46,552,606	-	46,552,606
Total liabilities	**48,695,058**	**558,400**	**49,160,475**

See Note 15 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 2013

10. Derivative contracts

Options:

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)

The following options contracts were open as at 31 March 2012:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	14 Sept 2017	EUR Put GBP Call	GBP	12,500,000	GBP 0.910	1,444,800
Goldman Sachs	14 Sept 2017	EUR Call GBP Put	GBP	12,500,000	GBP 0.977	431,125
Goldman Sachs	2 Oct 2012	EUR Put GBP Call	EUR	25,000,000	GBP 0.845	572,645
Goldman Sachs	2 Oct 2012	EUR Call GBP Put	EUR	25,000,000	GBP 0.962	5,147
Options purchased at fair value						2,453,717
Options written						
Goldman Sachs	2 Oct 2012	EUR Call GBP Put	EUR	25,000,000	GBP 0.845	(107,332)
Goldman Sachs	14 Sept 2017	EUR Call GBP Put	GBP	12,500,000	GBP 0.910	(712,937)
Options written at fair value						(820,269)

Total return equity swap:

The following total return equity swap was held at 31 March 2012:

Counterparty	Notional Amount (GBP)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Deutsche Bank	16,000,000	IPD Property Index	31 March 2013	(39,632)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

10. Derivative contracts (continued)

Credit default swaps:

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.

The following credit default swaps were held at 31 March 2012:

Counterparty	Notional Amount (EUR)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Goldman Sachs	50,000,000	iTraxx Main	20 Jun 2017	485,444

Forward foreign exchange contracts:

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)

The following forward foreign exchange contracts were unsettled at 31 March 2012:

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	29 June 2012	GBP	8,248,291	EUR	9,848,000	31,427
Goldman Sachs	29 June 2012	EUR	2,500,000	GBP	2,086,218	(295)

Interest rate swaps:

The following interest rate and balance guaranteed interest rate swaps were unsettled at 31 March 2012:

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain GBP
25 January 2013	Goldman Sachs	451,431	8,648
25 January 2013	Goldman Sachs	1,226,713	29,224
			37,872

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

11. Other assets

	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

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP
Interest receivable on investment portfolio	559,224	951,263	1,352,087
Other assets	-	332,387	277,039
	559,224	1,283,650	1,629,126

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

12. Other liabilities

	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

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP
Due to related parties – Investment Manager (Note 18)	130,748	-	130,748
Payable for investments purchased	487,958	-	487,958
Accrued expenses	663,550	35,524	1,128,967
Provision for legal expenses	-	522,876	-
	1,282,256	558,400	1,747,673

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. The Company does not have any externally imposed capital requirements. At 31 March 2013 the Company had capital of £73,040,367 (31 March 2012: £62,509,828).

Authorised Share Capital

	31 March 2013 Number of Shares	31 March 2012 Number of Shares
Core Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	49,958,704	49,958,704
Cell Shares of no par value each	Unlimited	Unlimited

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

13. Share capital (continued)

Core Ordinary Shares Issued and fully paid

	31 March 2013	31 March 2012
Balance at start of year	39,966,985	39,966,985
Ordinary Shares issued during the year	-	-
Balance at end of year	39,966,985	39,966,985

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

Cell Ordinary Shares Issued and fully paid

	31 March 2013	31 March 2012
Balance at start of year	39,966,985	-
Cell Ordinary Shares (redeemed)/issued during the year/period	(21,422,274)	39,966,985
Balance at end of year	18,544,711	39,966,985

Preference Shares Issued and fully paid

	31-Mar- 2013 Number of Preference Shares	31-Mar-2013 GBP	31-Mar- 2012 Number of Preference Shares	31-Mar-2012 GBP
Preference Shares at start of year	47,137,804	46,552,606	49,958,704	48,837,567
Preference Shares repurchased during the year at par net of issue costs	(2,174,970)	(2,174,970)	(2,820,900)	(2,820,900)
Amortised issue costs allocated to Preference Shares	-	108,699	-	130,035
Write down of unamortised issue costs*	-	-	-	405,904
Balance at end of period	44,962,834	44,486,335	47,137,804	46,552,606

* The actual issuance costs with respect to the Preference Shares were lower than originally anticipated and this gave rise to the reversal of £405,904 of the original accrual during the year ended 31 March 2012.

