



IMPACT
Healthcare REIT

Annual report 2021

Delivering sustainable returns from a diversified healthcare portfolio



Impact Healthcare

Dedicated to UK healthcare real estate

Impact Healthcare REIT plc is a real estate investment trust. We acquire and actively manage a diversified portfolio of resilient UK healthcare real estate assets, in particular residential and nursing care homes that provide crucial social care infrastructure for vulnerable elderly people. We let them to high-quality operators on long-term inflation-linked leases, which provide the Company with attractive levels of rent cover. Our tenants provide an essential service to the community, funded by local authorities, the NHS and the private paying market.

We aim to provide shareholders with attractive and sustainable returns, primarily in the form of quarterly dividends, and with the potential for capital and income growth. We have a progressive dividend policy, with a dividend target of 6.54 pence per share¹ for the year ending 31 December 2022. Our medium-term Total accounting return target is an average of 9.0% per annum¹.

Market conditions in the UK elderly care sector continue to be supported by strengthening long-term structural growth and investment drivers, including an ageing population and a shortage of the good quality and resilient care homes that we invest in.

Our purpose

To form long-term partnerships with our tenants, through which we own and invest in the buildings they lease from us in return for a predictable and sustainable rent, enabling our tenants to concentrate on providing excellent care to their residents.

Our values

Our core values are to:

- focus on the long-term sustainability of our business;
- always act openly and transparently with all of our stakeholders;
- be practical, combining entrepreneurial nimbleness with the strength of a listed company; and
- be efficient.

Our business model

Successfully implementing our business model ensures we maintain a high-quality business, with a rigorous focus on:

- the quality of the buildings we own;
- the quality of care our tenants deliver; and
- the quality of the cash flows we generate, helping us to maintain a healthy balance sheet and provide shareholders with attractive, sustainable returns.

Contents

STRATEGIC REPORT

- 1 Financial highlights
- 2 Portfolio performance
- 3 Portfolio
- 4 Chairman's statement
- 8 Investment Manager's Q&A
- 10 The impact of COVID-19 on care homes in 2021
- 11 Market growth drivers
- 14 Investment case
- 16 Our business model
- 20 Objectives and strategy
- 22 Key performance indicators
- 24 Case study – Asset management
- 26 Investment Manager's report
- 30 Case study – New tenant
- 34 Investment Manager
- 35 Portfolio management
- 36 Sustainability
- 40 Case study – ESG
- 42 Stakeholders
- 44 Principal risks and uncertainties
- 50 Section 172(1) statement
- 53 Going concern and viability
- 55 Board approval of the

GOVERNANCE

- 56 Corporate governance statement – Chairman's introduction
- 57 Compliance statement
- 58 Application of AIC Code Principles
- 60 Other key governance statements
- 61 Board leadership and Company purpose
- 64 Division of responsibilities
- 68 Board of directors
- 70 Nomination Committee report
- 74 Audit, risk and internal control
- 79 Audit Committee report
- 84 Management Engagement Committee report
- 87 Directors' remuneration report
- 91 Directors' report
- 94 Statements of responsibilities
- 96 Independent Auditor's report

FINANCIAL STATEMENTS

- 104 Consolidated statement of comprehensive income
- 105 Consolidated statement of financial position
- 106 Consolidated statement of cash flows
- 107 Consolidated statement of changes in equity
- 108 Notes to the consolidated financial statements
- 134 Company statement of financial position
- 135 Company statement of changes in equity
- 136 Notes to the Company financial statements

ADDITIONAL INFORMATION

- 144 EPRA performance measures (unaudited)
- 147 Notes to the EPRA performance measures (unaudited)
- 150 Alternative performance measures
- 152 Our portfolio
- 154 AIFM statement (unaudited)
- 155 Investment policy
- 157 Glossary
- 158 Corporate information
- 159 Financial calendar



¹ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

Financial highlights

We delivered a strong financial performance, benefiting from the resilience and growth of the portfolio and the annual rental increases inherent in the leases, resulting in a fully covered dividend.

Contracted rent roll²

£38.0m +22.7%

2021	£38.0m
2020	£30.9m
2019	£23.1m
2018	£17.8m

Profit before tax

£32.0m +11.1%

2021	£32.0m
2020	£28.8m
2019	£26.3m
2018	£16.5m

IFRS earnings per share ("EPS")

9.41p +4.3%

2021	9.41p
2020	9.02p
2019	10.37p
2018	8.57p

EPRA EPS

8.05p +11.0%

2021	8.05p
2020	7.25p
2019	6.95p
2018	6.47p

Adjusted EPS¹

6.68p +12.6%

2021	6.68p
2020	5.93p
2019	5.26p
2018	5.07p

Dividends declared per share

6.41p +1.9%

2021	6.41p
2020	6.29p
2019	6.17p
2018	6.00p

EPRA dividend cover

126% +8.9%

2021	126%
2020	115%
2019	113%
2018	108%

Adjusted earnings dividend cover

104% +9.6%

2021	104%
2020	95% ¹
2019	85%
2018	84%

Property Investments

£496.9m +18.6%

2021 ³	£496.9m
2020	£418.8m
2019	£318.8m
2018	£223.8m

Gross loan to value ("LTV") ratio

22.26%

2021	22.26%
2020	17.77%
2019	6.81%
2018	11.62%

Net asset value ("NAV") per share

112.43p +2.6%

2021	112.43p
2020	109.58p
2019	106.81p
2018	103.18p

Total accounting return

8.42% -0.5%

2021	8.42%
2020	8.46%
2019	9.46%
2018	8.47%

¹ Adjusted earnings per share reflects underlying cash earnings per share in the period. The adjustments made to EPS in arriving at EPRA and Adjusted EPS are set out in note 10 to the Financial Statements. The inclusion of profit on disposal of investment property was made in the current year to better reflect the underlying cash earnings of the Group. The prior year adjusted earnings figure has been restated.

² Contracted rent includes all post-tax income from investments in properties, whether generated from rental income or post-tax interest income.

³ This relates to the portfolio valuation along with loans to operators for the acquisition of property portfolios.

For further discussion of these metrics see pages 22-23. EPRA EPS and all other EPRA alternative performance measures have been calculated in line with EPRA best practices recommendation, see pages 144-149.

Portfolio performance

as at 31 December 2021

Against the backdrop of the ongoing COVID-19 pandemic, we have continued to deliver solid growth and attractive sustainable value to our stakeholders, demonstrating the resilience of both the Group, its portfolio and its tenants.

Operational highlights

Rent collected

100%



Continued to collect 100% of rent due, with no changes to any lease terms or payment schedules.

The portfolio remains 100% let.

Contracted rent² at 31 December 2021 was £38.0 million (2020: £30.9 million).

Rent cover

1.95x



The Group continued to demonstrate its resilience throughout 2021 with rent cover rising to 1.95x (2020: 1.76x) including the benefit of grant funding.

This is an important metric for both us and our tenants, as it reflects our tenants' profitability and headroom against future cost pressures.

Acquisitions

16



Invested in 16 care homes for net consideration of £61.9 million, further diversifying the portfolio and adding 780 beds. 12 of these homes have been initially invested in through a loan of £37.5 million to allow the operator, Holmes Care Group, to acquire the assets with put and call options for us to acquire the assets for £1 once regulatory approvals are received.

Sustainability

Advanced our ESG agenda



Completed EPC audit of the portfolio and assessed capital cost of improvements to achieve EPC band B.

Commenced work on TCFD risk and opportunity analysis in preparation for full reporting.

All new leases contain environmental obligations on tenants.

Begun work on defining and measuring the social value of our investments.

Forward-funded development

1



Committed to forward fund a property in Norwich with 80 beds, on a pre-let basis. The development site was purchased in the year for £2.4 million.

The development we forward funded in Hartlepool is due to complete in 2022.

New tenant

1



Welcomed a new tenant, Carlton Hall, to the Group's operators, giving us 13¹ tenants at the year end.

The Group has grown its relationship with Holmes Care Group, contributing to the diversification of the tenant base and reducing exposure of contracted income from the Group's main tenant, Minster Care Group, to 41% (2020: 48%).

All leases inflation-linked

100%



All leases are inflation-linked, with upwards-only rent reviews. 104 properties had rent reviews during the year, adding £0.7 million to the contracted rent, representing an annualised 2.5% increase on a like-for-like basis.

Post-year end

£40.0m



Raised £40 million of gross proceeds from a placing of new ordinary shares.

The Group completed the acquisition of two properties with 147 beds for £11.0 million in February 2022.

The Group invested £11.1 million in two homes with 107 beds. The investment has initially been made by way of a loan to one of the Group's existing tenants, Welford, to acquire the assets with put and call options for us to acquire the assets once regulatory approvals are received.

WAULT

19.2 yrs



Weighted average unexpired lease term ("WAULT") of 19.2 years at 31 December 2021 (31 December 2020: 20.0 years).

New debt secured

£101m



Agreed new £26 million NatWest facility, with an accordion agreement to extend up to £50 million. Secured the Group's first long-term institutional fixed interest debt with a 14 year, £75 million facility, providing an attractive fixed interest rate over the long term in an uncertain inflationary environment.

Raised

£35.0m



Raised £35 million of gross proceeds from a placing of new ordinary shares, with the proceeds used to pay down debt and fund accretive investment opportunities.

1 Including Croftwood and Minster, which are both part of the Minster Care Group.

2 Contracted rent includes all post-tax income from investments in properties, whether generated from rental income or post-tax interest income.

Portfolio

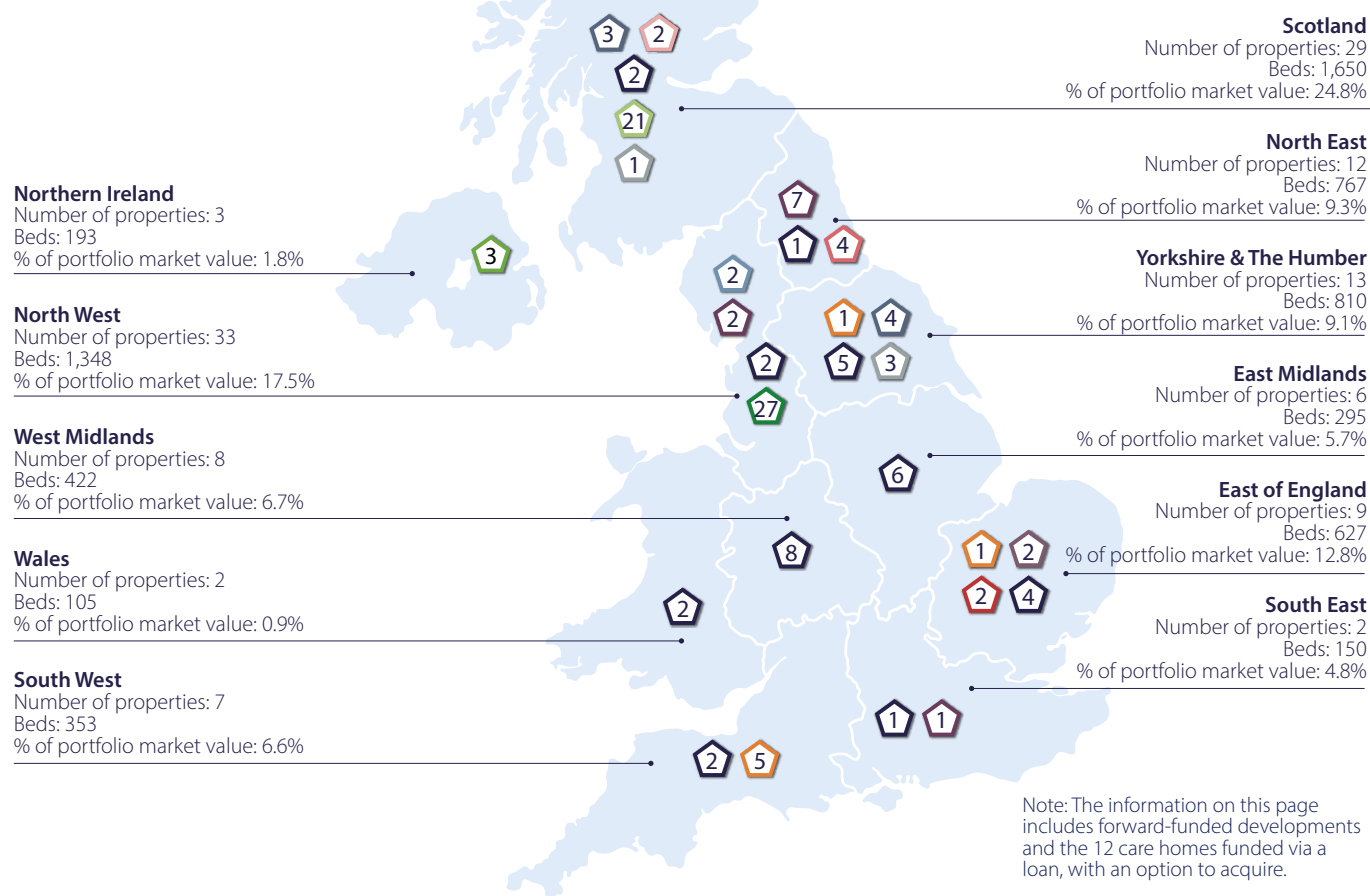
as at 31 December 2021

Our tenants are established healthcare providers, offering good-quality care and earning fees from a broad spectrum of public sector customers and private-pay residents. At the year end the Group had investments in 124 properties with 6,720 beds.

Tenants

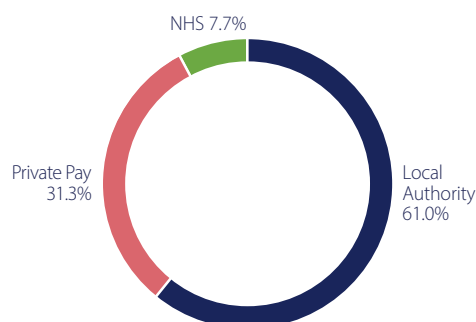
- ☆ Careport
- ☆ Carlton Hall
- ☆ Croftwood*
- ☆ Electus Care
- ☆ Holmes
- ☆ Minster*
- ☆ MMCG
- ☆ NHS
- ☆ Optima
- ☆ Prestige
- ☆ Renaissance Care
- ☆ Silverline
- ☆ Welford

* Part of the Minster Care group



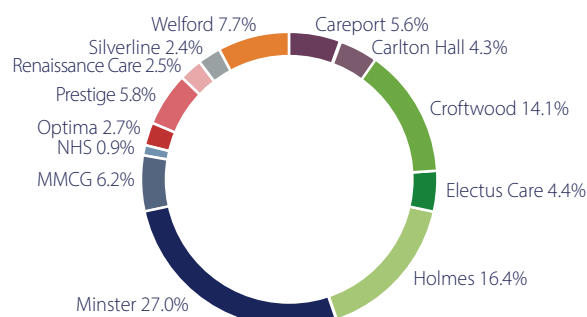
Security of tenant income (%)

based on % revenue, for the quarter to 31 December 2021, to care home tenants



Diverse tenant base (%)

based on % of contracted income as at 31 December 2021



Our tenants provide an essential service to local authorities and the NHS.

Chairman's statement



Rupert Barclay Chairman

Through responsibly delivering vital social infrastructure with positive social impacts, the Group continued to demonstrate its resilience in 2021, maintaining its collection of 100% of rent due, rent cover rising to 1.95x in line with pre-pandemic levels, and a fully covered inflation-protected dividend.

The COVID-19 pandemic has highlighted the resilience of our business. Now we face new challenges, in particular rapidly rising inflation and the tragedy of a major war in Europe. We have deliberately fostered our resilience by carefully selecting tenants, putting in place leases with robust rent cover and inflation linkages and maintaining a prudent balance sheet. Our tenants have provided high-quality care during the pandemic and in turn we have received 100% of the rent due. This has underpinned a fully covered dividend for 2021. We confront the new challenges of 2022 from the firm foundations we have put in place since inception.

As 2021 progressed, the vaccine roll-out and booster programme, combined with rigorous infection control, have provided a significant degree of protection for care home residents and our tenants have been steadily rebuilding occupancy. While occupancy at the year end was still below its pre-pandemic norm, rent cover has increased faster, with fee increases being an important contributor. This reflects the fact that care homes are vital social infrastructure and demand for beds is not directly correlated to the economic cycle. We continue to engage with our tenants to understand the challenges they are facing, as well as their growth plans.

Operational performance

We made good strategic progress in 2021, acquiring four homes with 286 beds and exchanging on two further properties with 147 beds. We also invested in a portfolio of 12 care homes in Scotland, initially through a loan to enable an existing tenant, Holmes Care Group, to acquire the assets. Once regulatory approvals are in place, we have an option to acquire the properties.

At the year end, the Group's Property Investments were valued at £496.9 million, up 18.6% from £418.8 million on 31 December 2020, and we had investments in assets with 6,720 beds¹, giving us approximately 1.5% of a highly fragmented market. Our strategy is to secure further market share

CHAIRMAN'S STATEMENT

through consolidation and we see considerable scope to do so, while exercising strict capital discipline.

Asset management and the pre-let development of new properties are a growing part of our value-creation strategy. We work closely with our tenants to identify mutually beneficial opportunities that enhance the wellbeing of residents, improve environmental performance and the working environment for staff while also providing incremental financial returns to our tenants and to the Group. The largest asset management project started in 2021 will connect two units at Fairview in Bristol, adding new bedrooms, new kitchens and a laundry, and enhancing the environmental credentials of the unified building. The 94-bed care home in Hartlepool being developed in partnership with Prestige is due to complete in H1 2022 and we have also committed to forward fund the construction of an 80-bed home in Norwich.

Our tenants

We have further diversified the Group's tenant base, adding Carlton Hall during the year, which gave us 13 tenants² at the year end. This diversification helps us to grow the business while spreading risk. We also look to grow with our tenants, by increasing the number of our homes they manage, which adds resilience to their businesses.

During the year, the board held calls with the majority of our tenants, which gave us a direct insight into their businesses and their relationship with the Investment Manager. The feedback we received was highly positive.

Financial performance

The NAV at 31 December 2021 was £394.2 million or 112.43 pence per share (31 December 2020: £349.5 million or 109.58 pence per share).

On both a basic and diluted basis, earnings per share (EPS) for the year was 9.41 pence (2020: 9.02 pence), EPRA EPS was 8.05 pence (2020: 7.25 pence) and

Adjusted EPS was 6.68 pence (2020: 5.98 pence).

More information about our financial performance in the period can be found in the Investment Manager's report.

Sustainability

The board is highly focused on the Group's ESG performance. Having put in place an ESG policy during 2020, the board is working with the Investment Manager to formalise the Group's ESG strategy and targets. We are also preparing to report against the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) from 2022.

Dividends and total return

All of the Group's leases are inflation linked, resulting in annual uplifts to rental income from the portfolio. As a result, our policy is to grow the target dividend each year in line with the rental uplifts received in the prior year. We delivered our target dividend for 2021 of 6.41 pence per share, which represented 1.91% growth over the 2020 dividend. Importantly, the dividend was fully covered by both EPRA and Adjusted EPS.

For 2022, our target dividend is 6.54 pence per share, up 2.03%.

The Total accounting return for the year was 8.42%.

Financing

This was an important year for the evolution of the Group's debt financing, reflecting the growing maturity of the business. We put in place a new revolving credit facility with a major clearing bank, NatWest, and issued our first long-term debt in the institutional market, drawing down £37 million of £75 million being provided by two major UK insurers. The institutional debt has a weighted average term of 14 years and has an attractive fixed rate of interest, with a weighted average coupon of 2.967%. In parallel, we have reduced our more expensive Metro facility from £50 million to £30 million and

CHAIRMAN'S STATEMENT

extended the term of our HSBC facility by one year. These activities give the board further confidence that new sources of debt are readily available to the Group, as existing facilities start to mature from mid-2023.

The Group now has £168 million of available debt facilities, as well as the second £38 million tranche of institutional debt, which is committed to be issued in June 2022, and the option to expand the NatWest facility by a further £24 million. Our drawn debt at 31 December 2021 was £114.5 million, giving us a gross LTV of 22.3%. The Group had cash of £13.3 million at the year end.

Shareholders also continued to support our strategy during the year, through a placing that raised gross proceeds of £35 million. We used these proceeds to pay down debt and to fund our investments in the second half of 2021. Since the end of the year, we have raised a further £40 million through an equity issue allowing the repayment of revolving credit facilities. The Group has the opportunity to redraw debt under these facilities, to execute its acquisition, forward funding and asset management pipeline.

Corporate governance

The Company has a strong and independent board, comprising me and five other non-executive directors, following Chris Santer's appointment in the first half of the year. His significant experience of direct property investment is already proving valuable.

The annual evaluation of the board and its committees showed that we continue to work well together, while identifying areas for continued improvement. Having recruited Chris Santer, the board believes it has the right balance of skills, experience and diversity for this stage of the Group's development.

Investment Manager

Impact Health Partners LLP is our Investment

Manager. The Investment Manager continues to identify attractive and well-considered acquisition and portfolio management opportunities for the Group, which will further our profitable growth and our diversification strategy which delivers enhanced value to our stakeholders. Our tenants' feedback on the Investment Manager showed that they highly value its partnership ethos and support, which has helped us to work closely with tenants through the challenges of the pandemic.

Outlook and summary

As we emerge from the pandemic, the long-term investment case for care homes is unchanged. Occupancy is expected to recover while the support from government grant funding falls away. Demographic trends and the rising incidence of specialist needs, such as dementia, will continue to drive demand for care, which will require many new beds, in suitable homes, to be added to the market. The government's reforms will provide additional funding for the sector and contribute to its resilience.

We have a good level of protection against the current inflationary environment, through the upward-only index-linked rent reviews in our leases. The caps on these rent reviews help to protect our tenants and ensure that rents remain affordable for them in the long term. This is important when tenants are also managing the effect of wage and cost inflation.

We have a strong pipeline of accretive acquisitions, which has the potential to add attractive new assets and further tenants to the portfolio. We are also exploring further asset management and development opportunities, with a view to enhancing shareholder returns. We therefore look forward to making further progress with our growth strategy during 2022.

Rupert Barclay Chairman

28 March 2022

¹ Including forward-funded developments and the 12 care homes invested in through the loan to Holmes Care Group.

² Including Croftwood and Minster, which are both part of the Minster Care Group.



Working in partnership with Maria Mallaband Care Group, we have completed the refurbishment of Belmont House in Harrogate. This involved a comprehensive refurbishment of 14 bedrooms with en suite wet rooms,

communal bathrooms and day space. In addition, the main reception hall and communal day space were reconfigured to provide a variety of private seating areas for residents and their families.

Investment Manager's Q&A

“ Our resilient portfolio remains well placed, with very supportive long-term structural trends in the care home sector, and strong inflation protection in our leases and from our tenants' track record of securing fee increases. ”

Andrew Cowley

Managing Partner, Impact Healthcare Partners



Q What has the pandemic changed in care homes?

A As the pandemic is not yet finished, it is premature to give a definitive answer to this question. However, we would point to three trends. First, care homes were at the front line of the pandemic and we think, after a challenging start, illustrated how they are a vital part of the country's social infrastructure. In recognition of this, at the end of 2021, the Government introduced a series of legislative measures to improve access to care, funding for care and the quality of care, which we welcome. Second, we are having ongoing conversations with current and potential future tenants about improving the design of care homes to enable them to manage infection control better and to offer a better environment for people living with dementia. Third, the pandemic will accelerate the move from paper-based methods of managing health and social care to digital systems, which over time should improve quality and transparency.

Q What are the biggest challenges facing your tenants as we emerge from the pandemic?

A We are continuing to actively engage with our tenants and provide them with support. Our tenants have three main challenges ahead of them: rebuilding occupancy steadily back to normal levels; attracting and retaining staff in a tight labour market; and managing rises in utility bills and other costs. They have demonstrated during the exceptional period of the pandemic that they are adept at dealing with challenges, and in some cases can turn them into opportunities. We have ended the year with strong rent cover, meaning that our tenants are well placed to handle the inflationary increase in costs.

INVESTMENT MANAGER'S Q&A

Q Inflation has been rising rapidly in the UK. How will this affect the Group?

A Our tenants are well positioned to manage the inflationary challenges as outlined in the previous question. The Group itself also has a good degree of protection from inflation, with 100% of rental income linked to inflation. Across the portfolio, 90% of the leases are linked to RPI with an annual floor of 2% and cap of 4%. A further 8% are linked to RPI with a floor of 1% and cap of 5% per annum, and 2% of the leases have an annual uplift in line with CPI. These arrangements mean the Group received above inflation rent rises in 2019 and 2020, when inflation was below 2%, while the caps ensure rents remain affordable for tenants for the long term. We believe this strikes the right balance between protecting the interests of the Group and tenants, who have demonstrated over many years that they have substantial pricing power as the essential service they provide is non-discretionary.

Q Are your tenants focused on sustainability issues?

A The short answer is yes. A slightly longer answer would be that I think it is fair to say that their approach to ESG is slightly different to other sectors. They are in a people business, and their primary focus has to be on providing the best possible care for their residents, while ensuring they can attract, train and retain stable staff teams. So their top priority is on the S in ESG, which we fully support.

Q How are you progressing with your ESG strategy?

A Having said that our tenants' main focus should and must be on the social impact that they deliver, they are also engaged in exploring improvements to the sustainability of the homes they lease from us and ensuring they continue to provide a quality environment for their residents.

We have made good progress on a number of fronts during the year, including further improvements to EPC ratings and establishing working groups to support our sustainability approach and lead our response to the Task Force on Climate-Related Financial Disclosures. During the first half of 2022, we will be working with the board to develop the Group's ESG strategy, which will give us a framework for making further progress in the coming years.

Q What's the total cost of getting the current portfolio to EPC B?

A Our current portfolio is fully compliant with existing legislation. We estimate the cost of improving our entire portfolio to an EPC B is circa £5 million, approximately 1% of the current portfolio value. There are some obvious improvements we are prioritising, including working with our tenants to upgrade all lighting to LED, which will help to lower energy consumption and costs. We have a clear understanding of the improvements that can be made and we are ensuring that where major works are undertaken, this delivers at least an EPC B once completed.

The impact of COVID-19 on care homes in 2021

In the first eight weeks of 2021, the second wave of the COVID-19 pandemic hit the UK. Office for National Statistics (ONS) data shows that during this period, 50,161 deaths were linked to COVID-19 in England and Wales. This was 8% more than in the peak of the first wave, over the 10 weeks beginning on 28 March 2020. A third wave, caused by the Omicron variant, hit towards the end of the year, with the number of COVID-19 cases peaking at a new daily record of 246,415 across the UK on 29 December 2021.

Care homes, however, were much less directly affected by the pandemic in 2021 than they had been in 2020. During the first seven weeks of 2021, which were the peak of the second wave, there were 4,201 excess deaths in care homes, a decline of 84% from the first wave. Between weeks eight and 51 of 2021, deaths in care homes were 4,809 below their five-year average. This trend has continued into 2022, with deaths in care homes in the first eight weeks of the year 5,543 below the five-year average.

This reduced impact on care homes reflects a number of factors. The first reason, tragically, is the number of the most vulnerable elderly people who had already died in the first wave. More positively, it reflects the success of the vaccination programme in shielding the most vulnerable and care homes' great efforts to improve infection control. By the end of the first quarter of 2021, all residents had received or been offered two doses of the vaccine. The government made it mandatory for all care workers to be fully vaccinated from 11 November 2021, which the Group's tenants complied with without suffering a major impact on staffing levels.

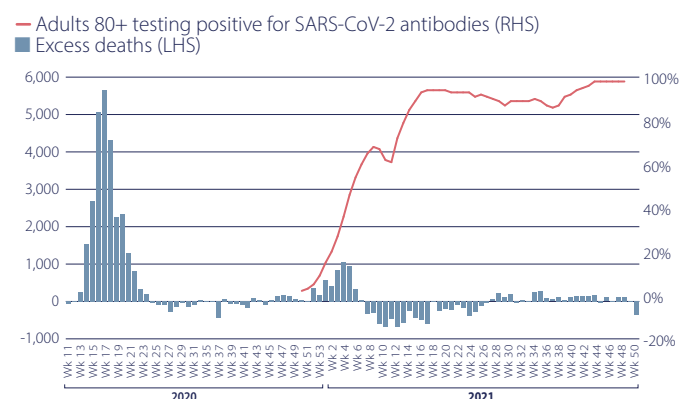
Over the past two years care home operators have also worked intensively to improve infection control measures and have received substantial support from government to do so. Between May 2020 and September 2021, the Adult Social Care

Infection Control Fund provided £1.49 billion of ring-fenced funding for infection prevention and control, and a further £396 million for rapid testing in care settings. This fund has been extended until 31 March 2022, with an extra £388 million to help the care sector put in place crucial measures over the winter period. This brings the total ring-fenced funding for infection prevention and control to almost £1.75 billion and support for testing in care settings to almost £523 million.

One of the major side effects of related lockdowns has been the interruption to normal medical and social care. During the first wave in 2020, GPs were advised to stop referring patients for dementia assessments. Partly as result of this, the number of people diagnosed with dementia in England declined from 471,252 in February 2020, to 427,021 a year later. It had increased to 439,056 by January 2022.

With lockdowns coming to an end and GPs and social workers returning to a more normal way of working, we expect to see an increased focus on individuals' welfare, resulting in a release of pent-up demand for the level of care which can only be provided in a care home.

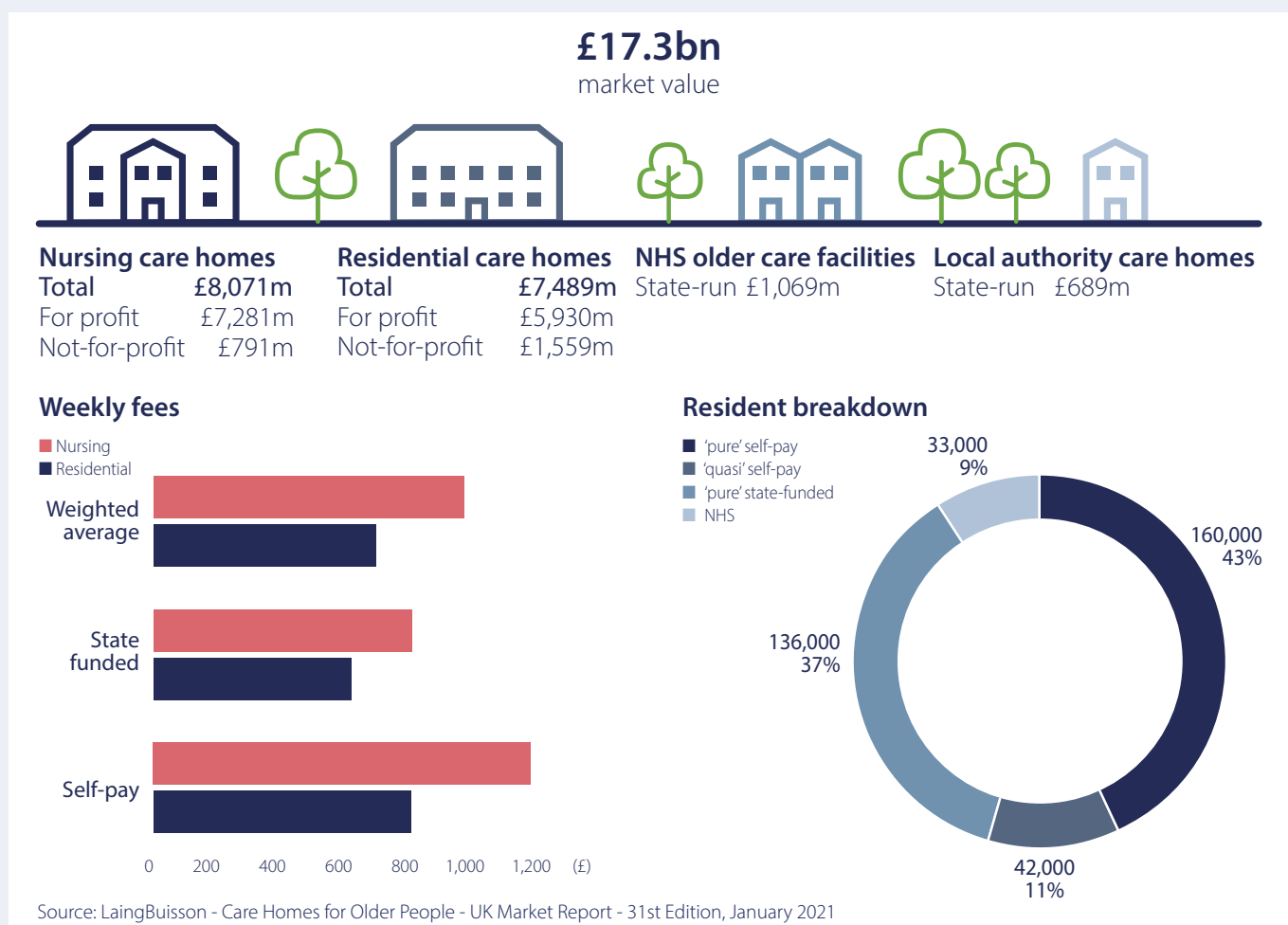
Excess deaths in care homes in England and Wales above/below the five-year average and COVID-19 antibodies in over-80s between week 11, 2020 and week 51, 2021



Source: ONS – Coronavirus (COVID-19) Infection Survey, antibody and vaccination data, UK, 13 January 2022 and Deaths Registered Weekly in England and Wales, Provisional, 18 January 2022

Market growth drivers

We see attractive long-term opportunities for growth in our market. These reflect a sustained increase in demand for elderly care and the constrained supply of beds in a highly fragmented market, coupled with rising fees and the prospect of further government funding for the sector.



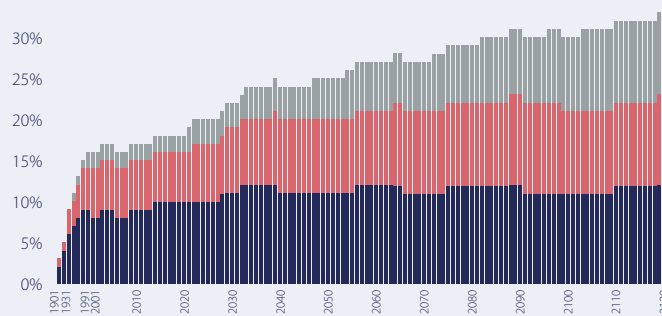
1. The population is ageing

People aged over 85 are the core client group for care homes and the fastest growing part of the UK population. The ONS estimates the proportion of the UK population over 85 years will grow from 1.7 million (2.5% of the population) in 2021 to 3.6 million (5.2%) by 2051.

The COVID-19 pandemic has reduced care home occupancy in the short-term (see the Investment Manager's report on pages 26-33). However, over the medium and longer term, demand for elderly care will grow. Research by LaingBuisson, a leading social care consultancy, forecasts that up to an additional 93,000 beds will be required over the next ten years, up more than 20% on demand today.

An ageing population

■ % of total population aged 85+
■ % of total population aged 75-84
■ % of total population aged 65-74



Source: Office for National Statistics – Census Data (1901-2001) and ONS Successive Principal National Projections

MARKET GROWTH DRIVERS

2. Capacity has not risen in line with an ageing population

The number of available care beds for the elderly in the UK rose rapidly in the 1970s and 1980s, reaching a peak of 563,100 across residential and nursing homes in 1996. It then declined 17% to 465,100 in 2018.

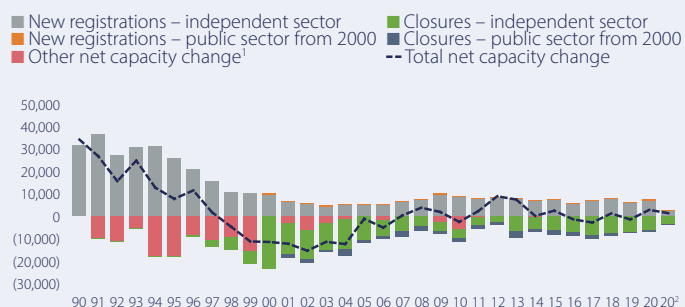
Since 2013, the market has been broadly stable, with the number of new beds built broadly equal to beds withdrawn from the market. However, underlying this stability there have been notable changes in the market structure. Independent operators, both for profit and not-for-profit, now dominate the market and have continued to take share from the public sector. In addition, while the number of beds has been stable, the number of care homes shrank by 9% between 2010 and 2020 as older, obsolete buildings were withdrawn from the market and replaced by more modern, larger homes. The average size of care homes has risen from 37 to 42 beds in that period. The average home in our portfolio has 55 beds.

3. The market is fragmented

Over recent years the market has seen deconsolidation at its top end. The market share of the ten largest independent operators declined from a peak of 27% in 2006 to 20% in 2020. This reflects diseconomies of scale in the care business. For the larger operators, the potential benefits of access to capital at lower cost and purchasing power for consumables such as utilities and food tend to be more than outweighed by higher group overheads and the lack of economies of scale in pay rates for care staff, which are operators' largest expenditure.

From 2006 to 2020, the market share of sole traders with one or two homes also shrank. Mid-sized groups, which operate between 100 and 4,000 beds as local or regional clusters, have been more vibrant, growing their market share from 24% to 47%. Most of our tenants are active in this part of the middle market.

