IMPACT
Healthcare REIT

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Impact Healthcare REIT plc

("**Impact**" or the "**Company**" or, together with its subsidiaries, the "**Group**")

ANNUAL RESULTS FOR THE 12 MONTHS ENDED 31 DECEMBER 2020

Resilient performance from our crucial social care infrastructure for vulnerable elderly people, aligned to favourable long-term market growth drivers

Impact Healthcare REIT plc (ticker: IHR), the real estate investment trust which gives investors exposure to a diversified portfolio of UK healthcare real estate assets, in particular care homes, announces its annual results for the 12 months ended 31 December 2020.

Rupert Barclay, Chairman of Impact Healthcare REIT PLC, commented:

"The human cost of the pandemic has been foremost in our minds and we have looked to do everything we can to help protect the health and wellbeing of our tenants' residents and their healthcare professionals. Despite these difficult conditions, the Group's business model has proved resilient, as we have benefited from our deliberate approach to implementing our strategy since IPO.

Our portfolio provides crucial infrastructure supporting vulnerable elderly people across the UK and our tenants use our assets to provide an essential care service, demand for which is not directly correlated with economic conditions. This enabled them, despite the pandemic but with the benefit of grant income to offset incremental costs, to maintain robust rent cover throughout 2020. This in turn has allowed us to collect 100% of the rent due for the year, without putting undue stress on our tenants, and we were therefore able to meet our dividend target.

We remain well-capitalised and are confident that the fundamental drivers of our industry and business remain strong, even if the recovery from COVID-19 is slower than we would all like. We are positioned to deliver further portfolio diversification and sustainable growth that will generate attractive returns for shareholders. At the same time, we will continue to responsibly deliver value to our tenants, their residents and healthcare professionals, over the long term."

Financial highlights

The resilience of the business against the backdrop of COVID-19 enabled us to meet our dividend target for the year ended 31 December 2020 of 6.29 pence per share, contributing to a robust total return performance.

	Year ended 31 December 2020	Year ended 31 December 2019	Change
Dividends declared per share	6.29p	6.17p	+1.9%
Profit before tax	£28.8m	£26.3m	+9.3%
Earnings per share ("EPS")	9.02p	10.37p	-13.0%
EPRA EPS	7.25p	6.95p	+4.4%
Adjusted EPS [1]	5.93p	5.26p[3]	+12.7%
Contracted rent roll	£30.9m	£23.1m	+33.7%
Portfolio valuation	£418.8m	£318.8m	+31.4%
Net asset value ("NAV") per share	109.58p	106.81p	+2.6%
Share price[2]	109.00p	108.00p	+0.9%
Loan to value ratio	17.77%	6.81%	-
NAV total return	8.46%	9.46%	-

Operational highlights

- While responsibly supporting our tenants and their residents through the COVID-19 pandemic dominated much of the year ended 31 December 2020, we continued to make further progress with implementing our sustainable growth strategy.
- 1.77x rent cover: the Group demonstrated its resilience during 2020, reflecting the strength of our partnerships with a diverse group of tenants, strong rent cover, robust lease structures and our healthy balance sheet.

- This resilience enabled us to collect 100% of rent due for the year, with no changes to any lease terms or payment schedules.
- 22 properties acquired with 1,513 beds for a total net consideration of £84.7 million.
- Committed to forward fund a further property with 94 beds. On completion, this will bring our total properties to 108 with 5,924 beds.
- Added three new tenants, giving us 12 tenants[4] at the year end. All leases continue to be inflation-linked with upwards only rent reviews.
- Weighted average unexpired lease term ("WAULT") of 20.0 years at 31 December 2020 (31 December 2019: 19.7 years).
- Rent reviews in the year added £0.54 million to contracted rent, representing a 2.3% increase on the associated portfolio.
- Grew the contracted rent roll by 33.7% to £30.9 million (31 December 2019: £23.1 million).
- Secured a £50 million revolving credit facility with HSBC on 6 April 2020, giving the Group total facilities of £125 million.

Supporting our stakeholders through COVID-19

- Throughout the COVID-19 pandemic, our top priority has been to help protect the wellbeing of the Group's tenants, their residents and their healthcare professionals, as well as wider stakeholders.
- The need remains strong for good quality care from well maintained, fit for purpose care homes with strong infection controls in place. The Group's tenants continue to provide an essential service to the communities in which they operate and are playing a critical role in helping to provide high-quality care to vulnerable elderly people during this pandemic.

Sustainability

Effectively managing sustainability issues is fundamental to long-term value creation and we made good progress this year. This included:

- publishing our environmental, social and governance ("ESG") policy;
- publishing our EPRA sustainability report and achieving EPRA sBPR gold level compliance;
- evaluating Energy Performance Certificate ("EPC") ratings and the underlying data across the portfolio;
- identifying opportunities to improve energy efficiency and EPC ratings; and
- enhancing the green credentials of our standard lease terms.

Post balance sheet highlights

- Acquired one further property with an existing tenant, taking our total properties owned to 109 and 5,975 beds. Contracted rent has grown to £31.4 million[5].

Notes

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.

2 As at 31 December 2020.

3 The removal of amortisation of loan arrangement fees is a change made in the current year and the prior year adjusted earnings figure has been restated to include an adjustment for the amortisation of loan arrangement fees.

4 Minster and Croftwood (both subsidiaries of Minster Care Group), Careport, Prestige, Renaissance, Welford, Maria Mallaband Countrywide Group, NHS Cumbria, Optima, Holmes Care, Silverline and Electus Healthcare.

5 Includes forward-funded developments.

Alternative performance measures have been calculated in line with EPRA best practices recommendation.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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The Company's LEI is 213800AX3FHPMJL4IJ53.

Further information on Impact Healthcare REIT is available at www.impactreit.uk.

NOTES:

Impact Healthcare REIT plc is a real estate investment trust ("**REIT**") which aims to provide shareholders with an attractive return, principally in the form of quarterly income distributions and with the potential for capital and income growth, through exposure to a diversified portfolio of UK healthcare real estate opportunities, in particular care homes for the elderly. The Group's investment policy is to acquire, renovate, extend and redevelop high quality healthcare real estate assets in the UK and lease those assets primarily to healthcare operators providing residential healthcare services under full repairing and insuring leases.

The Company has a progressive dividend policy with a target to grow its annual aggregate dividend in line with the inflation-linked

rental uplifts received by the Group under the terms of the rent review provisions contained in the Group's leases in the prior financial year.

On this basis, the target total dividend for the year ending 31 December 2021 is 6.41 pence per share*, a 1.91% increase over the 6.29 pence in dividends paid or declared per ordinary share for FY 2020.

The Group's Ordinary Shares were admitted to trading on the main market of the London Stock Exchange, premium segment, on 8 February 2019. The Company is a constituent of the FTSE EPRA/NAREIT index.

* 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.

The Company will hold a presentation today at 9.00am for investors and analysts via a webcast and conference call.

For those who wish to access the live webcast, please register here:

https://www.investis-live.com/impact-reit/6051c96e9a1388100054587d/fwle

For those who wish to access the live conference call, please contact Maitland/AMO at impacthealth-maitland@maitland.co.uk or by telephone on +44 (0) 20 7379 5151.

The recording of the presentation will also be made available later in the day via the Company website: https://www.impactreit.uk/investors/reporting-centre/presentations/

The following represents an extract from the annual report and page references relate to the published annual report and not to this RNS

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 each element of 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;
- the quality of the cash flows we generate; and
- maintaining a healthy balance sheet.

Our 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.

Our tenants

Our tenants are established providers, offering good-quality care and earning fees from a broad spectrum of public sector customers and private-pay residents.

Supporting our stakeholders through COVID-19

Throughout the COVID-19 pandemic, our top priority has been to help protect the wellbeing of the Group's tenants, their residents and their healthcare professionals, as well as wider stakeholders.

The need remains strong for good quality care from well maintained, fit for purpose care homes with strong infection controls in place. The Group's tenants continue to provide an essential service to the communities in which they operate and are playing a critical role in helping to provide high-quality care to vulnerable elderly people during this pandemic.

COVID-19 and its impact on care homes

The World Health Organization declared COVID-19 to be a global pandemic on 11 March 2020. We now know that the first deaths from COVID-19 in an English care home had already occurred five days before, on 6 March 2020.

In the first wave of the pandemic, weekly care home deaths in England peaked at 2,769 in the week-ending 24 April 2020. Deaths in care homes from all causes in April 2020 were three times higher than the average for that month over the previous five years. Weekly deaths related to COVID-19 in care homes fell during the summer months, to a low of 17 in late August. Unfortunately, death rates began to pick up again in the autumn, as the second wave spread across the UK. 661 deaths in care homes were attributed to COVID-19 in the final week of 2020. The second wave peaked in care homes in the week ending 29 January 2021, when 1,808 deaths were attributed to COVID-19, and then started to fall rapidly.

The availability of testing, and better access to personal protective equipment ("PPE"), has made an important difference to infection

control in care homes. Testing became widely available towards the end of May 2020 and, since the end of Q3 2020, most homes have tested staff weekly and residents monthly, with a more frequent regime if any cases are detected. Improved infection control was one factor which helped to reduce the proportion of COVID-19 related deaths occurring in care homes from 30% of total deaths in the country in the first wave, to 19% in the second wave.

COVID-19's impact on the Group's care homes has not been even, with some homes more significantly affected while a larger number have been unaffected. Overall, they have broadly followed the national pattern, with tenant occupancy reduced by an average of 10% during the first wave and then stable since the end of the second quarter. The COVID-19 testing outlined above has enabled our tenants and the Investment Manager to build a clear picture of how homes have been affected, so they can respond quickly to any identified cases.

Supporting our tenants and their residents

To protect residents, all the Group's homes were closed to visitors from early March 2020, and in many cases they were also closed to new admissions. From that point, the Investment Manager was in very regular contact with all of our tenants. In addition to the detailed operating and financial data the Investment Manager receives from all tenants each quarter, we asked our tenants to provide weekly occupancy data throughout the most severe phases of the pandemic, along with a situation report on how the pandemic was affecting their operations. This enabled the Investment Manager to keep the board regularly informed about the impact on tenants and their residents.

Where appropriate, the Investment Manager has shared information among tenants, along with ideas on how best to manage the challenges. The Investment Manager also provided practical support where possible. For example, in April 2020, as pressures on PPE supplies mounted and wholesalers were only responding to substantial orders focused on the NHS, the Investment Manager placed a large order for masks and then allocated them to tenants as required.