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. Following the conversion of the Company to a PCC, 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.

During the year ended 31 March 2013 the Core repurchased an amount of the Preference Shares and holds them in Treasury. The number of Preference Shares held in Treasury amounts to 4,995,870 leaving 44,962,834 Preference Shares in issue at 31 March 2013 fully paid, with a par value of £44,962,834. Expenses arising as a result of the Bonus Issue have been allocated to the Ordinary and Preference Shareholders based on a pro-rata allocation. Expenses borne by the Preference Shareholders are being amortised over the seven year life of the Preference Shares. At 31 March 2013, expenses in the amount of £476,499 (2012: £585,198) remained unamortised. These unamortised expenses were netted against the par value of the Preference Shares liability in the Consolidated Statement of Financial Position (Par value of £44,962,834 less unamortised costs of £476,499 to give £44,486,335) (2012: Par value of £47,137,804 less unamortised costs of £585,198 to give £46,552,606).

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)

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.

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.

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(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 the year end date was as follows:

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)
GBP	31,423,807	61,116,995	16,905,900	(45,598,063)	(1,001,025)
EUR	28,542,195	32,075,829	3,932,167	(7,465,801)	-
USD	69,989	69,989	-	-	-
	60,035,991	93,262,813	20,838,067	(53,063,864)	(1,001,025)

As at 31 March 2012:

Core	Net currency exposure (in GBP)	Monetary Assets (in GBP)	Non-Monetary Assets (in GBP)	Monetary Liabilities (in GBP)	Non-Monetary Liabilities (in GBP)
GBP	10,675,159	60,459,019	401,831	(49,391,393)	(794,298)
EUR	33,233,016	41,919,204	157,393	(8,355,623)	(487,958)
USD	66,507	66,507	-	-	-
	43,974,682	102,444,730	559,224	(57,747,016)	(1,282,256)

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 the year end date was as follows:

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)

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

As at 31 March 2012:

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	3,657,707	3,594,369	63,338	-	-
EUR	18,566,985	17,905,073	1,220,312	-	(558,400)
USD	13,460	13,460	-	-	-
	22,238,152	21,512,902	1,283,650	-	(558,400)

At 31 March 2013, had the GBP or the Euro strengthened by 5% in relation to all currencies respectively, with all other variables held constant, 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 2012.

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)

As at 31 March 2012:	**Core 31-Mar-12 GBP**	**Cell 31-Mar-12 EUR**	**Group 31-Mar-12 GBP**
EUR	(1,582,524)	N/A	(1,582,524)
GBP	N/A	(174,177)	(145,173)
USD	(3,167)	(641)	(3,701)
Total	(1,585,691)	(174,818)	(1,731,398)

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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 0.50% (50 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 £1,074,492. A decrease in interest rates by 50 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 2013 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 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 2013

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 interest rate profile of the Core at 31 March 2012 was as follows:

	Fixed 31-Mar-12 GBP	Floating 31-Mar-12 GBP	Non-interest bearing 31-Mar-12 GBP
Investments at fair value through profit or loss	-	86,254,269	-
Derivative financial assets			
- Options	-	-	2,453,717
- Credit default swaps	-	-	485,444
- Interest rate swaps	-	-	37,872
- Forward foreign exchange contracts	-	-	31,427
Other assets	-	-	559,224
Cash and cash equivalents	-	2,847,787	-
Preference shares	(46,552,606)	-	-
Derivative financial liabilities			
- Options	-	-	(820,269)
- Forward foreign exchange contracts	-	-	(295)
- Total equity return swaps	-	-	(39,632)
Other liabilities	-	-	(1,282,256)
Total	(46,552,606)	89,102,056	1,425,232