Capacity not rising in line with an ageing population



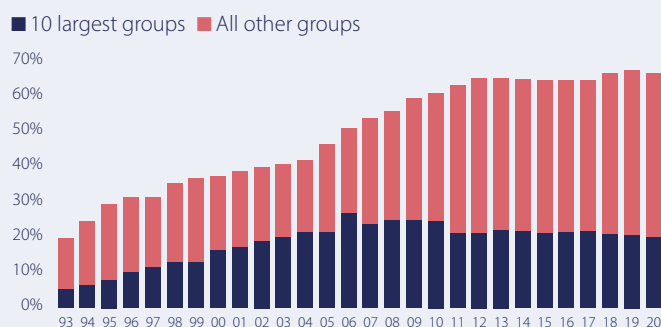
Note: Excludes changes in NHS hospital long-stay places for older people

¹ Other net capacity change includes extensions and reductions to existing homes as well as re-registrations of care homes to and from client groups other than old age and dementia

² Apr-Sep 20 (annualised)

Source: LaingBuisson database

Share of bed capacity owned or leased by a) the ten largest independent sector care home groups and b) all groups¹ with three or more care homes²



¹ Groups defined as any entity under common management with three or more care homes for older people with dementia (65+), £m UK annualised at March, UK 1992-2020

² Up to 2015, includes care homes for younger adults with physical disabilities. From 2017, care homes for older people and dementia only

Source: LaingBuisson database (10 largest groups from Table 4.3)

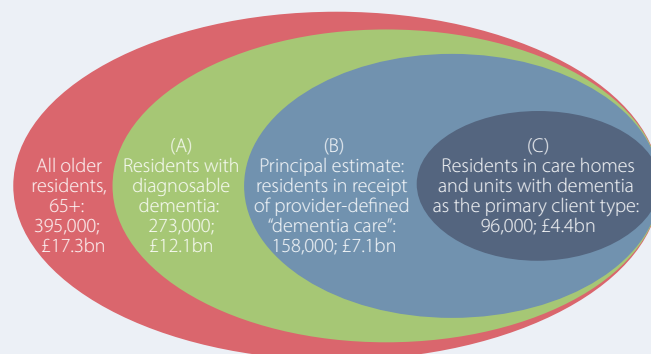
MARKET GROWTH DRIVERS

4. The number of people with dementia is rising

The Alzheimer's Society estimates that in 2020 there were 850,000 people in the UK with some form of dementia, "with the number set to rise to over 1 million by 2025 and 2 million by 2051".

An estimated 69% of care home residents in 2020 had some form of dementia and 96,000 had acute dementia requiring specialised care. Building dedicated units to provide this care has been a particular focus of our asset management and development activities.

Numbers and annual costs of older people (65+) with dementia in care homes and NHS long-stay residential settings, UK, year ending 31 March 2020

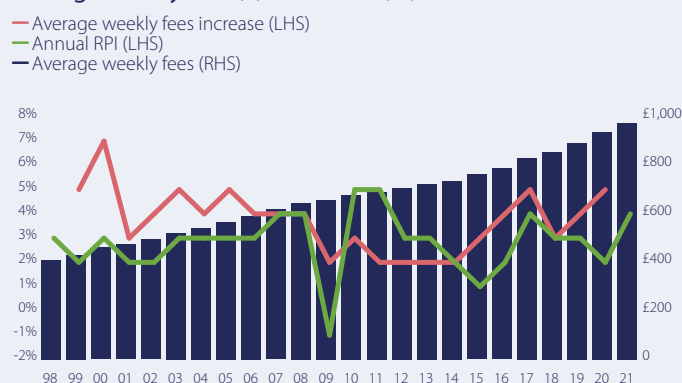


Sources: Estimate (A) is based on the Alzheimer's Society's estimate of the prevalence of dementia in care homes (estimated at 69% in 2014). Estimate (B), the principal estimate, is calculated using a series of censuses of residents in Bupa care homes between 2003 and 2012 (see references in Table 3.2) to estimate the prevalence of 'provider defined' dementia care among nursing and residential care, adjusted to the total UK care home mix of nursing and residential care residents of old people's care homes. Estimate (C) is calculated to include all residents in care homes with the primary client type of dementia. In all cases, fees specific to dementia services are used.

5. Fees have been rising faster than inflation

As a result of increasing demand, limited new capacity and a shift from government provision to independent providers, the independent sector has seen sustained and above-inflation growth in its care fees. Between 1998 and 2020, weekly fees grew on average by 3.8% per annum for nursing care and 3.7% for residential care. Over the same period, the Retail Price Index has averaged 2.8% per annum. This gives us confidence that tenants will be able to pass on higher costs through increased fees, which in turn means that the RPI linkage in our leases is sustainable.

Average weekly fees (£) versus RPI (%)



6. Government policy is increasing funding for social care

To finance reforms for social care, the Government has introduced the Health and Social Care Levy. This will take the form of an increase in National Insurance (NI) of 1.25 percentage points in 2022/23, which will then be replaced by a levy of the same amount from 2023/24. This move is expected to raise £11.4 billion a year, with an increase in income tax on dividends raising a further £0.6 billion. Of this, £5.4 billion has been allocated to adult social care in England over the three years to 2024/25. Two thirds of this will be used to cap the care costs individuals must pay themselves and one third will be used for wider reform, primarily improving staff recruitment and retention. The devolved governments in Scotland, Wales and Northern Ireland will receive £2 billion a year towards their health and social policies.

What these dynamics mean for our strategy

These market conditions offer good scope for further accretive growth for us. In particular we can:

- act as a consolidator, growing our market share through further acquisitions that meet our strict investment criteria;
- help to meet the demand for new beds through our asset management and forward-funded development activities that give potential for further capital growth;
- provide specialised facilities for people living with dementia, as we develop or upgrade our assets; and
- continue to partner with high-quality operators who can provide the quality of care residents require.

More information on our strategy can be found on pages 20-21.

Investment case

The strengths and resilience of our business and the long-term structural growth potential in our market will help us to deliver attractive and sustainable returns for our shareholders and positive social impact for our wider stakeholders.

1. A large and growing market

Each year, £17.3 billion is spent on providing residential care for elderly people in the UK, which is approximately 0.8% of UK GDP. The market is expected to grow as the population ages. Care homes are critical social care infrastructure and demand for care is non-cyclical, enabling us to plan for the longer term.

See page 11, Market growth drivers



2. Risk-adjusted returns

We consider risk at different levels: maintaining balance sheet strength with modest debt; carefully selecting tenants and monitoring their performance; acquiring assets typically below replacement cost and therefore lower rent, creating barriers to entry against new competitors; maintaining rent cover as we add tenants; managing assets and the overall portfolio to add value; and focusing on our economic and environmental sustainability. This allows us to generate attractive returns with lower risk.

See page 26-33, Investment Manager's report



3. Experienced and strategic management team

We benefit from the knowledge, expertise and relationships of our Investment Manager. They allow us to source and negotiate deals off market, which offer shareholders good value and give vendors the certain execution they are looking for. One of the Investment Manager's priorities is to build and maintain long-term partnerships with our tenants.

See page 34, Investment Manager



4. Strong cash generation and dividend growth

We aim to grow shareholder returns through dividend increases and capital appreciation. Our portfolio generates a sustainable and growing long-term income stream, with 100% of our lease structures offering us inflation-linked income with low volatility. This results in strong and predictable cash flows and supports a progressive dividend policy.

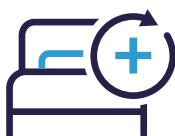
See page 5, Chairman's statement



5. Adding value through asset management

Our portfolio is carefully constructed to combine core, high-quality and resilient assets, which generate predictable income, and assets with asset management opportunities, offering the potential to add value for shareholders, tenants and residents.

See page 26-33, Investment Manager's report



6. Positioned for further accretive growth

At the end of 2021 we had invested in c.1.5% of the operational beds in the highly-fragmented UK elderly care market. We have a pipeline of attractive acquisition, asset management and development opportunities with scope to further increase the number of tenants, while continuing to exercise strong capital discipline.

See page 26-33, Investment Manager's report





A refurbishment of Old Prebendal House was completed during 2021. Refurbished communal facilities include the dining and informal seating area within the 15th Century Tithe Barn restaurant (bottom and top left photographs).

Further refurbished communal areas include a private dining room, lounge and day conservatory. All bedrooms have been enhanced with a newly refurbished décor and en suite facility (top middle and right photographs).

Our business model

Our purpose is to form long-term partnerships with our tenants, through which we own and invest in the buildings they lease from us in return for a predictable and sustainable rent, enabling our tenants to concentrate on providing excellent care to their residents.

How our business model helps to achieve our purpose

Each stage of our process links to one or more aspects of our purpose:

1. Build relationships

We build and maintain strong relationships with high-quality care providers, who we can work with long term.

Link to purpose:

- Long-term partnerships with tenants



2. Identify assets

We identify attractive assets to acquire, in partnership with those operators.

Link to purpose:

- Long-term partnerships with tenants
- Owning buildings



3. Appraise purchases

We perform rigorous due diligence, including understanding their sustainability credentials, before we selectively purchase care assets.

Link to purpose:

- Owning buildings
- Investing in buildings



4. Agree leases

Our lease terms ensure strong rent cover on day one and require our tenants to maintain our assets to the right standard, with minimum spend requirements. All new leases include clauses that increase tenants' obligations to meet ESG objectives.

Link to purpose:

- Long-term partnerships with tenants
- Owning buildings
- Investing in buildings
- Predictable and sustainable rent



5. Engage tenants

We work closely with our tenants to create sustainable value through mutually beneficial asset management projects, including sustainability enhancements to existing homes and new developments.

Link to purpose:

- Long-term partnerships with tenants
- Investing in buildings



6. Optimise portfolio

We optimise our portfolio through selective asset sales, where we can reinvest in higher value opportunities.

Link to purpose:

- Owning buildings



For further information see pages 20-21, Objectives and strategy; pages 36-39, Sustainability; pages 44-49, Principal risks and uncertainties; pages 56-95, Governance

OUR BUSINESS MODEL

Breaking ground at Fairview Court and House, near Bristol. From left: Rupert Barclay, Chairman; Richard Smith, Investment Director, Investment Manager; and Peter Madden, Managing Director, Welford.



Our competitive advantages

Our business has several important strengths that help us to create value.

The Investment Manager is our key source of competitive advantage. In particular its:

- 1** deep knowledge of the sector is a critical advantage in assessing assets to acquire, selecting operators and identifying opportunities to add value through asset and portfolio management;
- 2** positive relationships with vendors and their agents, alongside existing and prospective tenants is core to our business. It enables us to deliver against stakeholder expectations including ensuring there is financial headroom to maintain and enhance the quality of care at the care homes. This proactive and flexible approach enables us to secure off market transactions and also succeed in competitive sales even if we are not the highest bid;
- 3** detailed development and asset management capability enables us to identify opportunities to enhance a care home before acquisition and work with tenants to develop new care homes; and
- 4** understanding of tenants' operations enables us to form supportive partnerships with them. These are crucial for sustainable value creation, and enables us to work with tenants to enhance the quality of care.

We also benefit from having a well-diversified base of high-quality tenants. This reduces risk for us, increases our resilience and gives us more opportunities to grow our business responsibly, alongside theirs.

For further information see pages 155-156, Investment policy; page 35, Portfolio management; page 56, Purpose and culture

OUR BUSINESS MODEL

The output from our business model

The quality of our business is underpinned by three pillars that we use to monitor performance.

Quality of buildings

We are constantly reviewing the quality and performance of our homes in partnership with our tenants. Our asset management strategy for each home identifies opportunities to invest further to improve the quality of environment for residents and staff, for example the addition of specialist beds for dementia and increasing the proportion of en suite bedrooms. We also identify opportunities for improving the environmental performance of the building.

Quality of care

The security of our rental income depends on tenants maintaining a high standard of care, so the homes remain relevant and meet the needs of residents. The Investment Manager works closely with our tenant partners to identify any areas of improvement and regularly reviews customer feedback and reports from regulators. Regular meetings and visits to homes help us to work collaboratively and proactively with tenants to ensure quality of care is maintained. Where appropriate, we will seek independent support to resolve any ongoing issues.

Quality of cash flows

We regularly review our tenants' operational and financial performance. This helps us understand the overall performance of each home and help optimise performance, enabling tenants to maintain a sustainable EBITDA margin and achieve resilient rent cover.

Disciplined capital allocation has led to attractive net initial yields on acquisitions. Careful cost control enables us to benefit from economies of scale as we grow, as many of our costs are fixed and some variable costs step down as our asset value rises. This control, and our conservative financial approach, maximises cash we can distribute to shareholders.

For further information see pages 22-23, Key performance indicators

Delivering sustainable value

Our high-quality business generates attractive sustainable value for our stakeholders.

Tenants

Tenants can grow their business alongside ours, in a mutually beneficial relationship.

Residents

Our tenants' residents benefit from security and stability, with an operator providing high-quality care and a landlord willing to invest in the environment they live in.

Lenders

Our lenders can provide long-term finance to us on attractive terms, in the knowledge that we have a secure and resilient business, with strong cash flows.

Shareholders

Shareholders benefit from growing dividends, underpinned by the predictable and rising revenue from inflation-linked leases. With the potential for capital growth, this supports an attractive total return.

For further information see pages 42-43, Stakeholders

Lomond View, Falkland



Fernlea House, Cadenden



Cragie House, Crossgates



Preston House, Glenrothes



Alexander House, Crossgate



Camilla House, Auchertool



We invested in 12 properties in Scotland initially through a loan with Holmes Care Group. This adds 480 high-quality en suite beds, located within established residential areas, at an accretive yield. Each home has a strong track record of delivering high-quality care.

Objectives and strategy

Our objectives

Our targets are to deliver:

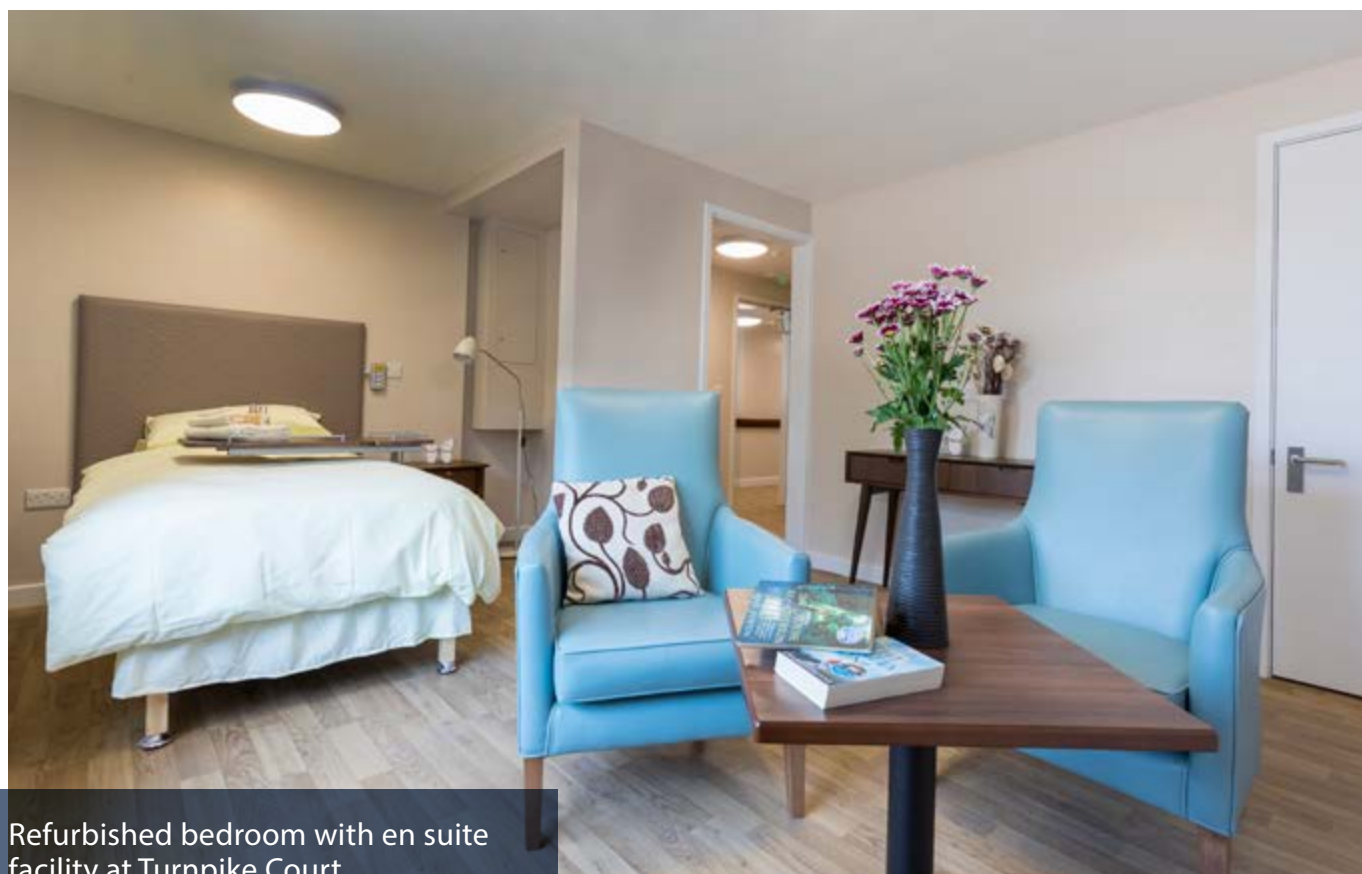
- a progressive dividend, with a total target dividend in respect of 2022 of 6.54 pence per share¹; and
- an average Total accounting return of 9.0% per annum¹, with capital growth driven primarily by annual inflation-linked rent increases and active asset management, rather than relying on yield compression.

¹ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

Our strategy

To achieve our value-creation objectives, we:

- buy the right assets on the right terms, by implementing our investment strategy;
- invest in a responsible manner with positive financial and social outcomes;
- effectively manage the portfolio as a whole, as well as individual assets, by implementing our portfolio management and asset management strategies; and
- optimise our balance sheet, by implementing our financing strategy.



Refurbished bedroom with en suite facility at Turnpike Court.

OBJECTIVES AND STRATEGY

Strategy	Our progress in 2021	Further information
Investment strategy <ul style="list-style-type: none"> ■ We can invest in a range of healthcare real estate (see investment policy, page 155). ■ Market dynamics (see pages 11-13) mean the care home sector currently offers the most attractive opportunities. ■ We manage risk by diversifying the portfolio by location and tenant, adding new tenants and increasing the number of homes operated by existing tenants. ■ We primarily acquire portfolios, which may include other healthcare real estate where this offers a strategic or portfolio management opportunity. 	<ul style="list-style-type: none"> ■ Acquired four care homes with 286 beds, for total consideration of £24.4 million. ■ Invested in a portfolio of 12 care homes with 480 beds in Scotland, through an initial loan to the operator of £37.5 million, with the option to acquire the assets when regulatory approvals are received. ■ Exchanged contracts to acquire two properties with 147 beds, for total consideration of £11.0 million. ■ The Group's percentage of contracted income from its largest tenant, Minster Care Group, has reduced from 48% in 2020 to 41% in 2021, owing to the successful execution of the Group's tenant diversification strategy. 	<p>See page 27, <i>Implementing the investment strategy</i></p>
Portfolio management strategy <ul style="list-style-type: none"> ■ We categorise each of our assets as core, value-add or non-core. ■ We manage the balance between these categories, to deliver our target returns and identify assets for active management. 	<ul style="list-style-type: none"> ■ Disposed of a 67-bed care home in Sheffield for £1.68 million, 29% above the purchase cost and 12% ahead of the carrying value at 30 June 2021. 	<p>See page 35, <i>Portfolio management</i></p>
Asset management and development strategies <ul style="list-style-type: none"> ■ We prioritise investment and development in our value-add portfolio and projects that enhance sustainability. ■ We selectively forward fund the development of new homes on a pre-let basis, to achieve a better yield on cost than acquiring standing assets, while adding new and highly sustainable assets to the portfolio. 	<ul style="list-style-type: none"> ■ Began work on a range of initiatives including an extension to link Fairview House and Fairview Court in Bristol, adding a net 11 beds and improving the EPC rating to A. ■ Reached practical completion after the year end on the pre-let development we forward funded in Hartlepool. ■ Agreed to forward fund a new 80-bed care home in Norwich. 	<p>See page 24, <i>Continuing to add value through active asset management and development</i></p>
Financing strategy <ul style="list-style-type: none"> ■ We fund the business through equity and debt, aiming to time any equity raises to minimise earnings dilution from holding cash ahead of investing it in income-producing assets. ■ Our gearing policy is to have a maximum Group LTV of 35% at the time of drawdown. We maintain a prudent balance sheet and expect average gearing to be no higher than 25%. 	<ul style="list-style-type: none"> ■ Raised gross proceeds of £35 million through a share placing in April 2021. ■ Agreed a new £26 million RCF with NatWest, along with an accordion to increase the facility to £50 million. ■ Agreed £75 million of institutional fixed-rate, term debt and drew down the first tranche of £37 million. ■ Repaid £10 million of the Metro Bank term loan and £10 million of the Metro Bank RCF. 	<p>See page 32, <i>Equity financing and Debt financing</i></p>

Key performance indicators

The Group uses the following measures to assess its strategic progress.

1. Total accounting return

8.42%

for the year ended
31 December 2021
(2020: 8.46%)

2021	8.42%
2020	8.46%
2019	9.46%
2018	8.47%

Definition

The change in the NAV over the period, plus dividends paid, as a percentage of NAV at the start of the period.

Relevance to strategy

Demonstrates our ability to add value for our shareholders, by distributing earnings and growing our portfolio value.

Commentary

Total accounting return comprised dividend paid in the year of 6.41p per share and NAV growth of 2.85p per share and totalled 8.42%, against our target of 9.0% per annum¹

2. Dividends

6.41p
per share

for the year ended
31 December 2021
(2020: 6.29p per share)

2021	6.41p
2020	6.29p
2019	6.17p
2018	6.00p

Definition

Dividends declared in relation to the period.

Relevance to strategy

Reflects our ability to generate a secure and growing income stream from our portfolio.

Commentary

We met our dividend target for 2021. Our dividend target for 2022 is 6.54p¹, representing 2.03% growth.

3. EPRA earnings per share

8.05p
per share

for the year ended
31 December 2021
(2020: 7.25p per share)

2021	8.05p
2020	7.25p
2019	6.95p
2018	6.47p

Definition

Earnings from operational activities. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives, but includes rent smoothing.

Relevance to strategy

This is a key measure of underlying operating results, as well as the extent to which current dividend payments are supported by earnings.

Commentary

EPRA EPS increased by 11.0%, giving 126% dividend cover.

4. EPRA 'topped up' net initial yield ("NIY")

6.71%

as at 31 December 2021
(31 December 2020: 6.71%)

2021	6.71%
2020	6.71%
2019	6.66%
2018	6.97%

Definition

Passing rent at the year end, less non-recoverable property expenses, divided by the market value of the property, increased to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired lease incentives.

Relevance to strategy

NIY indicates the income generating capacity of the portfolio, in comparison to its market value.

Commentary

The NIY at 31 December 2021 was 6.7%. The average initial yield of our acquisitions in the year was 6.9%.

¹ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

KEY PERFORMANCE INDICATORS

5. NAV per share

112.43p
per shareas at 31 December 2021
(31 December 2020: 109.58p
per share)

2021	112.43p
2020	109.58p
2019	106.81p
2018	103.18p

Definition

Net asset value based on the properties and other investment interests at fair value.

Relevance to strategy

Provides shareholders with the most relevant information on the fair value of the assets we have assembled and the liabilities we have incurred in doing so.

Commentary

NAV growth continued to be driven primarily by rental growth and the benefits of active asset management.

6. Gross loan to value ("LTV")

22.26%

as at 31 December 2021
(31 December 2020: 17.77%)

2021	22.26%
2020	17.77%
2019	6.81%
2018	11.62%

Definition

The gross debt as a percentage of our gross asset value.

Relevance to strategy

This is an important indicator of the level of gearing we have used to implement the strategy. Higher gearing can lead to higher returns but also increases downside risk.

Commentary

We have total facilities of £168 million and had drawn £114.5 million at the year end, giving an LTV of 22.3%. If the facilities were fully drawn, with no changes to the Group's current equity base, the LTV would be approximately 32.7%.

7. Weighted average unexpired lease term ("WAULT")

19.2 years

as at 31 December 2021
(31 December 2020:
20.0 years)

2021	19.2yrs
2020	20.0yrs
2019	19.7yrs
2018	19.5yrs

Definition

The average unexpired lease term of the property portfolio, weighted by annual passing rents.

Relevance to strategy

The WAULT is a key measure of the long-term security of our income. Long lease terms underpin the quality of our income stream and hence our dividends.

Commentary

We continued to grant leases of around 25 years during 2021, offsetting some of the natural reduction in the portfolio WAULT.

8. Total expense ratio ("TER")

1.55%

for the year ended
31 December 2021
(2020: 1.53%)

2021	1.55%
2020	1.53%
2019	1.60%
2018	1.80%

Definition

Total recurring administration costs as a percentage of average NAV throughout the period.

Relevance to strategy

The TER is a key measure of our operational efficiency.

Commentary

TER has remained stable in the year, reflecting the benefits of tight cost control. The EPRA cost ratio, calculated by dividing our recurring administrative and operating costs by gross rental income, was 15.84% for the year (2020: 17.09%).

See pages 144-149, EPRA performance measures and associated notes; pages 150-151 Other alternative performance measures

CASE STUDY

Continuing to add value through active asset management and development

Asset management is a key part of our value-creation strategy and we have numerous projects at different stages across the portfolio. Many of the projects add new beds to the portfolio, while making the homes even better places to live, improving environmental performance and helping the homes to compete in their markets. Below are just some examples of this work.

At Wealstone in Cheshire, for example, we have recently received planning permission for a 30-bed specialist dementia facility, to be built in the grounds of the existing care home. This will provide much-needed extra capacity as the number of people living with dementia continues to rise (see page 13). We are also working on plans to upgrade the existing home, including the addition of en suites.

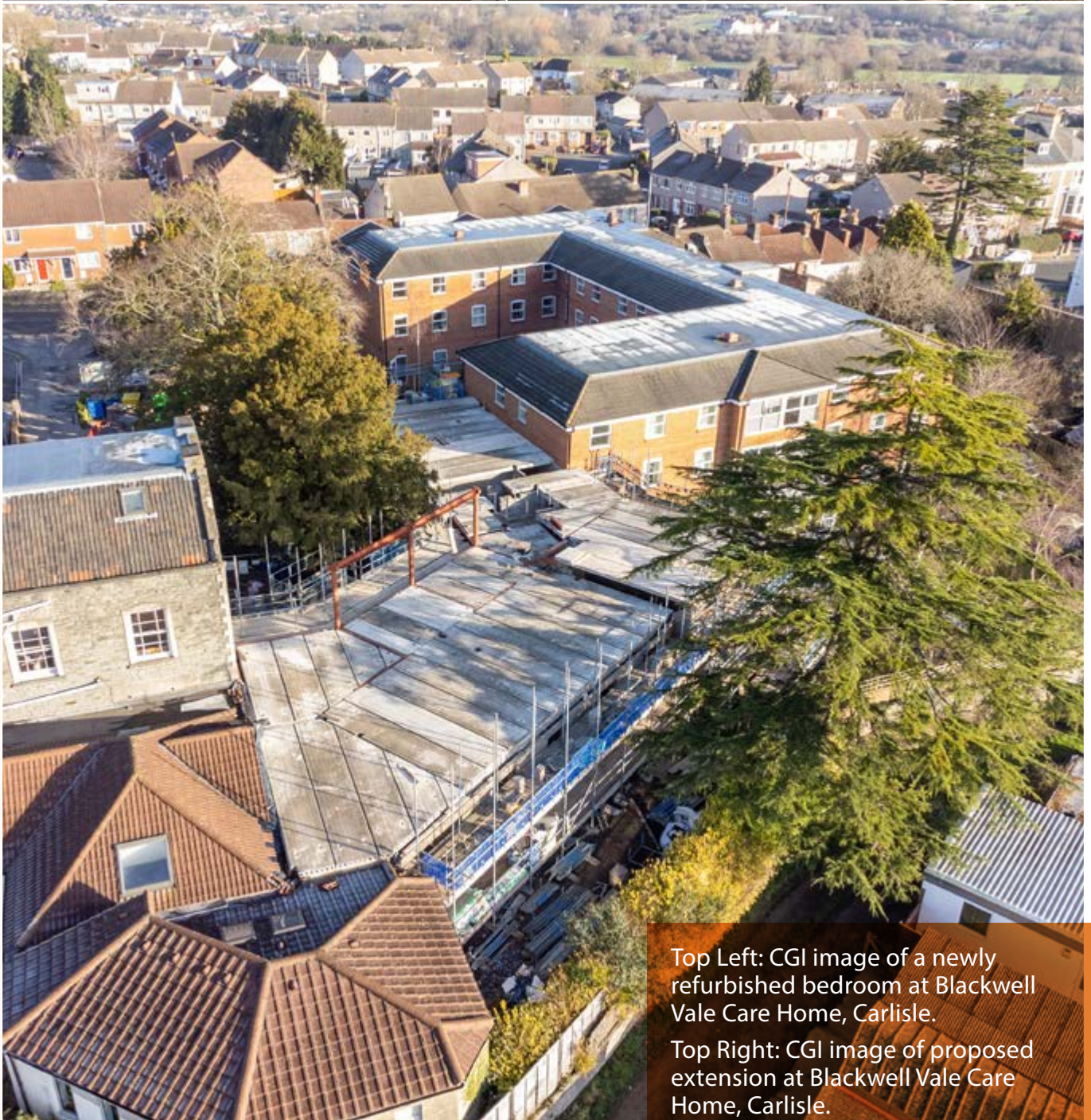
During the year, we completed a single storey extension to Loxley Hall. This added five bedrooms and a garden room for residents, while reconfiguring and improving the internal space, including expanding the lounge. We have also funded the refurbishment of three homes in Northern Ireland,

which our tenant, Electus, committed to at the time we acquired the assets. The works include general redecoration, new furniture and LED lighting throughout. LEDs offer the dual benefit of significant energy savings and improvements to the quality of light, contributing to a better resident experience.

As outlined on pages 36-37, we have an ongoing programme to improve the environmental performance of our assets and increase their EPC ratings. At Blackwell Vale, work started on site in February 2022 on a project that will substantially improve the home's sustainability. This includes upgrading the boiler, installing LED lighting, new insulation, draft proofing and pipe lagging, replacing mechanical ventilation and extractor fans with more efficient equivalents, and using heat recovery technology to recycle heat that would otherwise be vented. We expect this work will improve the EPC rating from C to B.

In total, we spent £1.5 million on capital expenditure during 2021, on projects across seven different homes.

Asset management and development activity		Capital investment	Expected completion
Asset	Description		
Asset management expenditure			
Loxley	Added five additional bedrooms, a new lounge, garden room and laundry. Work completed on site. Existing tenant yet to draw down funds	£0.5m	Practical completion
Falcon House	Refurbishment of existing home	£0.2m	Practical completion
Old Prebendal House	Reconfiguration and improvements to an existing home	£0.8m	Practical completion
Edgewater Lodge, Saintfield Lodge and Cedarhurst Lodge	Update and refurbishment of three existing care homes	£1.2m	H1 2022
Blackwell Vale	Undertake refurbishment of existing care home	£1.9m	H1 2023
Mavern House	New eight-bed extension and resident lounge	£0.6m	H1 2022
Fairview Court and House	New link extension, net 11 additional beds, further en suite provision within existing care home, new laundry and kitchen services	£3.5m	H2 2022
Belmont House	Refurbish top floor accommodation and entrance hall of an existing home	£0.5m	H1 2022
Laurel Bank and The Beeches	Refurbishing day space in two existing care homes	£0.3m	H1 2022
Forward-funded development expenditure			
Oasis	Forward fund new 80-bed facility	£10.5m	2024
Hartlepool	Forward fund new 94-bed facility	£6.1m	H1 2022



Top Left: CGI image of a newly refurbished bedroom at Blackwell Vale Care Home, Carlisle.

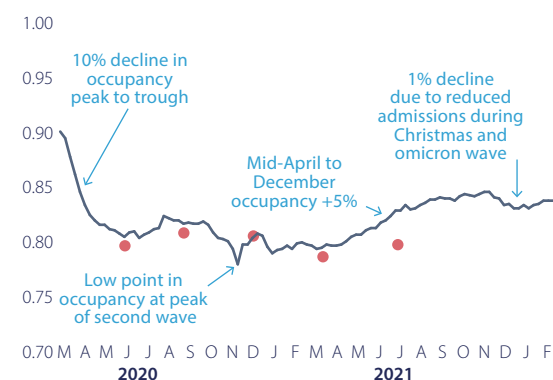
Top Right: CGI image of proposed extension at Blackwell Vale Care Home, Carlisle.

Above: Drone footage of the new link building under construction, linking Fairview House and Fairview Court, Bristol.

Investment Manager's report

Group average adjusted occupancy¹ (%)

● Knight Frank UK average care home occupancy²



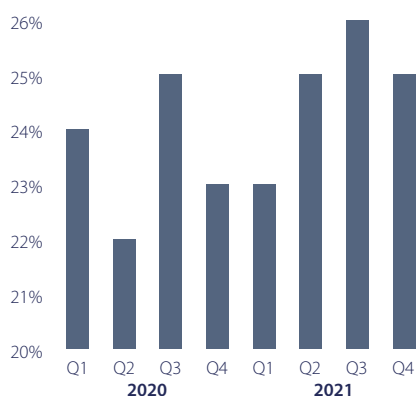
¹ Excludes three turnaround homes

² Source: 2021 UK Care Homes Trading Performance Review, Knight Frank

Group rent cover



Tenant average EBITDARM margin (%)



As the Chairman has outlined on page 4, the business once again demonstrated its resilience in 2021 and it remains in excellent shape. The financial performance in the year was strong, reflecting the benefits of portfolio growth and the rental increases inherent in the leases, helping the Company to deliver a fully covered dividend for the year.

We also made good progress with implementing all aspects of our strategy and see attractive prospects for further acquisitions and driving value from the portfolio through asset management. Shareholders and debt providers also showed their support for the strategy by providing additional capital, which supports our growth plans.

Tenant performance

A fundamental part of the Group's business model is to select high-quality operators and put in place leases that ensure high levels of rent cover from the outset. Our experience during the pandemic has demonstrated the benefits of this approach.

Our tenants have continued to work hard to overcome the challenges thrown at them by the pandemic and have been rewarded with improving performance as the year progressed. With occupancy having fallen from nearly 90% before the pandemic to just 79% during the second wave in late January 2021, our tenants have since seen occupancy increase, to stand at an average of 83.5% at the start of March 2022. Throughout the pandemic, all the homes the Group owns have remained operational and we have continued to collect 100% of our rent.

Although the reduction in occupancy caused by the pandemic pushed rent cover down to a low of 1.68 times in mid-2020, it has since bounced back to exceed the level before the pandemic, at 1.95 times in Q4 2021. This reflects our care in setting sustainable rents, as noted above, and

INVESTMENT MANAGER'S REPORT

the fact that our homes are part of a critical social infrastructure, in the communities where our homes are located, which has contributed to strong fee growth for our tenants. The improvement in rent cover also reflects grant support from government to help operators improve their infection control measures, and which therefore covers tenants' additional costs in areas such as PPE.

Continued successful implementation of the strategy

The Group's strategy has four elements, as described on page 21. Below we explain how we have implemented the Group's investment, portfolio management and asset management strategies during the year. Information on how we have implemented the Group's financial strategy can be found under Equity financing and Debt financing on page 32.

Implementing the investment strategy

We have identified a substantial pipeline of opportunities to acquire assets that fit the Group's investment policy and would be accretive to returns. This has enabled us to acquire four care homes with 286 beds during the year, for a total consideration of £24.4 million, while adding a new tenant to take the total to 13¹. The homes acquired have been let on leases of between 20 and 30 years with no breaks, and with upward-only annual rent reviews linked to inflation. The Group also exchanged contracts to acquire two care homes with 147 beds for a total consideration of £11.0 million.

In addition, the Group invested in a portfolio of 12 care homes in Scotland, to be operated by an existing tenant, Holmes Care Group. The investment has been made initially through a loan to Holmes of £37.5 million, allowing it to complete the acquisition of the assets and take immediate

operational control, thereby avoiding a lengthy transition period while regulatory approvals are sought to register the operation of the homes in new legal entities. The structure also delivers other financial and operational efficiencies.

Once the regulatory approvals are received, the Group has the option to acquire the properties from Holmes, which in turn also has the option to sell the properties to us. We will receive interest payments equal to 8.6% per annum for the duration of the loan and, if either option is exercised, we have pre-agreed new 30-year leases on our standard terms. Initial rent under the new leases is set at £2.7 million, reflecting an initial yield of 7.2%.

The loan structure used to make this investment contains additional protections for our shareholders, including security over the property assets under option and a number of operational covenants from Holmes, while the options also allow us to fix the future price of the property assets and associated rents in advance.

Implementing the portfolio management strategy

In October 2021, we announced the disposal of Heeley Bank, a 67-bed care home in Sheffield that we acquired in 2020 as part of a portfolio. The home was not a long-term strategic asset for either us or the tenant, MMCG, and we therefore jointly marketed it post-acquisition. The sale proceeds of £1.68 million were 29% above the purchase cost and 12% above the carrying value at 30 June 2021.

¹ Including Croftwood and Minster, which are both part of the Minster Care Group.

INVESTMENT MANAGER'S REPORT

Implementing the asset management and development strategies

Well-delivered asset management has the potential to create value for our shareholders and tenants, while also offering an enhanced environment and facilities for residents and their families at our homes. Through our asset management opportunities, we are adding beds and improving existing homes. We already own the land and our tenants have central services (kitchens, laundry, staff offices) on site, so the marginal cost of adding beds is lower than with a new build and the risks are easier to assess.

New beds added to an existing home should also be quicker for the tenant to fill than for a new home, which needs to establish itself in its market.

During the year we began work on a major project at Fairview House and Court, two units on the eastern outskirts of Bristol. This will turn the two units into one operationally, with 17 new beds in the link building and modern kitchens and a laundry in its basement, improving the work environment for staff. This results in a net increase of 11 new beds, to a total of 84, and we have committed additional funding to ensure the new Fairview has an EPC rating of A.

In addition to Fairview, the Group is working with tenants on a number of smaller refurbishment and extension projects, the majority of which will complete during 2022, and has a pipeline of further projects under consideration. More information on some of these initiatives can be found in the case study on page 24.

Repairs and maintenance

Under the terms of the leases, our tenants are fully responsible for keeping the Group's buildings in good repair through regular repair and maintenance programmes. This ensures the buildings remain high-quality environments for residents to live in. We monitor these programmes carefully, to ensure they are being effectively implemented.