In June, the Investment Manager consulted with tenants about how it could support the careful reopening of homes to new admissions and to visitors. Tenants requested help with improving infection control, through the installation of thermal scanners that enable the body temperature of everyone entering the building to be read remotely. The board agreed that the Group should fund the purchase and installation of thermal scanners at all of our homes. Feedback from tenants on the initiative was highly positive.

Protecting the interests of shareholders and lenders

During this period, the board has been required to make important decisions with stakeholders' interests at their heart. These decisions illustrate the board's approach to fulfilling its duties under s172(1) of the Companies Act. More information on these decisions can be found below.

In addition to tenants and their residents, shareholders and lenders are included within the Group's key stakeholders. During the pandemic, both the Investment Manager's work with tenants and the board's key decisions have simultaneously looked after tenants and residents and protected the interests of shareholders and lenders. For example, while the board's decision to purchase thermal scanners was clearly in the best interests of tenants, residents and staff, it was also good for shareholders and lenders, who benefited from the support to rent cover provided by the enhanced opportunity for new admissions this provided.

The board decided in early March 2020 not to proceed with a planned acquisition and to put all further acquisitions on hold until the uncertainty caused by COVID-19 had reduced sufficiently. While the board is aware that shareholders want to see the Group grow, the board's view was that the uncertainty at the time meant that the business plan expected for these acquisitions could not be guaranteed. We also shared our tenants' desire, for these target homes, to focus on protecting the welfare of existing residents and care providers, rather than the potential disruption and distraction that a change of operator could create.

The board also decided in March to delay the announcement of the 2019 full year results by two weeks, in line with FCA guidance. This enabled the Investment Manager to complete a significant amount of extra work, to overlay the incremental risk scenarios presented by the pandemic into our going concern and viability assessment and reassure the board, the auditor and our wider stakeholders on the Group's resilience under all scenarios.

In May, the board discussed the payment of the first quarterly dividend for 2020. Given the Group's financial headroom, the sound level of rent cover and our tenants' overall performance, the board concluded it was appropriate to pay the dividend. The continued receipt of 100% of rent payments during 2020 supported subsequent interim dividend payments and resulted in a total payout that met our 6.29 pence per share target for the year.

In September, the board agreed that it was appropriate to resume acquisitions on a very selective basis and approved the purchase of St Peter's House. This followed additional due diligence to understand occupancy and any COVID-19 impact on the home, discussions with Welford as the potential tenant about its appetite to proceed and an appraisal of Welford's performance during COVID-19 and its resilience to a downturn. Having determined the home was trading well, had no confirmed cases of COVID-19 and that Welford's performance during the first wave of the pandemic had been positive, the board was comfortable to proceed.

After carrying out similar enhanced due diligence, we completed two further acquisitions in December. These were Blackwell Vale with Careport and three homes with a new tenant, Electus Care, marking our entry into Northern Ireland. Since the end of the financial year, the Group has completed one further acquisition.

Looking forward

The most positive development in reducing the impact of the pandemic has been the successful roll out of the vaccination programme since the end of last year, across the UK. By mid-February 2021, residents at 100% of the homes owned by the Group had been offered a vaccination. The quantity and quality of data on how effective the vaccines will be in protecting the most vulnerable in the population in real world conditions is growing rapidly, with encouraging early indications.

Effective vaccines, combined with continued testing programmes and thorough infection control measures, will enable the Group's tenants gradually and safely to reopen the homes to visitors. This reopening will be transformative for the quality of residents' lives and will also, over time, help the Group's tenants return their occupancy to more normal levels.

CHAIRMAN'S STATEMENT

During 2020, our tenants responded well to the challenges created by the pandemic and have been ably and responsibly supported by the Investment Manager. The human cost of the pandemic has been foremost in our minds and we have looked to do everything we can to help protect the health and wellbeing of our tenants' residents and their healthcare professionals.

Despite these difficult conditions, the Group's business model has proved resilient, as we have benefited from our deliberate approach to implementing our strategy since IPO. More information on the factors underlying this resilience, from our careful selection of tenants and assets to our conservative use of debt, can be found in the Investment Manager's report.

Our tenants use our assets to provide an essential care service, demand for which is not directly correlated with economic conditions. This enabled them, despite the pandemic but with the benefit of grant income to offset incremental costs, to maintain rent cover in 2020. This in turn has allowed us to collect 100% of the rent due for the year, without putting undue stress on our tenants, and we were therefore able to meet our dividend target.

Operational performance
While the uncertainty arising from the pandemic caused us to suspend acquisitions for several months during 2020, we still made progress with our strategy. Before the pandemic struck, we exchanged contracts on a number of acquisitions, and we completed two further purchases in December following the improved conditions in the second half of the year. In total, we added three new tenants and 22 homes with 1,513 beds to the portfolio and sold one non-core asset with 36 beds. This gave us 12 tenants[1], 108 assets and 5,924 beds at the year end.[2]

Asset management is one of our key value creation tools. While the pandemic restricted our ability to invest in new projects in 2020, we did complete two units to provide high-quality care for people suffering from dementia, adding 76 beds in total, and committed to forward fund a new 94-bed care home in Hartlepool. We have also begun agreeing capital investments up front with tenants when acquiring new assets, with £2.8 million committed to the three most recent purchases.

Effectively managing the long-term sustainability of the business for all our stakeholders is fundamental to long-term value creation and we made good progress this year. This included publishing our environmental, social and governance ("ESG") policy, evaluating Energy Performance Certificate ("EPC") ratings and the underlying data across the portfolio, identifying opportunities to improve energy efficiency and EPC ratings, and enhancing the green credentials of our standard lease terms.

Our investment portfolio was independently valued at £418.8 million as at 31 December 2020 (31 December 2019: £318.8 million), a 31.4% increase. The contracted rent roll was £30.9 million at the year end, up 33.7% over the year.

Our tenants
We have further diversified the Group's tenant base, adding Silverline, Holmes and Electus in 2020. This is an important part of our growth strategy, enabling us to expand the business while spreading risk. We choose financially resilient tenants who prioritise a positive and safe environment for their residents, provide good-quality care and share our vision of continued asset improvement. The board prioritises maintaining the Group's assets to a high standard and pays close attention to our tenants' programmes of repair and maintenance and ensuring sustainable rent cover.

Financial performance
The NAV at 31 December 2020 was £349.5 million or 109.58 pence per share (31 December 2019: £340.7 million or 106.81 pence per share).

Our earnings benefited from the growth in the portfolio and further reductions in our cost ratios, as a result of economies of scale. Earnings per share ("EPS") for the year was 9.02 pence (basic and diluted) (2019: 10.37 pence) a 1.35 pence per share reduction on last year as a result of reduced growth in valuation uplifts and the full effect of 2019 share issues. Our EPS metrics, which exclude movement in valuations, reflect this underlying growth. EPRA EPS was 7.25 pence (2019: 6.95 pence) and Adjusted EPS was 5.93 pence (2019: 5.26 pence[3]).

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

Dividends and total return
The Company has a progressive dividend policy and seeks to grow its target dividend in line with the inflation-linked rental uplifts received in the previous year, under the terms of its leases. The board set a target total dividend for 2020 of 6.29 pence per share, a 1.94% increase over 2019. Subsequently the board has declared four interim dividends of 1.5725 pence each, meeting our target. The total dividend is 115% covered by our EPRA EPS and 94% covered by adjusted EPS, our cash cover metric.

The dividend contributed to a robust NAV total return for the year of 8.46%, close to our target of 9.0% per annum. This is a resilient result in the context of COVID-19.

During 2020, the Group achieved average RPI rent uplifts of 2.6% and received £483,826 in the year. This has allowed the board to set a target total dividend for the year ending 31 December 2021 of 6.41 pence per share, a 1.91% increase on 2020.

Financing
In April 2020, the Group agreed a new revolving credit facility with HSBC. This represented a vote of confidence during a key stage of the pandemic and further secured our financial position. The new facility increased our total facilities by £50 million to £125 million and reduced our average cost of debt.

The Group remains prudently financed, with drawn debt at 31 December 2020 of £76.4 million, giving us an LTV of 17.8%. At the year end, we had cash on the balance sheet of £8.0 million and headroom in our facilities of £48.6 million. We intend to continue to maintain a conservative balance sheet.

Corporate governance
The Company has a strong and independent board, which at the year end comprised me as Chairman and four other non-executive directors. We conducted our first externally facilitated evaluation during the year, which showed that the board and its committees are working well, as well as highlighting areas for further development.

Our work on succession planning reaffirmed our desire to appoint an additional non-executive director and the recruitment process is now well advanced and we expect to announce an appointment in due course.

Investment Manager
Our Investment Manager has worked hard this year on advancing our strategy, while supporting tenants through the pandemic. The strength of the Investment Manager's relationships with our tenants came to the fore during this time. The flow of detailed and current

information these relationships produced gave us comfort that we knew where we stood during the darkest period and was a vital input to the board's decision making.

Post balance sheet events

Since the end of the year, the Group has acquired one asset, the 51-bed Mavern House Nursing Home, for a net consideration of £5.1 million. The home is now run by Welford, which is an existing Group tenant. We have committed £0.6 million of capital expenditure to expand the home over the next 18 months.

Outlook and summary

As demonstrated in 2020, our business is resilient and our portfolio provides crucial infrastructure supporting vulnerable elderly people across the UK. We remain well-capitalised and are confident that the fundamental drivers of our industry and business remain strong, even if the recovery from COVID-19 is slower than we would like. We are positioned to deliver further portfolio diversification and growth that will generate attractive returns for shareholders. At the same time, we will continue to responsibly deliver value to our tenants, their residents and healthcare professionals, over the long term.

Notes

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

2 Including forward-funded developments.

3 The removal of amortisation of loan arrangement fees is a change made in the current year and the prior year adjusted earnings figure has been restated to include an adjustment for the amortisation of loan arrangement fees.

Rupert Barclay Chairman
26 March 2021

INVESTMENT MANAGER'S Q&A

1. The business proved to be highly resilient in 2020. Are there things you can do to build on that?

When Mahesh and I founded the business four years ago, we gave a great deal of thought to how to make it resilient. We wanted to make sure we had a conservative balance sheet, strong lease structures, careful tenant selection and that, as Mahesh always put it, our tenants had "room to breathe". Our aim was to build a business for the long term, and we knew there would be bumps on the road.

Neither of us foresaw an event as major as the pandemic in 2020 and the lockdowns which followed. This challenging environment demonstrated how resilient the business is in reality. Perhaps this is best shown by two key facts: in 2020 we collected 100% of the rent due, while our portfolio rent cover in 2020 was the same as 2019 at 1.8 times.