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

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 2012 was as follows:

	Net Assets 31-Mar-12 GBP	Within one year 31-Mar-12 GBP	One to five years 31-Mar-12 GBP	Over five years 31-Mar-12 GBP
Investments at fair value through profit or loss	86,254,269	4,695,521	25,796,397	55,762,351
Derivative financial assets				
- Options	2,453,717	577,792	-	1,875,925
- Credit default swaps	485,444	-	-	485,444
- Interest rate swaps	37,872	37,872	-	-
- Forward foreign exchange contracts	31,427	31,427	-	-
Cash and cash equivalents	2,847,787	2,847,787	-	-
Other assets	559,224	559,224	-	-
Preference shares	(46,552,606)	-	-	(46,552,606)
Derivative financial liabilities				
- Options	(820,269)	(107,332)	-	(712,937)
- Forward foreign exchange contracts	(295)	(295)	-	-
- Total equity swaps	(39,632)	(39,632)	-	-
Other liabilities	(1,282,256)	(1,282,256)	-	-
Net Assets	43,974,682	7,320,108	25,796,397	10,858,177

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).

(iii) Discount rate risk

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% (2012: 15%) when valuing the European and UK Mortgages (excluding Sestante) and 20% (2012: 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 €1,151,162 (2012: €944,580); an equal change in the opposite direction would have increased net assets.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

14. Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Discount rate risk (continued)

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 €0.83 (31 March 2012: €0.56). 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: €0.94 (31 March 2012: €0.61)
- All assets: 20% IRR: NAV/ share: €0.73 (31 March 2012:€0.53)
- European & UK Mortgages 15%, SME 25%: NAV / share: €0.91 (31 March 2012: €0.61)
- European & UK Mortgages 20%, SME 25%: NAV / share: €0.71 (31 March 2012: €0.53).

(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 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

As at 31 March 2012:

	Core 31-Mar-12 GBP	Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP
Cash and cash equivalents	2,847,787	3,671,833	5,908,201
Derivative financial assets			
- Options	2,453,717	-	2,453,717
- Credit default swaps	485,444	-	485,444
- Interest rate swaps	37,872	-	37,872
- Forward foreign exchange contracts	31,427	-	31,427
Total	5,856,247	3,671,833	8,916,661

14. Financial instruments and associated risks (continued)

(b) Credit risk (continued)

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 2013 and 31 March 2012:

Bond class*	**31 March 2013**	**31 March 2012**
	GBP	**GBP**
A	13,946,998	15,791,617
B	21,629,034	27,306,337
C	8,278,699	12,419,448
D	12,828,255	12,995,184
E and Below	17,899,890	13,735,417
Total	**74,582,876**	**82,248,003**

* Bond class relates to the order of pay in the security's waterfall.

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. There can be no assurance that a borrower will not default, or there might 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, 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 and the performance of the security, on a quarterly basis.

In August 2012, the Core invested €4.1 million into certain Luxembourg domiciled companies, whose principal business is real estate loans. In November 2012, the Company made a £10 million investment in a loan backed by a London office property. In December 2012, the Core invested into a loan secured by a London property (investment of £5.7 million). The Core made these investments as part of its investment strategy in order to help it achieve its investment objective. The Core's total investment in these investment types had a market value of £19,990,766 at 31 March 2013.

In April 2013, the Company made a €5.9 million investment in a loan backed by a German multifamily property.

The Group also has credit exposure in relation to its derivative contracts. The Group was invested in derivative contracts with Deutsche Bank, Goldman Sachs and JP Morgan, counterparties with the following credit quality:

Rating	**31-Mar-2013**	**31-Mar-2012**
	GBP	**GBP**
Deutsche Bank – A+ (Derivatives)	-	(39,632)
Goldman Sachs – A (Derivatives)	1,450,911	3,008,165
JP Morgan – A+ (Derivatives)	151,480	N/A

14. Financial instruments (continued)

(b) Credit risk (continued)

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.