Forward-funded developments

In 2020, we committed to forward fund a new, 94-bed care home in Hartlepool at a total cost of £6.1 million and a yield of 7.8% from completion. The home has been built and will be operated by Prestige, one of the Group's existing tenants. While construction work was interrupted during the pandemic, practical completion has been reached since the year end.

During 2021, we committed £10.5 million to forward-fund the development of a new care home in Norwich, which will be operated by our latest tenant, Carlton Hall. £2.5 million of this was spent in the year for the purchase of the development site. The forecast yield on this new home is 7.1% and construction is expected to start in Q3 2022. The development will comprise an 80-bed care home.

The portfolio

As a result of the activity described above, at 31 December 2021 the Group had investments in 126 properties, with 6,853 beds, including the 12 homes in Scotland, the two forward-funded developments and two exchanged assets, which completed shortly after the year end. This represents approximately 1.5% of the elderly care beds available in the UK.

Of these properties, 124 are care homes let to 12 tenants¹, on leases of 20 to 30 years, with no break clauses. Rents are subject to annual upward-only rent reviews linked to the RPI, with a floor and cap of 1% and 5% or 2% and 4% respectively. In addition, the Group owns two healthcare facilities leased to the NHS. In total, the Group has 13 tenants¹ across the portfolio.

Valuation

The portfolio is independently valued by Cushman & Wakefield, in accordance with the RICS Valuation – Professional Standard (the “Red Book”).

INVESTMENT MANAGER'S REPORT

As at 31 December 2021, the portfolio was valued at £459.4 million, an increase of £40.6 million from the valuation of £418.8 million at 31 December 2020. The components of this valuation increase were as follows:

- acquisitions completed: £26.9 million;
- disposal: £1.3 million;
- acquisition costs capitalised: £1.3 million;
- capital improvements: £0.8 million; and
- valuation uplift: £12.9 million.

The valuation uplift was largely driven by rent increases received during the year.

Financial results

Total net rental income recognised for the year was £36.4 million (2020: £30.8 million). This growth was driven by a full year of ownership of the assets acquired in 2020, the initial contribution from the 2021 acquisitions and the rental growth inherent in the leases.

Under IFRS, the Group must recognise some rent in advance of receipt on a straight-line basis, reflecting the minimum uplift in rents over the term of the leases. Cash rental income received in 2021 was £30.5 million (2020: £25.9 million).

The Group's cost base is primarily made up of the Investment Manager's fee, Administrator fees, other professional fees including valuations and audit, and the directors' fees. Administrative and other expenses totalled £5.8 million (2020: £5.3 million).

The Group's cost ratios remained stable this year, reflecting the Group's tight cost control. The total expense ratio, which is the Group's recurring administrative and operating costs as a percentage of average net assets, was 1.55% (2020: 1.53%).

The EPRA cost ratio, which is administrative and operating costs as a percentage of gross rental income, was 15.84% (2020: 17.1%).

Net finance costs are primarily interest costs and amortised arrangement fees on the Group's debt facilities and totalled £3.3 million (2020: £2.6 million) in the year.

The Group recorded a profit on disposal of £0.3 million in 2021 (2020: £0.2 million) following the disposal of a non-strategic asset, Heeley Bank.

The change in fair value of investment properties was £4.2 million (2020: £5.6 million). This includes the £12.9 million of valuation uplifts noted above, offset by rent smoothing adjustments from the accounting recognition of rental uplifts over the life of the lease.

Profit before tax was £32.0 million (2020: £28.8 million).

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions in the REIT regulations. The corporation tax charge for the year was therefore £nil (2020: £nil). In 2022, the Group will earn interest income from the loan to Holmes Care Group, which will be subject to corporation tax. The interest rate on the loan has been set to allow the Group to earn the equivalent amount after tax as if it were charging rent on these assets.

EPS for the year was 9.41 pence (2020: 9.02 pence) and EPRA EPS was 8.05 pence (2020: 7.25 pence). Adjusted EPS, which better reflects underlying cash earnings in the year, was 6.68 pence (2020: 5.98 pence). All the EPS figures listed above are on both a basic and diluted basis. More information on the calculation of EPS can be found in note 10 to the financial statements.

CASE STUDY

Growing and diversifying our tenant portfolio

During the year, we further diversified our tenant base with the addition of Carlton Hall Limited. The tenant operates the Carlton Hall care home in Lowestoft, Suffolk, which we acquired in April 2021. At the heart of the care home is a beautiful 18th century hall with high-quality linked buildings, including a specialist dementia unit. The home has an ethos of optimising its residents' health and wellbeing, and recognising their need for personal fulfilment, which aligns with our focus on choosing tenants who prioritise a positive environment for residents. Carlton Hall also offers less acute care to residents living in their own bungalows, set within the ten-acre grounds.

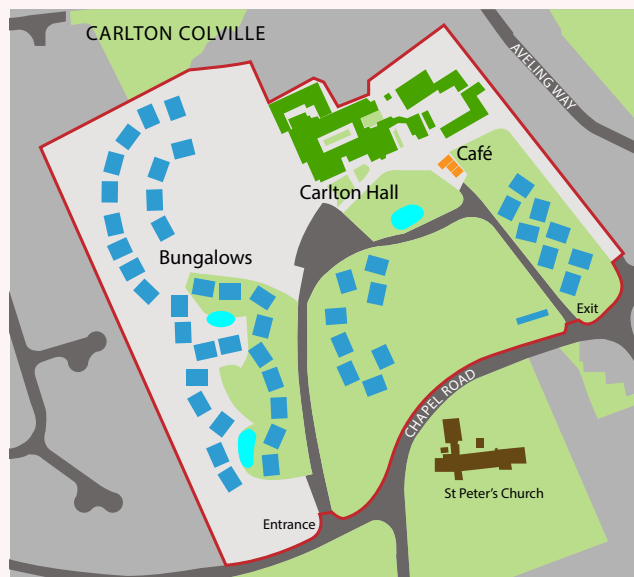
"We have rapidly built a strong relationship with Impact and greatly value its support for our growth plans and the team's expertise in the care home market. We look forward to working together for years to come, to achieve mutual success."

Anthony Prendergast, MD, Carlton Hall

Positive social impact

We are excited to work with this tenant and its business model, which combines independent living with residential and nursing support in an engaging community environment. We jointly see the opportunity for growth and have an aligned partnership to provide high-quality care environments.

A key part of our approach to working with tenants is to support the growth and diversification of their own businesses, which increases their resilience and reduces their reliance on any one asset. We were therefore pleased to agree to forward fund the construction of a new 80-bed care home in Norwich, which Carlton Hall will build and operate. The new development will follow Carlton Hall's successful Lowestoft model, with 19 bungalows in the grounds, and is expected to be a blueprint for further developments in the region by our tenant. We also continue to review other opportunities to grow with Carlton Hall, including the potential to acquire further standing assets for it to run.



Growth with new tenant, Carlton Hall

£24.8m

Capital committed

+166

Beds

+£1.6m

Contracted annual rent

CASE STUDY: NEW TENANT – CARLTON HALL



Carlton Hall's aim is to give its residents the opportunity to improve their quality of life by providing a safe, happy, caring and comfortable family home.

INVESTMENT MANAGER'S REPORT

Dividends

To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least 90% of the qualifying profits each year from the Group's qualifying rental business.

The Company has declared four quarterly dividends of 1.6025 pence each in respect of the year, thereby meeting its target for 2021 of 6.41 pence per share. All four dividends were Property Income Distributions. The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £m
31 Mar 2021	13 May 2021	11 Jun 2021	5.6
30 Jun 2021	29 Jul 2021	27 Aug 2021	5.6
30 Sep 2021	15 Oct 2021	19 Nov 2021	5.6
31 Dec 2021	4 Feb 2022	11 Mar 2022	6.2
Total			23.0

Dividends declared for the year were 126% covered by EPRA EPS and 104% covered by Adjusted EPS.

Equity financing

On 30 April 2021, we completed a placing of 31,690,327 new ordinary shares at 111.5 pence per share, which raised gross proceeds of £35 million for the Company. The net proceeds from the placing were used to pay down debt and to fund new investments.

Debt financing

This was an important year in the evolution of the Group's debt financing, as we agreed a new facility with a major clearing bank and completed our debut transaction in the institutional debt market.

On 28 June 2021, we announced a new £26 million revolving credit facility with NatWest, at a margin of 190 basis points over SONIA. The facility has a fully documented accordion agreement

to increase it to £50 million, subject to lender approval. At the same time the Group's facility with Metro Bank was reduced from £50 million to £40 million.

On 22 December 2021, we announced £75 million of new long-term debt, provided by two large UK insurance companies. The senior secured notes have a weighted average coupon of 2.967% and a weighted average maturity of 14 years. The debt comprises two tranches:

- £37 million of notes at a fixed coupon of 2.932%, which were issued on 21 December 2021 and mature in December 2035; and
- £38 million of notes at a fixed coupon of 3.002%, which will be issued on 20 June 2022 and mature in June 2035.

These will both lengthen the Group's average debt term and lower the average coupon, providing Impact with long-term, fixed-rate debt to match the Group's long income profile. This new debt reflects both the high level of resilience the Group has demonstrated during the pandemic, and support from institutional investors for Impact and our strategy.

Following the drawdown of the first tranche in December 2021, we cancelled a further £10 million of the Metro Bank facility.

In addition, during the year we exercised our option to extend the duration of the HSBC facility by one year, to April 2024. Following the year end, the second one-year extension was exercised on the HSBC facility bringing its expiry to April 2025. We also agreed with Clydesdale Bank and HSBC to transition our facilities with them to SONIA, which took place before the end of the year.

INVESTMENT MANAGER'S REPORT

As a result of these activities, at the year end the Group had the following debt facilities:

	Expiry	Facility size £m	Drawn at 31 Dec 2021 £m
Metro Bank			
Term loan	Jun 2023	15.0	15.0
Revolving credit facility	Jun 2023	15.0	7.3
Clydesdale Bank			
Revolving credit facility	Mar 2024	25.0	10.0
HSBC			
Revolving credit facility	Apr 2024 ¹	50.0	20.0
NatWest			
Revolving credit facility ³	Jun 2024 ²	26.0	25.2
Private placement			
Senior secured notes	Dec 2035	37.0	37.0
Total as at 31 Dec 2021		168.0	114.5
Senior secured notes ⁴	Jun 2035	38.0	–
Total		206.0	114.5

1 With the option to extend for one year to April 2025, subject to HSBC's agreement.

2 With the option to extend for up to two years to June 2026, subject to NatWest's agreement.

3 An accordion agreement is in place to increase this to £50 million, subject to NatWest's agreement.

4 Due to be issued in June 2022.

At 31 December 2021:

- the Group had drawn debt of £114.5 million (31 December 2020: £76.4 million), giving a gross LTV of 22.3% (31 December 2020: 17.8%);
- the weighted average term of debt facilities (excluding options to extend) was 4.7 years (31 December 2020: 2.5 years), benefiting from the new debt arrangements put in place in the year; and
- we had £53.5 million of undrawn debt facilities and £13.3 million of cash, leaving headroom to finance all committed contingent liabilities for deferred payments and capital expenditure, as well as to pursue acquisition opportunities.

Post balance sheet events

The Group raised £40 million in equity in February 2022 and used the proceeds to pay down revolving credit facilities giving the Group additional headroom to pursue its attractive acquisition pipeline.

In February 2022, the Group completed the acquisition of two care homes in Northern Ireland for consideration of £11.0 million. This added 147 beds to the portfolio and they have been let to an existing tenant, Electus.

In March 2022, the Group invested in two homes in Nottinghamshire with 107 beds. The investment has initially been made by way of an £11.1 million loan to one of the Group's existing tenants, Welford, allowing it to complete the acquisition of these two homes. Upon receipt of certain regulatory approvals, a put and call option for the Group to acquire these homes becomes exercisable.

Acquisition pipeline and outlook

We continue to progress a near-term accretive investment pipeline of standing assets, forward fundings and asset management commitments, which we expect to deliver further well invested critical social care infrastructure for vulnerable people, whilst providing attractive inflation-protected income and capital growth with a huge positive social impact for our shareholders. We are confident in the long-term outlook for the sector and the Group's investment and diversification strategy.

Impact Health Partners LLP Investment Manager
28 March 2022

Investment Manager

Impact Health Partners LLP is our Investment Manager. It sources investments, carries out approved transactions, monitors the progress of our homes and provides portfolio management services to the Group. It also develops and recommends the asset management strategy for approval and then implements it.



Andrew Cowley
Managing Partner

Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000.

He was a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports.

Andrew has served on company boards, including various international airports, Moto Holdings, Creative Broadcast Services and as chairman of Halterm Container Terminal in Canada.



Mahesh Patel ACA
Managing Partner

Mahesh is a qualified accountant with more than 30 years' experience in healthcare-related industries and assets, including positions in finance.

Prior to 2006, he built up and then sold three healthcare-related businesses, Highclear and Kingsclear and a supported living business, Independent Living.

Mahesh has helped found and grow Minster and Croftwood, along with Pathways Care, which provides specialist support for people with various disabilities.



David Yaldron FCA
Finance Director

David is a chartered accountant with more than 20 years' experience and has been the finance director for the Investment Manager since 2017.

From 2012, David was a director at Grosvenor responsible for projects and new investments, becoming the senior director responsible for all investments, developments and strategic land activities outside London.

David trained and spent the first ten years of his career at KPMG, working in the Transaction Services team.



Simon Gould
Development Director

Simon is a chartered surveyor with more than 20 years' experience working across residential and commercial property investment and development.

Simon's early career was in affordable housing, extra care and estate regeneration. During 15 years with primary care specialist Assura, Simon was involved in the delivery of over 20 healthcare developments and led the in-house development team.

In Simon's current role at the Investment Manager, he is responsible for development strategy and ESG.



Richard Smith
Investment Director

Richard has worked exclusively in the elderly care market for more than 25 years. As a Chartered Surveyor Richard has historically provided valuation and consultancy advice to banks and investors but latterly has held senior appointments with some of the UK's largest care home groups where he combined property and operational experience for a holistic approach to understanding healthcare investments. Richard joined the Investment Manager in 2019 to drive the acquisition of new assets and on boarding of new tenants.

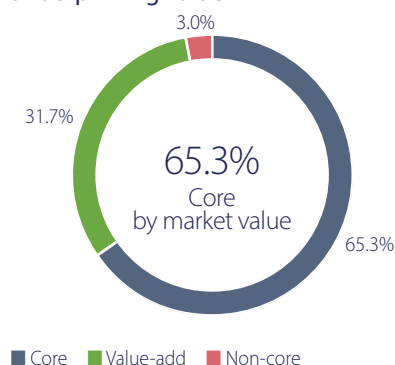
Portfolio management

As we build our portfolio, we look for an appropriate balance of high-quality core assets that generate attractive, secure and long-term income, and value-add assets with potential to create further value for shareholders and our wider stakeholders. We continuously assess this balance to identify asset management and capital recycling opportunities.

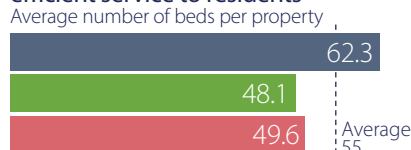
We categorise each asset as follows:

Core	Value-add	Non-core
<p>These assets are the primary contributors to our long-term, stable income.</p> <ul style="list-style-type: none"> ■ Good-quality buildings with a useful life greater than the duration of the lease ■ Invested to an appropriate standard ■ Stable trading, underpinning a sustainable level of rent cover 	<p>Value-add assets are candidates for asset management initiatives.</p> <ul style="list-style-type: none"> ■ Present opportunities to deploy capital to enhance the asset and its performance ■ May be a smaller home, have a low level of en suite bathrooms or other elements of functional obsolescence, or need environmental performance improvements ■ Value uplift through enabling the tenant to offer a new service, such as dementia and/or targeting private residents 	<p>Non-core assets may be candidates for sale and are likely to have been acquired as part of larger portfolios.</p> <ul style="list-style-type: none"> ■ Limited lifespan homes with a high degree of functional obsolescence ■ Higher alternative use value ■ Could be geographically isolated

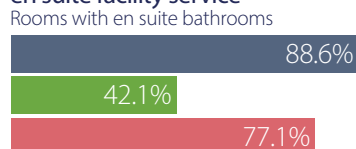
A strong core portfolio underpinning value



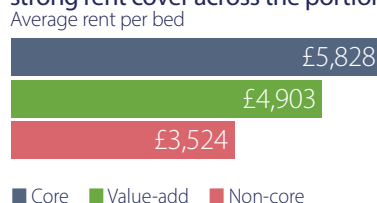
Homes of scale, delivering an efficient service to residents



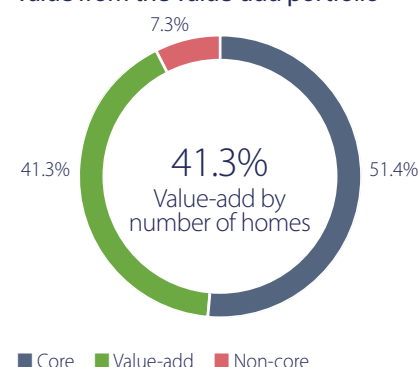
A core portfolio delivering an en suite facility service



A proportional rent per bed with strong rent cover across the portfolio



Significant opportunity to enhance value from the value-add portfolio



Sustainability

Careful management of environmental, social and governance (ESG) issues is intrinsic to developing a strong and sustainable business and is therefore fundamental to the way we work.

Our approach to managing ESG issues

As a long-term investor, we are committed to working in partnership with our tenants to deliver positive environmental and social outcomes. This starts with the due diligence on new investment and development opportunities to ensure that current and potential environment performance forms a key part of our approval process. We work collaboratively with tenants to deliver improvements in existing buildings through asset management projects, for example through the installation of LED lighting. As well as reducing the carbon emissions of the building this also helps to lower running costs for our tenants. We also consider the long-term social value of our investments by ensuring buildings are leased on

long-term sustainable rents to enable our tenants to provide high-quality care at affordable levels to meet the needs of residents, providing a vital service at the heart of the community.

Our ESG policy

The Group's ESG policy governs our environmental and social conduct and the way we manage our business. These three areas are captured by our seven core principles of sustainability set out in the policy, which are shown in the table below. The ESG policy is available from the sustainability section of our website: <https://www.impactreit.uk/about/sustainability/>.

Our core principles of sustainability	E	S	G
Conduct our business with integrity and in an open and ethical manner and require the same standards from our stakeholder relationships.			
Operate in an environmentally sustainable manner and minimise the environmental impact of our operations including on climate change.			
Climate resilience – protecting the business from the future effects of climate change and anticipated low carbon transition policies.			
Extend the economically useful lives of our buildings through monitoring our tenants' obligations and investing in refurbishment and reconfiguration.			
Disseminate the Group's policies to advisers, suppliers, occupiers and our key stakeholders.			
Comply with all legal and regulatory requirements and, where feasible, exceed minimum compliance.			
Promote diversity and inclusion throughout our activities.			

SUSTAINABILITY

Our sustainability priorities for 2021

In our 2020 annual report, we set out the following priorities for 2021:

Priority	Progress
Develop our sustainability strategy and plan	We continue to develop our sustainability strategy and the board has included this as an agenda item at one of its quarterly meetings in H1 2022. The Investment Manager has created a sustainability working group chaired by its Development Director, which will be supported by both external experts and the non-executive directors, as required. The working group will provide structure and accountability for all the ESG policies and initiatives that underline our overall sustainability strategy, including TCFD, procuring renewable energy, measuring social impact and support for relevant charities.
Share EPC evaluations with tenants, understand any work already done to improve them, engage with tenants on further work to enhance EPC ratings and update EPCs where beneficial	This work continues as part of our long-term programme to ensure we have EPC ratings of B across the portfolio by 2030. We regularly engage with tenants on actions to improve EPC ratings and ensure any major refurbishment incorporates improvements to secure a minimum EPC B rating.
Install smart meters at all homes	We continue to install smart meters where practical and where there will be obvious benefits from the improved data that results from having a smart meter. This programme is linked to our actions to enhance EPC ratings.
Investigate the potential for Group-wide utility purchasing, including transferring tenants to a green electricity supply	We have completed the necessary research into utility purchasing and will engage with tenants about switching suppliers, as their existing supply contracts expire over time.
Establish work streams to prepare for TCFD compliance	We have established these work streams and expect to report early against the requirements of TCFD in our 2022 annual report (see below).

SUSTAINABILITY

Managing our environmental impact

During the year, we have completed significant work on our approach for upgrading and decarbonising the assets in our portfolio. We have undertaken a detailed analysis of the energy efficiency of our portfolio on an asset by asset basis. This enables us to agree strategies for improving these where required in partnership with our tenants. On all acquisitions and asset management projects we commission a detailed carbon efficiency report to identify specific measures needed to reduce greenhouse gas emissions.

We are committed to decarbonising our assets; we need to work in partnership with our tenants to identify and make improvements to the homes. This also benefits tenants, by reducing their energy costs. One example of this work is at Fairview House and Fairview Court, where we are going beyond the minimum requirements to introduce upgrades to the building that will achieve an EPC grade of A.

As noted above, we remain focused on our long-term programme to enhance EPC ratings where necessary, with the resulting energy efficiency improvements contributing to our overall decarbonisation efforts. From 1 April 2023, under the Minimum Energy Efficiency Standards ("MEEs") a lease on a commercial property in England and Wales cannot continue if

the EPC rating is below E. Tightening regulations mean the minimum EPC requirement will increase to grade B by 2030 and C by 2027.

The average rating across the portfolio is C and we have identified measures on a home-by-home basis that can improve the overall rating to B. As discussed in the Investment Manager's Q&A on pages 8-9, we estimate the total cost of carrying out this work is £5 million over the next eight years.

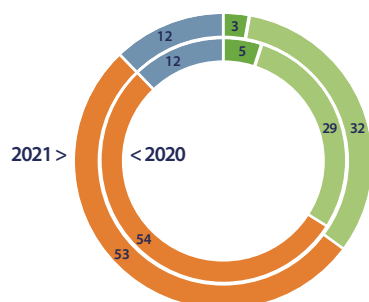
When we acquire assets for the portfolio, we look to ensure that they are either already at an EPC B or that there is a clear plan to achieve that rating with any additional capital requirement accounted for in our investment decision.

All new developments will be required to deliver a minimum EPC B and, where possible an EPC A. The planned development in Norwich, for example, will be built to high environment standards through a highly insulated 'fabric first' approach and at least 10% of energy produced from on site renewable sources from solar photo-voltaic cells on the roof. Biodiversity through the soft landscaping design is another key consideration with the aim of this being an engaging and interactive feature for residents.

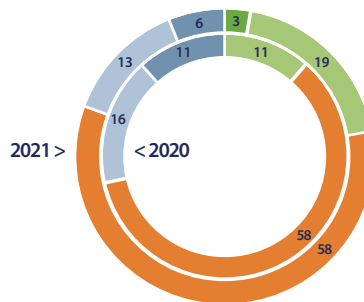
All our leases require out tenants to ensure the

Group's EPCs – England and Wales (%)

■ "A" rating ■ "B" rating ■ "C" rating ■ "D" rating

**Group's EPCs – Scotland (%)**

■ "C" rating ■ "D" rating ■ "E" rating ■ "F" rating ■ "G" rating



Note: The Scottish EPC ratings are split out here due to the difference in calculation basis. The Scottish system calculates a building's emission rate and the corresponding band is derived. In England and Wales the building's emission rate is compared to the standard emission rate of a reference building and the output gives us the applicable band. The Scottish EPCs do not take account of the type of property and its typical energy needs in determining its performance.

SUSTAINABILITY

home is compliant with legislation including on environmental performance. Since October 2020 our new leases have been enhanced to increase tenant reporting. These terms have been accepted by all existing tenants entering into new leases during 2021 and require tenants to provide us with data such as their energy use, ensuring we can monitor environmental performance and support improvements. The new leases aim for 25% of tenants' obligated maintenance spend to be used for environmental enhancements.

Task Force on Climate-Related Financial Disclosures

During 2021, the Investment Manager set up a TCFD working group, led by its Development Director. This group has conducted training on TCFD and undertaken a climate change risk assessment, to understand how climate change may influence the Group's strategy. The next stage is to conduct scenario analyses, for example to consider the potential impact of different increases in global temperatures and engage with the board to review our business strategy and our risk management processes.

As an investment company, the Group is not required to report against the TCFD requirements until 2023. However, our intention is to report on the TCFD recommendations in our 2022 Annual Report.

Our social impact

Care homes are a vital form of social infrastructure in the UK, playing a key role in the quality of later life for nearly half a million people. Care homes also create other forms of social value, including employment.

The Group supports its tenants in the creation of social value. Very little public sector capital is being invested in social care assets, so the required investment must come from the private sector. We provide capital that enables tenants to invest

in the homes, improving the environment for both residents and staff and helping to future-proof the buildings. This in turn helps to give residents a sense of security and stability. Through our asset management initiatives, we also provide facilities for people with particular care needs, such as dementia. Adding beds to existing homes and developing new homes also provides much-needed extra capacity in the system, given the growing demand for care home places.

Many of the homes we own are in less affluent parts of the country. Our tenants are often important local employers, with a high proportion of female staff. Investing in our buildings supports demand from residents, which in turn protects the jobs of the staff. Improvements can also make the homes better and more efficient places to work, helping to improve staff retention.

Committed to strong governance and transparency

The Corporate governance report on pages 56-95 details our governance framework and the board's role in leading and overseeing the business.

An important part of our approach is our commitment to transparency in our engagement with stakeholders and in our reporting. Information on our stakeholder engagement can be found on pages 42-43 and 56.

We continue to publish a separate EPRA sustainability report, which is available from our website. We retained our EPRA sBPR Gold award on our 2020 submission.

Priorities for 2022

Our priorities for the coming year are to:

- Publish our sustainability strategy;
- Publish a social impact report;
- Continue to implement EPC improvements; and
- Develop a net zero carbon strategy.

CASE STUDY

A business with social value at its heart

As a long-term investor in the social care sector, our business has social value at its heart. Care homes are a key part of the UK's social infrastructure and the COVID-19 pandemic demonstrated more than ever the need for safe and secure care homes, both for individual residents and to ease pressure on the healthcare system as a whole, for example by providing a safe environment for discharge from hospital.

We work closely with our tenants to support their delivery of quality care to some of the UK's most vulnerable people, within both the state-funded and self-pay sectors. In the state-funded sector, residents may have less choice for their care needs, so our investments in homes providing care for these residents has particular social value.

Our investments make a difference to the lives of residents and staff, both directly and indirectly. For example, our investment in Kingdom Homes

in Scotland in 2021 enabled a seamless transition from the original owners to the new operators, Holmes Care. Having undertaken detailed due diligence the new operator was able to take control with immediate effect. The Group and Holmes Care shared a strong vision to enhance the operational performance of the homes and quality of care for residents. This includes improvements to the environment for residents and expansion of care capacity in the local area.

We also create social value through asset management, with improvements to homes that enhance the resident experience and add new facilities for specialist needs such as dementia. At the same time, we improve energy efficiency, benefit the wider healthcare system and boost the local economy, by employing local contractors. Some examples of our current projects can be found in the case study on pages 24-25.

Social value in action – making a difference for residents and staff

Project: Loxley Hall

Capex invested: £0.5 million

Outcomes:

- Improved garden space
- Five additional bedrooms increasing capacity in the local social care system
- New day space for residents
- Replacement laundry
- Local contractor employed

“...the works have resulted in a huge benefit to residents and provide them with a light and airy space to enjoy during the day and participate in activities. Staff really value the improved laundry which makes daily tasks easier and more convenient. Overall, the investment will have a really positive impact for residents and staff.”

Emma Owens, Registered Manager



Top Left: New link under construction, linking Fairview House and Fairview Court, Bristol.

Top Centre: Resident's gardening club at Birchlands Nursing Home, Haxby.

Top Right: New build care home development in Hartlepool.

Bottom: Person-centred care and support at Birchlands Nursing Home, Haxby.

Stakeholders

The board has identified our key stakeholders as our tenants, their residents, our shareholders and our lenders. The ways we typically engage with our key stakeholders is set out in the table opposite. On pages 50-52 we describe how stakeholder considerations affected our decisions as a board.

The Investment Manager is an integral point of contact between the Group and our stakeholders. The Investment Manager is one of our two main service providers, along with the Administrator. They and our other service providers are fundamental to our operations and to ensuring we meet the high standards of conduct that we require. The Management Engagement Committee ("MEC") meets at least annually to review the performance of the key service providers and the board has regular interactions with the Investment Manager and the Administrator. See pages 84-86 for more information on the MEC's work.

The Group has a number of other stakeholders, in addition to the key stakeholders discussed in this section. These include the government and regulators, who set and oversee the policies and regulations that govern the care home sector. We do not have direct relationships with the government or regulators in this regard, as these relationships are managed by our tenants as the operators of the care homes.

Employees and directors

As an externally managed business, the Group has no employees and therefore does not require any employee-related policies or disclosures.

At the year end, the board comprised six non-executive directors including the Chairman, of which four were male and two were female. More information on the directors can be found on pages 68-69.

Our engagement activities

Stakeholder	Stakeholder interests
Tenants The Group has a steadily growing tenant base, comprising strong national and local operators. Working in long-term partnership with our tenants is central to our ability to grow our business, while managing risk.	<ul style="list-style-type: none"> ■ Ability to support their business plans through acquisitions and asset management ■ Our financial strength ■ Our knowledge and understanding of their operations ■ Our ability to share best practices across our tenant base
Tenants' residents The quality of care our tenants provide to their residents is of prime importance to us. It is central to residents' quality of life and directly influences demand for our tenants' services, which in turn affects their ability to pay rent to us.	<ul style="list-style-type: none"> ■ The quality of care provided by tenants ■ The quality of their home, including regular repairs and maintenance ■ The security and stability of their home ■ Our ability to use asset management to make their home a better place to live and to support additional needs such as dementia.
Shareholders To continue to grow our business, we need a well-informed and supportive shareholder base. We therefore look to ensure regular and open communications and high-quality corporate reporting.	<ul style="list-style-type: none"> ■ The security and growth of our dividend ■ Our ability to source accretive investments and add value through asset management ■ Developments in the care home market ■ Our approach to environmental, social and governance issues ■ Our financial and operational performance
Lenders An appropriate amount of gearing is important for generating higher returns. We therefore look to build strong relationships with lenders, who will provide the debt facilities needed to support our business growth.	<ul style="list-style-type: none"> ■ The quality of the security we provide for our loans ■ Our ability to meet our interest payments ■ The strength and diversification of our income streams

How we engage

We engage through a variety of mechanisms, including site visits and meetings. Our Investment Manager engages with tenants on a weekly and monthly basis and in more depth each quarter, when we receive reports from them setting out their performance. We work with tenants to identify and implement acquisition and asset management opportunities, and share best practice where pandemic-related issues are highlighted.

See our business model for more information on pages 16-19.

The board looks to meet new tenants when they are appointed, or within six months of appointment. During the year, the board held calls with the majority of tenants, to hear their experience of working with the Investment Manager and learn more about their opportunities and challenges (see page 62).

Our tenants are responsible for the relationship with residents and we do not directly engage with them, except for residents we may meet during site visits.

Our Investment Manager regularly monitors the CQC rating for each home and the outcomes of inspections, and engages with tenants where necessary on the findings. We also pay close attention to tenants' programmes of repairs and maintenance, to ensure the homes remain good places to live.

The Investment Manager conducts a regular programme of meetings with institutional investors, as well as opinion formers such as analysts and the financial press. We also look to provide regular and timely news flow. Other important communication channels include our interim and annual reports and the annual general meeting.

The Chairman and Senior Independent Director continued to offer meetings to major shareholders during 2021. Shareholders are also invited to speak to the Chairman and other directors when the Company is raising funds through share placings. The board is also kept up to date through regular investor relations reports.

See relations with shareholders on pages 62-63 for more information.

The Investment Manager is responsible for engaging with our lenders. It does this through quarterly compliance reporting.

Information about debt funding is provided as appropriate to the board, as part of its regular papers ahead of board meetings.

Stakeholder engagement in practice

One example of effective tenant engagement during 2021 was at Blackwell Vale, where the tenant was planning an initial refurbishment with further improvements to follow. We identified the opportunity for an enhanced extension, instead of this piecemeal approach. The tenant saw the benefit of this and we have worked with them to ensure the design, EPC performance and funding are aligned with our thinking. Completing the work as a single project will also benefit residents, through reduced disruption and an enhanced living environment. See the case study on page 24 for more information.

Following a flood at Old Prebendal House, our Investment Manager supported residents by helping secure space at another tenant's newly completed development. We then worked with the tenant to repair the home and make improvements, while looking to determine the reasons for the flood and ensure enhanced measures are being put in place to ensure this is less likely to happen again. This work will complete in 2022.

Our engagement has highlighted the importance of ESG to our shareholders, helping to ensure that we keep it at the top of our priority list. The Investment Manager has enhanced its capability in the year to help deliver our ESG agenda, including our sustainability strategy, preparedness for TCFD, ensuring homes acquired in the year are at EPC B or can reach that rating, and that we have an asset management plan or a commitment from our tenants to deliver this. Examples include the capital expenditure we agreed with Electus, the plan to upgrade Blackwell Vale (see above) and the sign-off of the work at Fairview House and Fairview Court, which targets an EPC A. We are also assessing the physical risk to our assets from climate changes, for example through flooding.

During 2021, we worked with HSBC and Clydesdale Bank on the transition to SONIA, ensuring this was agreed comfortably ahead of the deadline to avoid undue pressure on us or the banks. We listened to Metro Bank's desire to reduce its facility with us and took the opportunity to cancel £20 million of the facility during the year.

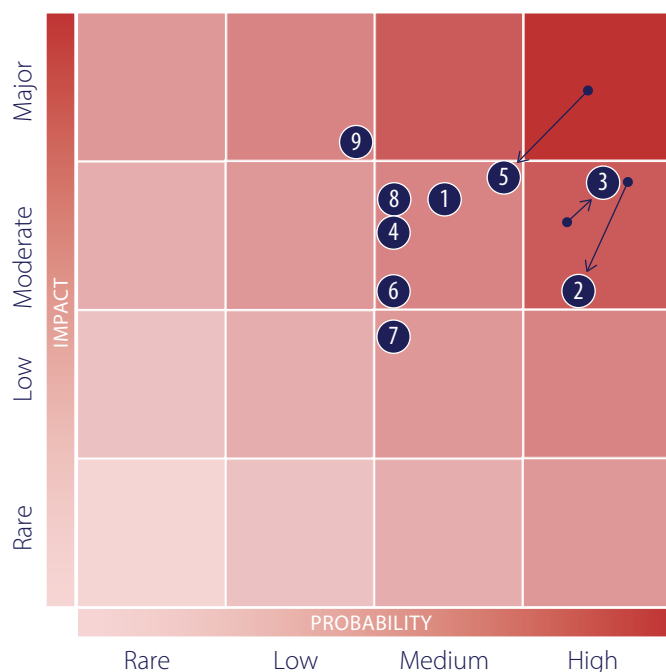
The Group also explored the market appetite for some long-term fixed rate debt. Following significant interest, the Group ran a competitive process and identified an attractive partnership to provide a long-term private placement for £75 million which was signed just before the year end.

Principal risks and uncertainties

Our risk assessment

The table below shows the Group's post-mitigation principal risks and uncertainties. Information on our risk management framework can be found on pages 74-78.

1. Changes to government social care policy
2. Infectious diseases
3. General economic conditions
4. Weakening care market
5. Default of one or more tenants
6. Underinvestment in care homes
7. Environmental regulation and impact of climate change
8. Ability to meet our debt financing obligations
9. Reliance on the Investment Manager



0 Principal risk

→ Movement from last year

Political

1. Changes to government social care policy

Probability: Medium
Impact: Moderate

Change in the year: ⊖

Care for older people is at the heart of our business and a key focus for government, ensuring it delivers the public's demand for high-quality affordable care for all. As a result, care for the elderly is subject to changes in government legislation and funding, including the provision of grant funding during the height of the pandemic, which is now reducing and the requirement for all care workers to be vaccinated, which has subsequently been reversed.

The government published a White Paper in December 2021 that set out measures of how additional funding will be used to improve care, which should have a positive influence on the sector. This heightened focus is likely to result in further changes and refinements with corresponding risk and opportunity.

£3.6 billion of the additional funding was to be used to enable local authorities to pay more for care; £1.7 billion of the additional funding from the levy was to be used for wider system reform, including £500 million for training the care workforce; and at least £300 million allocated to support the range of supported living options available. The government also put in place a cap of £86,000 on the maximum amount anyone will have to pay for personal care. How these will be implemented in practice is not yet clear.

Mitigation

The Investment Manager closely monitors developments around funding and legislation for adult social care and engages with representative organisations and care home operators to ensure it is fully informed on proposals and their likely effect.

Different policies will apply in England, Wales, Scotland and Northern Ireland, enabling us to focus future growth in the countries with favourable regulatory regimes, and we would seek to work with other landlords and operators to campaign against any unfavourable legislation.

Opportunity

Increased focus by the government on elderly care may provide increased growth opportunities.

PRINCIPAL RISKS AND UNCERTAINTIES

Market conditions

2. Infectious diseases

Probability: High
Impact: Moderate

Change in the year: ↙

Significant outbreaks of infectious diseases, in particular pandemics such as COVID-19, can have long-lasting and far-reaching effects across all businesses. Care for older people is a particular area of heightened concern.

The risks of an outbreak are: reduced occupancy at care homes and the lack of availability of key workers at the care homes as a result of infection or a requirement to self-isolate.

Should a pandemic take hold and not be capable of being contained, it could compound and enhance a number of principal risks, including general economic conditions, default of one or more tenants and the ability to meet our financing obligations.

Restoring occupancy to normal levels could take time to achieve, with increased availability of beds across the sector and increased price competition, adding to the long-term challenge of financial stability for tenants.