Rather than be complacent about this, we have spent time with the board at the beginning of 2021 looking at what we could do to become more resilient. The first conclusion from that discussion was, do not change things that have worked. Another was to be even more rigorous about future tenant selection and to ensure they continue to have plenty of room to breathe.

2. What are the key lessons from the pandemic and has it changed the long-term drivers of your market?

It is still too early to answer this question definitively as, while there is now strong light at the end of the tunnel, created largely by the success of the vaccination programme, the pandemic is sadly not yet over.

We think the key drivers are intact. People over 85 are the fastest-growing age group in the UK population and a minority will continue to require a level of care which can be best provided for in a care home.

In terms of care home design, we expect to see a greater emphasis on function over lifestyle, with more focus on measures which can enable better infection control. We have revised the plans at homes where we have asset management projects underway to improve infection control, so that the building can be operated as separate sub-units if required.

Two trends which we expect to see accelerated by the pandemic are:

First, the greater use of digital technology to manage care, much of which is still paper based. More effective use of technology should help care operators to improve quality and openness, which will benefit all stakeholders including landlords.

Second, as the government also looks at lessons learned from the pandemic, we would expect to see much greater emphasis on better integration between health and social care, which - if delivered - would also be a positive development for all stakeholders.

3. Is the pandemic likely to result in care home owners exiting the market? Will this create opportunities for you?

We have a strong pipeline of acquisition opportunities which we think are attractive. However, what we are not seeing is a step change of the terms on which quality assets can be acquired caused by sellers who have been distressed by the pandemic.

While we do not have a crystal ball to see exactly how government policy will evolve, we are pretty certain it will evolve following the pandemic. We expect this evolution to involve more rather than less government funding for adult social care, which could lead to higher pricing for healthcare assets. We are continuing to pursue acquisitions on a selective basis, rather than waiting for clarity on this issue.

4. Is your preference to continue to add new tenants or to increase the number of homes your current tenants lease from you?

The short answer is: both.

Since 2018, we have added ten new tenants. To diversify more and reduce our risk, we want to continue to add new tenants, while being very careful about their selection.

However, we think the pandemic also illustrated the benefits of having a relatively compact tenant group, as it made two-way communication during a very stressful period easier, enabling us to stay on top of what was happening and wherever practicable to help our tenants.

What we really like is when an experienced and ambitious operator in the middle market, often the second generation taking over a family business, comes to us and says they want to grow their business from 15 homes to 30 homes, so they can make more investments in quality, compliance and technology and they need a capital partner. We see our relationship with our tenants as a long-term partnership in which both sides can help the other to develop their businesses.

5. Is ESG important to you?

We set out the Group's ESG policy at the beginning of 2020, but we understand that is just one step in our ESG journey. Our aim is to show two things: first, that ESG is not a standalone policy, but is embedded into everything we do, in particular as a management tool to help us think more clearly about how to enhance the long-term sustainability - and hence resilience - of our business. Second, that we are being practical and have realistic plans to make deliverable improvements to our portfolio over time.

Much of our focus in 2020 was on the environment, where we developed plans to improve the EPC ratings of our homes and began to think about how they can become net-zero carbon over time. In 2021, one of our plans is to develop ways we can measure better the social impacts of what happens inside the buildings we own, where thousands of people are employed by our tenants to deliver essential care services to some of the most vulnerable people in society.

6. Has the experience of the last year permanently changed your view of the appropriate level of debt?

Again, I could give a short answer: no.

We have always been conservative about the way in which we manage our balance sheet and that will continue. At the end of 2019, we had drawn debt of £25 million and £48 million of cash on our balance sheet, which turned out to be a great position from which to go into a pandemic. By the end of 2020, once we had financed a number of acquisitions, our LTV was 18%. At that level, the investment value of our property portfolio would have to fall by over 50% and our rental receipts by in excess of 70% before we triggered any banking covenants.

7. Will annual rent rises linked to inflation put stress on your tenants over time?

This is a question we often get asked, as it goes to the heart of the long-term sustainability of our business. 100% of our leases are inflation linked, with annual rises linked to either RPI or CPI.

As the chart on page 12 of this report shows, since 1998 the average weekly fees charged by care providers have gone up by 3.8% per annum for nursing care and 3.7% for residential care. RPI has averaged 2.8% per annum over the same period. That gives us comfort that our universe of potential tenants can grow their revenues faster than inflation.

In case inflation does something surprising, we have put floors and caps into most of our leases to give our tenants (and us) some level of protection. In 98 of our leases the floor is 2% and the cap 4%; in nine it is 1% and 5%; and two leases have no floor or cap.

Finally, our emphasis is on buying standing assets with a trading history. We do careful analysis of what their sustainable performance is, which then lets us form a view on the right level of rent and hence rent cover for each asset. While we need to be careful about putting too much of our tenants' data into the public domain, we are committed to being open and transparent. Our regular publication of rent cover numbers for our portfolio will enable you to see if, over time, inflation increases are putting pressure on our tenants. So far, that is not the case.

ALIGNED TO FAVOURABLE LONG-TERM MARKET GROWTH DRIVERS

In the UK, we see sustainable growth in demand for elderly care, constrained supply of beds and a highly fragmented market, coupled with rising fees and the prospect of further government funding. This creates an attractive long-term opportunity for well-capitalised asset owners to achieve scale by acquiring high-quality resilient homes, while working in partnership with well-managed operators who are committed to providing high standards of care.

1. An ageing population

People aged over 85 are the fastest-growing part of the UK population and make up the core client group for care homes. According to the Office for National Statistics, the proportion of the population over 85 years old in the UK is forecast to more than double over the next three decades, from 2.5% in 2021 to 5.2% in 2051.

The COVID-19 pandemic has reduced occupancy in care homes in the short term. However, over the medium and longer term, demand for elderly care is forecast to grow. Research by LaingBuisson, a leading consultancy in social care, forecasts that up to an additional 93,000 beds will be required to satisfy this increased demand over the next ten years, an increase of over 20% on demand today.

2. Capacity has not been rising in line with an ageing population

Since 2013, the number of new beds built has equalled beds being withdrawn from the market. Underlying this stability there have been a number of changes in the structure of the market.

Independent operators, both for profit and not-for-profit, have continued to take market share from homes owned and operated by the public sector. At the same time, the number of care homes has shrunk by 9% between 2010 and 2020 as older, obsolete buildings are withdrawn from the market to be replaced by more modern, larger homes. The average size of care homes has grown from 36 beds to 42 beds in that period. The average size of homes in Impact's portfolio is 50 beds.

3. Potential pent-up demand

In the UK, 10% of people over 80 have long-term care needs, which can best be delivered in a care home. In other north European countries, the percentage of people receiving care in care homes is substantially higher.

There is no evidence older people in the UK are healthier than in neighbouring countries. The lower proportion of older people in care homes might instead show that current UK government policy is effective in rationing access to care homes only to those who absolutely need that care.

The UK care home market is less susceptible to competition from other forms of care provision and as overall demand increases, so should the demand for care home beds.

4. A fragmented market
Over recent years the market has seen deconsolidation at its top end. The market share of the ten largest independent operators has declined from a peak of 27% in 2006, to 20% in 2020. This reflects diseconomies of scale in the care business. For the largest 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 cancelled out by higher group overheads and the lack of economies of scale in pay rates for care staff, which are operators' largest expenditure.

Over the same time period from 2006 to 2020, the market share of sole traders with between one and 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 Impact's tenants are active in this part of the middle market.

5. Dementia
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 one million by 2025 and two million by 2051".

An estimated 69% of the residents in care homes in 2020 had some form of dementia and 96,000 residents had acute dementia, which required a specialised level of care. As our understanding grows on how to provide good care for people with dementia, there has been more emphasis on building dedicated units to provide this care. That has been a particular focus of our asset management activities.

6. Fees 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 of the fees it charges for care. Between 1998 and 2020, weekly fees charged by operators have grown on average by 3.8% per annum for nursing care and 3.7% for residential care. Over the same time period, RPI has averaged 2.8% per annum. This gives us confidence that the RPI linkage in our leases is sustainable.

INVESTMENT CASE

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

1. A large and growing market

Each year, £17.3 billion pounds is spent on providing residential care for elderly people in the UK, which is approximately 0.8% of UK GDP. It is critical social care infrastructure and the value of the market is expected to grow as the population ages. Demand for care is non-cyclical and hence more predictable, enabling us to plan for the longer term.

2. Risk-adjusted returns

We consider risk at different levels: ensuring balance sheet strength with modest debt; carefully selecting tenants and monitoring their performance; maintaining rent cover as we add tenants; managing assets and the overall portfolio to add value; and focusing on our long-term sustainability, both environmental and economic. This allows us to generate returns with lower risk.

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 priorities of our Investment Manager is to establish and develop long-term partnerships with our tenants.

4. Strong cash generation and dividend growth

Our portfolio generates a high-quality, sustainable and growing income stream. This allows us to target a progressive dividend policy. We aim to grow shareholder returns through dividend increases and capital appreciation. Our strong lease structures offer us 100% inflation-linked income with low volatility

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 where there is potential to add value through asset management initiatives. Asset management benefits our shareholders, our tenants and the residents in our homes

6. Positioned for further accretive growth

At the end of 2020 we owned just over 1% of the operational beds in the highly-fragmented UK elderly care market. Since early 2018, we have been growing our portfolio, adding ten new tenants and acquiring homes which are accretive to our portfolio, while exercising strong capital discipline.

OUR BUSINESS MODEL

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

Our activities

To implement our business model, we have a clear, six-stage process:

- **Build relationships**

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

- **Identify assets**

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

- **Appraise purchases**

We perform rigorous due diligence before we selectively purchase care assets.

- **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

- **Engage tenants**

  We work closely with our tenants to create sustainable value through mutually beneficial asset management projects

- **Optimise portfolio**

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

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 deep knowledge of care homes and how to run them is a critical advantage in assessing assets to acquire, selecting operators for those assets and identifying opportunities to add value through asset and portfolio management;
- its vendor relationships and strong partnership mentality with existing and future tenants, mean we can buy some homes off-market, so we face less competition to acquire them;
- the Investment Manager's knowledge means we can carefully and swiftly assess an opportunity, giving vendors the speed and certainty of execution they are looking for; and
- the Investment Manager's understanding of our tenants' operations enables it to form strong and supportive partnerships with them, which are crucial for long-term sustainable value creation. Its sector knowledge also allows it to engage effectively with tenants about their quality of care.