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.

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

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

14. Financial instruments and associated risks (continued)

(c) Liquidity risk (continued)

As at 31 March 2012:

	Less than 1 month	1-3 months	3 months to 1 year	Greater than 1 year
	31-Mar-12 GBP	31-Mar-12 GBP	31-Mar-12 GBP	31-Mar-12 GBP
Financial liabilities excluding derivatives				
Preference Shares	-	-	-	46,552,606
Due to related parties	-	265,928	-	-
Payable for investments purchased	-	487,958	-	-
Accrued expenses	-	528,370	-	-
Derivatives settled gross				
- Options	-	-	107,332	712,937
- Forward foreign exchange contracts	-	295	-	-
- Total return equity swaps	-	-	39,632	-
	-	1,282,551	146,964	47,265,543

At 31 March 2013, the only financial liabilities in the Cell consisted of accrued expenses of €139,780 (2012: €35,524) which are due within 3 months and a provision for legal expenses of €Nil (2012: €522,876).

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.

(d) Valuation of Financial Instruments

IFRS 7 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 7:

- 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.

Notes to the Consolidated Financial Statements (continued)
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14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

The Group categorises investments using the following hierarchy as defined by IFRS 7: (continued)

- 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 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				
Investments at fair value through profit or loss	-	74,582,876	19,990,766	94,573,642
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

As at 31 March 2012:	**Level 1 31-Mar-12 GBP**	**Level 2 31-Mar-12 GBP**	**Level 3 31-Mar-12 GBP**	**Total 31-Mar-12 GBP**
Non-current assets				
Investments at fair value through profit or loss	-	82,248,003	4,006,266	86,254,269
Current assets				
Options held for trading	-	2,453,717	-	2,453,717
Interest rate swaps	-	37,872	-	37,872
Credit default swaps	-	485,444	-	485,444
Forward foreign exchange contracts	-	31,427	-	31,427
Current liabilities				
Total return equity swaps	-	(39,632)	-	(39,632)
Forward foreign exchange contracts	-	(295)	-	(295)
Options held for trading	-	(820,269)	-	(820,269)
	-	84,396,267	4,006,266	88,402,533

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2013

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 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

As at 31 March 2012:	**Level 1 31-Mar-12 EUR**	**Level 2 31-Mar-12 EUR**	**Level 3 31-Mar-12 EUR**	**Total 31-Mar-12 EUR**
Non-current assets				
Investments at fair value through profit or loss	-	-	17,841,069	17,841,069
	-	-	17,841,069	17,841,069

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. 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 Group uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps. The Group applies valuation techniques including swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and current interest rates.

The Core invested into certain companies during the year, whose principal business is the issuance of loans. These loans are not traded in an active market with fair value determined using valuation techniques (such as modelling). Such holdings are classified as Level 3 investments. A 1% decrease in the discount factor used for the level 3 loans of the Core would increase the fair value by £77,727, and a similar increase in the discount factor would have an equal and opposite impact on the fair value.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

14. Financial instruments and associated risks (continued)

(d) Valuation of Financial Instruments (continued)

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 2013 or during the year ended 31 March 2012.

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:

Financial assets designated at fair value through profit or loss	**Level 3 Core 31-Mar-13 GBP**	**Level 3 Cell 31-Mar-13 EUR**
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)

Financial assets designated at fair value through profit or loss	**Level 3 Core 31 Mar-12 GBP**	**Level 3 Cell 31-Mar-12 EUR**
Opening Balance	47,328,775	-
Total gains and losses recognised in the consolidated statement of comprehensive income for the year/period	3,125,073	(542,641)
Purchases	4,006,266	-
Sales	(34,214,179)	-
Paydowns	1,270,472	(1,188,300)
Assets transferred at fair value to the Cell	(17,221,557)	19,572,010
Payups	-	-
Foreign currency translation adjustment	(288,584)	-
Closing balance	4,006,266	17,841,069
Unrealised gain/(loss) on investments classified as Level 3 at year/period end	**-**	**4,383,486**

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 2%-5% (2012: 6%-10%). 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 increased the equity of the Cell and increased net profit of the Cell by €45,611 (2012: €207,368); an equal change in the opposite direction would have decreased 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.