The effects of COVID-19 have reduced over the past 12 months with increased vaccinations and immunity amongst residents and their carers; however, the requirements to close care homes to new admissions when positive cases are identified has limited the ability of operators to increase occupancy.

There remains a risk of further variants that could result in increased restrictions and health concerns for the residents and carers in our care homes.

Mitigation

The healthcare sector, including care home operators and staff, are experienced in preparing for and implementing procedures to deal with infections.

Grant funding from central government and local authorities during the COVID-19 pandemic helped support tenants deal with the infection control measures, staff sick pay and the immediate effects of a potential reduction in occupancy.

Tenants can also explore all options to reduce the impact of staff shortages, including from other sectors and the overseas recruitment of nurses and senior carers.

Ensuring our tenants maintain strong rent cover enables them to better react to any immediate and unforeseen changes.

3. General economic conditions

Probability: High
Impact: Moderate

Change in the year: ↗

The economy is in a period of high inflation as a result of several factors including staffing shortages, supply chain issues and gas and electricity price rises. In addition, the government is committed to increasing National Insurance contributions in April 2022 to fund its commitments to the NHS and adult social care.

These increases in costs are placing pressures on all parts of the economy including care homes. The risks to general economic conditions are expected to heighten with the added turmoil of war in Ukraine.

These risks could result in falling fees for our underlying tenants alongside potential increased costs. Weakening financial performance of our tenants could result in a decline in real estate valuations and lower market rents including weaker tenancy terms. It may also give rise to a greater risk of tenant default or covenant breaches.

Mitigation

Our homes are let on leases of at least 20 years, with annual rental increases linked to the Retail Price Index. We regularly assess and monitor the financial robustness of our tenants. The majority of our homes were also acquired with a proven track record and established trade, enabling us to set an affordable rent that is cash flow positive for our tenants from acquisition.

Demand for care home places is relatively uncorrelated to economic conditions. Local authority funding may be put under greater pressure in an economic downturn but the underlying need to provide and fund elderly care remains unchanged and is supported in the Adult Social Care Reform White Paper.

Our year end LTV was 22% and our investment and growth strategy ensures Group leverage does not exceed 35%, limiting our overall reliance on debt finance.

The Company's strategy is to deliver growth through both acquisition and asset management. If the investment market is restricted, the Company can continue to progress asset management opportunities, to continue to deliver growth.

Opportunity

The Group has a growth strategy with a view of the long-term opportunity in healthcare property. In a downward trending market it enables us to make acquisitions at more attractive yields and in an upward trending market, to enhance value and improve rent cover.

PRINCIPAL RISKS AND UNCERTAINTIES

Market conditions

4. Weakening care market

Probability: Medium**Impact: Moderate****Change in the year:** ☹️

Several factors may affect the market for care for older people, including:

- adverse conditions in the healthcare sector;
- local authority funding partners amending their payment terms, affecting our tenants' revenues;
- increased regulatory responsibility and associated costs for our tenants which is not offset by an increase in fees; and
- competition or alternative forms of care provision.

These could all materially affect our tenants' covenant strength and their ability to pay rent, resulting in a reduction in the value of the care home and a higher risk of default.

Mitigation

We work closely with our tenants to understand the underlying performance of the individual homes, so we identify any concerns early and can explore mitigating actions such as additional investment, or discussing with our tenants staffing levels and the public/private resident mix.

Our portfolio has a low average rent per bed providing a level of protection against alternative healthcare delivery either via competition or alternative care provision.

Opportunity

Our investment criteria seek to identify assets which can be acquired at or below their replacement cost with strong rent cover to ensure our tenants have resilient operating cash flows. This provides us and our tenants the headroom to invest in our assets and their services to ensure our tenants are the providers of choice in a changing market.

Underperformance of assets

5. Default of one or more tenants

Probability: Medium**Impact: Moderate****Change in the year:** ☹️

The default of one or more tenants, or failing to act quickly and decisively when confronted with a failing tenant, would affect the value of our homes and both our ability to pay dividends to our shareholders and to meet our financing obligations.

A default, or a risk of default, can arise due to rising costs, reduced occupancy and changing fee rates. These can arise from a variety of issues which can include but are not restricted to:

- internal pressures such as poor cost control, poor management or quality of care resulting in a home closure; or
- external pressures such as increased competition, inflationary pressures or infectious diseases

The effect of COVID-19 has resulted in restricted staff availability and reduced occupancy across the care sector. The recovery of occupancy to pre-pandemic levels is expected to take time, which may place pressure on our tenants' financial resilience.

Mitigation

Our tenants have shown themselves to be resilient in their ability to operate in a challenging environment. Their rent cover was set at a level to help them sustain fluctuations in income and maintain their own business operations. Government grant funding has further supported our tenants to meet the increased cost of infection control and reduced occupancy, although this is expected to end in the near term.

The tenants have controls in place to identify issues early and resolve them alongside clear objectives to enhance the homes and their rent cover.

Our investment policy includes growing our investments with each tenant reducing the effects of a drop in occupancy at an individual care home. It is also focused on diversifying our tenant base to reduce the effect of a single tenant default on portfolio valuation and underlying income. In the event a tenant does default, our low levels of leverage and fully covered dividend limit the effect on the performance of the Group. In addition, we have the ability to retenant the home with a new tenant or one of our existing tenants.

Opportunity

We have the opportunity to explore different service provisions at our homes to ensure they are successful and meeting the demands of the current market opportunities, and the asset management capability to support this.

PRINCIPAL RISKS AND UNCERTAINTIES

Underperformance of assets

6. Underinvestment in care homes

Probability: Medium**Change in the year:** —**Impact Moderate**

The attractiveness of our portfolio is based on the quality of the operators, measured by their regulatory and financial performance, and our properties' ability to provide effective space from which our tenants can operate. This does not require our homes to be new but it does require them to be well maintained and fit for purpose.

There is a heightened risk that repair and maintenance programmes fall behind as a result of care homes limiting access to third parties and contractors to reduce the risk of infection.

There is also a risk that value-add investment activities are not progressed and more homes become non-core within our portfolio categorisation, with corresponding implications to value and long-term income generation.

Existing and proposed legislation on the energy performance of buildings may also require further investment to meet the energy performance guidelines.

Mitigation

All of our leases with tenants have full repair and maintenance obligations, with the additional clarity of a minimum spend per annum per bed (based on a three-year average spend), which tenants are required to report against and we actively monitor. In addition, all our leases require our tenants to meet all legislation requirements to enable them to continue to operate as a care home.

Failure to comply with the terms of the lease will result in a default enabling us to replace the tenant in an extreme circumstance.

As part of our acquisition due diligence, we are undertaking further assessment of home improvements that can enhance the quality of service and environmental sustainability of the homes. Where appropriate we jointly commit with our tenants to ensure appropriate works are undertaken within the first 12 to 18 months of the home's operation under the lease.

The value-add opportunities we have identified are intended to be accretive to both our tenants and us and reduced occupancy may present opportunities to accelerate these plans.

Opportunity

We work very closely with our tenants to identify opportunities to maintain and enhance the portfolio and where appropriate agree to fund these improvements, in return for an increase in rent. The benefit of operating a portfolio reduces our exposure to changes in individual properties.

Underperformance of assets

7. Environmental regulation and impact of climate change

Probability: Medium**Change in the year:** —**Impact: Low**

Tightening environmental regulations may increase the need for investment or redevelopment of our portfolio and restrict our tenants' ability to provide care and earn revenue.

Failure to consider the effects of climate change could accelerate the obsolescence of our care homes (both physical and low carbon transition risks) with corresponding implications to value and long-term income generation.

Mitigation

Our leases require that our tenants maintain our buildings in line with regulatory requirements.

We have undertaken a review of our portfolio, analysing its carbon footprint and current and potential EPC ratings to ensure our investment strategy supports carbon reduction and improved EPC ratings across our portfolio and preparedness for future legislation. The Investment Manager has estimated that the cost of ensuring all of our homes are rated EPC B would be circa £5 million or approximately 1% of the portfolio value.

As part of our acquisition due diligence, we also undertake an environmental assessment of the homes to ensure it is currently EPC compliant and we identify improvements that can be made to the home and, if appropriate, commit to these with our tenants from the outset. Our valuers also include commentary around the risk of flooding for the asset within their valuation report, which forms part of the building's environmental assessment.

In line with the Task Force on Climate-Related Financial Disclosures (TCFD), we are working towards having a strategic response to the longer-term effects of climate change on our portfolio.

Opportunity

There is an opportunity for us to invest in our homes to ensure they remain fit for purpose with the potential for this investment to be value-enhancing.

PRINCIPAL RISKS AND UNCERTAINTIES

Financing

8. Ability to meet our debt financing obligations

Probability: Medium**Impact: Moderate****Change in the year:** —

If we are unable to operate within our debt covenants, this could lead to a default and our debt funding being recalled.

Interest on our variable rate debt facilities is payable based on a margin over SONIA and bank base rates. Any adverse movements in these rates could significantly impair our profitability and ability to pay dividends to shareholders.

COVID-19 has resulted in reduced occupancy across the sector including within our homes. The initial strong rent cover within our tenant groups has resulted in all of our tenants maintaining their rental payments and stable valuations of our portfolio; however, the risk remains of an enduring pandemic environment and rising inflationary environment placing future risks on our financial performance.

Mitigation

We continually monitor our debt covenant compliance, to ensure we have sufficient headroom and to give us early warning of any issues that may arise. Our LTV is low (limited to 35% on a Group-wide basis) and we selectively enter fixed-rate loans and interest rate caps to mitigate the risk of interest rate rises.

Furthermore, we invest in homes with long WAULTs, reducing the volatility in our property values.

We have significant headroom on our interest and LTV covenants. In addition, we have assets held outside of the charged properties currently secured by the existing debt which can be transferred into the security pool if breaches are anticipated. We have introduced long-term fixed-rate debt at attractive rates alongside our variable-rate revolving credit facilities to further help mitigate the risk from rising interest rates.

Opportunity

As we grow, we have the opportunity to implement more attractive financial structures including long-term funding and sustainability-linked loans that can enhance the financial returns for our stakeholders and reduce the risks of default.

Corporate risk

9. Reliance on the Investment Manager

Probability: Low**Impact: Major****Change in the year:** —

As an externally managed company, we rely on the Investment Manager's services and reputation to execute our strategy and support our day-to-day relationships.

As a result, our performance will depend to some extent on the Investment Manager's ability, the retention of its key staff and its ability to deliver business continuity.

There is a risk of potential conflicts with the Investment Manager and its initial tenant for the Seed Portfolio.

Mitigation

We have an Investment Management Agreement with the Investment Manager, which sets out the basis on which the Investment Manager provides services to us, the restrictions it must operate within and certain additional rights we have, such as a right of pre-emption for investment opportunities. The Agreement may be terminated on 12 months' notice.

The Management Engagement Committee's role and responsibilities include reviewing the Investment Manager's performance. The board as a whole remains actively engaged with the Investment Manager to ensure a positive and collaborative working relationship.

The board has put in a number of controls and procedures to mitigate the risk of conflicts. For example, all investment decisions with related parties require board approval.

Opportunity

The Company has secured an experienced team that is delivering on the investment objectives for our shareholders.

PRINCIPAL RISKS AND UNCERTAINTIES

Other risks that we monitor closely

Adverse change in investment opportunities

A change in the market conditions and availability of investments to generate acceptable returns.

Taxation risk

We are a UK REIT and have a tax-efficient corporate structure. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and our ability to provide favourable returns to shareholders.

Cyber security

Inappropriate access to customer or Company data may lead to loss of sensitive information and result in a material adverse effect on the Company's financial condition, reputation and investor confidence.

Conflicts of interest

Risk that a transaction with a related party may not be at arm's length. We maintain independence of the board and management to scrutinise any conflicts and a conflicts of interest policy is in place to help manage potential conflicts.

Financial management

Budgets and plans may be inaccurate, based on unrealistic assumptions or inappropriately applied, leading to adverse material financial conditions, performance, results and investor concerns.

Development activity

Development contracts have inherent risks in relation to cost and quality management that can result in cost overruns and delays. The pandemic and subsequent high inflationary environment have produced a challenge to developments due to a slow down in construction activity and rising costs; we continue to monitor this risk as the situation evolves.

Tenant performance

In addition to the financial performance of our tenants, we monitor our tenants' overall operational performance including their regulatory quality of care performance, and reputational issues, that could affect the quality of care or the perception of the quality of care. We regularly engage with our tenants to understand any key issues within their operations and their mitigating activity and where possible contribute to solutions where we or our other tenants have identified solutions.

The Company has a robust risk management framework in place to monitor and control the above risks.

Section 172(1) statement

The directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duty under section 172. They consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business, especially with regard to major decisions.

Taking account of our stakeholder views

Information on our stakeholder engagement, including how the board keeps itself informed about stakeholder views and how we take their views into account in decision making, can be found on pages 42-43 and 56.

Key board decisions

The board's principal decisions each year typically include approving acquisitions, capital expenditure, capital raises (equity and debt) and dividend payments. Specific examples of key decisions in 2021 included approving: the April 2021 equity raise, the new debt facility with NatWest, the long-term fixed-rate debt financing, the acquisition and forward funding of a new development with Carlton Hall, and the investment in 12 care homes by way of a loan.

Case studies giving more detail of two of these decisions are set out below.

Investment in a portfolio of 12 care homes by way of a loan

Background

The board was required to consider a new investment structure in terms of its alignment with the Group's investment policy, the security in place against the lending and the requirement for the Group to remain REIT compliant. More information on the transaction can be found on page 27.

Stakeholders considered

The investment rationale considered stakeholders, including the care home residents, the tenant, the vendor, lenders and shareholders. Among the principal considerations were ensuring that the residents continued to receive an appropriate quality of care and that the transaction delivered suitable financial returns for shareholders, while managing risk.

Conclusion

The board considered that residents and the vendor would benefit from the structure of the transaction enabling a rapid and seamless transition to the new operator, Holmes Care Group, and that Holmes and the Group's shareholders would benefit from the growth delivered by the transaction. Although the investment would not be able to be placed as security against any lending the Group wished to secure, this would change if the option to acquire the freehold interests was exercised. The returns were accretive to shareholders irrespective of the ability to secure financing. The long-term impact of the decision would be beneficial for the Group, with 30-year leases on the assets pre-agreed with Holmes.

SECTION 172(1) STATEMENT

Agreement of long-term fixed-rate debt financing

Background

The board was asked to support a new long-term fixed-rate debt financing for the Group. While the new long-term debt was secured on a ring-fenced portfolio, it also required a parent guarantee in the event of a default.

Stakeholders considered

The strategic decision to secure long-term financing took into consideration shareholders and lenders as the primary stakeholders affected, but also the tenants and the tenants' residents of the portfolio offered as security.

Conclusion

The board concluded that the long-term debt was attractive to shareholders, providing secure debt at a fixed interest rate that was accretive to shareholder returns, as well as increasing the average term of the Group's facilities. The board also concluded that the portfolio being provided as security was attractive to the lender and would offer the security required. The board also considered the effects of the parent guarantee and how it would influence its decision making in a downside scenario, and concluded that the effects were manageable and that the facility remained attractive to shareholders without affecting other lenders. The board was therefore supportive of the new financing arrangement.

SECTION 172(1) STATEMENT

Matter	Response
a) The likely consequence of any decision in the long term.	<p>The nature of the Group's business means that the directors must consider the long-term impact of their decisions, given that the Group expects its relationships with tenants to last for a minimum of 20 years.</p> <p>During the year, the board considered and approved the issuance of senior loan notes with a weighted average term of 14 years, the acquisition of 16 care homes on leases of up to 30 years and the pre-let forward funding of a further home, on a 35-year lease.</p>
b) The interests of the company's employees.	As an externally managed property investment company, we do not have any employees, so this matter is not applicable.
c) The need to foster the company's business relationships with suppliers, customers and others.	<p>The Group's customers are its tenants. Developing long-term relationships with tenants is central to our business model (see pages 16-17). During the year, all the board members took part in calls with the majority of the Group's tenants, to ascertain their views on a range of issues. See page 62 for more information. The board also reviews reports of tenant performance at each of its scheduled meetings.</p> <p>Our primary suppliers are our service providers, principally the Investment Manager and Administrator. The board engages regularly with both, including at its regular board meetings. Information on our service provider relationships can be found in the Management Engagement Committee report on pages 84-86.</p>
d) The impact of the company's operations on the community and environment.	As our tenants operate our care homes, they have responsibility for relationships with communities surrounding the homes and for the environmental impact of operating them. However, we work closely with our tenants to identify ways to improve the sustainability performance of our assets, as described on pages 36-41. The board has a strong focus on ESG matters and the strategy day in November 2021 included a session dedicated to ESG. The board will continue to work with the Investment Manager on developing the Group's sustainability strategy in 2022.
e) The desirability of the company maintaining a reputation for high standards of business conduct.	<p>The directors are aware that potential tenants will only sign leases of 20 years or more with landlords they can trust and want to work in partnership with over the long term. The Group therefore relies on a reputation for high standards of business conduct. This is reflected in one of our core values, which is to always act openly and transparently with all of our stakeholders, as well as in our ESG policy (see page 36).</p> <p>The directors continue to increase their direct engagement with stakeholders, such as the tenant call noted above, contributing to open and transparent relationships. High standards of conduct require a robust policy framework and we continue to develop our policies as the business matures. During 2021, the board approved a new Counterparty Credit Risk policy.</p>
f) The need to act fairly between members of the company.	<p>Our largest shareholder, Quilter Investors, is represented on the board by Paul Craig. Paul brings an institutional investor's viewpoint to board discussions, which helps the board to make effective decisions. In addition, the Chairman and Senior Independent Director seek to engage with large shareholders directly and are available to smaller investors upon request to ensure all interests are understood. The large majority of the directors are independent and the board committees only comprise the independent directors. This ensures that all decisions taken reflect the interests of shareholders as a whole.</p> <p>The board recognises the importance of pre-emption rights and therefore ensured that shares issued during the February 2022 equity raise were initially offered to existing qualifying shareholders.</p>

Going concern and viability

Going concern and viability

The board regularly monitors both the Company's and the Group's ability to continue as a going concern and its longer-term viability. The Going concern assessment covers the 12-month period to 31 March 2023. Summaries of the Group's liquidity position, actual and prospective compliance with loan covenants and the financial strength of its tenants are considered at the scheduled quarterly board meetings and more often as required. As part of the board's assessment the modelling includes (but is not limited to), the identification of risks and uncertainties facing the Group, including;

- The risk of default of the Group's tenants taking into consideration current rent cover, the movement in tenant's average weekly fees from residents and the level of grant funding being received. We review the occupancy performance of each tenant over the preceding 12 months and then run sensitivities by tenant including a drop in occupancy of 5%, while average weekly fees remain unchanged, increase in staff costs by 5% and other costs by 10%. We consider the effect these sensitivities have on rent cover and appraise the risk of default of each tenant as low, medium, or high.
- The risk of a fall in investment property values. This could be driven by a number of risks, as outlined in the Principal risks and uncertainties section. We review the resulting impact on the Group's debt covenants and the remedial action that could be taken, including the extent of the resources available to the Company to address any covenant breaches.

The Group's going concern model includes a variety of stress tests including reduction in investment property valuations, restriction of income from tenants (i.e. non payment of rent), the inclusion of increases in underlying costs and increases in interest rates. Reverse stress tests

have been prepared to evaluate how much valuations or net income would need to fall to trigger defaults in each of the security pools. Mitigating actions including stopping dividend payments, corresponding reductions in costs as valuations fall and the use of unsecured properties to prevent covenant breaches were also considered. The sensitivity scenarios reviewed by the Audit Committee and the board include:

- non-payment of rent for all medium and high-risk tenants for six months, reducing dividend payments by 25% for the same six-month period, increasing SONIA and bank base rates to 2% on variable interest rate loans;
- non-payment of rent from all existing tenants for 12 months (excluding planned acquisitions), stopping dividend payments for the same 12-month period, increasing SONIA and bank base rates to 2% on variable interest rate loans and the continued servicing of these debt facilities;
- assessing the level of loss of rents or reduction in valuation that could be sustained within a security group before each covenant or default level is triggered; and
- assessing the loss of rents or reduction in valuation that could be sustained before the Group's unsecured assets would be fully utilised in application to cure rights within debt facilities.

The detailed scenario modelling is performed by the Investment Manager and presented to the Audit Committee for its review, challenge and debate. The projections and scenarios considered in connection with the approval of this financial information had particular regard to ongoing stresses arising from the COVID-19 pandemic and rising inflation, and in particular the impact on the trading and financial strength of the Group's tenants as highlighted in the consideration of uncertainties above.

GOING CONCERN AND VIABILITY

Values of secured properties would need to fall by over 25% before loan to value covenant breaches would arise with all facilities being fully drawn. Rental income would need to fall by over 40% before interest cover covenant breaches would arise, with all facilities being fully drawn.

Although falling outside the 12-month period of assessment for going concern, the board also considered the expiry of the £30 million Metro facility in June 2023. The Group is exploring several options to satisfy this termination event, including the scenario used in the modelling, which is to utilise the proceeds of the private placement, of £38 million which will be received in June 2022.

Going concern statement

The board has weighed up the risks to going concern set out above, together with the ability of the company to take mitigating action in response to those risks. The board considers that the combination of their conclusions as to the tenants' prospects, the headroom available on debt covenants and the liquidity available to the Group to deal with reasonable stressed scenarios on income and valuation outlook leads to a conclusion that the Company and the Group are each able to continue in business for the foreseeable future. The board therefore consider it appropriate to adopt the going concern basis in the preparation of this financial information.

Viability statement

The period over which the directors consider it feasible and appropriate to report on the Group's viability is the five-year period to 31 March 2027. This period has been selected because it is the period that is used for the Group's medium-term business plans. The Board considers the resilience of projected liquidity, as well as compliance with debt covenants, under a range of inflation and property valuation assumptions. These scenarios include stress tests and reverse stress tests

consistent with those described in the preceding paragraphs and include a consideration of mitigating actions that may be taken to avert or mitigate potential threats to viability.

Given the longer period of assessment covered by the viability review, further analysis is conducted to test the reasonableness of the key assumptions made and to examine potential alternative outcomes and mitigating actions relating to those risks and assumptions. These include:

- Debt refinancing during the forecast period, including the £30 million Metro facility, the status of which is explained within the going concern review. In relation to additional refinancing obligations within the period of the viability assessment, the directors have reasonable confidence that additional replacement debt facilities will be put in place. Furthermore, the Group has the ability to make disposals of investment properties to meet its future financing requirements, should this be necessary.
- The default of one of the Group's larger tenants with dividends reduced by 50% as a mitigating action.

Having considered the forecast cash flows and the impact of the sensitivities in combination, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period ending 31 March 2027.

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by

Rupert Barclay Chairman
28 March 2022

Governance

- 56** Corporate governance statement – Chairman's introduction
- 57** Compliance statement
- 58** Application of the AIC Code Principles
- 60** Other key governance statements
- 61** Board leadership and company purpose
- 64** Division of responsibilities
- 66** Meetings and attendance
- 68** Composition, succession and evaluation
 - 68 Board of directors
 - 70 Nominations Committee report
 - 70 Committee membership
 - 71 Board evaluation
 - 72 Succession planning
 - 73 Recruitment of new non-executive director
 - 73 Board composition and diversity
- 74** Audit, risk and internal control
- 79** Audit Committee report
 - 79 Key activities of the committee during the year
 - 79 Committee membership
 - 79 Relevant experience and competence
 - 81 Financial reporting and significant judgements
 - 82 Review of risk framework and internal control
 - 82 Internal audit
 - 82 External auditor
 - 83 Non-audit services
- 84** Management Engagement Committee report
 - 84 The committee and its role
 - 84 Investment Manager
 - 85 Administrator and Company Secretary
- 87** Directors' remuneration report
 - 87 Annual statement
 - 87 Directors' remuneration policy
 - 88 Annual report on remuneration
 - 89 Committee membership
- 91** Directors' report
- 94** Statements of responsibilities
- 96** Independent Auditor's report

📍 Mavern House Nursing Home,
Corsham Road, Shaw, Wiltshire

Corporate governance statement – Chairman's introduction



Rupert Barclay,
Chairman

After a highly unusual year in 2020, during which the board oversaw the Company's response to the initial stages of the pandemic, 2021 has seen a return to more typical activities. While we have continued to pay close attention to our tenants and the impact of the pandemic on their businesses, including occupancy levels and rent cover, we have also been able to spend more time considering the Group's strategy and growth opportunities.

We have stepped up our stakeholder engagement, including the board holding meetings with most of the Group's tenants. They reported very positive views of the Investment Manager as a landlord, along with high net promoter scores. The Senior Independent Director and I also once again offered meetings to the Company's largest institutional shareholders. We had a number of constructive conversations, with shareholders being particularly interested in engaging with the board on ESG matters. More generally, the directors remain highly aware of our responsibilities to the Company's stakeholders, and we continue to enhance our approach to managing these commitments. More information on our engagement work can be found on page 62 of this Corporate governance statement and pages 42-43 of the Strategic report. Environmental, social and governance (ESG) issues have also been firmly in the spotlight and the board continues to work with the Investment Manager on developing our ESG strategy, following the introduction of an ESG policy in the previous year.

Purpose and culture

One of the board's primary responsibilities is to formulate the Company's purpose and ensure the strategy, objectives, risk appetite and culture align to it. We reviewed the Company's purpose at our meeting in November 2021 and concluded it remained appropriate.

We also considered the Company's values and culture. Our values are set out on the inside front cover and we and the Investment Manager continue to integrate them into the way the Company operates. Our culture is based on diversity, openness, transparency and supportiveness, which is also consistent with the culture within the Investment Manager. This consistency is vital, given the Investment Manager's responsibility for the Group's operations.

Composition, succession and evaluation

We were pleased to welcome Chris Santer as an independent non-executive director in May 2021. Chris has significant experience in the real estate sector, including healthcare facilities and, crucially, brings experience of direct property investment, a capability we were keen to add to the board. Following Chris's appointment, we are satisfied that the size of the board and the mix of skills and experience is appropriate for this stage of the Company's development.

The appointment also assists with our ongoing work on succession planning. We recognise that four of the six directors were appointed around the time of the IPO and our succession planning aims to add greater stagger to appointment dates, to avoid a number of directors retiring from the board at the same time. The board is also aware of the importance of diversity and the potential for targets for gender and ethnicity in the near future, and this also forms part of our succession planning.

During 2021, we ran an internal evaluation of the board and its committees, following the framework created by the independent consultants who carried out our externally facilitated evaluation in 2020. This showed that the board and the committees continue to function well, in addition to highlighting a number of areas for development. More information can be found on pages 71-72.

Governance

We believe that good governance provides a framework for enabling performance, rather than being an exercise in achieving compliance. We have continued to ensure that our policies, procedures and internal controls are appropriate and effective, and that our key service providers also have effective control systems in place.

Risk management also remains high on our agenda. Achieving the Group's growth plans requires us to accept a controlled level of risk, so we introduced a new risk appetite framework at the start of the year and have kept this under review to ensure it continues to align with the business strategy. The Investment Manager's recruitment of senior people with deep experience in areas such as development and asset management are also important in helping to mitigate risk, as we look to create more value through these activities.

Compliance

The Company is a member of the Association of Investment Companies (AIC). We have continued to apply the Principles and comply with the provisions of the AIC Corporate Governance Code (the AIC Code).

The AIC Code addresses the Principles and Provisions of the UK Corporate Governance Code (the UK Code) that are relevant to investment companies, as well as setting out additional Provisions of specific relevance to us. We therefore believe that reporting under the AIC Code provides more relevant information to shareholders than reporting under the UK Code.

The AIC Code, which has been endorsed by the Financial Reporting Council, can be obtained from the AIC website: <https://www.theaic.co.uk/aic-code-of-corporate-governance>. It includes an explanation of how the AIC Code adapts the UK Code's Principles and Provisions to make them relevant to investment companies.

Looking forward

The board remains highly focused on the Group's strategy and growth prospects, and the role of effective governance in delivering our objectives. We believe the Group has a robust framework in place, which we will continue to review and adapt to ensure it remains fit for purpose as the business grows.

Rupert Barclay Chairman
28 March 2022

Application of AIC Code Principles

The table below explains how we have applied the main principles of the AIC Code.

Board leadership and Company purpose

Principle A – A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

- Strategic report, pages 1-55
- Chairman's introduction, pages 56-57
- Board leadership and Company purpose, pages 61-63

Principle B – The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

- Strategic report, pages 1-55
- Chairman's introduction, pages 56-57
- Board leadership and Company purpose, pages 61-63
- Division of responsibilities, pages 64-65

Principle C – The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

- Sustainability and Stakeholders, pages 36-41 and 42-43
- Principal risks and uncertainties, pages 44-49
- Section 172(1) statement, pages 50-52
- Audit, risk and internal control, pages 74-78
- Audit Committee report, pages 79-83

Principle D – In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

- Stakeholders, pages 42-43
- Section 172(1) statement, pages 50-52
- Board leadership and Company purpose, pages 61-63

Division of responsibilities

Principle F – The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

- Chairman's introduction, pages 56-57
- Board leadership and Company purpose, pages 61-63
- Division of responsibilities, pages 64-65

Principle G – The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making.

- Division of responsibilities, pages 64-65
- Board of directors, pages 68-69
- Nomination Committee report, pages 70-73

Principle H – Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third-party service providers to account.

- Board leadership and Company purpose, page 61-63
- Division of responsibilities, pages 64-65
- Nomination Committee report, pages 70-73
- Audit Committee report, pages 79-83
- Management Engagement Committee report, pages 84-86

Principle I – The board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

- Division of responsibilities, pages 64-65
- Audit Committee report, pages 79-83

APPLICATION OF AIC CODE PRINCIPLES

Composition, succession and evaluation

Principle J – Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

➔ Nomination Committee report, pages 70-73

Principle K – The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

➔ Board of directors, pages 68-69

Principle L – Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

➔ Nomination Committee report, pages 70-73

Audit, risk and internal control

Principle M – The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.

➔ Audit, risk and internal control, pages 74-78
➔ Audit Committee report, pages 79-83
➔ Notes 2 and 3 to the Financial statements, pages 108-113

Principle N – The board should present a fair, balanced and understandable assessment of the company's position and prospects.

➔ Strategic report, pages 1-55
➔ Fair, balanced and understandable, pages 81-82
➔ Audit, risk and internal control, pages 74-78
➔ Audit Committee report, pages 79-83
➔ Independent Auditor's report, pages 96-102
➔ Financial statements, pages 104-142

Principle O – The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

➔ Principal risks and uncertainties, pages 44-49
➔ Viability statement, page 54
➔ Robust assessment of principal risk, page 60
➔ Review of risk management and internal control, pages 81-82
➔ Audit, risk and internal control, pages 74-78
➔ Audit Committee report, pages 79-83
➔ Management Engagement Committee report, pages 84-86
➔ Note 18 to the Financial statements, pages 126-128

Remuneration

Principle P – Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.

➔ Strategic report, pages 1-55
➔ Board leadership and Company purpose, pages 61-63
➔ Directors' remuneration report, pages 87-90

Principle Q – A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome.

➔ Directors' remuneration report, pages 87-90
➔ Remuneration Committee, pages 89-90

Principle R – Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

➔ Directors' remuneration report, pages 87-90
➔ Remuneration Committee, page 89-90

Other key governance statements

The directors confirm that:

Going concern

The Going concern statement is made on page 54.

Viability

The Viability statement is provided on page 54. Further details of the board's assessment of the Company's viability are set out in Audit, risk and internal control on pages 74-78. The principal risks and uncertainties are set out on pages 44-49.

Robust assessment of principal risks

The board has undertaken a robust assessment of the Group's emerging and principal risks, including those that would threaten its business model, future performance, solvency or liquidity. This annual report describes the procedures to identify these risks. See Audit, risk and internal control on pages 74-78 and Principal risks and uncertainties on pages 44-49 for further information on how these risks are identified and managed.

Review of risk management and internal control

A continuing process for identifying, evaluating and managing the risks the Company faces has been established and the Audit Committee has reviewed the effectiveness of the internal control systems. Further details are set out in the Audit, risk and internal control section on pages 74-78.

Continuing appointment of the Investment Manager

The continuing appointment of the Impact Health Partners LLP as the Investment Manager, on the terms agreed, is in the interests of the shareholders as a whole. Further details on the basis for this conclusion, and the terms, are set out in the Management Engagement Committee report on pages 84-86.

Fair, balanced and understandable

The annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. See the Audit Committee report on pages 79-83 for further information on how this conclusion was reached.

Board leadership and Company purpose

Board agenda

At its quarterly meetings, the board follows a formal agenda. This agenda typically includes:

- the Investment Manager's report for the period, including acquisitions, a review of the performance of the investments, operator performance, risk, market conditions, banking relationships and facilities, and any plans to raise further equity or debt;
- financial results against budget and cash flow forecasts, including dividends declared and forecast;
- reports and updates on investor communications;
- the corporate governance and Secretary's report, a review of policies and procedures, a compliance report and an update on legislative/regulatory obligations as appropriate; and
- recommendations and updates from the board committees, as appropriate.

Specific matters considered by the board during the year included:

- approval of the quarterly net asset value and dividend;
- approval of the Company's annual report, interim results, trading updates, other regulatory announcements, the key information document and the Company factsheet;
- approval of the acquisition of four care homes, the forward-funded development of a home, the investment in 12 care homes in Scotland and the extension at Fairview House and Court;
- approval of the April 2021 equity raise;
- approval of the new debt facility with NatWest, the new long-term institutional debt arrangements and the transition to SONIA for the existing debt facilities;
- approval of the dividend target for 2021;
- approval of Chris Santer's appointment as a non-executive director;

- discussion of operator performance, rent collection, and repairs and maintenance;
- discussion of progress with implementing the Group's ESG policy and preparations for TCFD reporting;
- discussion of stakeholder engagement and stakeholder interests;
- approval of the board's risk appetite;
- approval of the Counterparty Credit Risk policy;
- approval of the updated terms of reference for the Management Engagement Committee; and
- approval of the appointment of Jefferies International as joint brokers.

Strategic oversight

The board's primary responsibilities include challenging and approving the strategy, ensuring it aligns with the Company's purpose and culture (see page 56) and overseeing the strategy's implementation.

The board therefore identifies several strategic topics at the start of each year, with one topic covered in depth at each regular meeting. The topics in 2021 included a review of post-investment performance of a number of the Group's acquisitions, a review of the overall portfolio quality, in consultation with the Company's independent valuer, and a review of tenant quality.

In addition, the board holds a strategy day roughly once per year. The latest strategy day took place in November 2021. The main areas covered were:

- current market conditions;
- adding value through development;
- tenant selection;
- benchmarking against peers; and
- conditions in the capital markets.

BOARD LEADERSHIP AND COMPANY PURPOSE

Tenant engagement

During the year, the board held meetings with the majority of the Group's tenants. The Chairman attended all of these meetings, with the other directors attending several meetings each, ensuring all directors took part in the exercise.

The calls covered a range of topics, including tenants' experience of working with the Investment Manager. Tenants' views of the Investment Manager were very positive, with frequent references to the strong relationship and the quality of communication and collaboration. While tenants were often managing issues such as staff availability during the pandemic, all were optimistic about the long-term outlook for their businesses.

Shareholder relations

The board is committed to fostering and maintaining strong relationships with the Company's shareholders and recognises the importance of good communications. The primary objectives of the shareholder relations activities are to:

- increase understanding of the business, its strategy and its growth opportunities;
- better define the Company's market and differentiate it from its peers;
- achieve a strong, supportive shareholder base with ongoing investment appetite; and
- ensure the board understands the market's view of the Company.

Mahesh Patel, Andrew Cowley and David Yaldron, from the Investment Manager, are the Company's principal spokesmen with shareholders, the press, analysts, debt finance providers and other stakeholders. During the year, the Investment Manager, working together with the Company's corporate brokers and communications adviser, met regularly with institutional investors, analysts

and the financial press to update them on the Company's progress.

The Investment Manager provides the board with regular investor relations updates, which include analyst reports and shareholder feedback from meetings and calls. In addition, non-executive director Paul Craig brings an institutional investor's viewpoint to the board, as he represents the largest shareholder. The board also meets periodically, on a formal and informal basis, with the Company's corporate brokers, in order to better understand the views of major shareholders.

Rupert Barclay, Chairman, and Rosemary Boot, Senior Independent Director, have continued to make themselves available to speak to any shareholders to discuss matters relating to the Company. In 2021, they again held calls with a number of the Company's leading shareholders to hear their views and answer questions. The calls covered a wide range of topics, including developments in the sector, the performance of the Group's tenants, the quality of care tenants are providing for their residents, and the Group's approach to ESG. No significant issues were highlighted during the calls and feedback from shareholders was provided to the other directors.

Annual General Meeting

As a result of the COVID-19 pandemic, the Company was required to adopt alternative arrangements for the 2021 AGM. Although the meeting went ahead, it only considered the formal business that was legally required. Shareholders were able to submit questions in advance of the meeting and to listen to the proceedings via telephone. Subject to any further restrictions on holding meetings in person, the board hopes to welcome shareholders back to a normal in-person AGM in 2022.

Further information on arrangements for the 2022 AGM can be found on page 93.

BOARD LEADERSHIP AND COMPANY PURPOSE

Should shareholders wish to contact the Chairman or the Company in advance of the AGM, they can be contacted by emailing the Company Secretary at Impact.CoSec@jtcgroup.com.

Public communications

The Company ensures that any price sensitive information is released to all shareholders at the same time and in accordance with regulatory requirements. All public information and Company announcements released through the London Stock Exchange are made available on the Company's website at <https://www.impactreit.uk/>

Other stakeholder engagement

Engagement with our other key stakeholders is discussed in the Sustainability and Stakeholders sections on pages 36-41 and 42-43, and in our Section 172(1) statement on pages 50-52.

Division of responsibilities

The board and its responsibilities

The directors are responsible for managing the Company's business affairs in accordance with the articles and the investment policy and have overall responsibility for the Company's activities, including its strategy, investment activities and reviewing the performance of the portfolio.