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

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 own a diversified portfolio of care homes, which provide a welcoming physical environment for their residents. We categorise each of our assets as core, value-add or non-core, which in turn informs our asset management strategy. Our asset management programme looks to enhance the quality of our homes and their sustainability over time, including ensuring their environmental performance and EPC ratings meet evolving regulatory requirements

Quality of care

The security of our rental streams depends on our tenants providing good-quality care to their residents, so the homes consistently remain in demand and sustain their profits. The Investment Manager reviews CQC or relevant regulator ratings and the outcomes of inspections, visits homes and receives quarterly reports from tenants, to ensure they are maintaining their quality of care and complying with their covenants. If appropriate, where a home is rated poorly, the Investment Manager may seek an independent assessment of the home to help us and the tenant understand any performance issues, or its resolution of these issues, in preparation for re-inspection

Quality of cash flows

We carefully monitor our tenants' financial performance, particularly their ability to grow revenues at least in line with inflation, to maintain a stable EBITDA margin and hence maintain or grow our rent cover.

Disciplined capital allocation has led to attractive net initial yields on acquisitions and our conservative approach to debt maximises cash we can distribute to shareholders. We tightly control our costs and exploit economies of scale as we grow, as many of our costs are fixed and some variable costs step down as our asset value rises.

Our high-quality business delivers sustainable value to our shareholders and other stakeholders

Tenants

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

Tenants' customers

The residents in our care homes benefit from security and stability, with an operator providing high-quality care and a landlord willing to invest in the quality of the environment they live in.

Lenders

Our lenders can provide 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 highly predictable and rising revenue streams from index-linked leases. Alongside the potential for capital growth, this supports an attractive total return.

OBJECTIVES AND STRATEGY

Our objectives

We aim to provide shareholders with attractive and sustainable returns, primarily in the form of quarterly dividends, while also generating growth in net asset values over the medium term.

Our targets are to deliver:

1. a progressive dividend policy, with a total target dividend of 6.41 pence per share in respect of 2021*; and
2. an average NAV total return of 9.0% per annum*.

The capital growth element of the total return will be delivered largely from annual, inflation-linked rent increases and active asset management, rather than relying on yield compression.

* 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;
- 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.

Investment strategy
Our investment policy allows us to invest in a broad range of healthcare real estate assets. The market dynamics described on pages 10-12 underline that the care home sector currently offers the most attractive opportunities for the Group. Our investment strategy is, therefore, to primarily acquire care homes, while continuing to broaden the range of tenants we work with, thus reducing our exposure to any one tenant.

We mainly look to acquire portfolios, which helps us to maximise value. These portfolios may include healthcare real estate assets in addition to care homes. We will acquire these where they have a future strategic opportunity to deliver care home services or where we are confident we can deliver value in the short term for our shareholders, as part of our portfolio management.

Portfolio management strategy
We categorise each of our assets into one of three categories - core, value-add and non-core. This enables us to manage the balance between these categories, so we deliver our target returns, and to identify the assets which can benefit from asset management (see below).

Asset management strategy
A hands-on asset management strategy helps to enhance shareholder returns over the longer term while mitigating risk. To deliver our target long-term shareholder returns, our asset management strategy prioritises investment in our value-add portfolio and in projects that enhance the sustainability of our assets, including those that improve the quality of the environment for residents and the sustainability of the home, while extending the useful economic life of the property.

Financing strategy
We fund our business through equity and debt. In doing so we look to minimise the effects of "cash drag" on our earnings per share, which is the effect of issuing equity or drawing down debt funding and holding the cash raised on the balance sheet, ahead of investing it in income-producing assets.

Our gearing policy is to have a maximum Group loan-to-value ratio of 35% at the time of drawdown, although we look to maintain debt at a prudent level, with average gearing not expected to be higher than 25%. Our approach to hedging and debt is designed to prudently optimise the return to shareholders while mitigating the long-term risk from interest-rate fluctuations.

INVESTMENT MANAGER'S REPORT

2020 was a year that tested the resilience of many business models. The Group has consistently taken a prudent and long-term approach since its IPO in 2017 and this has stood it in good stead during the COVID-19 pandemic.

The Group's resilience is based on several factors. These include careful selection of tenants and our approach to working in partnership with them, for mutual benefit. We have looked to acquire assets for the Group that are well respected in their markets and to lease them on sustainable terms that ensure strong rent cover from day one. At the same time, we have been cautious in the use of debt, resulting in a robust balance sheet with a loan to value ratio well beneath the maximum allowed by the Investment Policy. This resilience has contributed to our ability to collect 100% of the rent due in respect of 2020, without putting undue stress on our tenants. This level of rent collection in turn has underpinned the continued payment of dividends that delivered the total dividend target for the year.

Investment activity
The Group began the year with a strong pipeline of attractive potential investments and the funding to continue its growth strategy. During January and February 2020, the Group committed £68.5 million to the acquisition of 17 homes. However, in response to the uncertain environment created by COVID-19, the Group put acquisitions on hold for six months from mid-March. In September 2020, the Group exchanged contracts on its first acquisition since the start of the pandemic. In total, the Group completed the acquisition

of five further homes towards the end of the year, for aggregate consideration of £16.2 million. We have purchased one further asset for the Group since the year end (see Post balance sheet events below).

Notwithstanding the pause in mid-year, during 2020 the Group acquired 22 properties with 1,513 beds, a 35.4% increase on the 4,274 beds it owned at 31 December 2019. These acquisitions further diversified the portfolio geographically and added Silverline, Holmes and Electus as tenants, taking the Group's total number of tenants from nine at the end of 2019, to 12. The average yield on these transactions was 7.65%. All the assets purchased comply with the Group's strict investment criteria and have risk/return profiles which are consistent with the Group's existing portfolio.

The combination of these investments and rent increases received during the year helped to grow the contracted rent roll from £23.1 million at 31 December 2019 to £30.9 million at the year end, a 33.7% increase.

Asset management
The projects in our asset management programme add beds and improve existing homes. As the Group already owns the land and the tenants have central services such as kitchens, laundry and offices on site, the marginal cost of adding beds is lower than for a new build and the risks are easier to assess and mitigate and enhance the value we deliver to our shareholders.

COVID-19 meant that we were not able to invest as much as originally intended in asset management during 2020, as we instead worked with the Group's tenants to respond to the pandemic. Nevertheless, in the first half of the year we completed two large new units attached to existing homes, which will deliver high-quality care for people with dementia. A 30-bed unit at Diamond House in Leicester opened in February 2020 and a 46-bed unit at Freeland House near Oxford has been completed.

One project identified for 2020 was at Fairview Court and House, which the Group had acquired as two adjacent homes, with an imperfect planning consent to link them and reconfigure the older accommodation. While we were keen to progress, we decided to review how best to affect the link and incorporate sustainability in the design and specification. A revised planning consent has now been obtained and the development has been put out to tender, with the works due to start shortly. The development will create 16 bedrooms in the new link building, and add a net ten bedrooms to the home as a whole, once we have reduced the number of bedrooms in Fairview House from 20 to 14 larger rooms, with high-quality bathrooms. The enhanced environmental works include lighting, insulation, heat recovery and 20kw Solar PV panels and are expected to improve the EPC rating from C to A.

We have continued to evolve the Group's approach to capital expenditure, with our pre-acquisition due diligence now including an increased focus on capital improvements, including those which improve the assets' sustainability. This enables us to agree asset management initiatives with tenants from day one, as illustrated by the acquisitions that completed in December 2020 and since the year end (see below), where we have committed £2.8 million to capital expenditure on acquisition.

In the first half of 2020, we committed to forward fund a new, 94-bed care home in Hartlepool at a total cost of £6.1 million, by December 2020 £1.1 million of this had been spent. The home will be operated by Prestige, one of the Group's existing tenants, and will deliver a yield of 7.8% on completion. Construction work is progressing and is expected to complete in the third quarter of 2021.

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 maintenance programmes. We monitor these programmes carefully to ensure they are being effectively implemented. COVID-19 restricted the number of homes we and our valuers have been able to visit over the past year. We have plans in place for an extensive programme of home visits to assess the level of repairs and maintenance at the homes and will discuss with tenants any maintenance programmes that need to be put in place, given the challenge they have been under to restrict visits and reduce exposure to infection.

Portfolio management
We have divided the Group's portfolio into core, value-add and non-core assets, to help us determine our asset management and portfolio management plans. During the year we sold one non-core asset, the Shrubbery in Worcester. This followed the January 2020 acquisition of Red Hill, a 90-bed home in Worcester, which the Group purchased with the aim of moving the residents and staff from the Shrubbery to Red Hill. Once our tenant, Minster, accomplished this, we sold the Shrubbery in August for a 24% uplift to its most recent investment valuation and a 29% increase on its purchase price. We expect to make further disposals of non-core assets in the coming year.

Implementing the Group's ESG policy which was introduced in during 2020, has been a particular focus of the Investment Manager's work during the year.

The portfolio
As a result of the acquisitions and asset management activity described above, at 31 December 2020 the portfolio comprised 108 properties, with over 5,900 beds, including one forward-funded development. This represents approximately 1.2% of the elderly care beds available in the UK.

Of these properties, 106 are care homes let to 11 tenants[1], on leases of 20-25 years, with no break clauses. Rents are subject to annual upward-only rent reviews linked to the Retail Price Index, 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 12 tenants[1] across the portfolio.

Note

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

Occupancy and rent cover
Our tenants' rent cover is directly linked to the level of occupancy in the homes they run and the costs they are incurring, both of which have been affected by the pandemic. Nevertheless, rent cover across our portfolio has remained robust during 2020.

Occupancy levels during the year fell from a pre-COVID-19 average of just under 90% across the Group's portfolio, to around 80% at the end of the second quarter, as the effect of the first wave of the pandemic subsided. In the second half of the year, occupancy stabilised. This level of decline is in line with that reported across the industry. At the same time, during the first wave tenants saw increased costs to meet the demand for PPE and to cover salary costs for agency staff, as a large number of permanent staff had to self-isolate.

Despite these pressures, portfolio rent cover (defined as our tenants' home-level pre-tax and pre-rent profitability divided by the amount of rent due on the home) remained stable during the year. It fell from 1.70 in the first quarter to 1.68 in the second quarter, but then grew to 1.89 in the third quarter. For the year to 31 December 2020 it was 1.77, down only slightly on 1.82 in the previous year.