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.

14. Financial instruments and associated risks (continued)

(f) Default and severity rates (continued)

In relation to the residual income positions in the Cell, the Investment Manager applies a default rate in the range of 0.6%-3.5% (2012: 1.0%-6.0%). 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 €277,227 (2012: €191,090); 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.

(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. Most notably, in the Eurozone,

- Greek government debt is in the process of being restructured with the private sector expected to accept a significant write down on the face value of its investments;
- Portugal and Ireland continue to be subject to a bail out programme;
- Concern continues to grow over the financial strength of European banks due in part to their exposure to Eurozone sovereign debt; and France and the ECB Bail Out Fund lost their AAA credit rating.

14. Financial instruments and associated risks (continued)

(h) Country risk (continued)

Outside the Eurozone, concerns have been raised over a “double dip” recession in the US and United Kingdom resulting from a number of factors including reduction in demand from the Eurozone and a lack of liquidity in the banking system, the growth of the Chinese economy is expected to decelerate (again due in part of a falling demand in Europe as well as rising inflation) and any resulting recession in the US or UK would impact other major trading partners including Japan, Canada and India.

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.

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

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.

Given the significant events in the Eurozone at the present time, there is a possibility of significant bad debts in respect of Eurozone sovereign debt investments, and potentially to the collapse of the Euro itself. The Company hedges its non GBP currency exposures.

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 in 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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

15. Segmental Reporting (continued)

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.

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

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

Year ended 31 March 2012:	**Core 31-Mar-12 GBP**	**Cell 31-Mar-12 EUR**	**Total 31-Mar-12 GBP**
Reportable segment (loss)/profit	(731,849)	2,030,862	998,692

As at 31 March 2012:	**Core 31-Mar-13 GBP**	**Cell 31-Mar-12 EUR**	**Total 31-Mar-12 GBP**
Reportable segment assets	92,669,740	22,796,552	111,670,303

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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2013

15. Segmental Reporting (continued)

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 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 at 31 March 2013.

As at 31 March 2012:	**Core 31-Mar-12 GBP**	**Cell 31-Mar-12 EUR**	**Total 31-Mar-12 GBP**
Investments at fair value through profit or loss			
Opening fair value	109,914,383	-	109,914,383
Purchases	73,104,585	-	73,104,585
Sales proceeds	(69,733,822)	-	(69,733,822)
Transfer of assets at fair value on conversion to a PCC in August 2011	(17,221,557)	19,572,010	-
Realised loss on sales	(6,378,673)	(193,009)	(6,543,140)
Net movement in unrealised gains/(losses) on investments at fair value through the profit or loss	192,637	(349,632)	(105,292)
Principal paydowns	(1,275,929)	(1,188,300)	(2,288,505)
Foreign currency translation adjustment in relation to the conversion to a PCC in August 2011	(2,347,355)	-	(3,223,693)
Closing fair value	86,254,269	17,841,069	101,124,516

16. Collateral

The Core held £2,097,700 (31 March 2012: £286,335) 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 2013, 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

Joint venture with Omni:
On 18 October 2011 the Company invested into Omni Capital Loans (Guernsey) Limited, a Guernsey domiciled joint venture with Cheyne Real Estate Credit Holdings LP and CPC Omni Holdings (Guernsey) Limited. The Company made this investment as part of its investment strategy in order to help it achieve its investment objectives. The Company sold its investment in Omni Capital Loans (Guernsey) Limited on 22 October 2012 for £4,690,646. There were no outstanding balances between the Company and the joint venture at the year end date or at 31 March 2012. Mr Graham Harrison, a Director of the Company, resigned as a director of Omni Capital Loans (Guernsey) Limited following the sale.