The board has a schedule of matters specifically reserved for its decision, which is reviewed annually. These include:

- any decision likely to have a material impact on the Group from any perspective including, but not limited to, financial, operational, strategic or reputational matters;
- the strategic direction of the business, objectives, budgets and forecasts, levels of authority to approve expenditure, and any material changes to them;
- the commencement, material expansion, diversification or cessation of any of the Group's activities;
- the Group's regulatory, financial and material operational policies;
- changes relating to the Group's capital, corporate, management or control structures;
- material capital or operating expenditures, outside predetermined criteria or beyond the delegated authorities;
- any material contract or joint venture and material arrangements with customers or suppliers;
- the approval of the Company's financial statements and published reports;
- the approval of equity and debt fundraising;
- the oversight of potential conflicts arising from the principals of the Investment Manager being the owners of the Group's largest tenant, Minster Care Group Limited;

- the approval of all new investments other than those leased to existing tenants, where the approval is for investments over £5 million; and
- the approval of capital improvements over £1 million.

The full set of matters reserved to the board are available on our website at <https://www.impactreit.uk/about/corporate-governance/>

The board may delegate certain functions to other parties, such as the board committees, the Investment Manager, the Administrator, the Company Secretary and the Registrar. In particular, the board has delegated responsibility for day-to-day management of the Company's portfolio to the Investment Manager. The directors are responsible for supervising the Investment Manager.

Board composition

There was one change to the board's composition during the year, with the appointment of Chris Santer as a non-executive director with effect from 13 May 2021. At the year end, the board therefore comprised six non-executive directors. Rupert Barclay, Rosemary Boot, Philip Hall, Amanda Aldridge and Chris Santer are deemed to be independent of the Investment Manager. Paul Craig is also independent of the Investment Manager but is not considered to be an independent director because he is a representative of the Company's largest shareholder. See Board of directors, pages 68-69.

The Chairman

The Chairman, Rupert Barclay, was independent on appointment and has no relationships that may create a conflict of interest with shareholders. As Chairman, he sets the agendas for board meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings.

DIVISION OF RESPONSIBILITIES

The Chairman has held the post for five years. As the Company is subject to the AIC Code (the Code), there is no requirement for a limit on the Chairman's tenure, as approved by the FRC. However, the board recognises that there is a significant body of opinion that tenure should be limited to nine years and the directors bear this in mind in their succession planning.

Time commitment and re-election of directors

The Company's practice is to assume directors serve for a minimum three-year term, subject to annual re-election by the shareholders. All directors will seek re-election at the AGM, in accordance with the Code's recommendations.

During the year, the Nomination Committee reviewed the risk of overboarding against each director's current commitments and concluded that all the directors have adequate time to devote to the Company, as shown by their attendance and contribution in 2021.

Provision of challenge

The non-executive directors provide objective, rigorous and constructive challenge to the Investment Manager. In doing so, they draw upon their collective skills and experience, which include specific expertise in the care home and social care sector, as well as significant experience of financial matters, corporate finance and audit. The board also has a strong understanding of the investor perspective, as well as knowledge and experience of corporate governance, gained through operating at boardroom level in a range of other organisations.

The performance of the other service providers (except for the Independent Auditor) is assessed on a regular basis, and at least annually, by the Management Engagement Committee. A formal evaluation of the other service providers has been

conducted, including that of the Independent Auditor by the Audit Committee. For more details see pages 66-67.

Board committees

The board has four standing committees: the Audit Committee, the Management Engagement Committee, the Nomination Committee and the Remuneration Committee. Details of these committees are set out in their reports, on pages 79-83, 84-86, 70-73 and 87, respectively. The committees' terms of reference are available on our website at <https://www.impactreit.uk/about/corporate-governance/>

All of the independent directors serve on each board committee, so the links and overlaps between the committees' responsibilities are fully recognised and each committee has full knowledge of the business and deliberations of the other committees. The committees also formally report to the Company's board at board meetings, to present recommendations from the committees to the board for decision.

In addition, the Investment Manager has a risk committee, which monitors the Company's risk management framework. Amanda Aldridge, the Audit Committee Chair, represents the board on this committee, which also includes representatives of the Investment Manager, the Company Secretary and the Investment Manager's risk advisers, Carne. More details of this committee's activities are set out in Audit, risk and internal control on pages 74-78.

DIVISION OF RESPONSIBILITIES

Meetings and attendance

The board meets formally on a quarterly basis and there is an annual strategy day which the whole board attended in November 2021. There are also ad hoc meetings, which are generally called to approve specific announcements or transactions and frequently involve a quorate sub-committee of the board, which is appointed as necessary. During 2021, the board had 13 ad hoc meetings (2020: 12). The table below shows each director's attendance at the scheduled board and committee meetings during the year.

JTC attends all the scheduled meetings as Secretary to the board. In addition, representatives of the Investment Manager, the external auditor and other advisers are invited to attend as required.

Service and support

The Company has no employees and is externally managed by the Investment Manager (as the mandatory Alternative Investment Fund Manager), supported by the Company Secretary and Administrator.

The Management Engagement Committee formally reviews the performance of the Investment Manager and the Company Secretary and Administrator each year and makes recommendations to the board as it considers appropriate. Further details of these reviews, and the relationships with the Investment Manager and Administrator are given in the Management Engagement Committee report on pages 84-86.

Depository

Indos Financial Limited is the Company's Depository.

Administrator

JTC (UK) Limited ("JTC") served as Administrator and Company Secretary to the Company, during the year.

Director	Quarterly board meetings	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee
Rupert Barclay (Chairman)	4/4	4/4	1/1	2/2	1/1
Rosemary Boot	4/4	4/4	1/1	2/2	1/1
Amanda Aldridge	4/4	4/4	1/1	2/2	1/1
Paul Craig	4/4	N/A	N/A	N/A	N/A
Philip Hall	4/4	4/4	1/1	2/2	1/1
Chris Santer	2/2 ¹	2/2 ¹	1/1	1/1 ¹	1/1

¹ Chris Santer was appointed on 13 May 2021.

DIVISION OF RESPONSIBILITIES

As Administrator, JTC, on behalf of the directors, is responsible for:

- maintaining the Company's books and records;
- preparing the management and financial accounts;
- managing all of the Company's cash movements; and
- calculating, in conjunction with the Investment Manager, the Company's Net Asset Value.

As Company Secretary, JTC is also responsible for ensuring regulatory compliance and supporting the board's corporate governance process and its continuing obligations. In addition, JTC is

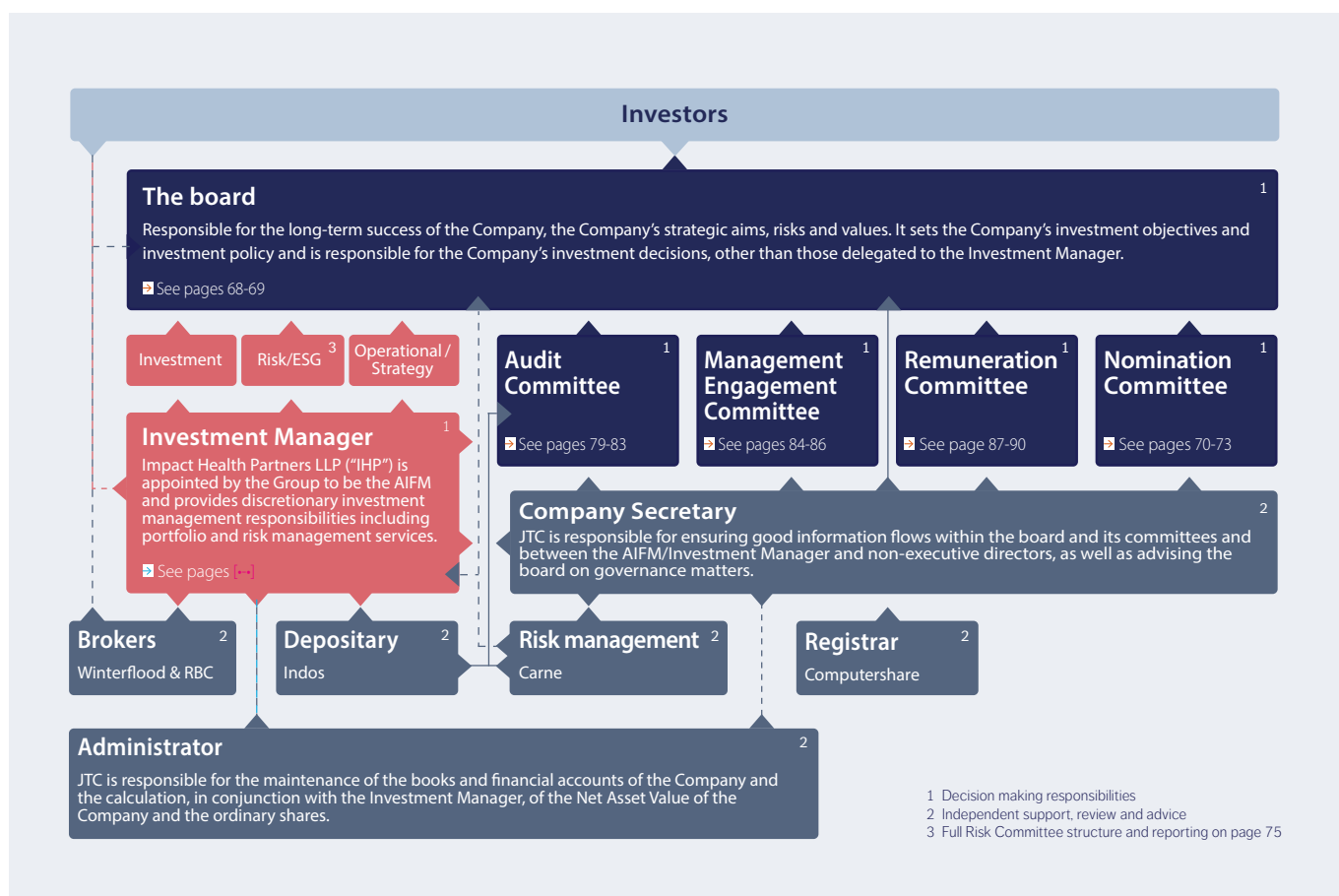
responsible for liaising with the Company, the Investment Manager and the Registrar in relation to dividend payments, as well as general secretarial functions required by the Companies Act.

The directors have access to the advice and services of the Administrator and Company Secretary. Where necessary in carrying out their duties, the directors may seek independent professional advice and services at the Company's expense.

Alternative Investment Fund Manager Directive ("AIFMD")

The Company is an Alternative Investment Fund ("AIF") for the purposes of the AIFMD.

Reporting structure



Board of directors

The directors have a broad range of backgrounds and relevant skills and experience, which enables them to work well together in leading the Group.



Rupert Barclay FCA
Independent Chairman, aged 65

Appointed: 16 January 2017

Committees: Management Engagement (Chairman), Nomination (Chairman), Audit and Remuneration

Rupert has significant boardroom experience in listed and quoted companies, including Sanditon Investment Trust plc (where he served as chairman), Lowland Investment Company plc (where he was a director and chairman of the audit committee), Dimension Data plc (where he was the senior independent director) and Instinet, Inc, where he was a director and member of the remuneration and audit committees. His career is in strategic consultancy, with roles as corporate strategy director at Allied Domecq and Reuters, following his time as a partner at LEK Consulting.

He has an MA in Classics from Cambridge, an MBA with Distinction from INSEAD and is a Fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Cairneagle Associates LLP, 2004-present, Managing Partner



Rosemary Boot
Senior Independent Non-executive Director, aged 59

Appointed: 16 January 2017

Committees: Remuneration (Chairman), Audit, Management Engagement and Nomination

Rosemary was chief financial officer of Future Cities Catapult, one of a network of technology and innovation centres established by the UK government. She has also previously served as an executive director and strategy adviser at a large housing association and as group finance director of the Carbon Trust, an independent company set up in 2001 to work with business and the public sector to accelerate the move to a sustainable, low carbon economy.

Previously, Rosemary worked for 16 years as an investment banker at UBS Warburg, primarily advising large listed UK companies on corporate finance matters.

Other current directorships

- The Green Alliance, 2014-present. Trustee and Member of the finance and management committee
- Southern Water Services Limited, 2015-present. Independent non-executive director, chair of the ESG committee and member of the audit committee
- Urban&Civic plc, 2019-present. Independent non-executive director and member of audit and remuneration committees. Reappointed as independent non-executive director following takeover by the Wellcome Trust in 2021
- Chapter Zero Limited, 2019-present. Co-founder and director
- Triple Point Energy Efficiency Infrastructure Company plc, 2020-present. Senior independent director and audit committee chair



Amanda Aldridge FCA
Independent Non-executive Director, aged 59

Appointed: 1 March 2019

Committees: Audit (Chairman), Management Engagement, Nomination and Remuneration

Amanda was an audit and advisory partner in KPMG LLP from 1996 until 2017, when she retired from the partnership. She has significant experience as an external auditor, working predominantly with quoted clients, and has also advised quoted companies on corporate transactions and the assessment and remediation of internal controls. Her audit and advisory work included clients with significant property portfolios.

She qualified as a Chartered Accountant in 1987 and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other current directorships

- Headlam Group plc, 2018-present, non-executive director, chairman of the audit committee and member of the remuneration and nomination committee
- The Brunner Investment Trust Plc, 2019-present. Non-executive director, chair of the audit and member of the remuneration, nominations and management engagement committees
- The Low Carbon Contracts Company Limited and The Electricity Settlements Company Limited, 2020-present. Non-executive director and chair of the audit and risk committees

BOARD OF DIRECTORS

**Paul Craig**

Non-executive Director, aged 53

Appointed: 30 June 2017

Paul is a portfolio manager at Quilter Investors, which has an interest in the Company through funds he manages. He has over 20 years of investment experience, including ten years at Exeter Investment Group, six years at New Star Asset Management as a director of the asset management subsidiary, and six years as a director within the multi-manager investment team at Henderson Global Investors. Over the past 18 years, Paul's focus has been on multi-manager products, with an emphasis on closed-ended funds.

Paul is an associate of the UK Society for Investment Professionals.

Other current directorships

- The Diverse Income Trust plc, 2011-present, director

**Philip Hall**

Independent Non-executive Director, aged 67

Appointed: 16 January 2017

Committees: Audit, Management Engagement, Nomination and Remuneration

Philip is a chartered surveyor with more than 25 years' experience in the healthcare sector in the UK and internationally. Until 2017 he was Chairman for healthcare at Jones Lang LaSalle (JLL), where he was involved principally in sales, acquisitions, portfolio strategy and valuations. He then ran his own healthcare property consultancy until February 2021. During his career, he advised on the restructuring of Southern Cross and its legacy and was a member of its landlord committee, which steered the winding up of Southern Cross and the transfer of its residents and staff to new operators. He has also advised on lease and loan restructuring transactions, asset management and turnaround strategies. Before joining JLL, Philip was a founding shareholder and managing director of Taylors Business Surveyors and Valuers Ltd, a chartered surveying company, which he sold in 2005. In addition, he is the author of "The Valuation of Care Homes, Valuation: Principles into Practice", which was published in 2008. Philip is a member of the Royal Institution of Chartered Surveyors.

Other current directorships

- None

**Chris Santer**

Independent Non-executive Director, aged 48

Appointed: 13 May 2021

Committees: Audit, Management Engagement, Nomination and Remuneration

Most recently, Chief Investment Officer for Primary Health Properties PLC ("PHP"), one of the UK's leading investors in modern primary healthcare facilities in the UK and Ireland and a constituent of the FTSE 250, Chris has around 25 years of real estate investment and development experience in the UK and Continental Europe, in both listed and private equity funds. He has been responsible for a number of funds making or managing direct and indirect real estate investments totalling over £5 billion, including core, value-add and opportunistic investments and across sectors including office, retail, warehouse, residential and alternative asset classes, especially healthcare.

Prior to joining PHP, Chris was a Director of Portfolio Management at PGIM Real Estate and previously MGPA. Chris's healthcare experience also included joint ventures with Sunrise Senior Living Inc. to develop and operate premium, private pay UK care homes.

Chris has an MBA from Warwick Business School and is a Member of the Royal Institution of Chartered Surveyors.

Other current directorships

- None

Nomination Committee report



Rupert Barclay,
Chairman

Introduction

During 2021, the Nomination Committee's focus areas included recruiting an additional non-executive director, completing an internal evaluation of the board and its committees, and our ongoing succession planning. More information on each of these areas, as well as the board's approach to diversity, is set out in this report.

Committee membership

The Committee's membership during the year comprised Rosemary Boot, Amanda Aldridge, Philip Hall, Chris Santer and me, Rupert Barclay, as Committee Chairman. Chris joined the Committee on his appointment as a non-executive director on 13 May 2021.

Role

The Committee helps to ensure the board is effective and able to operate in the best interests of shareholders and other stakeholders. The most important of its functions are:

- ensuring there is a formal, rigorous and transparent procedure for appointing new directors to the board;
- leading the process for board appointments and making recommendations about appointments to the board;
- performing an annual review of the board's structure, size and composition (including the directors' skills, experience, independence, knowledge and diversity) and making recommendations to the board about any changes;

- considering succession planning for directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise the board will need in the future;
- performing an annual review of the time required from non-executive directors, including the Chairman and Senior Independent Director, and using the performance evaluation to assess whether the non-executive directors are spending enough time to fulfil their duties;
- considering recommendations for re-election on retirement and the re-appointment of any director at the conclusion of his or her specified term of office; and
- assisting the Chairman of the board with implementing an annual evaluation process, to assess the overall and individual performance and effectiveness of the board, the Chair and its committees.

Committee meetings

The Nomination Committee meets formally at least once a year and also when required. We had two meetings during the year, in May and October 2021. Committee members' attendance at these meetings is set out on page 66.

JTC attends our meetings as Secretary to the Committee. In addition, we may invite representatives of the Investment Manager or other service providers to attend as required.

At the meeting in May, the Committee considered the appointment of Chris Santer as a non-executive director and agreed to recommend his appointment to the board.

NOMINATION COMMITTEE REPORT

At the meeting in October, the Committee:

- received and discussed the results of the 2021 board evaluation;
- considered the board's composition, including diversity and the mix of skills on the board;
- considered the directors' ability to devote adequate time to the Company's business; and
- reviewed succession planning.

Terms of reference

There were no changes to the Nomination Committee's terms of reference during 2021. The terms of reference of all board committees are available on our website at: <https://www.impactreit.uk/about/corporate-governance/>

Board evaluation

During the year, we completed an internal evaluation of the Board and its Committees. The evaluation used the framework created by the consultants who undertook the external evaluation in 2020, ensuring we comprehensively reviewed the functioning of the board, its committees and the individual directors.

The evaluation process included a questionnaire on board-level topics, with accompanying reviews of each Committee, which addressed reviews specific to that Committee. The directors also completed self-assessments. I reviewed the results, which were then reported to and discussed by the Nomination Committee.

The results of the evaluation were positive, with the board and the committees performing well.

The exercise also highlighted a number of areas for the board to address, including:

- continuing to concentrate on the Company's strategy;
- increasing the length of board meetings, to accommodate an increasing workload;
- considering key tenant relationships in greater depth;
- considering the Company's long-term resilience; and
- allocating more time to reviewing purpose, values and culture.

We will report on our progress against these matters in the 2022 annual report.

In order to support their continuing professional development, the board is offered a range of training and development opportunities each year. These offerings will continue during 2022 and it is anticipated that the board will receive training sessions on the following key areas:

- regulatory framework, policies and changes/updates within the healthcare sector;
- Directors' duties, MAR/inside information, continuing obligations; and
- ESG and sustainability business impact.

In addition to the above, the board has access to the advice and services of the Company Secretary, who is responsible for compliance with board procedures and the provision of information to the board.

Set out below are the recommendations that arose from the 2020 board evaluation and our progress against them.

NOMINATION COMMITTEE REPORT

Focus area	Progress
Set out key roles in writing, including those of the board, the Chairman and the Senior Independent Director	The board reviewed this requirement during the year and concluded that the roles and responsibilities of the Chair and Senior Independent Director are adequately documented and no further action was required.
Tailor updates on governance and regulations to the Company's circumstances	The Company Secretary provides tailored updates at each regular board meeting, but this remains a development point going forward.
Discuss the need for a further board appointment	See Appointment of non-executive director below.
Discuss individual director's intentions about their tenure, to aid succession planning	See Succession planning below.
Additional focus on succession planning at the Investment Manager	The Committee was pleased to see that the Investment Manager has added to its senior management team, including the appointment of a development director with significant experience of ESG issues.
Develop an annual plan for the board and encourage board members to contribute to agenda setting	The board has developed an annual plan, including agreeing the strategic topics to be covered at each quarterly meeting. The directors were also involved in setting the agenda for the annual strategy day.
Continue to improve board papers	Board papers have continued to improve, for example through the use of a traffic light system to highlight topics for noting, discussion or decision. Further work is required to reduce the length of board papers.
Ensure that meetings run to time	Meetings have generally run to time during the year, with the use of Zoom and Teams to hold virtual meetings contributing to their efficiency.
Arrange informal meetings between the directors, to allow more time for reflection and discussion	The pandemic and the use of video conferencing for board meetings have made it difficult to meet informally. The board intends to have informal meetings around its regular meetings in 2022.
Develop a strategic route map for the Company and the implications for the Investment Manager's resourcing and capabilities	The board discussed the strategic route map for the Company at its strategy day in November and has tasked the Investment Manager to produce a five-year plan of the shape of the business and the resources required to achieve it.
Give additional consideration to risk appetite and emerging risks	As part of the board's annual strategy review, they have spent additional time on risk appetite and emerging risks. See Audit, risk and internal controls.

Individual director performance

All the directors were felt to be performing well and to be making robust contributions to the work of the board and its committees. I discussed individual feedback with the other directors, while the Senior Independent Director discussed my performance as Chairman of the board with me.

Succession planning

The Committee's work on succession planning during 2021 reflected the need to add further variability into the appointment dates of board members, given that four of the six directors joined around the time of our IPO. Carefully managed succession will also keep thinking on the board fresh, increase the board's capacity as the Company

NOMINATION COMMITTEE REPORT

grows and enable us to ensure appropriate diversity on the board. The appointment of Chris Santer in 2021 has helped to both increase the stagger of appointments and bring in a new perspective.

As part of our considerations, I have held meetings with each of the other directors to discuss their aspirations about their tenure on the board. I have also discussed my thinking on my own position with the Senior Independent Director, Rosemary Boot, who in turn fed back the other directors' view of the appropriate length of my tenure. The Committee also met formally without me to discuss this matter.

Recruitment of new non-executive director

In last year's report, we noted our intention to recruit an additional non-executive director and that we had appointed Nurole to conduct the search on our behalf. Nurole is a specialist in board-level recruitment. It also conducted the search that led to Amanda Aldridge's appointment as a non-executive director in 2019 but otherwise has no connection with the Company.

The Committee determined that the primary criterion we were looking for was hands-on experience of investing in property. Nurole provided a longlist of candidates, from which we drew up a shortlist. Ultimately, we selected two candidates for interview. Following this process, we concluded that Chris Santer was the outstanding person for the role. The Committee therefore recommended Chris's appointment to the board, which approved his appointment at its meeting in May 2021. Details of Chris's experience and qualifications can be found in his biography on page 69.

Chris underwent a thorough induction process on his appointment to the board. This induction included a briefing session with the Company Secretary, who provided Chris with an overview of the Company, an outline of its governance structure and a review of the Company's key constitutional documents and corporate records,

including minutes from previous board meetings. Chris also had a number of briefing sessions with the Investment Manager and these sessions included an introduction to our existing tenants, investment process and acquisition pipeline.

Board composition and diversity

The Committee reviewed the balance of skills and experience on the board and considered it to be appropriate for the Company's current purpose and strategy.

The board recognises the benefits that diversity brings and has a formal diversity policy, which it adopted in 2019. At the year end, one third of the board was female. We recognise that diversity includes, and makes good use of, differences in knowledge and understanding of relevant geographies, peoples and their backgrounds, including race or ethnic origin, sexual orientation, gender, age, disability or religion. We are also starting to plan for the likely changes to the Listing Rules, which are expected to require companies to either meet a 40% target for the proportion of women on their boards and to have at least one member from a non-white ethnic minority background, or to explain why they do not meet these targets.

When making appointments to the board, our approach is to appoint the best possible candidate, considered against objective criteria and in accordance with the Equality Act 2010. Candidates are reviewed in the context of complementing and expanding the skills, knowledge and experience of the board as a whole.

Rupert Barclay Committee Chairman
28 March 2022

Audit, risk and internal control

Overview

The directors are responsible for maintaining the Company's system of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks that are inherent to the Company, and to manage rather than eliminate the risk of failure to achieve business objectives. As such, it can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Risk profile

The Group's principal risks and uncertainties are set out on pages 44-49. The directors, with the support of the Investment Manager, have performed robust reviews of the Company's principal and emerging risks during the year. The annual assessment of principal risks includes a survey of board members and key service providers, and discussion of the survey results. The Company's principal risks are also considered in the context of the AIFMD, which sets out certain categories of risk that the Investment Manager, on behalf of the Company, must take into account in monitoring and managing risk.

The Company's principal risks, and the mitigations in place to control them, are detailed in the risk register. This measures the inherent likelihood and impact of each risk and their residual likelihood and impact, assuming controls are operating effectively. The risk register is updated and approved by the board at least annually.

Having assessed its principal risks, the board has procedures in place to ensure that risks are monitored and managed on an ongoing basis and that it gains adequate assurance that systems and controls are operating effectively (see Risk processes below).

Risk appetite

The Company's risk appetite reflects the risks the board is willing to take, in order to successfully implement its strategy and achieve its investment objectives, as set out on page 20. The directors approved a new risk appetite statement at their meeting in March 2021, following a review of the statement by the Audit Committee and assessed this as part of its review of strategy in November 2021.

Risk processes

The Company's risk governance structure is summarised below:

Board

Has ultimate responsibility for the Company's risk management and internal control.

Audit Committee

Has delegated responsibility from the board for monitoring compliance with internal financial controls, reviewing the risk management framework and reviewing external reporting related to risks and internal control.

Management Engagement Committee

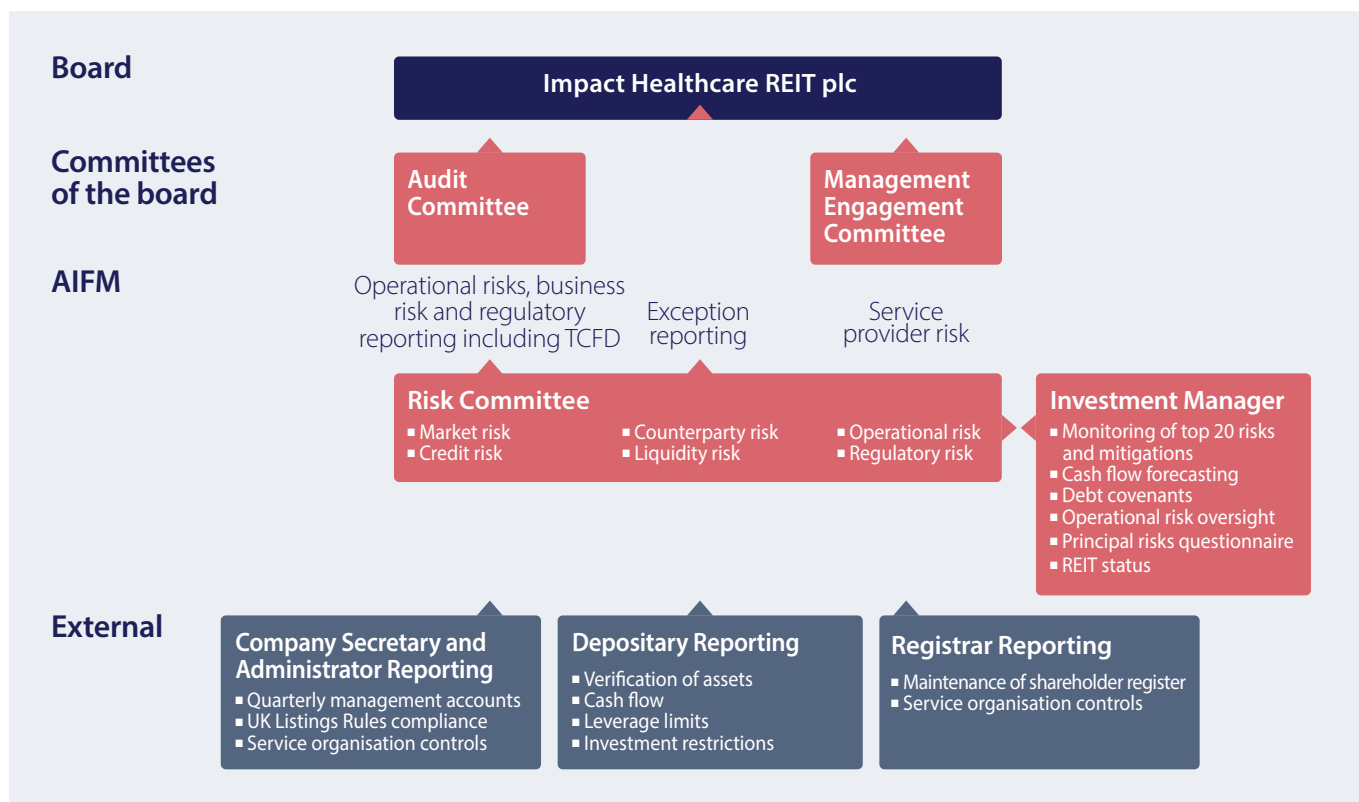
Has delegated responsibility from the board for assessing the competence of service providers and, by extension, their ability to monitor and control risk on the Company's behalf.

Investment Manager

Performs portfolio and risk management functions on behalf of the Company. This includes monitoring the systems and controls in place to manage risk. The Investment Manager has appointed Carne Global AIFM Solutions (C.I.) Limited to undertake the risk management function on its behalf.

AUDIT, RISK AND INTERNAL CONTROL

The risk governance structure and associated reporting lines are set out the following schematic:



Risk Committee

Oversees risk management and controls. The Committee's membership includes representatives from the board, the Investment Manager, the Administrator and Carne. Its remit includes reviewing and updating the risk register, ensuring risks stay within tolerance, stress and scenario testing, and monitoring of regulatory compliance. It reports by exception to the board and the Audit Committee.

Service providers

Providers are expected to monitor their own internal control systems, to ensure that risk is properly managed in performing services for the Company.

AUDIT, RISK AND INTERNAL CONTROL

Responsibilities for managing risk

The responsibilities for managing risk by each element of the risk management framework are summarised below:

1. Board responsibilities

- Quarterly review of Company liquidity
- Semi-annual assessment of principal risks facing the business and consideration of emerging risks
- Assessment and articulation of risk appetite

2. Audit Committee responsibilities

- Keep under review the Company's internal financial controls and internal control and risk management systems through reports from the Risk Committee, with exceptions reported to the board and queries followed up with the Risk Committee
- Annual review of effectiveness of the risk management framework
- Review and approve the statements to be included in the annual report concerning internal controls and risk management
- Review and approve statements explaining how assets have been invested, with a view to spreading investment risk

3. Management Engagement Committee responsibilities

- Consider risk issues arising from the functions performed by service providers and reported to the Management Engagement Committee/board as necessary

4. Risk Committee responsibilities

- Identify key and emerging risks facing the business and the controls in place to mitigate those risks (documented in the risk register)
- Assess the materiality of each risk according to the likelihood of occurrence and potential impact on

the business (documented in the risk register)

- On a quarterly basis, assess control effectiveness via reporting on key risks by service providers (Investment Manager, Administrator, Registrar, Depositary)
- Agree follow-up actions in respect of risks that are outside of tolerance. Ensure that risk events, errors and breaches are appropriately remedied, and that controls are enhanced to prevent reoccurrence
- Review risks to the business model, future performance, solvency or liquidity of the Company, in the context of going concern and long-term viability statements
- Review counterparty credit risk, with reference to the Company's financing arrangements and policies
- Review regulatory risk via the compliance monitoring undertaken by the Administrator and REIT conditions monitoring undertaken by the Investment Manager
- Assess third-party service provider risk via Service Organisation Control reports and due diligence reviews

5. Compliance monitoring responsibilities

- JTC, in its capacity as Administrator and Company Secretary, monitors the Company's compliance with the UK Listing Rules and the Disclosure Guidance and Transparency Rules.
- The Investment Manager monitors the Company's compliance with the qualifying conditions set out in the UK REIT rules (Corporation Tax Act 2010)

6. Depositary monitoring responsibilities

- Indos Financial Limited, in its capacity as Depositary, reviews risks relevant to the depositary function in accordance with the requirements of AIFMD. This includes verification of assets, payment of expenses, leverage limits, investment restrictions, cash flow monitoring and good title to assets

AUDIT, RISK AND INTERNAL CONTROL

Internal control processes

The Audit Committee, working with the Investment Manager and Administrator, reviews the Group's systems of risk management and their effectiveness on behalf of the board. These systems and processes have been in place for the year under review and remained in place up to the date of approval of the annual report and accounts.

The Group's internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments, including compliance with the conflicts policy.

In addition, the board has a Financial Position & Prospects Procedures board memorandum, which is updated and reviewed by the Audit Committee every year. This sets out the procedures operating to identify the information needed to monitor the business and manage risk, so as to make proper judgements on its financial position and prospects. It also details the procedures to identify, assess and document the risk factors likely to affect the Company's financial position and prospects and any changes, and the preparation and communication to the directors of related information. This was last reviewed prior to the publication of the Company's Prospectus on 27 January 2022.

Changes to internal controls, or controls to respond to changing risks identified, are addressed by the Risk Committee, with escalation to the board as required.

The directors, along with the Investment Manager and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of internal controls. This covers capital expenditure approval and

authorisation of capital funding, investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and dividend authorisation, equity and debt approval and formal communications with investors.

During the year, the directors received a report from the Investment Manager that summarises its internal controls, which primarily relate to segregation of duties, including who is responsible for providing cover if particular individuals are unavailable. In addition, the directors have received bridging letters from service providers to provide assurance that their controls have continued to operate effectively throughout the period under review, where the service providers' own review of their internal controls is not coterminous with the Company's reporting period.

Financial reporting

The Group, with the support of the Investment Manager and Administrator, has internal control and risk management arrangements in relation to its financial reporting processes and the preparation of its consolidated accounts. Internal management reporting and external statutory reporting timetables and delivery requirements have been established and documented. The Administrator maintains control of these and communicates them regularly.

The arrangements include procedures implemented by the Administrator to ensure records are maintained which accurately and fairly reflect transactions. The Investment Manager reviews and comments on the records, to confirm the appropriate treatment.

Where new reporting standards or financial reporting approaches are being adopted, either as a result of changing regulation or as a result of new contractual arrangements, the Administrator, in collaboration with the Investment Manager,

AUDIT, RISK AND INTERNAL CONTROL

prepares an assessment of this treatment and discusses it with the Audit Committee. Where required, third-party advisers are consulted. This enables the preparation of financial statements in accordance with UK adopted International Financial Reporting Standards ("IFRS"), or FRS 102, as appropriate, with reasonable assurance. Reported data is reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee.

Ongoing financial performance is monitored through the Administrator reporting regularly to the Investment Manager, with performance then reported to the board.

Capital investment and all revenue expenditure are regulated by a budgetary process and authorisation levels. The Investment Manager prepares a budget which is approved by the board, with performance against budget reported to the board quarterly. The Administrator also tracks expenditure and investment against budget. Payment of Investment Manager fees are presented to an individual director for sign off.

Review of internal audit requirement

The Audit Committee, on behalf of the board, considered during 2021 whether the Company should employ an internal audit function and concluded that, due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by the Administrator, the Depositary and the Investment Manager, an internal audit function was not necessary.

Review of risk management and internal control

The board has established a continuing process for identifying, evaluating and managing the risks the Company faces and reviewing the effectiveness of the internal control systems. The formal statement on the annual review is given on page 60.

Audit Committee report



Amanda Aldridge,
Committee Chairman

Introduction

I am delighted to present the Committee's report for the year ended 31 December 2021.

During the year, the Committee has continued to play a valuable role in the Group's governance. Our principal activities focused on monitoring and reviewing the integrity of financial information and the quality and effectiveness of external audit, and providing challenge and oversight of risk management processes and the internal control framework.

We also continued to monitor the impact of the COVID-19 pandemic on the Group's principal risks and uncertainties and our assessment of going concern and viability. In addition, we monitored the impact of the pandemic on our service providers, who provide detailed statements and representations to the Risk Committee.

The Risk Committee's role in the risk management framework is described on pages 74-78. During the year I attended all meetings of this Committee, which continues to provide me with first-hand experience of how it operates and the detailed assurance which underpins our risk management framework.

The remainder of my report comprises a summary of the Audit Committee's key activities during the year and more detail in respect of each area of our work.

Committee membership

I chaired the Committee throughout the year and Rosemary Boot, Rupert Barclay and Philip Hall were members of the Committee throughout the year. We welcomed Chris Santer to the Committee when he joined the board on 13 May.

Rupert, Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy and/or chief financial officer experience, as well as our other board directorships. All committee members keep up

to date with financial accounting developments through attendance at a range of technical update courses. Rupert and I are chartered accountants.

The Committee believes it is appropriate for the Chairman of the board, Rupert Barclay, to be a member of the Committee, due to his accounting background, knowledge of the business and his positive interactions with the other Committee members.

In addition, the board has concluded that the Audit Committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

Relevant experience and competence

Amanda Aldridge FCA: audit and advisory partner at KPMG for 20 years; chairs the audit committee at two other listed companies; sector experience includes property, social housing and investment trusts.

Rupert Barclay FCA: senior management positions in listed and private companies, including executive and non-executive board membership; M&A and strategy.

Rosemary Boot: social care, housing sectors and climate change; senior management and CFO positions in private companies, executive and non-executive board membership, including audit committee membership of other listed companies; M&A, investment banking and strategy.