Three factors drove this performance. First, the Group's tenants delivered strong, like-for-like fee growth during the year. The average weekly fee they charged for the care they provide grew from £725 in the fourth quarter of 2019, to £827 in the fourth quarter of 2020, a 14% increase. Second, they benefited from a range of support measures introduced by the government to mitigate the pandemic including grant support funding. Third, prudent implementation of the Group's business plan, which is to identify assets and agree leases that can deliver strong rent cover from the outset; to plan with our tenant partners to grow that rent cover over time; and to ensure new acquisitions do not dilute rent cover.

Reflecting the sustainability of these arrangements, we did not need to agree any changes to lease terms or rent payment arrangements with the Group's tenants during 2020. Across the portfolio, 79% of rent is payable quarterly in advance and 21% monthly in advance. We have a robust process of reviewing our tenant's performance and compliance with the lease terms. We engage with our tenants where any concerns are identified.

Valuation
The portfolio is independently valued by Cushman & Wakefield each quarter, in accordance with the RICS Valuation - Professional Standard (the "Red Book").

As at 31 December 2020, the portfolio was valued at £418.8 million, an increase of £100.0 million from the valuation of £318.8 million at 31 December 2019. The components of this valuation increase were as follows:

- acquisitions: £85.9 million;
- acquisition costs capitalised: £2.7 million;
- capital improvements: £1.6 million; and
- valuation uplift: £10.5 million; less
- disposals: £0.7 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 £30.8 million (2019: £24.0 million), with the increase primarily driven by growth in the portfolio, as well as the rental uplifts inherent in the Group's 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 2020 was £25.9 million (2019: £19.1 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 £5.3 million (2019: £4.6 million).

The Group's cost ratios continued to improve in the year, reflecting economies of scale as the portfolio grows and the benefits of efficiencies. The total expense ratio, which is the Group's recurring administrative and operating costs as a percentage of average net assets, was 1.53% (2019: 1.60%). The EPRA cost ratio, which is administrative and operating costs as a percentage of gross rental income, was 17.1% (2019: 19.2%).

Net finance costs are primarily interest costs and amortised arrangement fees on the Group's debt facilities and totalled £2.6 million (2019: £2.2 million) in the year. The increase was the result of higher drawn debt, with the average cost of the Group's debt having declined in the year as a result of the new facility with HSBC (see Financing and liquidity below).

The Group recorded a profit on disposal of £0.2 million in 2020 (2019: £nil) following the disposal of the Shrubbery care home.

The change in fair value of investment properties was £5.6 million (2019: £9.1 million). This includes the £10.5 million of valuation uplifts already mentioned, offset by rent smoothing adjustments from the accounting recognition of rental uplifts over the life of the lease. These combined elements contributed to profit before tax of £28.8 million (2019: £26.3 million).

EPRA EPS was 7.25 pence (2019: 6.95 pence). Adjusted earnings per share, which better reflect underlying cash earnings in the year, were 5.93 pence (2019: 5.26 pence)[1]. EPS for the year was 9.02 pence (2019: 10.37 pence), a 1.35 pence per share reduction on last year as a result of reduced growth in valuation uplifts and the full effect of 2019 share issues.

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.

Note

1 The removal of amortisation of loan arrangement fees is a change made in the current year and the prior year adjusted earnings figure has been restated to include an adjustment for the amortisation of loan arrangement fees.

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.

Details of dividends paid in respect of 2020 are shown below:

Quarter to	Declared	Paid	Pence/share	Cash cost £m
31 Mar 2020	7 May 2020	12 Jun 2020	1.5725	5.015

30 Jun 2020	12 Aug 2020	4 Sep 2020	1.5725	5.015
30 Sep 2020	28 Oct 2020	27 Nov 2020	1.5725	5.015
31 Dec 2020	29 Jan 2021	26 Feb 2021	1.5725	5.015
Total			**6.29**	**20.06**

The first, second and fourth interim dividends were paid in full as Property Income Dividends ("PID"). The third interim dividend was paid 0.7863 pence as a PID and 0.7862 pence as an ordinary UK dividend.

The total dividend was 115% covered by EPRA earnings per share, and 94% by adjusted earnings per share.

Financing and liquidity
We have continued to put in place the building blocks to support the Group's continued development, with the addition of a new revolving credit facility ("RCF") in April 2020. This £50 million facility is with HSBC and brings the Group's total facilities to £125 million. The margin on the RCF is 195 basis points over three-month LIBOR, bringing the weighted average margin on the Group's debt down to 229 basis points when fully drawn. The facility runs for an initial three years with an option to extend for up to two further years, subject to lender approval. Both the Clydesdale and HSBC facilities have been negotiated on the basis of LIBOR and we are in discussions with both banks on the transition of these to appropriate risk-free rates before the termination of LIBOR at the end of 2021. None of the Group's debt is due for refinancing until 2023, as shown in the table below.

Debt financing

Lender and facility type	Expiry	Facility size £m	Drawn at 31 Dec 2020 £m
Metro Bank			
Term loan	Jun 2023	25.0	25.0
Revolving credit facility	Jun 2023	25.0	20.4
Clydesdale Bank			
Revolving credit facility	March 2024	25.0	10.0
HSBC			
Revolving credit facility	Apr 2023[1]	50.0	21.0
Total		**125.0**	**76.4**

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

We continue to take a conservative approach to managing the Group's balance sheet. At 31 December 2020, drawn debt was £76.4 million, giving an LTV of 17.8% (31 December 2019: drawn debt of £25.1 million and LTV of 6.8%). The Group remained well within its debt covenants throughout the year.

We also take a prudent approach to liquidity, ensuring we have sufficient cash and unused facilities available to meet all of the Group's committed expenditure and enable us to pay our suppliers on time. At the year end, the Group had cash on the balance sheet of £8.0 million (31 December 2019: £47.8 million), with headroom of £48.6 million in the Group's facilities. Additional funds were drawn down from these facilities in the first week of January, in order to maintain the cash balance held at Group level at over £20 million, and the current cash balance is £23.1 million as at 22 March 2021. The Group has total headroom of £38.4 million across its cash reserves and facilities, once all commitments for completion of deferred payments and capital expenditure have been financed.

Post balance sheet events
In January 2021, the Group completed the acquisition of Mavern House Nursing Home, for a net consideration of £5.1 million. The home provides 51 registered beds and the Group has committed to spend circa £0.6 million to extend it by a further six beds over the next 18 months. The tenant is Welford, which now operates seven homes for the Group, with 355 beds and rent cover above two times.

Acquisition pipeline
We continue to progress a strong identified pipeline of investment opportunities and, while we remain cautious, given the ongoing effects of the pandemic, 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
26 March 2021

PORTFOLIO MANAGEMENT

Our aim is to continue carefully building a portfolio of attractive UK healthcare assets, principally care homes for the elderly. 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 regularly assess the balance of our portfolio to identify asset management and capital recycling opportunities.

We categorise each asset as follows:

Core:

These assets are the primary contributors to our long-term, stable income

- 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

Value-add

Value-add assets are candidates for asset management initiatives

1. Present opportunities to deploy capital to enhance the asset and its performance
2. May be a smaller home, have a low level of en suite bathrooms, other elements of functional obsolescence or environmental performance improvements.
3. Value uplift through enabling the tenant to offer a new service, such as dementia and/or targeting private residents

Non-core

Non-core assets may be candidates for sale and are likely to have been acquired as part of larger portfolios

1. Limited lifespan homes with a high degree of functional obsolescence
2. Higher alternative use value
3. Could be geographically isolated

A strong core portfolio underpinning value:

	% of portfolio by market value
Core	67.9%
Value-add	30.3%
Non-core	1.8%

Homes of scale, delivering an efficient service to residents:

	Average number of beds per property
Core	60.3
Value-add	47.8
Non-core	41.4
Average	54.5

A core portfolio delivering an en suite facility service:

	% of rooms with en suite facilities
Core	91.6%
Value-add	44.6%
Non-core	48.3%

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

	Average rent per bed
Core	£5,251
Value-add	£4,695
Non-core	£3,509

Significant opportunity to enhance value from the value-add portfolio:

	% of portfolio by number of homes
Core	56.1%
Value-add	39.2%
Non-core	4.7%

SUSTAINABILITY

We believe that a robust approach to ESG issues is intrinsic to developing a strong and sustainable business. ESG is therefore a fundamental part of our business model and activities. We look to ensure we have the right checks and balances, decision-making frameworks and management processes in place, to promote long-term thinking.

Our approach to managing ESG issues

As the day-to-day running of our assets is the responsibility of our tenants, we do not have direct control over important ESG issues such as energy use or relationships with local communities. However, our value creation model gives us a number of touchpoints that help us to maximise the opportunities and minimise the risks associated with ESG issues in our homes. These touchpoints range from our asset selection criteria and due diligence procedures, to choosing operators who demonstrate a good quality of care to residents, to working with tenants to identify asset management opportunities that enhance environmental performance. This means that ESG considerations are integral to our investment and asset management strategies.

Our ESG policy
During 2020, the board approved the Group's ESG policy, which is available from the sustainability section of our website: **https://www.impactreit.uk/about/sustainability/**. The policy governs our environmental conduct, our 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. By following these guiding principles, we aim:

- to be transparent in our conduct and reporting;
- to create homes which are better prepared for the future - more efficient, more climate resilient, more comfortable for our tenants' residents and staff, and respectful of the environment;
- to foster co-operative and successful relationships with tenants, residents, shareholders and lenders, to create long-term shared value for all; and
- acknowledging the importance of and utilising our relationships with our tenants, we also aim to create and support a healthy, safe and positive living environment, which the residents are proud to call home.

Our core principles of sustainability:

- 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.

Our priorities for 2020
In our 2019 annual report, we set out three key sustainability related actions for 2020. Our progress with these actions is set out below:

Action	Progress
Put in place policies which address anti-bribery and corruption ("ABC"), whistleblowing and a supplier code of conduct.	The board approved our ABC policy and our supplier code of conduct during 2020. We have concluded we will monitor whistleblowing through our suppliers.
Develop a sustainability strategy and plan, including policies, material issues, targets, and risks and opportunities, to ensure ongoing relevance and effectiveness.	During 2020, we introduced our sustainability policy, undertook a detailed review of EPC ratings (see below) and established short- and long-term goals to deliver improvements across our portfolio.
Recognise the urgency of addressing climate change and explore taking baseline measurements against which to establish targets.	We have done significant work this year understanding the energy performance of our assets, including the factors underlying their EPC ratings and the carbon emissions of the large majority of our homes.