Loan investment
On 21 November 2012, the Company provided a £10 million mezzanine loan to finance the purchase of an office property in London. 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.

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

During the year ended 31 March 2013, the Management Fee totalled £2,067,718 (2012: £1,993,185), of which £332,394 (2012: £130,748) was outstanding at the year end.

18. Material agreements and related party transactions (continued)

Incentive Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive an incentive compensation fee in respect of each incentive period that is paid quarterly in arrears. An incentive period will comprise each successive quarter. The Incentive Fee for each incentive period is an amount equivalent to 25 per cent 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 have 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 is 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 will not pay a Management Fee in respect of that portion of its portfolio that is comprised of investments where the Investment Manager receives fees for its management of the underlying asset portfolio, the income from such investments are 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, an Incentive Fee will no longer be charged on the Cell Assets.

There was no incentive fee charged to the Company during the year ended 31 March 2013 or 31 March 2012.

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 €80,000,000 and 0.0325 per cent of the gross asset value of the Group greater than €80,000,000. State Street Fund Services (Ireland) Limited, the Sub-Administrator, is paid by the Administrator. During the year ended 31 March 2013 the administration fee totalled £133,851 (2012: £214,291), of which £37,988 (2012: £37,813) 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, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses. During the year ended 31 March 2013 the custodian fee totalled £26,912 (2012: £24,951). The Group owed £49,419 to the Custodian at the year end date (2012: £38,617).

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.

18. Material agreements and related party transactions (continued)

Investment Manager Options (continued)
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 2013, these options were out of the money as the share price was below the Offer Price of €10.23.

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.

Significant Shareholder
Cheyne ABS Opportunities Fund L.P., a Partnership that is also managed by the Investment Manager, sold its shares in the Company during the year and held no shares in the Company at 31 March 2013. It had held Core Ordinary Shares (2012: 15,773,804), Cell Shares (2012: 15,773,804) and Preference Shares (2012: 10,672,555) in the Company amounting to 39.47% of the issued share capital of the Core and Cell and 21.36% of Preference Shares at 31 March 2012.

19. Significant events during the year

The Core sold its remaining investment in Omni Capital Loans (Guernsey) Limited in October 2012.

The Newgate litigation claim was settled during the year, and following this the assets were sold by the Cell at a price accretive to the net asset value.

In August 2012, the Core invested €4.1 million into certain Luxembourg domiciled companies, whose principal business is real estate loans. In November 2012, the Company made a £10 million investment in a loan backed by a London office property. In December 2012, the Core invested into a loan secured by a London property (investment of £5.7 million). The Core made these investments as part of its investment strategy in order to help it achieve its investment objective. The Core’s total investment in these investment types had a market value of £19,990,766 at 31 March 2013.

At 31 March 2013 the Preference Share Cover Test was 2.66, above the threshold of 2.39. As a result, the Company declared a dividend of 3.0 cents per ERII Ordinary Share on 7 June 2013, returning €0.6 million to investors.

The Company made quarterly dividend payments to Ordinary Shareholders (Core and Cell) and Preference Shareholders during the year as outlined in Note 7.

20. Subsequent Events

Final dividends for the year ended 31 March 2013 of 2.2p per Core Ordinary Share and 3.0 cents per Cell Ordinary Share were approved by the Directors on 6 June 2013.

In April 2013, the Company made a €5.9 million investment in a loan backed by a German multifamily property.

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.

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For the year ended 31 March 2013

21. Foreign Exchange Rates

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

Currency	31 Mar 2013	31 Mar 2012
EUR	1.1825	1.19978
US Dollar	1.5184	1.59775

22. Approval of the Consolidated Financial Statements

The financial statements were approved by the Directors on 6 June 2013.

Directors and Advisers

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Tom Chandos (Chairman)
Graham Harrison
John Hawkins (resigned 31 March 2013)
Talmai Morgan
Christopher Spencer

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