Philip Hall: healthcare, social care and real estate sectors; senior executive positions in a property company; surveying and valuation; and capex, turnaround and restructuring programmes.

Chris Santer: healthcare, social care and real estate sectors; real estate investment and development in listed and private equity funds; managing direct and indirect real estate investments; surveying and valuation.

AUDIT COMMITTEE REPORT

Role

The Committee's primary responsibilities are to:

- monitor the integrity of the Company's financial statements and formal announcements relating to the Company's financial performance, and review any significant financial reporting judgements contained in them;
- consider the appropriateness of our accounting policies;
- review the interim and final valuations with the valuers;
- review and then advise the board that the annual report and accounts taken as whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- review and consider the basis of the Going concern statement and Viability statement made by the directors (see pages 53-54);
- review the adequacy and effectiveness of the Group's internal controls and risk management framework;
- consider the need for internal audit;
- review and approve the role of the external auditor in the interim review and associated fees;
- review the external auditor's plan for the audit of the Group's accounts, approve the terms of engagement for the audit, including the audit fee, and review the findings;
- oversee the relationship with the external auditor, including reviewing its independence, objectivity and effectiveness; and
- review the financial position and prospects procedures ("FPPP").

Meetings

We met four times during 2021 and attendance is set out on page 66. The meetings were of sufficient length to allow the Committee to consider all the matters of importance and the Committee was satisfied that it received full information, in a timely manner, to allow it to fulfil its obligations.

These meetings were also attended by representatives of the Investment Manager, the Company Secretary and the auditor (BDO LLP).

A sub-committee of the Audit Committee met with our valuer, Cushman & Wakefield (CW), in January 2021, prior to publication of the 31 December 2020 NAV, and in January 2022, prior to publication of the 31 December 2021 NAV, without other parties in attendance, to discuss the respective 31 December valuations in detail. CW also attended the August Committee meeting to discuss the June valuation.

I held a number of preparatory discussions with the Finance Director of the Investment Manager and the external auditor, to ensure that they delivered in line with the scope of services and were well placed to hold a constructive discussion with the Committee. The Committee also met with the external auditor, without other parties present, on two occasions during the year.

Terms of reference

We reviewed the Committee's terms of reference and concluded that, following the extensive review last year, no further changes were necessary. The terms of reference are available on our website at <https://www.impactreit.uk/about/corporate-governance/>

AUDIT COMMITTEE REPORT

Financial reporting and significant judgements

A key responsibility of the Committee is to consider the significant areas of complexity, judgement and estimation that have been applied in the preparation of the financial statements. The Committee received reports and recommendations from the Investment Manager and the auditor, setting out the significant areas. These areas of judgement and estimation were discussed with the Investment Manager during the year and with the auditor at the time the Audit Committee reviewed and agreed the auditor's Group audit plan, and when the auditor presented its findings at the conclusion of its year-end audit.

The main areas where significant judgement or estimation was required were the assessment of fair values of investment properties and operating lease contracts.

Set out below is a description of how the Committee concluded that the judgements and estimates that have been made were appropriate.

(i) Valuation of property portfolio

The property portfolio was valued by CW quarterly in 2021. The Audit Committee discussed the half-year valuation with the valuers at the August Audit Committee meeting. Prior to the publication of the unaudited 31 December 2021 NAV, in January 2022, a sub-committee of the Audit Committee discussed the approach undertaken by CW in the valuation of the assets, the assumptions underlying the property valuations and the valuation of individual properties of interest to Committee members. We discussed the level of inspections undertaken by CW and progress towards catching up with the backlog of inspections caused by pandemic restrictions. The Audit Committee also sought confirmation from CW that no undue influence had been applied by the Company or the Investment Manager in reaching its conclusion.

We discussed with the auditor its review of the valuation, referred to in the Independent Auditor's report on pages 96-102, and were informed that the auditor had met separately with CW and had satisfied itself, on a property by property basis, that the valuation approach was appropriate.

(ii) Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

The leases when signed, are for between 20 and 25 years with a tenant-only option to extend for one or two periods of ten years. At the inception of the lease, management does not judge any extension of the leases to be reasonably certain and, as such, does not factor any lease extensions into its considerations of lease incentives and their treatment.

The Audit Committee has reviewed the Investment Manager's approach to the assessment of leases and discussed this with the auditor to understand its work and conclusions in this area.

Adjusted Earnings per Share

The Committee considered the implications of reporting adjusted earnings per share that are different to IFRS and EPRA calculations. The Committee reviewed the reported adjusted earnings to ensure they reflect the underlying sustainable cash earnings of the Company and satisfied itself regarding the appropriateness of the disclosure of the non-statutory earnings per share measures.

Fair, balanced and understandable statement

The production and audit of the Company's annual report and accounts is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the

AUDIT COMMITTEE REPORT

Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board requested that the Audit Committee advise on whether we considered that the annual report fulfilled these requirements. In outlining our advice, we considered the detailed reviews undertaken at various stages of the production process by the Investment Manager, Administrator, auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

We then discussed the process for compiling the annual report and accounts with the Investment Manager and Administrator and received a series of drafts of the document. These were scrutinised and discussed thoroughly at two separate Audit Committee meetings.

Additional comfort was also sought from the Investment Manager and Administrator in relation to the conclusion reached by the board.

As a result of the work performed, we have concluded and reported to the board that the annual report and accounts for the period ended 31 December 2021, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The board's conclusions in this respect are set out on page 60.

Review of risk framework and internal control

The board has ultimate responsibility for effective management of risk for the Group, including determining its risk appetite and identifying key strategic and emerging risks. An overview of the risk management process and the principal risks and uncertainties identified is set out on pages 44-49. The Risk Committee (see pages 74-78) serves as a governance body to provide oversight, review and challenge of the risk management processes.

Internal audit

The Committee discussed the need for an internal audit function. The debate included input from the Investment Manager and the external auditor and consideration of the assurance received from third parties under the risk management framework. In the light of this consideration, we decided that there was no current requirement, as the Committee was satisfied based on the work of the Risk Committee and the compliance work by the Investment Manager over tenants, that the internal controls and risk management were adequate and effective.

External auditor

BDO was appointed as the Company's auditor following a formal tender as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton. Under current FRC guidance, the next audit tender will be required in respect of the year ending 31 December 2027. In the intervening period, the Audit Committee will continue to monitor the performance of the auditor and make any appropriate recommendations. Richard Levy has been the lead audit partner since BDO's appointment and therefore this is his fifth year in the role. In accordance with current professional standards, the lead audit partner will change every five years. Since the year end, I have met Charles Ellis, who will take over as lead audit partner for the 2022 financial year. He has appropriate experience in the REIT sector and understanding of our business.

(i) Audit planning

At our meeting in November we discussed the audit plan with BDO, considering the overall planning materiality and BDO's assessment of the audit risks, including the capital expenditure additions and the additional requirements for auditors in relation to going concern and viability reviews.

AUDIT COMMITTEE REPORT

We also discussed the analysis of the valuation which BDO carries out, involving its in-house valuation specialists and review of independent market data, as well as separate meetings to discuss the valuation with CW.

We considered the audit timetable in the context of the global pandemic and our ability to deliver the audit work streams if restrictions continued. We satisfied ourselves that the timetable was appropriate to meet the reporting requirements for the 2021 annual report and accounts and the external audit.

(ii) External auditor independence and effectiveness

BDO has formally confirmed its independence as part of the annual reporting process, and the Committee considered and agreed that BDO, the engagement team and other partners and directors conducting the audit had complied with relevant ethical requirements, including the FRC's Ethical Standard, and were considered independent of the Company.

The Committee discussed the effectiveness of BDO as auditor. Assessment of the auditor's performance was provided by the Investment Manager and the Committee members. We agreed that the auditor had adhered to high professional and ethical principles and demonstrated the appropriate skills and knowledge about the business, industry and environment, together with the regulatory and legal frameworks in which the Company operates. We also agreed that the audit partner demonstrates experience in the REIT sector and is well-informed about current topical issues with the FRC. We concluded that we had no concerns with BDO's effectiveness.

The Audit Committee has recommended that a resolution to reappoint BDO is proposed to shareholders at the next AGM.

Non-audit services

£14,100 of non-audit fees were authorised in the period, in relation to the agreed procedures for the Company's interim report (2020: £13,800).

Total audit fees for the period were £202,680 and non-audit fees were £14,100. Non-audit fees as a percentage of audit fees were 7.0% (2020: 7.9%).

Committee evaluation

A detailed and rigorous external evaluation of the Committee was undertaken as part of the overall board evaluation. The Committee was found to be working well and the skills and experience of the members was found to be appropriate for their roles. The Committee will continue to concentrate on personal development and training of committee members, as the regulatory focus on audit and audit committees increases.

Amanda Aldridge Committee Chairman
28 March 2022

Management Engagement Committee report



Rupert Barclay,
Chairman

Introduction

The Committee's primary focus was on reviewing the performance of the Investment Manager and other key service providers, and ensuring the Company continued to receive appropriate service and value for money.

Committee membership

The Committee's membership comprises all of the Company's independent directors: Rosemary Boot, Amanda Aldridge, Philip Hall, Chris Santer and me, Rupert Barclay, as Committee Chairman. I am independent of the Investment Manager.

Role

The Committee has several functions, the most important of which are to conduct an annual review of:

- the Investment Manager's compliance with the Company's investment policy, when sourcing potential investment opportunities;
- the Investment Manager's compliance with its Investment Management Agreement with the Company; and
- the performance of the Company's other key service providers.

Committee meetings

The Committee meets formally at least once a year or as and when required. It met once in 2021. The Committee members' attendance is set out on page 66.

JTC (UK) Limited attends our meetings as Secretary to the Committee, except when its performance is being discussed. In addition, we invite representatives of the Investment Manager to attend, except when its performance is being discussed.

Terms of reference

The Committee reviewed its terms of reference during the year and made one change, requiring the Committee to review the Investment Manager's ability to deliver Company performance. Terms of reference for all the board committees are approved by the board and are available on our website at: <https://www.impactreit.uk/about/corporate-governance/>

Investment Manager

Impact Health Partners LLP is the Company's Investment Manager. Under the terms of the Investment Management Agreement, the Investment Manager provides certain advisory services to the Group including:

- ongoing monitoring of the portfolio and asset management; and
- sourcing potential opportunities in which the Company may invest.

The Investment Management Agreement imposes certain restrictions on the Investment Manager and its associates from acquiring, developing, leasing or operating competing businesses. This ensures that the board can effectively manage any potential conflict, given that one of the Investment Manager's Managing Partners owns Minster Care Group Limited, which is the Company's initial tenant.

The Investment Management Agreement also:

- a) grants the Group pre-emption rights in respect of any investment opportunities within the Company's investment policy, of which the Investment Manager or its associates become aware;
- b) grants the Company the right to terminate the agreement upon:
 - the failure of any tenant in which any principal of the Investment Manager (from time to time)

MANAGEMENT ENGAGEMENT COMMITTEE REPORT

has a beneficial interest, to pay rent or any other sums due under the leases in excess of £50,000; or

- the winding up or liquidation of any tenant, in which any principal of the Investment Manager or any of its associates (from time to time) has a beneficial interest;

- c) grants the Company the right to terminate the agreement if the financial report provided to the Company by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive quarterly financial reports or in any two quarterly financial reports in any 12-month period;
- d) grants the Company the right to seek advice from a third-party property adviser in circumstances where the Investment Manager is conflicted; and
- e) prohibits the Investment Manager from taking any decision, or making any recommendation to the board relating to enforcement of the Group's rights, on certain covenant breaches by a tenant in which any principal of the Investment Manager or any of its associates (from time to time) has a beneficial interest.

The Investment Management Agreement may be terminated by either party on 12 months' notice. The agreement may be immediately terminated by either party in certain circumstances, such as a material breach which is not remedied.

Review of performance

The Committee reviewed the Investment Manager's performance. Our view was that the Investment Manager was performing well, that it continued to provide a good service to the Company and that service had remained consistent over the past 12 months.

The Committee noted the size of the Investment Manager's workload and welcomed the additions to its team in this regard. The Committee also

noted the overwhelmingly positive feedback on the Investment Manager from tenants (see page 56).

Following this review, we determined that it was in the shareholders' best interests for the Investment Manager's appointment to continue and the board has since ratified this decision.

Review of the Investment Manager's remuneration

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to a management fee together with reimbursement of reasonable expenses it incurs in performing its duties.

The management fee is 1% of the Company's Net Asset Value (NAV), where the NAV is less than or equal to £500 million, or £5 million plus 0.70% of the amount by which the NAV exceeds £500 million. These amounts are calculated and paid in quarterly instalments.

The Investment Manager is also paid a fixed amount of £95,000 per annum to cover the incremental costs of providing services as AIFM.

The Committee reviewed the fee arrangements, compared them with comparable REITs and concluded that they were reasonable.

Administrator and Company Secretary

JTC (UK) Limited ("JTC") serves as Administrator and Company Secretary.

Under the terms of the Administration and Company Secretarial Services Agreement, which was updated during the year, JTC as Administrator is entitled to an annual fee of £140,000.

The Administration and Company Secretarial Services Agreement can be terminated by either party, either in accordance with the agreement (for example in the case of a material breach or of the

MANAGEMENT ENGAGEMENT COMMITTEE REPORT

insolvency of a party, whereby the agreement may be terminated immediately upon notice), or by at least three months' written notice.

Review of performance

The Committee discussed the performance of JTC both as Administrator and as Company Secretary. We concluded that the Investment Manager should oversee JTC more closely.

Review of other service providers

There was one notable change to the Company's other service providers during the year. We appointed Jefferies International Limited as joint corporate broker and financial adviser, alongside our existing corporate broker Winterflood Securities Limited. The Committee also reviewed the service level of the Company's other service providers and concluded that the performance was satisfactory and that the relevant appointments should continue.

Rupert Barclay Committee Chairman
28 March 2022

Directors' remuneration report



Rosemary Boot,
Committee Chairman

Annual statement

This was another straightforward year for the Committee. At the 2021 AGM, shareholders overwhelmingly approved the Company's updated remuneration policy, with 99.99% of votes cast being in favour. I want to thank shareholders for their continued support.

We undertook our annual review of remuneration for the directors, which last increased in 2018. The Articles of Association and the AIC Code require us to consider whether the level of remuneration reflects our time commitment and responsibilities, particularly for any duties beyond those normally expected. Our discussions took into account directors' fees for the Company's peers, using analysis provided by the Investment Manager, as well as fees at comparable companies that have recently come to market. We also noted that the Board members each dedicate a significant amount of time to the Company. As a result, we increased the directors' fees by c. 5-7%, depending on the role, to apply from 1 January 2022. Information on the revised fees can be found in the Directors' remuneration section below.

As required by the AIC Code, each director abstained from the decision on their own remuneration.

Application of the Principles of the AIC Code 2019 to the Directors' Remuneration policy

Principles Q and P of the AIC Code 2019 apply to the policy. Principle Q requires us to establish a formal and transparent procedure for developing our remuneration policy and states that no director should be involved in deciding their own remuneration outcome. Principle P requires us to design remuneration policies and practices that support the Company's strategy and promote its long-term sustainable success. As set out in this report, we continued to apply these principles during 2021.

Directors' remuneration policy

The policy that applied during 2021 was considered and approved by shareholders at the Company's AGM, on 12 May 2021.

The Company's policy is to determine the level of directors' fixed annual fees in accordance with its Articles of Association.

When setting the level of directors' fees, the Company will have due regard to the experience of the board as a whole, the time commitment required, the responsibilities of the role and to be fair and comparable to non-executive directors of similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the directors needed to oversee the Company properly and to reflect its specific circumstances. The Company may also periodically choose to benchmark directors' fees with an independent review, to ensure they remain fair and reasonable.

Directors' fees are reviewed annually and will be adjusted from time to time, as may be determined by the board under the Articles of Association and this policy. In terms of the Company's Articles of Association, the aggregate remuneration of all the directors shall not exceed £500,000 per annum.

The directors are also entitled to be paid their reasonable expenses incurred while engaged on the business of the Company.

Additional directors' fees may be paid by the Company where directors are involved in duties beyond those normally expected as part of the director's appointment. In such instances where additional remuneration is paid, the board will provide details of the events, duties and responsibilities that gave rise to any additional directors' fees in the Company's annual report. The Chair of the board and the Audit Committee Chair are entitled to additional fees over and

DIRECTORS' REMUNERATION REPORT

above their normal directors' fees, reflecting their duties and responsibilities of these roles.

No element of the directors' remuneration is performance-related, nor does any director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The directors hold their office in accordance with the Articles and their appointment letters. No director has a service contract with the Company, nor are any such contracts proposed. The directors' appointments can be terminated in accordance with the Articles and without compensation.

The Company is committed to engagement with shareholders and will seek major shareholders' views in advance of making significant changes to its remuneration policy and how it is implemented. The Chair of the Remuneration Committee will attend the Annual General Meeting to hear the views of shareholders on the policy and to answer any questions in relation to remuneration.

Directors' remuneration

In line with the remuneration policy in force during the year, for 2021 each director received an annual fee of £33,000. The Chairman was paid a further £13,000 and the Audit Committee Chairman was paid a further £5,000.

Since 1 January 2022, each director receives an annual fee of £35,000. The Chairman receives an additional £13,500 and the Audit Committee Chairman receives an additional £6,000.

Company-wide considerations

The Company has no executive directors or employees, so there are no statements to make on any consultations, comparisons or pay and employment conditions within the Company.

Recruitment

The same remuneration policy will be applied for any recruitment purposes.

Statement of consideration of shareholder views

The Company continues to engage with shareholders on a wide range of topics, including the directors' fees and future remuneration policy. During the year, the Chairman of the board and the Senior Independent Director again held calls with a number of large institutional shareholders, which revealed no concerns about the level of directors' remuneration.

Annual report on remuneration

Principle R of the AIC Code 2019 requires that directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances. We believe that the information set out in the annual statement and this section of the remuneration report demonstrates and explains our application of this principle.

Directors' fees for the year under review (audited)

The directors only receive fees and reasonable expenses for services as non-executive directors. The directors' fees are shown in the table below. The directors' expenses for 2021 totalled £nil (2020: £nil). No other remuneration or taxable benefits were paid or payable during the period to any director.

Director	2021	2020
Rupert Barclay (Chairman)	£46,000	£46,000
Rosemary Boot	£33,000	£33,000
Amanda Aldridge	£38,000	£38,000
Paul Craig	£33,000	£33,000
Philip Hall	£33,000	£33,000
Chris Santer*	£20,900	–

* Appointed on 13 May 2021.

DIRECTORS' REMUNERATION REPORT

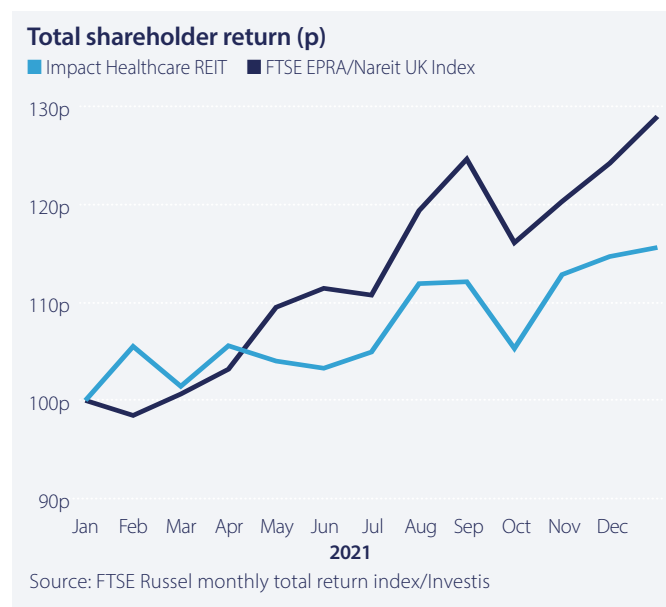
The Company maintains directors' and officers' liability insurance cover and public offering of securities insurance, at its expense, on the directors' behalf.

Payments to past directors or for loss of office

There are no payments to disclose. Under the Directors' remuneration policy, there would be no compensation for loss of office.

Total shareholder return

The graph below shows the total shareholder return of the Company's ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index:



Directors' shareholdings (audited)

There is no requirement for the directors to own shares in the Company. As at the year end, the directors had the shareholdings listed below.

Director*	Number of shares held	Percentage of share capital held
Rupert Barclay (Chairman)	183,287	0.05%
Rosemary Boot	30,000	0.01%
Amanda Aldridge	–	–
Paul Craig†	56,808,553	16.20%
Philip Hall	30,000	0.01%
Chris Santer	12,567	0.00%

* Includes directors and persons closely associated (as defined by the EU Market Abuse Regulation) shareholdings.

† These shares are held by funds owned by Quilter Investors, of which Paul Craig is Investment Manager.

The shareholdings of the directors, other than Paul Craig, are not significant and, therefore, do not compromise their independence. Paul Craig has been identified as non-independent as he is an employee of the Company's largest shareholder, Quilter Investors.

Statement of implementation of remuneration policy for financial year 2021

The Committee adopted the following fees for 2021:

- £46,000 for the Chairman of the board.
- £33,000 for the non-executive directors.
- An additional £5,000 for the Audit Committee Chairman.

Committee membership

All the independent directors are members of the Remuneration Committee. I chair the Committee and the other members are Rupert Barclay, Amanda Aldridge, Philip Hall and Chris Santer. Chris joined the committee on 13 May 2021. I have experience of serving on remuneration committees and currently serve on one other. We benefit from the Remuneration and Nomination

DIRECTORS' REMUNERATION REPORT

Committees having the same membership, giving us full visibility of succession planning.

Role

The Committee's main responsibilities are to:

- determine, and agree with the board, the framework and broad policy for the directors' remuneration, and to review the ongoing appropriateness and relevance of the remuneration policy, so it meets the Company's needs;
- take into account all factors we deem necessary, including legal and regulatory requirements, the principles of the AIC Code and relevant provisions of the UK Corporate Governance Code, and any associated recommendations and guidance; and
- agree the policy for authorising the directors' expense claims.

No director is involved in setting their own pay.

Committee meetings

The Remuneration Committee meets formally once a year and otherwise when needed. We had one meeting in 2021. Attendance is set out on page 66.

JTC attends our meetings as Secretary to the Committee. We also invite representatives of the Investment Manager to attend as required.

Terms of reference

The Committee operates under terms of reference, which we reviewed during the year and left unchanged. These are available on the Company's website at: <https://www.impactreit.uk/about/corporate-governance/>

Committee evaluation

The Committee was evaluated as part of the overall board evaluation, which is described on pages 71-72. The evaluation showed that the Committee functions effectively and there were no suggestions for improvement.

External advisers

The Committee has not received any external advice with respect to remuneration and has not appointed an external remuneration adviser.

Statement of voting at the 2021 Annual General Meeting

The directors' remuneration report was subject to an advisory vote at the AGM on 12 May 2021. The voting outcome is shown in the table below:

	Resolution to approve directors' remuneration report
Votes for*	210,081,097
%	99.99
Votes against	12,759
%	0.01
Total votes validly cast	210,093,856
Total votes cast as % of issued share capital	59.92
Votes withheld†	67,369

The directors' remuneration policy was subject to shareholder approval at the AGM. The voting outcome is shown in the table below:

	Resolution to approve the Remuneration Policy
Votes for*	210,082,419
%	99.99
Votes against	12,759
%	0.01
Total votes validly cast	210,095,178
Total votes cast as % of issued share capital	59.92
Votes withheld†	66,047

* Includes discretionary votes.

† A vote withheld is not a vote in law and is not counted in the calculation of the votes for or against a resolution.

Rosemary Boot Committee Chairman
28 March 2022

Directors' report

Introduction

The directors are pleased to present the annual report, including the Company's audited financial statements as at, and for the year ended, 31 December 2021.

The Directors' report, together with the Strategic report, comprise the "Management Report", for the purposes of Disclosure Guidance and Transparency Rule 4.1.5R.

Statutory information contained elsewhere in the annual report

Information required to be part of this Directors' report can be found elsewhere in the annual report and is incorporated into this report by reference, as indicated below:

- Financial results and dividends, page 1
- Future developments, pages 4-41
- Engagement with suppliers, customers and others with business relationships with the Company, pages 42-43 and 62
- Corporate governance statement, pages 56-86
- Manager and service providers, pages 66-67
- Directors' names and Board of directors, pages 68-69
- Directors' and officers' liability insurance, page 89
- Directors' interests in shares, page 89
- Related-party transactions, note 21, pages 129-130
- Financial instruments, note 18, pages 126-128
- Share capital, note 20, page 129
- Events subsequent to the year-end date, note 28, pages 133

Substantial shareholdings

As at 28 March 2021, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Quilter Investors Limited	56,808,553	16.20%
Royal London Asset Management Limited	21,059,932	6.01%
Premier Fund Managers Limited	20,826,182	5.94%
Gravis Advisory Ltd	19,373,114	5.53%
Schroder & Co Limited	16,735,175	4.77%
Brooks Macdonald Asset Management	16,297,610	4.65%
Integrated Financial Arrangements Ltd	13,738,234	3.92%
Newton Investment Management Limited	11,107,524	3.17%

Based on 350,644,188 ordinary shares in issue as at 31 December 2021.

No individual underlying shareholder or fund owns more than 10%.

The Company only has one class of share.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except as a result of:

- the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- the Company's Articles of Association, which allow the board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or the Investment Manager breaching any law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

Full relief for Stamp Duty Land Tax ("SDLT") has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company, a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £5.4 million on the net purchase price of assets acquired since IPO.

DIRECTORS' REPORT

The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Directors' share dealings

The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board is responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

Greenhouse gas emissions reporting

The board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. The Group is a low energy user and therefore exempt from the Streamlined Energy and Carbon Reporting regulation.

During the year ended 31 December 2021, the Group had no directly reportable emissions, as:

- any emissions from the Group's properties are the tenants' responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions produced from the Company's registered office or from offices used to provide administrative support are deemed to be the Investment Manager's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

However, as discussed in the Strategic report on pages 1-55, the Group does have the scope to enhance the energy efficiency of its portfolio and thereby reduce the emissions incurred by its tenants. The Group publishes information on tenant

emissions in its annual EPRA sustainability reporting and retained its EPRA sBPR gold award for its 2020 submission which is available on our website at <https://www.impactreit.uk/about/sustainability/>. More information on the Group's work in this area in 2021 can be found on pages 36-39.

Political donations

No political donations were made during the year.

Employees

The Group has no employees and therefore no employee share scheme or policies for the employment of disabled persons or employee engagement.

Articles of Association

These are available on our website at <http://www.impactreit.uk/documents> or by application to the Company Secretary. Any amendment to the Company's Articles of Association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK

The Company does not have any branches outside the UK.

Powers of the directors

The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

Powers in relation to the Company issuing its shares

Subject to Company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

DIRECTORS' REPORT

Non-pre-emptive share issuance

Over the past three financial years, the Company's non-pre-emptive share issuance increased the issued share capital by 82.43%.

In May 2019, 94,339,623 new ordinary shares were admitted to the premium segment of the Official List and to trading on the London Stock Exchange at a placing price of 106 pence per share, a discount of 2.3% at the placement proposal date. The £100 million proceeds (£97.95 million net of share issue costs) from this issue were used to pay down debt drawn under revolving credit facilities, pursue near-term pipeline opportunities and invest in value-enhancing opportunities within the Group's existing portfolio.

In December 2019, a further 32,407,407 new ordinary shares were admitted at a placing price of 108 pence per share, a discount of 1.8% at the placement proposal date. The £35 million proceeds (£34.21 million net of share issue costs) were used to pursue near-term acquisition opportunities.

In April 2021, a further 31,690,327 new ordinary shares were admitted at a placing price of 111.5 pence per share, a discount of 2.5% at the placement proposal date. The £35 million proceeds (£34.63 million net of share issue costs) were used to repay amounts drawn under revolving credit facilities and to fund new investments.

Pre-emptive share issuance

In February 2022, a further 35,087,720 new ordinary shares were admitted at a placing price of 114 pence per share, a discount of 2.7% at the placement proposal date. The £40 million of gross proceeds were used to repay revolving credit facilities and pursue near-term pipeline opportunities.

Appointment and replacement of directors

A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members)

entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

Independent Auditor

BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2022.

Disclosure of information to the auditor

The directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Additional information

There are no disclosures required in accordance with LR 9.8.4 R.

Annual General Meeting

The Company's AGM is scheduled to be held in person at 11am on 11 May 2022.

Signed on behalf of the board by

Rupert Barclay Chairman
28 March 2022

Statements of responsibilities

Directors' statement of responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with UK adopted international accounting standards. The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a strategic report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations. These can be found on pages 91-93, 1-55, 87-90 and 56-86, respectively.

Website publication

The directors are responsible for ensuring the annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at <http://www.impactreit.uk>) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

STATEMENTS OF RESPONSIBILITIES

**Directors' responsibility statement,
pursuant to DTR4**

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with UK adopted international accounting standards and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the Management Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board by:

Rupert Barclay Chairman

28 March 2022

Independent Auditor's report

to the members of Impact Healthcare REIT plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Impact Healthcare REIT Plc (the 'Parent Company') and its subsidiaries (together, the 'Group') for the year ended 31 December 2021 which comprise the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, the consolidated statement of cash flows, the consolidated and Company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs

(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Directors in September 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ending 31 December 2017 to 31 December 2021. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the appropriateness and accuracy of the Directors' cash flow forecasts by reference to current cash reserves, available finance, contractual rental income, debt service cost obligations and other committed or expected cash flows.

INDEPENDENT AUDITOR'S REPORT

- evaluation of the Directors' assessment as to the ability of each material tenant to satisfy its future contractual rent obligations based on historic and current occupancy and profitability levels.
- evaluation of the sensitivity analyses and stress tests performed in relation to the Group's liquidity and loan covenant compliance.
- assessment of the identified options that would be available to mitigate the impact of any future substantial non-payment of rent on the Group and Parent Company's liquidity and the Group's ability to continue to operate within its loan covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group total assets	
Key audit matters	2021	2020
	Valuation of Investment Properties	✓ ✓
Materiality	Group financial statements as a whole £5.14 million (2020: £4.30 million) based on 1% (2020: 1%) of Total Assets	

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates in one segment, investment property, structured through a number of subsidiary entities and therefore we treated the Group as one significant component. The Group audit engagement team performed all the work necessary to issue the Group and Parent Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified in the key audit matters section below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Valuation of investment properties

As detailed in note 12 to the consolidated financial statements, the Group owns a portfolio of investment properties which are carried at their fair value.

The Group's accounting policy for these properties is described in note 3 to the consolidated financial statements.

The key judgements and estimates in arriving at the fair values are set out in notes 2.2 and 12 to the consolidated financial statements.

The Group owns care home investment properties that are leased to tenant operators under long-term rental agreements. The properties are independently, externally valued using the income capitalisation method in accordance with RICS methodology and IFRS 13 Fair Value Measurement.

The valuation of investment property requires significant judgement and estimates by the Directors and their independent valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.

Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Group financial statements.

There is also a risk that management may influence the judgements and estimates in respect of property valuations in order to achieve property valuations and other performance targets to meet market expectations.

The valuation of investment properties was therefore considered to be a key audit matter.

How the scope of our audit addressed the key audit matter

Our audit procedures included, but was not restricted to, the following:

Experience of the valuer and relevance of its work

We assessed the valuer's competence and capabilities and read their terms of engagement with the Group, to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them.

With the assistance of the real estate experts within our team, we read the valuation reports and assessed whether the valuations had been prepared in accordance with applicable valuation guidelines and IFRS 13, and they were appropriate for determining the carrying value in the Group's financial statements

Data provided to the valuer

We inspected that the data provided to the valuer by the Investment Manager was consistent with the information provided to, and tested by us. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements.

Assumptions and estimates used by the valuer

We developed yield expectations for each property using available independent industry data, reports and details of relevant comparable transactions in the market around the year-end date.

We compared the key valuation assumptions against our independently formed market expectations and challenged the external valuers where significant variances from these expectations were identified. We corroborated their responses to supporting documentation where appropriate. The key valuation assumptions were the equivalent yields, which we evaluated by reference to market data based on the location and specifics of each property.

With the assistance of the real estate experts within our team, we met with the Group's external valuers to discuss and challenge the valuation methodology and key assumptions and considered if there were any indicators of undue management influence on the valuations.

Key observations

We did not identify any indicators to suggest that the valuation of the Group's investment properties is inappropriate.

INDEPENDENT AUDITOR'S REPORT

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements		Parent company financial statements	
	2021	2020	2021	2020
Materiality	£5.14 million	£4.30 million	£4.11 million	£3.84 million
Basis for determining materiality	1% of total assets			
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group and the Parent Company.			
Performance materiality	£3.85 million	£3.22 million	£3.08 million	£2.88 million
Basis for determining performance materiality	Overall performance materiality for the Group and Parent Company has been set at 75% of materiality. This was on the basis of our risk assessment, together with our assessment of the Group's and Parent Company's overall control environment and our past experience of the audit which has indicated a low number of corrected and uncorrected misstatements in the prior period and Management's willingness to investigate and correct these.			

Specific materiality

We also determined that for any items that could affect the calculation of the Group's European Public Real Estate ("EPRA") earnings, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. We consider EPRA earnings to be a key performance measure of the Group. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, profit on disposal of investment properties and changes in the fair value of interest rate derivatives. As a result, we determined materiality for these items based on 5% of EPRA earnings amounting to £1.37 million (2020: £1.16 million) for the Group. We further applied a performance materiality level of 75% (2020: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

INDEPENDENT AUDITOR'S REPORT

Reporting threshold

We agreed with the Audit Committee that we would report to them for the Group all individual audit differences in excess of £256,800 (2020: £214,800) for the financial statement as a whole, and in excess of £68,350 (2020: £58,200) for specific items. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 54); and
- The Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate (set out on page 54).

Other Code provisions

- Directors' statement on fair, balanced and understandable (set out on page 60);
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 60);
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems (set out on page 60); and
- The section describing the work of the Audit Committee (set out on pages 79 to 83).

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

INDEPENDENT AUDITOR'S REPORT

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.

Responsibilities of Directors

As explained more fully in the Directors' statement of responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors

INDEPENDENT AUDITOR'S REPORT

- We considered the Group's compliance with laws and regulations that have a direct impact on the financial statements including UK company law, the applicable accounting framework, tax legislation (including the UK REIT regime requirements) and the relevant listing Rules, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.
- We designed audit procedures to identify instances of non-compliance with such laws and regulations. Our procedures included reviewing the financial statement disclosures and accounting policies to identify instances of management bias, and agreeing to underlying supporting documentation where necessary. We reviewed minutes of Board meetings held during and subsequent to the year for any indicators of non-compliance and made enquiries of management and of the Directors as to the risks of non-compliance and any instances thereof.
- We considered the valuation of the investment property portfolio and management override of internal controls to be significant risks to the audit. Our response to the valuation of investment properties is set out in the key audit matter section above. We addressed the risk of management override of internal controls by, testing a sample of journal entries processed during the year, agreeing to supporting documentation and evaluating whether there was evidence of bias by management or the Directors that represented a risk of material misstatement due to fraud.
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The engagement partner has assessed and confirmed that the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.FRC.org.uk/AuditorsResponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Levy (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom

28 March 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial statements

- 104** Consolidated statement of comprehensive income
- 105** Consolidated statement of financial position
- 106** Consolidated statement of cash flows
- 107** Consolidated statement of changes in equity
- 108** Notes to the consolidated financial statements
- 134** Company statement of financial position
- 135** Company statement of changes in equity
- 136** Notes to the Company financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	31 December 2021 Total £'000	31 December 2020 Total £'000
Gross rental income	5	36,398	30,818
Insurance/service charge income	5	496	374
Insurance/service charge expense	5	(496)	(376)
Net rental income		36,398	30,816
Administrative and other expenses	6	(5,766)	(5,264)
Profit on disposal of investment properties	12	308	153
Operating profit before changes in fair value of investment properties		30,940	25,705
Changes in fair value of investment properties	12	4,220	5,585
Operating profit		35,160	31,290
Finance income		72	49
Finance expense	8	(3,264)	(2,556)
Profit before tax		31,968	28,783
Tax charge on profit for the year	9	–	–
Profit and total comprehensive income (attributable to shareholders)		31,968	28,783
Earnings per share – basic and diluted (pence)	10	9.41p	9.02p

The results are derived from continuing operations during the year, the Group had no other comprehensive income in the current or prior year.

The accompanying notes to the Consolidated statement of comprehensive income can be found on pages 108-133.

Consolidated statement of financial position

As at 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Investment property	12	437,635	405,657
Interest rate derivatives	17, 24	94	7
Trade and other receivables	13	61,948	15,915
Total non-current assets		499,677	421,579
Current assets			
Trade and other receivables	13	1,557	89
Cash and cash equivalents	14	13,261	7,979
Total current assets		14,818	8,068
Total assets		514,495	429,647
Current liabilities			
Trade and other payables	15	(6,703)	(3,129)
Total current liabilities		(6,703)	(3,129)
Non-current liabilities			
Borrowings	16, 24	(110,907)	(74,213)
Trade and other payables	15	(2,641)	(2,784)
Total non-current liabilities		(113,548)	(76,997)
Total liabilities		(120,251)	(80,126)
Total net assets		394,244	349,521
Equity			
Share capital	20	3,506	3,189
Share premium reserve	20	305,672	271,362
Capital reduction reserve	20	24,077	24,077
Retained earnings		60,989	50,893
Total equity		394,244	349,521
Net Asset Value per ordinary share (pence)	22	112.43p	109.58p

The accompanying notes to the Consolidated statement of financial position can be found on pages 108-133.