Our environmental conduct
Through our relationships with our stakeholders, primarily our tenants, we look to:

- manage our business in an environmentally sustainable manner and endeavour to minimise the environmental impact of our operations; and
- protect the business from the future impacts of climate change and anticipated low-carbon transition policies.

Reviewing our EPC ratings
The Minimum Energy Efficiency Standards ("MEES") came into force in 2018. Unless a commercial property qualifies for one of a limited number of exemptions, MEES means that:

- since 1 April 2018, a new lease cannot be granted on a commercial property with an EPC rating below E; and
- from 1 April 2023, an existing lease on a commercial property cannot continue where the property is rated below E.

We also expect that regulations in this area will continue to tighten and it is likely that an EPC rating of B will be required by 2030. It is therefore an important part of our sustainability journey for us to have a clear understanding of EPC ratings across the portfolio and the short- to medium-term actions that will improve ratings where necessary.

The average rating across the portfolio is C and the report identifies measures that can improve the average to B, as well as properties that need addressing as a priority. The measure with the greatest impact in terms of rating improvement and carbon saving is the installation of LED lighting, which also has a payback period of just six months. Other potential measures include boiler replacements, improvements to building fabric such as glazing and insulation, and installing solar electricity generation.

As part of our work to understand the portfolio's energy performance, we used data specialists to gather information from our tenants on their energy usage in each home, which we intend to publish as part of our sustainability reporting available on our website.

Enhancing our due diligence and lease requirements
Thorough due diligence on potential acquisitions has always been vital to us and we continue to look for ways to enhance our approach. During the year, we added a new element to our process, by commissioning environmental acquisition reports alongside our structural, valuation and legal due diligence. These enable us to understand the asset's environmental performance, including the factors underpinning its EPC rating, and identify potential sustainability improvements before acquisition. This in turn allows us to agree those improvements up front with the proposed tenant and commit the capital required to carry them out.

We also enhanced our new leases during 2020, strengthening their existing environmental requirements. New leases contain requirements for energy monitoring systems, an obligation on the tenant to report on its plans to meet statutory sustainability targets and a minimum spend on ESG-related items, as part of the tenant's repairs and maintenance obligations.

Our social conduct
We recognise the importance of our relationships with all our stakeholders and engage in an open and constructive manner, to maintain and improve our business operations and the environment for our tenant's residents.

We believe in being transparent with stakeholders and seek to ensure we report comprehensively and fairly in our annual reports and publish all of our policies on our website During the year, we were therefore pleased to retain our EPRA Gold Award for reporting against its Best Practice Recommendations and to win our first Gold Award from EPRA for sustainability reporting.

Conduct of our business
We believe that good governance practices are essential to a successful and sustainable business, and we therefore ensure that they are integral to us. Our corporate governance framework and the board's activities during the year are described in detail in the corporate governance section of this report.

The board has clear expectations about how the Group should act. In short, we conduct our business with integrity and seek to ensure that our Investment Manager, Administrator and other businesses engaged by us, including advisers, contractors and agents, do the same.

To support our approach to ethical business, during 2020 the board approved the following:

- **Anti-bribery and corruption policy.** The policy requires us to conduct all of our business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships. The board has overall responsibility for ensuring that this policy complies with the Company's legal and ethical obligations. The company secretary has primary and day-to-day responsibility for implementing this policy, monitoring its use by all those to whom it applies and its effectiveness, and dealing with any queries.
- **Supplier code of conduct.** The code has been issued to our suppliers and is available on our website. It sets out expected standards and obligations applicable to the Group's suppliers. It supports corporate sustainability, promotes safe and fair working conditions and responsible management of issues relating to health and safety, people, ethics, legal compliance, CSR and the environment.

As the Company has no employees, the Company relies on reporting from the whistleblowing policies of its key service providers, JTC and IHP.

Our sustainability priorities for 2021
In the coming year, we aim to:

1. develop our sustainability strategy and plan;
2. share the 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;
3. install smart meters in all homes;
4. investigate the potential for Group-wide utility purchasing, including transferring tenants to a green electricity supply; and
5. establish work streams to prepare for Taskforce on Climate-Related Financial Disclosures compliance.

ESG
In 2020, we defined our environmental and social conduct policies, as part of our overall ESG policy. Here we describe our work in 2020 to ensure we are an environmentally and socially responsible landlord.

An environmentally responsible landlord
During the year, we have taken time to understand all aspects of the environmental challenge we collectively face. In the shorter term, our aim is to improve the energy and carbon performance of our portfolio. Longer term, we are considering how we could reach net-zero

carbon.

As a first step, we have harvested detailed underlying data behind each home's EPC. Using sophisticated modelling, we have then established home-level improvement strategies, modelled with anticipated costs and pay back periods.

We have analysed energy consumption and provided detailed feedback to our tenants on usage patterns and efficiency within each home. This analysis highlighted that an investment of £2.8 million could deliver operational cost savings of around £950,000 per annum and a reduction of over 3,000 tonnes of carbon emissions. We are now engaging with tenants to see what measures they have already delivered since the last EPC assessment, and the feasibility of implementing some of the outlined proposals in the short- to medium-term through investment.

Our targets are now to:

- Achieve a minimum B rating for Energy Performance Certificates (EPC) by 2030;
- Explore the options for achieving a net-zero carbon target for the portfolio.

Expenditure of £2.8 million would give rise to energy cost savings of around £950,000 and a reduction of over 3,000 tonnes of CO_2 emissions.

A socially responsible landlord

During COVID-19, we have worked hard and compassionately with our tenants, to find the best way to support them throughout this pandemic. During the early weeks of the outbreak, we focused on understanding the effects of the pandemic on our tenants' staff and residents, and shared areas of best practice performance amongst our tenant group.

We listened to tenants' concerns on the availability of PPE and sourced a bulk order of PPE that was distributed among these tenants that needed the support.

As the pandemic environment stabilised, we began discussing ways to support them with occupancy recovery plans, where required. A key theme was the benefit of thermal imaging cameras to help monitor the health of those entering the home. We agreed a funding and roll out programme across all of our homes.

Throughout this process, our Investment Manager ensured the board were fully informed on the performance of our homes and the wider data sets, analysing the trends of the pandemic. We also ensured our investors and lenders were kept updated with regular communications throughout.

Rigorous governance

We continue to conduct our business with integrity and seek to ensure that our non-executive directors, Investment Manager, Administrator and other businesses engaged by us, including advisers, contractors and agents, do the same as reflected in our Supplier Code of Conduct.

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 in a normal year is set out in the table opposite. During the COVID-19 pandemic we have adapted our engagement, in particular by materially stepping up our communication with and support for our tenants.

Given the nature of its services, the Investment Manager is an integral point of contact between the Group and its 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 set ourselves. 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 69-70 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 five non-executive directors including the Chairman, of which three were male and two were female.

Key stakeholder	Stakeholder interests	How we engage	Stakeholder Engagement in practice

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.	• ability to support their business plans through acquisitions and asset management; • financial strength; and • knowledge and understanding of their operations.	We engage through a variety of formal and informal mechanisms, including site visits and meetings. We also receive quarterly reports from tenants setting out their performance and work with tenants to identify and implement asset management opportunities. See our business model for more information. The board looks to meet new tenants when they are appointed, or within six months of appointment. A number of tenants have presented to the board on aspects of their business, and the directors also keep abreast of their views through quarterly reporting, site visits and ad hoc meetings.	There was active engagement with tenants throughout the Pandemic as highlighted in the Covid109 section of this report. Key decisions influenced by this engagement included: • Sourcing additional PPE • Suspending acquisitions between April 2020 and September 2020 • The provision of thermal imaging cameras at our care homes • Continuation of the quarterly dividend payments throughout the year.
Tenants' residents The quality of care our tenants provide to their residents is of prime importance to us. The quality of care is central to residents' quality of life and also directly influences demand for our tenants' services, which in turn affects their ability to pay rent to us.	• the quality of care provided by our tenants; • the quality of their home and the investment in regular repairs and maintenance; • the security and stability of their home; and • our ability to improve their home through asset management.	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. We regularly monitor the CQC rating for each home and the outcomes of inspections, and engage with tenants where necessary on the findings. The board also carefully monitors CQC ratings, to ensure tenants are managing their homes properly and therefore providing an appropriate resident experience.	Tenant's residents and staff safety was the priority during the pandemic. By listening to our tenant's we were able to understand their priorities in relation to both residents and staff. Key decisions influenced by this engagement included: • Sourcing additional PPE • The provision of thermal imaging cameras at our care homes. • We took the decision on one of our homes to commission an independent assessment of the home's performance. This was undertaken with the support of the tenant to ensure best practice measures were being implemented and issues identified were resolved or being resolved.
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.	• 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; and • our financial and operational performance.	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 offer meetings to shareholders. Shareholders are also invited to speak to the Chairman and other directors when the Company is raising funds through share placings. The board receives regular investor relations reports, containing information about changes to the Company's shareholder base and feedback from investor meetings. See relations with shareholders for more information.	Canvassing the views of our shareholders was undertaken through direct engagement by the Investment Manager and the Chairman. Key decisions influenced by this engagement included: • Continuation of the quarterly dividend payments throughout the year • The restarting of acquisitions in September 2020.

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.	• the quality of the security we provide for our loans; • our ability to meet our interest payments; and • the diversification and strength of our income streams.	The Investment Manager is responsible for engaging with our lenders. It does this through quarterly reporting. Information about debt funding is provided as appropriate to the board, as part of its regular papers ahead of board meetings.	The Investment manager has actively engaged with Lenders throughout the year. Key decisions influenced by this engagement included: • Continuation of the quarterly dividend payments throughout the year.