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 28 March 2022 and are signed on its behalf by:

Rupert Barclay Chairman

Consolidated statement of cash flows

For the year ended 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Cash flows from operating activities			
Profit for the year (attributable to equity shareholders)		31,968	28,783
Finance income		(72)	(49)
Finance expense	8	3,264	2,556
Profit on disposal of investment properties	12	(308)	(153)
Changes in fair value of investment properties	12	(4,220)	(5,585)
Net cash flow before working capital changes		30,632	25,552
Working capital changes			
Increase in trade and other receivables		(9,183)	(5,433)
Increase in trade and other payables		2,133	904
Net cash flow generated from operating activities		23,582	21,023
Investing activities			
Purchase of investment properties	12	(26,900)	(85,978)
Proceeds on sale of investment property		1,676	886
Acquisition costs capitalised		(1,230)	(2,533)
Capital improvements		(1,050)	(1,723)
Loan advanced to operator for portfolio acquisition	13	(37,500)	–
Loan associated costs		(93)	–
Interest received		2	49
Net cash flow used in investing activities		(65,095)	(89,299)
Financing activities			
Proceeds from issue of shares	20	35,334	–
Issue costs of ordinary share capital	20	(707)	21
Borrowings drawn	16, 24	92,685	51,243
Borrowings repaid	16, 24	(54,507)	–
Loan arrangement fees paid	24	(1,844)	(1,156)
Loan commitment fees paid		(430)	(417)
Interest paid on bank borrowings		(1,864)	(1,261)
Dividends paid to equity holders	11	(21,872)	(19,965)
Net cash flow generated from financing activities		46,795	28,465
Net (decrease)/increase in cash and cash equivalents for the year		5,282	(39,811)
Cash and cash equivalents at the start of the year		7,979	47,790
Cash and cash equivalents at the end of the year		13,261	7,979

The accompanying notes to the Consolidated statement of cash flows can be found on pages 108-133.

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2021		3,189	271,362	24,077	50,893	349,521
Total comprehensive income		–	–	–	31,968	31,968
Transactions with owners						
Dividends paid	11	–	–	–	(21,872)	(21,872)
Share issue	20	317	35,017	–	–	35,334
Share issue costs	20	–	(707)	–	–	(707)
31 December 2021		3,506	305,672	24,077	60,989	394,244

For the year ended 31 December 2020

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2020		3,189	271,341	24,077	42,075	340,682
Total comprehensive income		–	–	–	28,783	28,783
Transactions with owners						
Dividends paid	11	–	–	–	(19,965)	(19,965)
Share issue costs	20	–	21	–	–	21
31 December 2020		3,189	271,362	24,077	50,893	349,521

The accompanying notes to the Consolidated statement of changes in equity can be found on pages 108-133.

Notes to the consolidated financial statements

For the year ended 31 December 2021

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2021 are prepared in accordance with UK adopted international accounting standards.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and the interest rate derivative which have been measured at fair value.

The Group has chosen to adopt EPRA best practices recommendations guidelines for calculating key metrics such as earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's ordinary shares are listed on the Premium Listing Segment of the Official List and trade on the premium segment of the main market of the London Stock Exchange. The registered address of the Company is disclosed in the corporate information.

Convention

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

The Strategic report describes the Group's financial position, cash flows and liquidity position. The principal risks are set out on pages 44-49 and note 18 to the financial statements also provide details of the Group's financial instruments and its exposure to liquidity and credit risk.

The ongoing effect of the COVID-19 pandemic alongside the high inflationary environment has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of COVID-19 and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, see Going concern and viability on pages 53-54 for further detail.

The directors believe that there are currently no material uncertainties in relation to the Group's ability to continue for a period of at least 12 months from the date of approval of the Group's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below:

Notes to the consolidated financial statements

For the year ended 31 December 2021

2.1 Judgements

Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases, when signed, are for between 20 and 30 years with a tenant-only option to extend for one or two periods of ten years. At the inception of the lease, management do not judge any extension of the leases to be reasonably certain and, as such, do not factor any lease extensions into their considerations of lease incentives and their treatment.

2.2 Estimates

Fair valuation of investment property

The valuations have been prepared in accordance with the RICS Valuation – current edition of the global and UK standards as at the valuation date, or the RICS “Red Book” as it has become widely known.

The basis of value adopted is that of fair value being “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value.

The significant methods and assumptions used by the valuers in estimating the fair value of the investment properties are set out in note 12.

Gains or losses arising from changes in the fair values are included in the Consolidated statement of comprehensive income in the period in which they arise. In order to avoid double counting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or guaranteed minimum rent uplifts at the inception of the lease.

The nature of uncertainty regarding the estimation of fair value as well as sensitivity analysis has been considered as set out in note 12.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2021. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to the consolidated financial statements

For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

Segmental information

The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in healthcare assets. The board consider that these properties have similar economic characteristics and as a result these individual properties have been aggregated into a single reportable operating element. Reporting on customers with greater than 10% of revenue is included in note 5.

Rental income

Rental income arising on investment properties is included in gross rental income in the Consolidated statement of comprehensive income and is accounted for on a straight-line basis over the lease term. The change in the RPI is reviewed annually, with the minimum uplifts being taken into consideration when accounting for the rental income on a straight-line basis upon inception of the lease. The resulting asset or liability is reflecting as a receivable or payable in the Consolidated statement of financial position.

When a contract includes both lease and non-lease components, the Group applies IFRS 16 to allocate the consideration under the contract to each component.

The valuation of investment properties is increased or reduced by the total of the unamortised lease incentive and straight-line receivable or payable balances. Any remaining balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

The initial lease rental payments and guaranteed rental uplifts are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, except for where, at the inception of the lease, the directors have no certainty that the tenant will exercise that option.

Increased rental payments arising from the variation of the lease on capital improvement licences are spread evenly over the remaining lease term from the date of signing the licence agreement.

At each rent review, the uplift in rent is calculated in accordance with the terms of the lease. If greater than the minimum uplift then the uplift above and beyond the minimum recognised is calculated and recognised in the period in which it arises, with there being no rebasing of the amounts to recognise over the remaining lease.

Finance income

Finance income is accounted for on an accruals basis.

Service charges, insurance and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the year which the compensation becomes receivable. Service, insurance and other similar charges which are recoverable are included in gross rental income as the directors consider that the Group acts as principal in this respect.

Finance expenses

Finance expenses consist principally of interest payable, amortisation of loan arrangement fees and fair value movements on interest rate derivatives.

Loan arrangement fees are expensed over the term of the relevant loan. Interest payable and other finance costs which the Group incurs on bank facilities, are expensed in the period to which they relate.

Notes to the consolidated financial statements

For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

Taxation

The Group is a REIT in relation to its property investments and is therefore exempt from tax, subject to the Group maintaining its REIT status.

Current tax is the expected tax payable on any non-REIT taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties

Investment properties consist of land and buildings (principally care homes) which are held to earn rental income and for capital growth potential.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Investment properties are recognised when the risk and rewards on the acquired properties passes to the Group on completion of the purchase. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Consolidated statement of comprehensive income in the period which they arise. Fair value measurement takes into consideration the improvements to the investment property during the year taking into account the future cash flows from increases in rent that have been contracted in relation to the improvement and discounting them at an appropriate rate to reflect the percentage of completion of the works being undertaken and the risk to completion that remains.

Gains and losses on disposals of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset. These are recognised in the Consolidated statement of comprehensive income in the period in which they arise.

Trade and other receivables

Trade receivables comprise mainly lease income receivable.

Trade and other receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost less impairment.

The Group applies the amortised cost basis as trade and other receivables are normally held with an objective to collect contractual cash flows, i.e. "held to collect"; which comprises payment of principal and interest on the principal amount outstanding.

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses ("ECLs") for trade receivables whereby the allowance or provision for all trade receivables are based on the lifetime ECLs.

The Group applies the general approach for initial recognition and subsequent measurement of ECL provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating ECLs. These stages are classified as follows:

Notes to the consolidated financial statements

For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

Stage one

Twelve-month ECLs are recognised in profit or loss at initial recognition and a loss allowance is established. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month ECLs is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for ECLs).

Stage two

If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime ECLs are recognised and includes those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

Stage three

If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment at the reporting date), lifetime ECLs continue to be recognised. For financial assets in this stage, lifetime ECLs will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

The key estimation techniques including key inputs and assumptions regarding the Group's ECL provision for trade and other receivables are included as part of the Group's assessment of credit risk as set out in note 18.

Rent smoothing adjustments are not considered to be financial assets as the amounts are not yet contractually due. As such, the requirements of IFRS 9 (including the expected credit loss method) are not applied to those balances, although the credit risk is considered in the determination of the fair value of the related property.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and deposits with maturities of three months, or less, held at call with banks.

Dividends

Dividends are recognised when they become legally payable.

Share capital

The share capital relates to amounts subscribed for share capital at its par value.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

The capital reduction reserve is the result of the transfer of a portion of share premium into a distributable reserve.

Trade payables

Trade payables are initially recognised at their fair value and are subsequently measured at amortised cost.

Notes to the consolidated financial statements

For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

Borrowings

All borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all borrowings are measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates within finance costs in the Consolidated statement of comprehensive income.

Interest rate derivatives

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value.

Changes in fair value of interest rate derivatives are recognised within the Consolidated statement of comprehensive income in the period in which they occur.

The Group does not apply hedge accounting in accordance with IFRS 9.

4. New standards issued

4.1 New standards issued with effect from 1 January 2021

No new standards have been applied that have had a material effect on the financial position or performance of the Group.

4.2 New standards issued but not yet effective

There are no new standards issued but not yet effective that are expected to have a material effect on the Group.

Notes to the consolidated financial statements

For the year ended 31 December 2021

5. Property income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rental income cash received in the year	30,472	25,936
Rent received in advance of recognition ¹	143	(1,016)
Rent recognised in advance of receipt ²	5,873	5,898
Rental lease incentive amortisation ³	(90)	–
Gross rental income	36,398	30,818
Insurance/service charge income	496	374
Insurance/service charge expense	(496)	(376)
Net rental income	36,398	30,816

1 This relates to movement in rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.

2 Relates to movement in both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum uplift in rents over the term of the lease on a straight-line basis.

3 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

For accounting purposes, premiums received are reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all care home leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight-line basis.

Insurance/service charge relates to property insurance that is paid by the Group and recharged to tenants.

Minster Care Management Limited and Croftwood Care UK Limited are both part of the Minster Care Group Limited and together represent 48.4% of Gross rental income; Holmes Care Group Limited also represents more than 10% of the Gross rental income:

	2021	2020
Minster Care Management Limited	31.1%	35.1%
Croftwood Care UK Limited	17.3%	19.5%
Holmes Care Group Limited	11.6%	4.7%
Others	40.0%	40.7%

Notes to the consolidated financial statements

For the year ended 31 December 2021

6. Administrative and other expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Investment Manager fees (see note 21)	3,858	3,548
Directors' remuneration (see note 7)	233	209
Auditor's fees		
– Statutory audit of the Company and Group (including subsidiaries)	203	174
– Additional fees payable to the auditor in respect of the prior year audit	–	32
– Agreed upon procedures for the Company's interim report	14	14
Total auditor's fees	217	220
Administration fees	472	450
Regulatory fees	20	42
Legal and professional	509	448
Other administrative costs	457	347
	5,766	5,264

The amounts shown above include irrecoverable VAT as appropriate.

7. Directors' remuneration

The Group had no employees in the current or prior period. The directors, who are key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents their fees for services provided during the year, are as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rupert Barclay (Chairman)	46	46
Rosemary Boot	33	33
Philip Hall	33	33
Paul Craig	33	33
Amanda Aldridge	38	38
Chris Santer	21	–
	204	183
Employer's National Insurance	17	20
Recruitment fees – non-executive director	12	6
	233	209

Directors' remuneration payable at 31 December 2021 amounted to £8,860 (2020: £7,000).

Notes to the consolidated financial statements

For the year ended 31 December 2021

8. Finance expenses

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest payable on bank borrowings		1,874	1,362
Commitment fee payable on borrowings		517	442
Amortisation of loan arrangement fee		960	665
Changes in fair value of interest rate derivatives	17	(87)	87
		3,264	2,556

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on borrowings, which were £114.5 million at 31 December 2021 (2020: £76.4 million). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility; in the year ended 31 December 2021 £2,444,000 was capitalised (2020: £1,156,000).

9. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the year ended 31 December 2021 and the year ended 31 December 2020, the Group did not have any non-qualifying profits except interest income on bank deposits.

Tax charge in the Consolidated statement of comprehensive income:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
UK corporation tax	–	–

Reconciliation of the corporation tax charge:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Profit before tax	31,968	28,783
Theoretical tax at UK corporation tax rate (19%)	6,074	5,469
Effects of:		
REIT exempt income	(5,256)	(4,424)
Non-taxable items	(818)	(1,045)
Total tax charge	–	–

Under the UK REIT rules within which the Group operates, capital gains on the Group's UK properties are generally exempt from UK corporation tax, provided they are not held for trading.

Notes to the consolidated financial statements

For the year ended 31 December 2021

10. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to Ordinary equity holders of the Company by the time-weighted average number of ordinary shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Total comprehensive income (attributable to shareholders)	31,968	28,783
Adjusted for:		
– Revaluation movement	(12,896)	(10,467)
– Rental lease incentive	2,660	–
– Rental income arising from recognising rental premiums and future guaranteed rent uplifts	6,016	4,882
Change in fair value of investment properties	(4,220)	(5,585)
Profit on disposal of investment property	(308)	(153)
Change in fair value of interest rate derivative	(87)	87
EPRA earnings	27,353	23,132
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(6,016)	(4,882)
Amortisation of lease incentives	90	–
Amortisation of loan arrangement fees	960	665
Profit on disposal of investment property	308	153
Adjusted earnings²	22,695	19,068
Average number of ordinary shares	339,705,743	318,953,861
Earnings per share (pence)¹	9.41p	9.02p
EPRA basic and diluted earnings per share (pence)¹	8.05p	7.25p
Adjusted basic and diluted earnings per share (pence)¹	6.68p	5.98p

1 There is no difference between basic and diluted earnings per share.

2 The inclusion of profit on disposal of investment property is a change made in the current year to better reflect the cash earnings of the Group. The prior year adjusted earnings figure has been restated to include this adjustment.

The European Public Real Estate Association (“EPRA”) publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the changes in fair value of investment properties and interest rate derivatives, and removal of profit or loss on disposal of investment properties.

Notes to the consolidated financial statements

For the year ended 31 December 2021

10. Earnings per share (continued)

Adjusted earnings:

Adjusted earnings is used by the board to help assess the Group's ability to deliver a cash covered dividend from net income. The metric reduces EPRA earnings by other non-cash items credited or charged to the Group statement of comprehensive income including the effect of straight-lining of rental income from fixed rental uplift adjustments and amortisation of lease incentives and loan arrangement fees. The metric also adjusts for any one-off items that are not expected to be recurring.

Fixed rental uplift adjustments relate to adjustments to net rental income on leases with minimum uplifts embedded within their review profiles. The total minimum income recognised over the lease term is recognised on a straight-line basis and therefore not supported by cash flows during the early term of the lease, but this reverses towards the end of the lease.

No one-off costs were incurred in the current or prior year.

The board uses the adjusted earnings alongside the available distributable reserves in its consideration and approval of dividends.

11. Dividends

	Dividend rate (pence per share)	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fourth interim dividend for the period ended 31 December 2019 (ex-dividend – 6 February 2020)	1.5425p	–	4,920
First interim dividend for the period ended 31 December 2020 (ex-dividend – 21 May 2020)	1.5725p	–	5,015
Second interim dividend for the period ended 31 December 2020 (ex-dividend – 20 August 2020)	1.5725p	–	5,015
Third interim dividend for the period ended 31 December 2020 (ex-dividend – 5 November 2020)	1.5725p	–	5,015
Fourth interim dividend for the period ended 31 December 2020 (ex-dividend – 11 February 2021)	1.5725p	5,015	–
First interim dividend for the period ended 31 December 2021 (ex-dividend – 27 May 2021)	1.6025p	5,619	–
Second interim dividend for the period ended 31 December 2021 (ex-dividend – 5 August 2021)	1.6025p	5,619	–
Third interim dividend for the period ended 31 December 2021 (ex-dividend – 28 October 2021)	1.6025p	5,619	–
Total dividends paid		21,872	19,965
Total dividends paid in respect of the year		4.8075p	4.7175p
Total dividends unpaid but declared in respect of the year		1.6025p	1.5725p
Total dividends declared in respect of the year – per share		6.41p	6.29p

Notes to the consolidated financial statements

For the year ended 31 December 2021

11. Dividends (continued)

On 29 January 2021, the Company declared an interim dividend of 1.5725 pence per ordinary share for the period from 1 October 2020 to 31 December 2020 and was paid on 26 February 2021.

On 13 May 2021, the Company declared an interim dividend of 1.6025 pence per ordinary share for the period from 1 January 2021 to 31 March 2021 and was paid on 11 June 2021.

On 29 July 2021, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 April 2021 to 30 June 2021 and was paid on 27 August 2021.

On 15 October 2021, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 July 2021 to 30 September 2021 and was paid on 19 November 2021.

On 4 February 2022, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 October 2021 to 31 December 2021 and will be paid on 11 March 2022.

12. Investment property

In accordance with the RICS "Red Book" the properties have been independently valued on the basis of fair value by Cushman & Wakefield, an accredited independent valuer with a recognised professional qualification. They have recent and relevant experience in the locations and categories of investment property being valued and skills and understanding to undertake the valuations competently. The properties have been valued on an individual basis and their values aggregated rather than the portfolio valued as a single entity. The valuers have used recognised valuation techniques in accordance with those recommended by the International Valuation Standards Committee and are compliant with IFRS 13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition including improvements effected during the year, rent coverage, location and comparable evidence.

The valuations are the ultimate responsibility of the directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

All corporate acquisitions during the year have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Opening value	418,788	318,791
Property additions	26,900	85,978
Property disposals ¹	(1,368)	(733)
Acquisition costs capitalised	1,311	2,677
Capital improvements	915	1,608
Revaluation movement	12,896	10,467
Closing value per independent valuation report	459,442	418,788
Guaranteed rent reviews debtor	(21,788)	(15,915)
Lease incentive debtor	(2,660)	–
Rent premium creditor	2,641	2,784
Closing fair value per Consolidation statement of financial position	437,635	405,657

¹ In 2021 the carrying value of disposals was £1,368,000 (2020: £733,000), this combined with the profit on disposal of £308,000 (2020: £153,000) makes up the total net proceeds shown in the Consolidated statement of cash flows.

Notes to the consolidated financial statements

For the year ended 31 December 2021

12. Investment property (continued)

During the year, the Group acquired an additional five assets and disposed of one property.

The majority of the properties owned are freehold except for 11 properties which are long leasehold, eight of these are under a minimum of 999 year leases at a peppercorn rent and the remaining three are under 125 year leases at a peppercorn rent.

Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the consolidated financial statements:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revaluation movement	12,896	10,467
Rental lease incentive ¹	(2,660)	–
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(6,016)	(4,882)
Change in fair value of investment properties	4,220	5,585

¹ Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight-line basis. Rent premiums received are being reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all leases. These uplifts are also incorporated to recognise income on a straight-line basis. The elements are reported in the table below. Capital improvements funded by the Group are undertaken under Deeds of Variation to the leases. The period between signing the Deed of Variation and rent commencing is a rent-free period and rent is recognised on a straight-line basis from the signing of the Deed of Variation.

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rent received in advance of recognition ¹	5	143	(1,016)
Rent recognised in advance of receipt ²	5	5,873	5,898
Rental income arising from recognising rental premium and future guaranteed rent uplifts		6,016	4,882

¹ Rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.

² Relates to both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum 1% or 2% uplift in rents over the term of the care home lease on a straight-line basis.

Descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Notes to the consolidated financial statements

For the year ended 31 December 2021

12. Investment property (continued)

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of fair value which is defined in the RICS “Red Book” as the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value. The valuation takes into consideration the current market conditions including improvements effected during the year, annual rentals, lease lengths, property condition, rent coverage and location.

Unobservable inputs

These include: estimated rental value (“ERV”) based on market conditions prevailing at the valuation date; estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); a change in lease term; and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term or improvement in physical condition would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

Initial yields range from 3.25% to 12.50% across the portfolio.

A 0.25% movement of the net initial yield would have approximately a £16.3 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £4.6 million impact on the investment property valuation.

Fair value hierarchy

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 “Fair Value Measurement”. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

- Level 1 – unadjusted quoted prices in active markets;
- Level 2 – observable inputs other than quoted prices included within level 1; and
- Level 3 – unobservable inputs.

The following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value:					
Investment properties	31 December 2021	437,635	–	–	437,635
Investment properties	31 December 2020	405,657	–	–	405,657

There have been no transfers between any of the levels during the year.

Notes to the consolidated financial statements

For the year ended 31 December 2021

13. Trade and other receivables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Non-current		
Rent recognised in advance of receipt	21,788	15,915
Rental lease incentive	2,660	–
Loan receivable	37,500	–
	61,948	15,915
Current		
Loan interest receivable	70	–
Loan associated costs	748	–
Prepayments	739	89
	1,557	89
	63,505	16,004

During the year, the Group entered into a loan agreement with the Holmes Care Group, in which the Group provided a term loan facility of £37,500,000 which bears interest at 8.57% per annum. The funds were lent to Holmes Care Group to acquire a portfolio of properties. Upon certain conditions being met, a put and call option for the Group to acquire this portfolio of assets for £1 is exercisable. This can happen no sooner than June 2022.

No impairment losses have been recognised during the year (refer to note 18).

14. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Cash and cash equivalents	13,261	7,979

None of the Group's cash balances are held in restricted accounts.

15. Trade and other payables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Non-current		
Rent received in advance of recognition	2,641	2,784
Current		
Trade and other payables	2,859	1,338
Interest payable	474	377
Withholding tax payable – (PID Dividends)	505	226
Rental received in advance	1,427	139
Rental deposits	443	–
Capital improvements payable	995	1,049
	6,703	3,129
	9,344	5,913

Notes to the consolidated financial statements

For the year ended 31 December 2021

15. Trade and other payables (continued)

To reconcile Working capital changes, per the Consolidated statement of cash flows, the Interest payable and Capital improvements payable movements are excluded as these are allocated to Financing activities and Investing activities respectively.

16. Borrowings

A summary of the bank borrowings drawn in the period are shown below:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
At the beginning of the year	76,370	25,127
Borrowings drawn in the year	92,685	51,243
Borrowings repaid in the year	(54,507)	–
Total bank borrowings drawn¹	114,548	76,370
Total bank borrowings undrawn	53,452	48,630

¹ Total bank borrowings drawn are equal to its fair value

The Group signed a £50 million five-year loan facility with Metro Bank PLC (the “Metro Facility”) on 15 June 2018; this facility terminates on 15 June 2023. The Metro Facility initially had two elements: a term loan of £25 million (the “Term Loan”) and a revolving credit facility of £25 million (the “RCF”). During 2021 the Group repaid £10 million of the term loan and reduced the RCF by £10 million following the release of certain properties from Metro Facility's security pool, which have been used as security under the new NatWest Facility and the long-term senior secured notes. These amounts are not able to be redrawn. As at 31 December 2021 the balance of the Term Loan was £15 million (31 December 2020: £25 million). As at 31 December 2021 £7.3 million was drawn under the RCF (31 December 2020: £20.4 million).

The Metro Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five-year Term Loan and amounts drawn under the RCF can be repaid without penalty. The loan is secured over a portfolio of 38 care homes held in wholly owned Group companies (Impact Property 1 Limited (IP1) and Impact Property 2 Limited (IP2)). These assets had a closing value per the independent valuation report of £109.4 million as at 31 December 2021 (2020: £178.2 million). The lender also holds charges over the shares of the subsidiaries and intermediate holding companies.

On 6 March 2019, the Group agreed a five-year revolving credit facility of £25 million (the “Clydesdale Facility”) with Clydesdale Bank PLC (“Clydesdale”); this facility terminates on 6 March 2024. In 2021 the Group drew down £5 million (2020: £10 million) from the Clydesdale Facility and repaid £5 million (2020: £nil). As at 31 December 2021 the Group had drawn £10 million (2020: £10 million) from the Clydesdale Facility.

The Clydesdale Facility had a margin of 225 or 250 basis points over three-month LIBOR, depending on the loan to value ratio of the 15 properties over which the Group has granted security to Clydesdale as security for the loan held in a wholly owned Group company (Impact Property 3 Limited (IP3)). These assets had a closing value per the independent valuation report of £68.7 million as at 31 December 2021 (2020: £67.7 million). From January 2022, the Clydesdale Facility has a margin of 225 or 250 basis points over three-month SONIA, with 12 basis point credit adjustment spread.

On 6 April 2020, the Group agreed a new three-year revolving credit facility of £50 million (the “HSBC Facility”) with HSBC UK Bank Plc (“HSBC”) with the option of two one-year extensions subject to HSBC approval. The Group drew down £15 million (2020: £21 million) from the HSBC Facility and repaid £16 million (2020: £nil) in 2021. As at 31 December 2021 the Group had drawn £20 million (2020: £21 million) from the HSBC Facility.

Notes to the consolidated financial statements

For the year ended 31 December 2021

16. Bank borrowings (continued)

The HSBC Facility has a margin of 200 or 205 basis points over one-month SONIA, depending on the loan to value ratio of the 22 properties over which the Group has granted security to HSBC as security for the loan held in a wholly owned Group company (Impact Property 4 Limited (IP4)). These assets had a closing value per the independent valuation report of £114.1 million as at 31 December 2021. The HSBC Facility previously had a margin of 195 or 205 basis points over one-month LIBOR.

On 25 June 2021, the Group agreed a new revolving credit facility of £26 million (the "NatWest Facility") with National Westminster Bank Plc ("NatWest"). The Group drew down £25 million (2020: £0.3 million) from the NatWest Facility and made no repayments (2020: £nil) in 2021. As at 31 December 2021 the Group had drawn £25.3 million (2020: £0.3 million) from the NatWest Facility.

The three-year NatWest Facility has a margin of 190 basis points per annum over SONIA, depending on the loan to value ratio of the 16 properties over which the Group has granted security to NatWest as security for the loan held in a wholly owned Group company (Impact Property 7 Limited (IP7)). These assets had a closing value per the independent valuation report of £61.2 million as at 31 December 2021.

On 21 December 2021, the Group agreed a new long-term debt financing in the form of senior secured notes of £75 million with two large institutional investors. The Group has agreed to issue £75 million of senior secured notes ("Notes"), comprising two tranches with a weighted average coupon of 2.967%, and a weighted average maturity of 14 years. The first tranche comprises of £37 million of Notes at a fixed coupon of 2.932% which were issued on 21 December 2021 and mature in December 2035. The second tranche comprises of £38 million of Notes at a fixed coupon of 3.002% which will be issued on 20 June 2022 and mature in June 2035. The debt is secured over a portfolio of 14 care homes held in a wholly owned Group company (Impact Property 8 Limited (IP8)). These assets had a closing value per the independent valuation report of £82.5 million as at 31 December 2021. The debt has been guaranteed by Impact Healthcare REIT plc.

Under the covenants related to the loans and Notes the Group is required to ensure that:

	IP1 and IP2	IP3	IP4	IP7	IP8
Loan to value does not exceed	35%	55%	55%	50%	55%
Interest cover based on passing rent from the ring-fenced properties must exceed	200%	325%	250%	250%	250%

The Group has been in compliance with all of the financial covenants of the loan facilities as applicable throughout the year covered by these financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2021

16. Bank borrowings (continued)

Any fees associated with arranging the borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Borrowings drawn: due after more than one year	114,548	76,370
Arrangement fees – brought forward	(2,157)	(1,666)
Arrangement fees incurred during the year	(2,444)	(1,156)
Amortisation of loan arrangement fees	960	665
Non-current liabilities: borrowings	110,907	74,213

Maturity analysis of borrowings:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Repayable between one and two years	22,286	–
Repayable between two and five years	55,262	76,370
Repayable in over five years	37,000	–
Total	114,548	76,370

The weighted average term of the Group's committed facilities is 4.7 years (2020: 2.5 years).

17. Interest rate derivatives

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
At the beginning of the year	7	94
Change in fair value of interest rate derivatives	87	(87)
	94	7

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group entered into an interest rate cap with the notional value of £25 million and a strike rate of 1% effective from 21 June 2018 with a termination date of 15 June 2023. The fair value of the interest rate cap is based on a floating reference of one-month SONIA.

At 31 December 2021, the Group has loans of £77.5 million (2020: £76.4 million) which are exposed to interest rate risk.

Notes to the consolidated financial statements

For the year ended 31 December 2021

18. Financial instruments and financial risk management

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash held at bank. The Group's other principal financial assets and liabilities are borrowings and interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio and hedge against the interest rate risk arising.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Financial assets at amortised cost:		
Loan receivable including accrued interest	37,570	–
Cash and cash equivalents	13,261	7,979
Financial assets at fair value:		
Interest rate derivative	94	7
Financial liabilities at amortised cost:		
Borrowings	110,907	74,213
Trade and other payables	4,711	2,764

The interest rate derivative is the only financial instrument that is measured at fair value through the Group's Consolidated statement of comprehensive income.

The following table provides the fair value measurement hierarchy for the interest rate derivative:

	Date of Valuation	Total £'000	Level 1* £'000	Level 2* £'000	Level 3* £'000
Assets measured at fair value:					
Interest rate derivative	31 December 2021	–	–	94	–
Interest rate derivative	31 December 2020	–	–	7	–

*The fair value categories are defined in note 12.

Risk management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The board oversees the management of these risks. The board reviews and agrees policies for managing each of these risks that are summarised below.

Market risk (including interest rate risk)

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices. The financial assets held by the Group that are affected by interest rate risk are principally the Group's cash balances and the interest rate derivative.

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates on the Group's cash balances would result in an increase of £66,310 (2020: £39,895) or a decrease of £66,310 (2020: £39,895).

Notes to the consolidated financial statements

For the year ended 31 December 2021

18. Financial instruments and financial risk management (continued)

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group entered into an interest rate derivative to reduce its exposure to interest rate risk on the Term Loan (refer to note 17). A sensitivity analysis is performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates on the Group's unhedged borrowings would result in an increase of £447,740 (2020: £256,850) or a decrease of £447,740 (2020: £256,850).

The loan of £37.5 million, granted to one of the Group's operators, has a fixed interest rate and is not exposed to market risk.

All of the Group's LIBOR linked financial instruments had transitioned to SONIA linked rates by the reporting date. The margin above SONIA has been set at a rate to be equivalent in terms of risk and return to the rate above LIBOR that was in place previously and therefore management do not consider there to be any significant change in the risks to which the Group is exposed as a result of IBOR reform.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risks from its leasing activities. Credit risk is reduced by requiring tenants to pay rentals in advance under their lease obligations. The credit quality of the tenant is also assessed based at the time of entering into a lease agreement thereby reducing credit risk. Outstanding trade receivables are regularly monitored. There are no outstanding trade receivables at 31 December 2021.

Credit risk also arises with the cash balances held with banks and financial institutions. The board believes that the credit risk on current account cash balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies. The impairment loss identified on cash balances was considered immaterial.

The loan of £37.5 million, granted to one of the Group's operators, is secured against the property portfolio it was used to purchase. Periodic valuations of these properties are carried out to assess if the loan is credit impaired. There has been no deterioration in credit quality since initial recognition and the 12-month expected credit losses are nil.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by regular monitoring of forecast and actual cash flows by the AIFM ensuring the Group has appropriate levels of cash and available drawings to meet liabilities as they fall due.

Notes to the consolidated financial statements

For the year ended 31 December 2021

18. Financial instruments and financial risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	< 3 months £'000	3-12 months £'000	1-2 years £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2021:						
Borrowings	–	–	22,286	55,262	37,000	114,548
Interest and commitment fees on borrowings	629	2,544	3,393	3,527	19,400	29,493
Trade and other payables	4,771	–	–	–	–	4,771
31 December 2020:						
Borrowings	–	–	–	76,370	–	76,370
Interest and commitment fees on borrowings	405	1,248	1,658	796	–	4,107
Trade and other payables	2,764	–	–	–	–	2,764

19. Capital management

The objective of the Group is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK and lease those assets, under full repairing and insuring leases, primarily to healthcare operators providing residential healthcare services. This provides ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes.

The board has responsibility for ensuring the Group's ability to continue as a going concern and continues to qualify for UK REIT status. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the board on a regular basis.

The Company achieved its increased targeted aggregate dividend of 6.41 pence per share for the year ended 31 December 2021 and its target aggregate dividend of 6.29 pence per share for the year ended 31 December 2020.

As at 31 December 2021, the Group remains within its maximum loan to value ("LTV") covenant which is 35% of gross asset value of the Group as a whole. The Group has a further £53.5 million RCF facilities available from which it can draw.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. Capital consists of ordinary share capital, other capital reserves and retained earnings.

Notes to the consolidated financial statements

For the year ended 31 December 2021

20. Share capital, share premium and capital reduction reserve

	Shares in issue Number	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Total £'000
As at 31 December 2019	318,953,861	3,189	271,341	24,077	298,607
Adjustment to share issue costs	–	–	21	–	21
As at 31 December 2020	318,953,861	3,189	271,362	24,077	298,628
Share issue	31,690,327	317	35,017	–	35,334
Share issue cost	–	–	(707)	–	(707)
As at 31 December 2021	350,644,188	3,506	305,672	24,077	333,255

The Company had 350,644,188 shares of nominal value of 1 pence each in issue at the end of the year (31 December 2020: 318,953,861).

On 6 May 2021, the Company issued a further 31,690,327 ordinary shares at a price of 111.5 pence per ordinary share raising gross proceeds of £35,334,715.

21. Transactions with related parties

Investment Manager

The fees calculated and paid for the year to the Investment Manager were as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Amounts payable to Impact Health Partners LLP:		
Net fee	3,858	3,548
Gross fee	3,858	3,548

For the year ended 31 December 2021 the principals and Finance Director of Impact Health Partners LLP, the Investment Manager, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the Finance Director of Impact Health Partners LLP and they own 3.14%, 0.35% and 0.02% respectively (either directly, with related parties or through a wholly owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. Mr Patel also (directly and/or indirectly) holds a majority 72.5% stake in Minster Care Group Limited "MCGL". Mr Cowley also holds a 20% interest in MCGL. 48% of the Group's rental income was received from MCGL or its subsidiaries. A trade receivable of £nil was outstanding at the year end (2020: £nil).

During the year the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £701,160 (2020: £680,990); Andrew Cowley £74,140 (2020: £55,385) and David Yaldron £5,319 (2020: £4,359).

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Quilter Investors, which has an interest in 56,808,553 ordinary shares of the Company through funds under management. The remaining directors who are shareholders in the Company do not hold significant interest in the ordinary share capital of the Company.

During the year the directors, who are considered key management personnel, received the following dividends from the Company: Rupert Barclay £11,694 (2020: £11,474); Rosemary Boot £1,914 (2020: £1,878); Chris Santer £201 (2020: £nil) and Philip Hall £1,914 (2020: £1,878). In addition, funds managed by Paul Craig received dividends from the Company of £3,582,078 (2020: £3,385,012).

Directors' remuneration for the year is disclosed in note 7 as well as in the Directors' remuneration report.

Notes to the consolidated financial statements

For the year ended 31 December 2021

21. Transactions with related parties (continued)

Minster Care Group Limited ("MCGL")

MCGL, a tenant of the Group, is considered a related party as it is majority owned by the principals of the Investment Manager. As at 31 December 2021 the Group leased 60 properties to MCGL (2020: 59), all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In 2021 the Group entered one new lease with MCGL for a rent of £414,000 (2020: one new lease for a rent of £225,000) and disposed of no properties let to MCGL (2020: disposed of one property let to MCGL, the lease, which was subject to annual rent of £61,000, was cancelled with 17 years remaining term). In 2021, the Group paid a performance-related deferred payment on one property of £2.0 million in return for a £160,000 increase in rent (2020: no deferred payments made). In 2021, the Group spent £0.2 million on approved capital expenditure, which will be rentalised at between 7-9% after completion of the works (2020: £0.5 million). These transactions were fully compliant with the Company's related party policy.

22. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the Consolidated statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA updated their guidance on NAV measures in October 2019, giving three new NAV measures to report, effective for periods commencing on or after 1 January 2020, see pages 120-125 for further detail. The Group has chosen to adopt EPRA net tangible assets ("NTA") as its primary EPRA NAV measure as it most closely aligns with the business practices of the Group. The adjustments between NAV and NTA are reflected in the following table:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Net assets per Consolidated statement of financial position	394,244	349,521
Fair value of derivatives	(94)	(7)
EPRA NTA	394,150	349,514
Issued share capital (number)	350,644,188	318,953,861
Basic NAV per share	112.43p	109.58p
EPRA NTA per share	112.41p	109.58p

Notes to the consolidated financial statements

For the year ended 31 December 2021

23. Operating leases

The following table sets out the maturity analysis of leases receivables, showing the undiscounted lease payments under non-cancellable operating leases receivable by the Group:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Year one	33,281	29,183
Year two	33,904	30,746
Year three	34,538	31,457
Year four	35,034	32,148
Year five	35,693	32,570
Onwards	612,974	571,176
Total	785,424	727,280

The Group's investment properties are leased to tenants under the terms of property leases that include upward-only rent reviews that are performed annually. These are annual inflation uplifts linked to either CPI or RPI. RPI linked leases have a floor and cap at either 2% and 4% or 1% and 5%.

24. Reconciliation of liabilities to cash flows from financing activities

	Notes	Borrowings £'000	Interest rate derivative £'000	Total £'000
As at 1 January 2020		23,461	(94)	23,367
Cash flows from financing activities:				
Borrowings drawn	16	51,243	–	51,243
Loan arrangement fees paid	16	(1,156)	–	(1,156)
Non-cash movements:				
Amortisation of loan arrangement fees	16	665	–	665
Fair value movement	17	–	87	87
As at 31 December 2020		74,213	(7)	74,206
Cash flows from financing activities:				
Borrowings drawn	16	92,685	–	92,685
Borrowings repaid	16	(54,507)	–	(54,507)
Loan arrangement fees paid	16	(1,844)	–	(1,844)
Non-cash movements:				
Amortisation of loan arrangement fees	16	960	–	960
Fair value movement	17	–	(87)	(87)
Loan arrangement fees accrued		(600)	–	(600)
As at 31 December 2021		110,907	(94)	110,813

Notes to the consolidated financial statements

For the year ended 31 December 2021

25. Capital commitments

At 31 December 2021 the Group had committed capital expenditure on two forward-funded developments of new properties and on capital improvements to 13 existing properties, in total this amounted to £19.8 million.

The Group has committed to deferred payment agreements on two investments in return for increased rent based on trading performance. As at 31 December 2021 the total capital commitment for these deferred payments was estimated at £6.5 million.

The Group had a further £11.0 million committed to the acquisition of portfolio of two properties which was exchanged during the period and completed in February 2022.

26. Contingent liabilities

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated as £5.4 million (31 December 2020: £5.0 million) on the net purchase price of the assets acquired in corporate acquisitions over the preceding three years.

27. Controlling parties

The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

Notes to the consolidated financial statements

For the year ended 31 December 2021

28. Subsequent events

In February 2022, the Company issued 35,087,720 new ordinary shares at an issue price of 114 pence per share raising gross proceeds of £40.0 million.

In February 2022, the Group completed the acquisition of two care homes in Northern Ireland, with 147 registered beds, for consideration of £11.0 million. These properties were leased to an existing tenant, Electus, for initial annual rent of £854,500.

In March 2022, the Group invested in two homes in Nottinghamshire with 107 beds. The investment has initially been made by way of an £11.1 million loan to one of the Group's existing tenants, Welford, allowing it to complete the acquisition of these two homes. Upon receipt of certain regulatory approvals, a put and call option for the Group to acquire these homes for consideration of £1 becomes exercisable.

In March 2022, the Group exercised its second one-year extension option on its £50 million RCF with HSBC, bringing the expiry of the facility to April 2025.

The following rent reviews took place in the period between year end and the date of this report:

- (i) on 3 March 2022, in relation to portfolio of three assets let to Silverline;
- (ii) on 7 March 2022, in relation to portfolio of 59 assets let to Minster Care Group;
- (iii) on 10 March 2022, in relation to three assets let to MMCG;
- (iv) on 21 January 2022 and 16 March 2022, in relation to two assets let to Prestige; and
- (v) on 18 March 2022, in relation to two assets let to the NHS.

Rent reviews were linked to the annual RPI over the 12 months up to the rent review date, with a floor of 2% and a cap of 4% for Minster Care Group, Prestige, Silverline and MMCG. The two properties let to the NHS had an annual consumer price index-linked rent review. These rent reviews have contributed £0.7 million to contracted rent.

The Group has paid £3.1 million of capital expenditure in relation to £19.8 million of committed capital expenditure outstanding as at 31 December 2021.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.

Company statement of financial position

As at 31 December 2021

Company Registration Number: 10464966

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Investment in subsidiaries	6	392,486	369,371
Total non-current assets		392,486	369,371
Current assets			
Trade and other receivables	7	7,828	7,587
Cash and cash equivalents	8	10,336	6,806
Total current assets		18,164	14,393
Total assets		410,650	383,764
Current liabilities			
Trade and other payables	9	(25,490)	(47,863)
Total liabilities		(25,490)	(47,863)
Total net assets		385,160	335,901
Equity			
Share capital	10	3,506	3,189
Share premium reserve	10	305,672	271,362
Capital reduction reserve	10	24,077	24,077
Retained earnings		51,905	37,273
Total equity		385,160	335,901

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit attributable to the parent company for the year ended 31 December 2021 amounted to £36,504,000 (2020: profit of £48,539,000).

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022 and are signed on its behalf by:

Rupert Barclay Chairman

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

Company statement of changes in equity

For the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2021		3,189	271,362	24,077	37,273	335,901
Total comprehensive income		–	–	–	36,504	36,504
Transactions with owners						
Dividends paid	5	–	–	–	(21,872)	(21,872)
Share issue	10	317	35,017	–	–	35,334
Share issue costs	10	–	(707)	–	–	(707)
31 December 2021		3,506	305,672	24,077	51,905	385,160

For the year ended 31 December 2020

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2020		3,189	271,341	24,077	8,699	307,306
Total comprehensive income		–	–	–	48,539	48,539
Transactions with owners						
Dividends paid	5	–	–	–	(19,965)	(19,965)
Share issue costs	10	–	21	–	–	21
31 December 2020		3,189	271,362	24,077	37,273	335,901

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

Notes to the Company financial statements

For the year ended 31 December 2021

1. Basis of Preparation

General information

The financial statements for the year ended 31 December 2021 are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and in accordance with the Companies Act 2006, with comparatives presented for the year ended 31 December 2020.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

In preparing the separate financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- A reconciliation of the number of shares outstanding at the beginning and end of the period has not been presented as the reconciliations of the Group and the parent company would be identical;
- No statement of cash flows has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- The requirement to present related party disclosures between the Company and fellow subsidiaries where ownership is all 100%; and
- No disclosures have been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

Convention

The financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the directors consider that the Company has adequate resources to continue in operational existence for the next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The ongoing effect of the COVID-19 pandemic alongside the high inflationary environment has been considered by the directors. The directors have reviewed the forecasts for the Company taking into account the impact of COVID-19 and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, see Going concern and viability report on pages **53-54** for further detail.

The directors believe that there are currently no material uncertainties in relation to the Company's ability to continue for a period of at least 12 months from the date of approval of the Company's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

Notes to the Company financial statements

For the year ended 31 December 2021

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

The most significant estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings. The nature, facts and circumstance of the investment are taken into account in assessing whether there are any indications of impairment. Provisions provided reflect any reduction in net asset value of subsidiaries in the year.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Company will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits.

Dividends

Dividends are recognised when they become legally payable.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

The capital reduction reserve is the result of the transfer of a portion of share premium into a distributable reserve.

Trade and other payables

Trade and other payables are initially recognised at their fair value and are subsequently measured at cost.

Investments in subsidiaries

The investments in subsidiary companies are included in the Company's statement of financial position at cost less provision for impairment.

Notes to the Company financial statements

For the year ended 31 December 2021

4. Taxation

The Company is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however, will continue to be subject to corporation tax.

Tax charge included in total comprehensive income:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
UK corporation tax	–	–

5. Dividends

Details of dividends paid by the Company are included in note 11 to the consolidated financial statements.

6. Investment in subsidiaries

	31 December 2021 £'000	31 December 2020 £'000
At the beginning of the year	369,371	242,990
Cost of investments acquired through share purchases	23,115	126,381
At the end of the year	392,486	369,371

Notes to the Company financial statements

For the year ended 31 December 2021

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ("Propco 1")*	Real Estate Investment	England and Wales	100
Impact Property 2 Limited ("Propco 2")*	Real Estate Investment	England and Wales	100
Impact Property 3 Limited ("Propco 3")*	Real Estate Investment	England and Wales	100
Impact Property 4 Limited ("Propco 4")*	Real Estate Investment	England and Wales	100
Impact Property 5 Limited ("Propco 5")*	Real Estate Investment	England and Wales	100
Impact Property 6 Limited ("Propco 6")*	Real Estate Investment	England and Wales	100
Impact Property 7 Limited ("Propco 7")*	Real Estate Investment	England and Wales	100
Impact Property 8 Limited ("Propco 8")*	Real Estate Investment	England and Wales	100
Impact Finance 1 Limited ("Finance 1")*	Financing company	England and Wales	100
Impact Finance 2 Limited ("Finance 2")*	Financing company	England and Wales	100
Impact Finance 3 Limited ("Finance 3")*	Financing company	England and Wales	100
Impact Finance 4 Limited ("Finance 4")*	Financing company	England and Wales	100
Impact Finance 5 Limited ("Finance 5")*	Financing company	England and Wales	100
Impact Holdco 1 Limited ("Holdco 1")	Investment holding company	England and Wales	100
Impact Holdco 2 Limited ("Holdco 2")	Investment holding company	England and Wales	100
Impact Holdco 3 Limited ("Holdco 3")	Investment holding company	England and Wales	100
Impact Holdco 4 Limited ("Holdco 4")	Investment holding company	England and Wales	100
Impact Holdco 5 Limited ("Holdco 5")	Investment holding company	England and Wales	100
Roseville Property Limited**	Property holding company	England and Wales	100
Sandbanks Property Redcar Limited**	Property holding company	England and Wales	100
Cardinal Healthcare (UK) Ltd**	Property holding company	England and Wales	100
Cholwell Care (Nailsea) Limited**	Property holding company	England and Wales	100
Barham Care Centre Limited**	Property holding company	England and Wales	100
Baylham Care Centre Limited**	Property holding company	England and Wales	100
Butterfly Cumbria Properties Limited*	Property holding company	England and Wales	100
The Holmes Care Holdings Limited**	Property holding company	England and Wales	100
Hollyblue Healthcare (Countrywide) Limited**	Property holding company	England and Wales	100
Hollyblue Healthcare (Ulster) Limited**	Property holding company	England and Wales	100
Tower Bridge Homes Care Limited**	Property holding company	England and Wales	100
The Holmes Care Group GB Limited**	Property holding company	England and Wales	100
Lakewood Limited**	Property holding company	England and Wales	100
The Holmes Care (Greenock) Limited**	Property holding company	England and Wales	100
The Holmes Care (Bathgate) Limited**	Property holding company	England and Wales	100
Tower Bridge Homes Care (Central Care) Limited**	Property holding company	Scotland	100
Aviemore Homes Limited**	Property holding company	Scotland	100
Flagship Tower (Greenock) Limited**	Property holding company	England and Wales	100
Heatherfield Community Care Limited**	Property holding company	Scotland	100
Central Care Limited**	Property holding company	Scotland	100
Beeley (Holdings) Limited**	Property holding company	England and Wales	100
Hillcrest House Limited*	Property holding company	England and Wales	100
Springhill Properties (No1) Limited*	Property holding company	England and Wales	100
Carlton Hall (Lowestoft) Limited*	Property holding company	England and Wales	100

*As at 31 December 2021 these entities were held indirectly by the Company.

**As at 31 December 2021 these entities are in the process of winding up.

Notes to the Company financial statements

For the year ended 31 December 2021

6. Investment in subsidiaries (continued)

The registered address for the above subsidiaries incorporated in England and Wales is:
The Scalpel, 18th Floor, 52 Lime Street, London EC3M 7AF, England

The registered address for the above subsidiaries incorporated in Scotland is:
Atria One, 144 Morrison Street, Edinburgh EH3 8EX, Scotland

Where the entity is in the process of winding up, the registered address is that of the liquidator appointed by the Company.

7. Trade and other receivables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Loan to Group companies	7,766	7,513
Prepayments	62	74
	7,828	7,587

As at 31 December 2021, there were no trade receivables past due or impaired (2020: none).

8. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Cash and cash equivalents	10,336	6,806

None of the Company's cash balances are held in restricted accounts.

9. Trade and other payables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Loan from Group companies	23,954	46,792
Trade and other payables	1,536	926
Interest on loans to Group companies	–	145
	25,490	47,863

Loans from Group companies are unsecured and are repayable on demand.

10. Share capital, share premium and capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and are included in note 20 to the consolidated financial statements.

11. Transactions with related parties

The Company has taken advantage of the exemption provided by FRS 102 not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 21 of the consolidated financial statements for disclosure of related party transactions of the Group.

Notes to the Company financial statements

For the year ended 31 December 2021

12. Capital commitments

There were no capital commitments held by the Company (2020: nil).

13. Contingent liabilities

On the 21 December 2021 the Company guaranteed a new long-term loan note issue made by its wholly owned subsidiary. The loan notes total £75 million and mature in 2035. See note 16 of the consolidated financial statements for further detail.

14. Subsequent events

Significant events after the reporting period are the same as those of the Group. See note 28 to the consolidated financial statements.

No other significant events have occurred between the Statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.



Additional information

- 144** EPRA performance measures (unaudited)
- 147** Notes to the EPRA performance measures (unaudited)
- 150** Alternative performance measures
- 152** Our portfolio
- 154** AIFM statement (unaudited)
- 155** Investment policy
- 157** Glossary
- 158** Corporate information
- 159** Financial calendar

EPRA performance measures (unaudited)

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

1. EPRA earnings per share

£27.4m
8.05p per share

for the year to 31 December 2021
(for the year to 31 December 2020:
£23.1m/7.25p)

2021	8.05p
2020	7.25p

Definition

Earnings from operational activities.

Purpose

A key measure of a company's underlying operating results are an indication of the extent to which current dividend payments are supported by earnings.

2.1 EPRA net reinstatement value ("NRV")

£423.7m
120.84p per share

for the year to 31 December 2021
(for the year to 31 December 2020:
£376.5m/118.04p per share)

2021	120.84p
2020	118.04p

Definition

Net asset value adjusted for fair value of derivatives and transaction costs under the assumption they will not crystallise if the company never sells assets.

Purpose

The aim of this measure is to represent the value required to rebuild the entity.

2.2 EPRA net tangible assets ("NTA")

£394.2m
112.41p per share

for the year to 31 December 2021
(for the year to 31 December 2020:
£349.5m/109.58p per share)

2021	112.41p
2020	109.58p

Definition

Net asset value adjusted for fair value of derivatives as these will not crystallise if held to maturity.

Purpose

This represents the value of the company assuming assets are bought and sold.

EPRA PERFORMANCE MEASURES (UNAUDITED)

2.3 EPRA net disposal value ("NDV")

£389.8m
111.16p per share

for the year to 31 December 2021
(for the year to 31 December 2020:
£347.4m/108.91p per share)

2021	111.16p
2020	108.91p

Definition

Net asset value adjusted to align borrowings to their drawn amount. If the company was in an immediate disposal scenario certain assets and liabilities are adjusted to show the full value if not held to maturity.

Purpose

This measure aims to show the shareholders' value under a disposal scenario.

3.1 EPRA Net Initial Yield ("NIY")

6.71%

for the year 31 December 2021
(for the year to 31 December 2020: 6.57%)

2021	6.71%
2020	6.57%

Definition

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

Purpose

This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.

3.2 EPRA "topped-up" NIY

6.71%

for the year to 31 December 2021
(for the year to 31 December 2020: 6.71%)

2021	6.71%
2020	6.71%

Definition

This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).

Purpose

This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.

EPRA PERFORMANCE MEASURES (UNAUDITED)

4. EPRA vacancy rate

0%

for the year to 31 December 2021
(for the year to 31 December 2020: 0.00%)

Definition

Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.

Purpose

A "pure" (%) measure of investment property space that is vacant, based on ERV.

5. EPRA cost ratio

15.84%

for the year to 31 December 2021
(for the year to 31 December 2020: 17.09%)

2021	15.84%
2020	17.09%

Definition

Administrative and operating costs (including, and excluding, direct vacancy costs) divided by gross rental income.

Purpose

A key measure, to enable meaningful measurement of the changes in a company's operating costs.

6. Like-for-like rental growth

5.74%

for the year to 31 December 2021
(for the year to 31 December 2020: 4.26%)

2021	5.74%
2020	4.26%

Definition

Rental growth on the portfolio of properties that have been owned and operational for two full reporting cycles.

Purpose

Growth of rental income excluding acquisitions and disposals allows stakeholders to estimate the organic income growth.

Notes to the EPRA performance measures (unaudited)

For the year ended 31 December 2021

1. EPRA earnings per share

	31 December 2021 £'000	31 December 2020 £'000
Total comprehensive income (attributable to shareholders)	31,968	28,783
Adjusted for:		
Profit on disposal of investment property	(308)	(154)
Change in fair value of investment properties	(12,896)	(10,467)
Rental lease incentives	2,660	–
Rental income arising from recognising guaranteed rent uplifts and rental premiums	6,016	4,882
Change in fair value of interest rate derivatives	(87)	87
Profits to calculate EPRA earnings per share	27,353	23,131
Weighted average number of ordinary shares (basic and diluted)	339,761,521	318,953,861
EPRA earnings per share – basic and diluted	8.05p	7.25p

2. EPRA NAV measures

The updated EPRA best practice recommendations, released in October 2020, give three new NAV metrics: EPRA net reinstatement value ("NRV"), EPRA net tangible assets ("NTA") and EPRA net disposal value ("NDV") to replace the previously reported EPRA NAV and EPRA NNNNAV. NRV aims to show the value of assets on a long-term basis, adjusting for items that would not be expected to crystallise under normal circumstances, NTA is calculated on the basis that assets are bought and sold whilst NDV intends to show shareholders the value of assets and liabilities in the event they cannot be held until maturity. The Group has adopted NTA as its primary EPRA NAV measure as it most closely aligns with the Group's business practices.

As at 31 December 2021:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	394,244	394,244	394,244
Exclude:			
Fair value of derivatives	(94)	(94)	–
Include:			
Fair value of debt ¹	–	–	(4,471)
Transaction costs ²	29,581	–	–
Net assets (per EPRA NAV measure)	423,731	394,150	389,773
Shares in issue at 31 December (basic and diluted)	350,644,188	350,644,188	350,644,188
Net assets per share (per EPRA NAV measure)	120.84p	112.41p	111.16p

NOTES TO THE EPRA PERFORMANCE MEASURES (UNAUDITED)

For the year ended 31 December 2021

2. EPRA NAV measures (continued)

As at 31 December 2020:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	349,521	349,521	349,521
Exclude:			
Fair value of derivatives	(7)	(7)	–
Include:			
Fair value of debt ¹	–	–	(2,156)
Transaction costs ²	26,964	–	–
Net assets (per EPRA NAV measure)	376,478	349,514	347,365

Shares in issue at 31 December (basic and diluted) 318,953,861 318,953,861 318,953,861

Net assets per share (per EPRA NAV measure) 118.04p 109.58p 108.91p

1 Difference between interest-bearing loans and borrowings included in the balance sheet at amortised cost, and fair value of interest-bearing loans and borrowings at drawn amount.

2 NTA and NDV are calculated using property values in line with IFRS, where values are net of real estate transfer tax and other purchasers' costs. These transaction costs are added back for NRV.

3. EPRA net initial yield ("NIY") and EPRA "topped-up" NIY

	31 December 2021 £'000	31 December 2020 £'000
Investment property – wholly owned	459,442	418,787
Less capital improvements under construction	(5,614)	(1,907)
Completed property portfolio	453,828	416,880
Allowance for estimated purchasers' cost ¹	28,591	26,263
Gross up completed property portfolio valuation (B)	482,419	443,143
Annualised cash passing rental income	32,353	29,111
Property outgoings (non-recoverable insurance)	–	(2)
Annualised net rents (A)	32,353	29,109
Add:		
Contractual uplifts on rent-free periods of funded capital improvements	–	634
Topped-up net annualised rent (C)	32,353	29,743
EPRA net initial yield (A/B)	6.71%	6.57%
EPRA topped-up net initial yield (C/B)	6.71%	6.71%

1 Assumes a purchaser of the Company's portfolio would pay SDLT and transaction costs equal to 6.3% of the portfolio's value.

NOTES TO THE EPRA PERFORMANCE MEASURES (UNAUDITED)

For the year ended 31 December 2021

4. EPRA vacancy rate

	31 December 2021 £'000	31 December 2020 £'000
Estimated rental value of vacant space	–	–
Estimated rental value of the whole portfolio	30,277	28,922
EPRA vacancy rate	0.00%	0.00%

5. EPRA cost ratio

	31 December 2021 £'000	31 December 2020 £'000
Administrative and other expenses	5,766	5,264
Net service charge cost	–	2
Total costs including and excluding vacant property costs	5,766	5,266
Gross rental income	36,398	30,818
Total EPRA cost ratio (including, and excluding, direct vacancy costs)	15.84%	17.09%

None of the costs in this note have been capitalised. Only costs directly associated with the purchase of properties as well as subsequent value-enhancing capital expenditure qualify as acquisition costs and are capitalised.

6. Like-for-like rental growth

This note shows the rental income and market value for property assets that have been owned and operational for two full reporting periods, hence all below information relates to the property portfolio that has been owned and operational since 31 December 2018.

	Rent £'000	Market value £'000
Property portfolio as at 31 December 2019	21,708	318,125
Inflation-linked rental uplifts	542	
Rental uplifts in return for capital improvements or deferred payments	383	
Increase/(decrease) due to vacancy rate	–	
Property portfolio as at 31 December 2020	22,633	327,593
Inflation-linked rental uplifts	527	
Rental uplifts in return for capital improvements or deferred payments	772	
Increase/(decrease) due to vacancy rate	–	
Property portfolio as at 31 December 2021	23,932	335,444

All properties operate within the same sector, UK healthcare.

Alternative performance measures

The other alternative performance measures may not be comparable with similarly titled measures presented by other companies. Alternative performance measures should not be viewed in isolation but as supplementary information.

1. Total expense ratio ("TER")

Total recurring administration costs as a percentage of average NAV throughout the period.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening NAV	349,521	340,682
Closing NAV	394,244	349,521
Average NAV for the year	371,883	345,102
Administrative expenses	5,766	5,264
One-off costs	–	–
Recurring expenses	5,766	5,264
TER	1.55%	1.53%

2. Total accounting return

The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period.

	Year ended 31 December 2021	Year ended 31 December 2020
Opening NAV per share (pence)	109.58	106.81
Closing NAV per share (pence)	112.43	109.58
NAV growth for the year (pence)	2.85	2.77
Dividends per share paid in the year (pence)	6.38	6.26
Total return (pence)	9.23	9.03
Total accounting return	8.42%	8.46%

ALTERNATIVE PERFORMANCE MEASURES

3. Gross loan to value ("LTV")

The gross debt as a percentage of our gross asset value.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Gross debt	114,548	76,369
Gross assets	514,495	429,647
LTV	22.26%	17.77%

4. Property Investments

This relates to the portfolio valuation along with investments via loans to operators for the acquisition of property portfolios.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Portfolio valuation	459,442	418,788
Investments in properties via loans to operators	37,500	—
Property Investments	496,942	418,788

Our portfolio

At 31 December 2021, the Group owned the homes listed in the table below:

Tenant and home	Region	Acquisition date ¹	Beds ²	Capital projects ³
Careport				
Blackwell Vale	North West	Dec 2020	60	+6
Briardene	North East	Aug 2018	60	
Derwent	North East	Aug 2018	45	
Holly Lodge	North East	Nov 2018	41	
Kingston Court	North West	Jun 2019	75	
Old Prebendal House and Court	South East	Jun 2019	39	
Sovereign Court and Lodge ⁴	North East	Aug 2018	60	
The Grove	North East	Sep 2018	57	

Value at 31 December 2021: £33.7m

Carlton Hall

Carlton Hall	East of England	Sep 2021	86	
Oasis Development Site	East of England	Sep 2021	–	+80

Value at 31 December 2021: £13.0m

Croftwood Care*

Ancliffe	North West		40	
Astbury Lodge	North West		41	
Croftwood	North West		47	
Crossways	North West		39	
Elm House	North West		40	
Florence Grogan	North West		40	
Garswood	North West		53	
Gleavewood	North West		32	
Golborne House	North West		40	
Greenacres	North West		40	
Hourigan	North West		40	
Ingersley Court	North West		46	
Lakelands	North West		40	
Leycester House	North West		40	
Loxley Hall	North West		40	+5
Lyndhurst	North West		40	
New Milton House	North West		39	
Parklands	North West		40	
The Cedars	North West		27	
The Elms	North West		41	
The Hawthorns	North West		39	
The Laurels	North West		40	
Thorley House	North West		40	
Turnpike Court	North West		53	
Wealstone	North West		42	
Westhaven	North West		52	
Whetstone Hey	North West		42	

Value at 31 December 2021: £69.3m

¹ May 2017 unless stated

² Number of registered beds

³ Capital improvement bed additions under development

⁴ Treated as two properties

* Minster and Croftwood are both part of Minster Care Group

Tenant and home	Region	Acquisition date ¹	Beds ²	Capital projects ³
Electus Care				
Cedarhurst Lodge	Northern Ireland	Dec 2020	67	
Edgewater Lodge	Northern Ireland	Dec 2020	75	
Saintfield Lodge	Northern Ireland	Dec 2020	51	

Value at 31 December 2021: £9.2m

Maria Mallaband and Countrywide Group (MMCG)

Belmont House	Yorkshire & The Humber	May 2019	106	
Croft House	Yorkshire & The Humber	Mar 2020	68	
Howgate House	Yorkshire & The Humber	Mar 2020	63	
Manor Park	Yorkshire & The Humber	Mar 2020	75	
Park Springs	Scotland	May 2019	96	
Thorn tree Mews	Scotland	May 2019	40	
Wallace View	Scotland	May 2019	60	

Value at 31 December 2021: £35.1m

Minster Care*

Abbeywell	West Midlands		45	
Amberley	South West		30	
Ashgrove	Yorkshire & The Humber		56	
Attlee	Yorkshire & The Humber		68	
Broadgate	East Midlands		40	
Carnbroe	Scotland	May 2018	74	
Craigend	Scotland		48	
Diamond House	East Midlands		74	
Duncote Hall	East Midlands		40	
Duncote, The Lakes	East Midlands		47	
Emmanuel	Yorkshire & The Humber		44	
Eryl Fryn	Wales		31	
Falcon House	East Midlands		46	
Freeland House	South East		111	
Gray's Court	East of England		87	
Grenville	East of England	May 2018	64	
Hamshaw Court	Yorkshire & The Humber		45	
Hillcrest	South West	Nov 2021	88	
Ideal	West Midlands		50	
Karam Court	West Midlands		47	
Littleport Grange	East of England		80	
Meadows & Haywain	East of England		65	
Mowbray	West Midlands		39	
Mulberry Manor	Yorkshire & The Humber		49	
Red Hill	West Midlands	Jan 2020	90	
Rydal	North East		60	
Saffron	East Midlands	Jun 2017	48	
Sovereign House	West Midlands		60	
Stansty House	Wales		74	
Three Elms	North West		60	
Waterside	West Midlands		47	
Woodlands Court	North West		40	
Wordsley	West Midlands		44	

Value at 31 December 2021: £141.4m

OUR PORTFOLIO

Tenant and home	Region	Acquisition date ¹	Beds ²	Capital projects ³
Holmes Care Group				
Alexander House ⁵	Scotland	Dec 2021	44	
Almond Court	Scotland	Aug 2020	42	
Almond View	Scotland	Aug 2020	78	
Bankview (&BVDC)	Scotland	Aug 2020	65	
Barrogil House ⁵	Scotland	Dec 2021	40	
Beechwood	Scotland	Aug 2020	90	
Camilla ⁵	Scotland	Dec 2021	42	
Cragielea	Scotland	Aug 2020	85	
Craigie House ⁵	Scotland	Dec 2021	30	
Fernlea House ⁵	Scotland	Dec 2021	38	
Finavon Court ⁵	Scotland	Dec 2021	24	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Lomond View ⁵	Scotland	Dec 2021	50	
Methven House ⁵	Scotland	Dec 2021	62	
Preston House ⁵	Scotland	Dec 2021	64	
Roselea House ⁵	Scotland	Dec 2021	20	
Three Towns	Scotland	Aug 2020	60	
Walton House ⁵	Scotland	Dec 2021	40	
Willow House ⁵	Scotland	Dec 2021	40	

Value at 31 December 2021: £90.1m

NCUH NHS Trust

Reiver House	North West	Jun 2019	–
Surgical Unit	North West	Jun 2019	–

Value at 31 December 2021: £4.5m

Prestige Group

Hartlepool	North East	Mar 2020	–	+94
Parkville	North East	Mar 2018	94	
Roseville	North East	Mar 2018	103	
Sandbanks	North East	Oct 2018	77	
Yew Tree	North East	Jan 2019	76	

Value at 31 December 2021: £23.3m

Renaissance Care

Croftbank	Scotland	Nov 2018	68
Rosepark	Scotland	Nov 2018	60

Value at 31 December 2021: £13.3m

Silverline

Laurel Bank	Yorkshire & The Humber	Mar 2020	63
Springhill	Scotland	Nov 2021	61
The Beeches	Yorkshire & The Humber	Mar 2020	60
Willow Bank	Yorkshire & The Humber	Mar 2020	59

Value at 31 December 2021: £10.9m

Tenant and home	Region	Acquisition date ¹	Beds ²	Capital projects ³
Optima				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	

Value at 31 December 2021: £14.8m

Welford

Argentum Lodge	South West	Sep 2019	56	
Birchlands	Yorkshire & The Humber	Jun 2019	54	
Fairview Court and House ⁴	South West	Mar 2018	73	+11
Mavern House	South West	Jan 2021	51	+8
St Peter's House	East of England	Dec 2020	66	
Holmesley	South West	Jun 2019	55	

Value at 31 December 2021: £38.5m

- 1 May 2017 unless stated
- 2 Number of registered beds
- 3 Capital improvement bed additions under development
- 4 Treated as two properties
- 5 These assets were invested in via a loan

AIFM statement (unaudited)

Impact Health Partners LLP have served as the Alternative Investment Fund Manager since 15 March 2019; references in this statement to “AIFM” are to Impact Health Partners LLP.

Quantitative remuneration disclosure for the AIFM

Information in relation to the remuneration paid by the AIFM is available on the Company’s website, www.impactreit.uk.

Liquidity

At the date of this annual report there are no assets held by the Company which are subject to special arrangements arising from their illiquid nature. There has been no change to the liquidity management system and procedures during the period since incorporation. Please refer to note 18 in the financial statements for an analysis of the Company’s liabilities and their maturity dates at 31 December 2021.

The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks

The Company’s risk management framework and risk appetite are set out in “Audit, risk and internal control” on pages 74-78 of the annual report.

Please refer to page 60 for the board’s assessment of the principal risks and uncertainties facing the Company. The AIFM has assessed the current risk profile of the Company to be low.

Leverage

The Group’s maximum and actual leverage levels at 31 December 2021 are shown below:

Leverage exposure	Gross method	Commitment
Maximum limit	200.0%	200.0%
Actual	117.4%	120.7%

For the purposes of the AIFM Directive, leverage is any method that increases the Group’s exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group’s exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group’s positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other. Both methods include the Group’s interest rate swaps measured at notional value.

There has been no change to the maximum level of leverage that the AIFM may employ on behalf of the Company. The actual level of gearing employed by the Company at 31 December 2021 was 22.26%.

Material changes to information

Article 23 of the AIFM Directive requires certain information to be made available to investors before they invest and requires material changes to this information to be disclosed in the annual report. An updated copy of the Company’s Article 23 disclosure schedule was published following the change of AIFM on 15 March 2019. There have been no other material changes to the information requiring disclosure.

Investment policy

The Company's investment policy is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK, in particular elderly care homes, and to lease those assets to care home operators and other healthcare service providers under full repairing and insuring leases.

The Company pursues the investment policy as follows:

Policy	Status
In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 15% of the total gross asset value of the Group.	✓
No single customer paying for care provided in assets owned by the Group will account for more than 15% of the aggregate revenues of the tenants to whom the Group's assets are leased from time to time, measured at the time of acquisition.	✓
The annual contracted rent from any single tenant is not expected to exceed 40% of the total annual contracted rent of the Group, measured at the time of investment.	✓
The portfolio will be diversified by location across the UK with focus on areas where there is a good balance of supply and demand for the provision of care and assets are available at attractive valuations.	✓
Within these locations, the Group will acquire existing modern buildings or those that are currently considered fit for purpose by occupiers, but in respect of which the Investment Manager has developed a plan to add value to, and improve the environmental sustainability of, the asset through targeted capital expenditure.	✓
Leases granted by the Group will be linked to inflation, have long duration (with an unexpired lease term of at least 20 years) and will not be subject to break clauses. The Group will seek to amend any future leases acquired by the Group to obtain similar terms.	✓
The Group will not undertake speculative development (that is, development of property which has not been leased or preleased), subject to the limitation in the final bullet below, so as to reposition a home in its local market and thus to increase the rent due.	✓
The Group may invest in forward-funding agreements or forward commitments to pre-let developments, or as part of a structured acquisition of an asset, subject to the limitation in the final bullet below, where the Group will own the asset on the completion of the work, or has the ability to acquire the asset upon agreed conditions being satisfied.	✓
The gross budgeted development costs of any refurbishment, extension or replacement of existing holdings and/or forward funding and forward commitments, is limited to 25% of the Company's gross assets at the time of commitment.	✓

INVESTMENT POLICY

The Group is permitted to generate up to 15% of its gross income, in any financial year from non-rental revenue or profit-related payments from the tenants in addition to the rental income due under the leases. The Group is also permitted to invest up to:

- (i) 10% of its gross assets, at the time of investment, in non-residential Healthcare Real Estate Assets, such as properties which accommodate GP or dental practices and other healthcare-related services including occupational health and physiotherapy practices, pharmacies and hospitals or in non-healthcare related residential assets attached to residential Healthcare Real Estate Assets;
- (ii) 25% of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Company; and
- (iii) 15% of its gross assets, at the time of investment, in other closed-ended investment funds listed on the Official List. The Directors have no current intention to acquire non-residential Healthcare Real Estate Assets or indirect property investment funds.

The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Company's investment policy.

The Group will not acquire any asset or enter into any lease or related agreement if that would:

- (i) result in a breach of the conditions applying to the Company to hold real estate investment trust ("REIT") status or
- (ii) result in any investment by the Group in assets located outside of the UK.

The Company may invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds. It will not invest in derivatives but it may use derivatives for hedging purposes.

Any material change to the investment policy will require the prior approval of shareholders.

Glossary

Adjusted EPS: Adjusted Earnings per Share

Administrator: JTC (UK) Limited

AIC: Association of Investment Companies

AIFM: Alternative Investment Fund Manager

BDO: BDO LLP

Capex: Capital Expenditure

CMA: Competitions and Markets Authority

Contracted rent: The annualised rent adjusting for rent due following rent-free periods and including post-tax income from interest received from property investments made via loans to operators for the acquisition of property portfolios

Contracted yield: Contracted rent divided by the independent market value of the portfolio

CQC: Care Quality Commission

EBITDARM: Earnings Before Interest Tax Depreciation Amortisation Rent and Management charges

EPC: Energy Performance Certificate

EPRA: European Public Real Estate Association

EPS: Earnings per Share

ESG: Environmental, Social and Governance

FCA: Financial Conduct Authority

ICSA: The Chartered Governance Institute

Investment Manager: Impact Health Partners LLP

IBOR: InterBank Offered Rates

IPO: Initial Public Offering

LED: Light-Emitting Diode

LTV: Gross Loan to Value

Management Report: As defined by the FCA handbook and governed by DTR 4.1.8, incorporated within the Strategic report and Governance section of this annual report

MMCG: Maria Mallaband and Countrywide Group

NAV: Net Asset Value

NIY: Net Initial Yield

Premium Listing/Premium List: The transfer of our shares to the premium listing segment of the London Stock Exchange's main market and admitted to the premium listing segment of the FCA's Official List

Property Investments: This relates to the portfolio valuation along with investments via loans to operators for the acquisition of property portfolios

RCF: Revolving Credit Facility

REIT: Real Estate Investment Trust

Rent cover: Total annual rent divided by EBITDARM for the year

RICS "Red Book": RICS Valuation – Current edition of the global and UK standards as at the valuation date

RPI: Retail Price Index

Seed Portfolio: Initial portfolio of 56 assets (including two option assets) acquired in May 2017

SONIA: Sterling OverNight Index Average

SPV: Special Purpose Vehicle

Total accounting return: The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period

WAVLT: Weighted Average Unexpired Lease Term



Corporate information

Directors

Amanda Aldridge Non-executive Director

Rupert Barclay Non-executive Chairman

Rosemary Boot Senior Independent Non-executive Director

Paul Craig Non-executive Director

Philip Hall Non-executive Director

Chris Santer Non-executive Director

Registered office

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Telephone: +44 (0)207 409 0181

Investment Manager and AIFM

Impact Health Partners LLP

149-151 Regent Street
London
W1B 4JD

Joint Financial Adviser and Corporate Broker

Jefferies International Limited

100 Bishopsgate
London
EC2N 4JL

Winterflood Securities Limited

The Atrium Building
Cannon Bridge
25 Dowgate Hill
London
EC4R 2GA

Legal Advisers

Travers Smith LLP

10 Snow Hill
London
EC1A 2AL

Independent Auditor

BDO LLP

55 Baker Street
London
W1U 7EU

Administrator and Secretary

JTC (UK) Limited

The Scalpel
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London
EC3M 7AF

Registrar

Computershare Investor Services PLC

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Bristol
BS99 6ZZ
United Kingdom

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Valuer

Cushman & Wakefield

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London
W1A 3BG

Communications Adviser

Maitland/AMO

3 Pancras Square
London
N1C 4AG

Company Registration Number

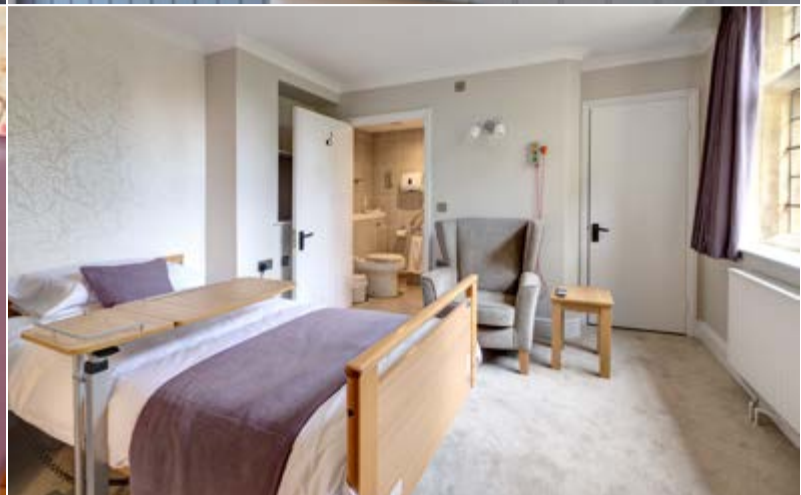
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Website

www.impactreit.uk

Financial calendar

Announcement of full year results	29 March 2022
Annual General Meeting	12 May 2022
Half year end	30 June 2022
Announcement of half year results	August 2022
Full year end	31 December 2022



IMPACT
Healthcare REIT

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