KEY PERFORMANCE INDICATORS

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

1. Net Asset Total Return ("NATR")	2. Dividends	3. EPRA earnings per share	4. EPRA 'topped-up' Net Initial Yield ("NIY")
8.46% for the year to 31 December 2020 (-10.6% on 2019)	**6.29p per share** for the year to 31 December 2020 (+1.9% on 2019)	**7.25p per share** for the year to 31 December 2020 (+4.3% on 2019)	**6.72%** at 31 December 2020 (+0.9% on 2019)
2020: 8.46% **2019: 9.46%** **2018: 8.47%**	**2020: 6.29p** **2019: 6.17p** **2018: 6.00p**	**2020: 7.25p** **2019: 6.95p** **2018: 6.47p**	**2020: 6.72%** **2019: 6.66%** **2018: 6.97%**
Definition The change in the net asset value ("NAV") over the period, plus dividends paid, as a percentage of NAV at the start of the period.	**Definition** Dividends declared in relation to the period.	**Definition** Earnings from operational activities. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives, but includes rent smoothing.	**Definition** Annualised rental income based on the cash rents passing on the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property portfolio, increased by 6.3% to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired lease incentives.
Relevance to strategy Demonstrates our ability to add value for our shareholders, by distributing earnings and growing our portfolio value.	**Relevance to strategy** Reflects our ability to generate a secure and growing income stream from our portfolio.	**Relevance to strategy** A key measure of a property company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	**Relevance to strategy** This measure should make it easier for investors to judge for themselves how the valuations of one portfolio compares with another portfolio.
Commentary The net asset total return comprised dividends paid in the year of 6.26p per share and NAV growth of 2.77p per share. Our target is a net asset total return of 9.0% per annum.	**Commentary** We met our dividend target for the year. Our dividend target for 2021 is 6.41p1, representing 1.91% growth.	**Commentary** EPRA EPS increased by 4.3%, giving 115.3% dividend cover.	**Commentary** The average NIY of the acquisitions made in 2020 was 7.65%.

5. NAV per share	6. Gross Loan to Value ("LTV")	7. Weighted Average Unexpired Lease Term ("WAULT")	8. Total Expense Ratio ("TER")
109.58p per share at 31 December 2020 (+2.6% on 2019)	**17.77%** as at 31 December 2020 (+261% on 2019)	**20.0 years** as at 31 December 2020 (+1.5% on 2019)	**1.53%** as at 31 December 2020 (-4.4% on 2019)
2020: 109.58p **2019: 106.81p** **2018: 103.18p**	**2020: 17.77%** **2019: 6.81%** **2018: 11.62%**	**2020: 20.0yrs** **2019: 19.7yrs** **2018: 19.5yrs**	**2020: 1.53%** **2019: 1.60%** **2018: 1.80%**

Definition Net asset value based on the properties and other investment interests at fair value.	Definition The proportion of our gross asset value that is funded by borrowings.	Definition The average unexpired lease term of the property portfolio, weighted by annual passing rents.	Definition Total recurring administration costs as a percentage of average net asset value throughout the period.
Relevance to strategy Provides shareholders with the most relevant information on the fair value of the assets and liabilities within a property investment company with a long-term strategy.	**Relevance to strategy** We have a conservative gearing policy, with borrowings as a percentage of Group assets limited to 35% at the time of drawdown with average gearing not expected to be higher than 25%.	**Relevance to strategy** The WAULT is a key measure of the secure nature of our portfolio. Long lease terms underpin the quality of our income stream and hence our dividends.	**Relevance to strategy** The TER is a key measure of our operational efficiency.
Commentary NAV growth during the year was driven primarily by rent increases and the benefits of active asset management.	**Commentary** The Group has total debt facilities of £125 million, of which £76.4 million had been drawn at the year end. If the facilities were fully drawn, with no changes to the Group's current equity base, the LTV would be approximately 26.1%.	**Commentary** The leases entered into during 2020 had minimum fixed terms of 25 years. The Group's policy is to only grant leases of at least 20 years, without any tenant break clauses.	**Commentary** TER has reduced due to the Group benefitting from economies of scale as the portfolio grows. The EPRA cost ratio, calculated by dividing our administrative and operating costs by gross rental income, was 17.09% for the year (2019: 19.15%).

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

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 61-64.

1. Changes to government social care policy (including the effects of Brexit)
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

POLITICAL

1. Changes to government social care policy (including the effects of Brexit)
Probability Medium
Impact Moderate

Care for older people is at the heart of our business. The government may change policy or introduce legislation that affects the sector. The heightened focus on adult social care, and in particular care homes, as a result of COVID-19, has increased the probability of changes to future government policy and a demand for increased funding, however, it remains too early to assess the incremental risk and opportunity that this may bring.

Of particular note is the UK care sector's partial reliance on workers from EU countries. There is a risk that the UK's withdrawal from the EU will result in a fall in the availability of appropriately skilled workforce, restricting our tenants' ability to hire sufficient staff, especially nurses. This may result in higher staff costs and reduced service levels, with an adverse effect on our tenants' profitability. It remains too early in the post-Brexit environment to properly assess this risk, which is compounded by the effect of COVID-19 limiting cross border movement and raising demand for skilled care staff globally.

Mitigation
The Investment Manager closely monitors developments around funding for adult social care. A report by The Health Foundation in October 2020 estimated a funding gap of £2.1 billion in adult social care and at the same time the Commons Health and Social Care Committee set out their expectations of a £7.0 billion increase across social care by 2023-24.

There is normally a lead time of at least a year before new legislation comes into effect, and we expect this to be longer given the current focus on COVID-19, giving us time to adapt to any changes.

Different policies will apply in England, Wales, Scotland and Northern Ireland, enabling us to focus future investment in the countries with favourable regulatory regimes.

In relation to Brexit, the Investment Manager actively engages with tenants and regularly reviews their ability to recruit and retain different categories of staff. A number of tenants are putting in place measures to recruit nurses internationally to help manage the expectations of any shortfall. We continue to monitor staff costs and agency use, as an indicator of potential issues.

Opportunity
Increased focus by the government on elderly care may provide increased revenue opportunities with focused investment aligned with demand and availability of funding.

MARKET CONDITIONS

2. Infectious diseases
Probability High
Impact Moderate

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 over the past 12 months saw occupancy decline, with the majority of this decline taking place in the first three months of the outbreak, before testing and full levels of PPE were available to 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 may help support tenants to deal with the immediate effects of an outbreak, giving tenants support with the increased cost of PPE, 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 recruitment from the hospitality sector and the overseas recruitment of nurses.

The implementation of national testing capability can help identify and control the spread of any infectious disease and the roll out of vaccinations will help with protecting residents and staff.

It remains too early to properly assess the effectiveness of the current vaccination programme and the risk of variants on the immunity levels provided, however, the controls in place from testing and PPE and the beginning of vaccinations is a significant advance on the position from a year ago, reflecting the reduction in risk attributed to infectious diseases.

Opportunity
The importance of providing a safe and supportive environment for older people is more widely acknowledged during an outbreak of an infectious disease such as COVID-19. The allocation of government funding to support this provision, can ensure the business model is resilient during an outbreak.

3. General economic conditions
Probability High
Impact Moderate

Adverse general economic conditions are expected to heighten as unemployment levels rise and the government implements measures to reduce the unprecedented level of debt that has been required to manage the immediate economic implications of the pandemic.

This could result in falling fees for our underlying tenants alongside potential increased costs through direct and indirect taxes.

Weakening financial performance of our tenants could result in a decline in real estate valuations, lower market rents and suboptimal occupancy, 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. A decline in the economy would therefore take time to have an effect on our business.

Our year end LTV was 18% 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
We undertake a measured approach to raising equity and securing debt to ensure it aligns with our investment pipeline.

4. Weakening care market
Probability Medium

Impact Moderate

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

- changing service user requirements in the healthcare sector, including domiciliary care or enhanced infection control in building design;
- local authority funding partners amending their payment terms, affecting our tenants' revenues; and
- increased regulatory responsibility and associated costs for our tenants which is not offset by an increase in fees.

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.

Opportunity
Our investment criteria seeks 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 High

Impact Major

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.

The effect of COVID-19 has resulted in reduced occupancy across the care sector and as a result the recovery of occupancy to pre-pandemic levels is expected to take time, placing pressure on our tenants' financial resilience. While there are signs of optimism for a recovery, with the ongoing distribution of vaccines, the risk of further outbreaks remains.

Mitigation
Our tenants have shown themselves to be resilient in their ability to operate in the challenging environment this year. Their rent cover was set at a level to help them sustain fluctuations in income and maintain their own business operations. Access to testing and PPE increased their ability to identify and protect their residents and contain any outbreaks as they arise.

The Investment Manager actively engages with all of our tenants, with regular reviews of performance, repairs and maintenance spend, and strategic planning.

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

During COVID-19 our tenants were supported with some grant funding to cover the incremental costs of PPE and staff isolation which helped with their financial robustness alongside their own mitigating actions to reduce costs, in line with reduced occupancy where this has occurred. As a result we have continued to receive 100% of rent receipts with no lease variations up to the time of publication of this report.

Our investment policy is also focused on diversifying our tenant base, to reduce the effect of a single tenant default on portfolio valuation and underlying income.

Opportunity
We have strong mutually rewarding relationships with our tenants and a diversified tenant base with a range of strengths. We have the opportunity to explore our tenants' 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.

6. Underinvestment in care homes
Probability Medium

Impact Low/Moderate

The attractiveness of our portfolio is based on the quality of the tenant operators, measured by their regulatory and financial performance, and our properties' ability to provide effective space in 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 our tenants are closely managing their cash flow and avoiding non-essential contractors on site during the current pandemic.

There is also a risk that value-add investment activities are not progressed and more homes become non-core within our portfolio categorisation.

The above risks have corresponding implications to value and long-term income generation.

With the focus on COVID-19 and restricted access, to help with infection control, only emergency repair and maintenance spend has been undertaken at some of our homes. If infection control restrictions are prolonged this could result in longer-term issues for the maintenance or refurbishment of the homes.

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.

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

Our EPC review has identified a number of improvements which will have good payback and improve environmental sustainability.

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 12-18 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 abilities to accelerate these plans.

We have a programme of increased inspections planned, which will be implemented when it is safe to do so, and we will work with our tenants where we identify concerns.

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.

As also mentioned, reduced occupancy also presents opportunities to undertake more disruptive maintenance and improvement works that would otherwise be delayed or avoided.

7. Environmental regulation and impact of climate change
Probability Medium/Low

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 regulation requirements.

We are developing a sustainability strategy and plan, in addition we are undertaking a review of our portfolio, analysing their carbon footprint and their 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.

As part of our acquisition due diligence we also undertake an environmental assessment of the homes to ensure they are 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.

In line with the Task Force on Climate-related Financial Disclosures (TCFD) we are working towards understanding and if required mitigating the longer-term physical effects and transition risks of climate change on our portfolio.

The increase in our understanding of the portfolio's compliance and improvement opportunities has resulted in an overall reduction in the post-mitigated risk to the Group.

Opportunity
Corresponding to the implications of risks on downward valuations, 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.

FINANCING

8. Ability to meet our debt financing obligations
Probability Medium

Impact Moderate

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 LIBOR 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 that has further impact on occupancy.

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 into interest rate caps to mitigate the risk of interest rate rises on term debt.

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

Assets are held outside of the security groups currently secured by the existing debt and can be transferred into the security pool if LTV breaches are anticipated.

Opportunity
Our investment policy limits our gearing and exposure to movements in interest rates. This improves our opportunity to secure financing at attractive rates while remaining resilient to interest rate rises, which may in turn present additional investment opportunities.

CORPORATE RISK

9. Reliance on the Investment Manager
Probability Low

Impact Major

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 an ongoing 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 by 12 months' notice, except in certain circumstances such as a material breach, when it can be terminated immediately.

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.

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

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. 2020 presented a challenge to developments due to slowing in construction activity in the wake of the COVID-19 outbreak; we continue to monitor this risk as the situation evolves.

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

**These risks have been removed from the post-mitigation principal risks table as the board is satisfied that the mitigations in place support a lower risk assessment; however, this will remain under periodic review.

GOING CONCERN AND VIABILITY

Going Concern Statement
At 22 March 2021, the Group had cash of £23.1 million and a further £28.6 million in headroom on the Group's committed debt facilities. £19.5 million of this cash is held in the parent company current and deposit accounts. The Group continued to collect 100% of rent due up to the date of signing of this annual report.

At 22 March 2021, £8.9 million is committed to asset management and forward-funded development, and a further £5.0 million to financial performance-based deferred payments, all of which are expected to deliver incremental rental returns. The Group is continuing to explore further acquisitions and asset management opportunities, on a selective basis ensuring that the Group has adequate liquidity to fund its future commitments

The COVID-19 pandemic remains a risk. At a tenant level; a fall in occupancy, reduced availability of staff, and increased operational costs, could result in a tenant default. As part of our going concern assessment, we have modelled downside scenarios including single and multiple tenant defaults or rent payment holidays for periods of up to 12 months. Analysis of the impact of tenants not paying rent on banking covenants indicates potential breaches of interest cover covenants. We have an ongoing and transparent relationship with our debt providers and expect to have constructive and collaborative engagement in the event of a default with supportive conditional waivers, however, we have also considered the scenario where banks do not provide these waivers. Mitigating actions which could be taken at the Group's discretion include use of central funds to reduce debt, in particular charging pools, to avoid covenant breaches and reduction or suspension of dividends.

The Group and the Company have adequate cash resources to continue to operate in all of these scenarios.

The directors believe that there are currently no material uncertainties in relation to the Company's and Group's ability to continue for a period of at least 12 months from the date of approval of the Company and Group financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the annual report is appropriate.

Assessment of viability
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 2026. This period has been selected because it is the period that is used for the Group's medium-term business plans.

The principal risks table summarises those matters that could prevent the Group from delivering on its strategy and is derived from our robust assessment of the principal risks to our business model, future performance, liquidity and solvency, as described in the Audit, risk and internal controls section on pages 61-64. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur.

The assumptions underpinning these cash flow forecasts and covenant compliance forecasts have been tested to explore the resilience of the Group to the current COVID-19 pandemic and the potential impact of the Group's other significant risks, or a combination of those risks.

Considerations applied to Going concern and viability
COVID-19 pandemic and associated risks
The effects of the COVID-19 pandemic as outlined in the going concern statement above, have been applied to our assessment of viability.

Other significant risks
A tenant with reduced occupancy and rising operational and finance costs is at greater risk of defaulting, and remains a risk in the current operating environment. This is considered fully in the section above.

All of the sensitivity scenarios modelled include no further acquisitions and asset management opportunities beyond those already committed and do not rely on further deployment of capital to support the underlying costs of the business. In all scenarios modelled it has been assumed that there are no significant changes to regulatory policies or levels of funding by local authorities.

The remaining principal risks, while having an impact on the Group's business model, are not considered by the directors to have a reasonable likelihood of impacting the Group's viability over the next five years to 31 March 2026.

Sensitivities and mitigating actions
The sensitivities performed were designed to be severe but plausible, and to take full account of the availability of mitigating actions that could be taken to avoid, or reduce, the impact or occurrence of the underlying risks. Mitigating actions that could be taken at the Group's discretion include use of central funds to reduce debt, in particular charging pools, to avoid covenant breaches and the reduction or suspension of dividend payments.

Stress tests
We have considered the fall in property values that could be sustained without an impact on banking covenants including acquisitions that have exchanged but not completed, the Group is expecting to have drawn debt of £96 million and assets with a value of c.£418 million. Values could fall by 35% from this valuation before loan to value covenant breaches would arise. As part of this, the Group can utilise its unsecured assets and undrawn debt facilities to manage the leverage and level of drawn debt within each security pool. Each security pool is individual and there is no cross-collateralization between them.

We have further considered the effect of a reduction in rent on interest cover covenants. The Group could sustain a fall of over 50% and remain compliant with its interest cover covenants.

Extreme scenario
We have also considered an extreme scenario where trading performance of our tenants has been significantly reduced and the banks exercise their security rights over the relevant properties. In this remote scenario, the remaining assets within the Group would be reduced by an estimated 50%, but would be more than sufficient to cover any costs and liabilities of the business and would allow the directors to consider whether to continue in a reduced form or begin an orderly winding up.

Availability of finance
The Group does not have a refinancing event occurring until April 2023. However, financing is arranged in advance of expected requirements and 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.

Viability statement
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 2026.

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 25-27, pages 30-31 and page 52 of the Company's Annual Report 2020.

Key board decisions
The board's principal decisions each year typically include approving acquisitions, capital expenditure and capital raises (equity and debt), and paying dividends.

In addition, during 2020 the board was required to make a number of key decisions in relation to the COVID-19 pandemic. These included decisions to:

- delay the announcement of the 2019 full year results for two weeks, to enable the risks presented by the pandemic to be reflected in the viability and going concern statement and reassure the board, the auditor and our stakeholders about the Group's resilience under all scenarios;
- approve the purchase of thermal scanners for all of the Group's care homes, benefiting tenants and their residents, while also protecting the interests of shareholders and lenders by supporting new admissions to the homes;
- cease further acquisitions between March and September 2020, until the uncertainty created by the pandemic had receded sufficiently, thus enabling the Group and its tenants to focus on the interests of residents during this period;
- continue paying dividends to shareholders, reflecting the resilience of the business and its tenants; and
- restart acquisitions on a very selective basis, once the first wave of the pandemic had passed, supporting growth for shareholders and for tenants.

Set out below are the matters the board is required to take into account under s172(1):

Matter	Response
a) The likely consequence of any decision in the long term.	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. For example, the board's long-term focus was reflected in 2020 in its decision to temporarily halt asset acquisitions. This resulted from the uncertainty surrounding the pandemic's impact on the business plans underpinning potential purchases, and the need to focus on supporting tenants with their plans to protect residents. While this affected portfolio growth in the short term, the decision reduced the risk to the Group's long-term returns.
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.	The Group's customers are its tenants. Developing long-term relationships with tenants is central to our business model. The Group's work with its tenants during 2020 in relation to the pandemic has further strengthened its overall tenant relationships and demonstrated the importance of partnership working and careful tenant selection. Our primary suppliers are our service providers, principally the Investment Manager and Administrator. The board engages regularly with both the Investment Manager and the Administrator, including at its regular board meetings. Through the Management Engagement Committee, the board also formally reviews the work of all the key service providers. The Committee once again completed a thorough review process during 2020 and further information on this can be found in the Management Engagement Committee report.
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 25-29. During 2020, the board approved the Group's ESG policy, including its social and environmental commitments.
e) The desirability of the Company maintaining a reputation for high standards of business	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 and 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 our ESG policy.

conduct.	We monitor our tenants' CQC ratings and engage and support our tenants where improvements are identified to ensure high standards of business conduct are preserved. The Group's actions to support tenants and their residents during the pandemic have helped to protect its reputation as a responsible landlord. In addition, during 2020 the board approved an anti-bribery and corruption policy and a supplier code of conduct, to promote an ethical approach to business at all times.
f) The need to act fairly between members of the Company.	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, and Quilter's interests are aligned with those of other shareholders. 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.

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by

Rupert Barclay Chairman
26 March 2021

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 75-77, 1-45, 71-74 and 46-70, respectively, of the Company's Annual Report 2020.

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.

Directors' responsibility statement, pursuant to DTR4
We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with IFRS adopted pursuant to Regulation (EC) No

1606/2002 as it applies in the European Union and Article 4 of the IAS Regulation 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

26 March 2021

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	31 December 2020 Total £'000	31 December 2019 Total £'000
Gross rental income	5	30,818	23,980
Insurance/service charge income	5	374	252
Insurance/service charge expense	5	(376)	(254)
Net rental income		**30,816**	**23,978**
Administrative and other expenses	6	(5,264)	(4,589)
Profit on disposal of investment properties	12	153	-
Operating profit before changes in fair value of investment properties		25,705	19,389
Changes in fair value of investment properties	12	5,585	9,070
Operating profit		**31,290**	**28,459**
Finance income		49	110
Finance expense	8	(2,556)	(2,237)
Profit before tax		**28,783**	**26,332**
Tax charge on profit for the year	9	-	-
Profit and total comprehensive income (attributable to shareholders)		**28,783**	**26,332**
Earnings per share - basic and diluted (pence)	10	**9.02p**	**10.37p**

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 below.

Consolidated statement of financial position

As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Investment property	12	405,657	310,542
Interest rate derivatives	17, 24	7	94
Trade and other receivables	13	15,915	10,017
Total non-current assets		**421,579**	**320,653**
Current assets			
Trade and other receivables	13	89	554
Cash and cash equivalents	14	7,979	47,790
Total current assets		**8,068**	**48,344**
Total assets		**429,647**	**368,997**
Current liabilities			
Trade and other payables	15	(3,129)	(3,086)
Total current liabilities		**(3,129)**	**(3,086)**

Non-current liabilities			
Bank borrowings	16, 24	(74,213)	(23,461)
Trade and other payables	15	(2,784)	(1,768)
Total non-current liabilities		**(76,997)**	**(25,229)**
Total liabilities		**(80,126)**	**(28,315)**
Total net assets		**349,521**	**340,682**
Equity			
Share capital	20	3,189	3,189
Share premium reserve	20	271,362	271,341
Capital reduction reserve	20	24,077	24,077
Retained earnings		50,893	42,075
Total equity		**349,521**	**340,682**
Net Asset Value per ordinary share (pence)	22	**109.58p**	**106.81p**

The accompanying notes to the Consolidated statement of financial position can be found below.

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 26 March 2021 and are signed on its behalf by:

Rupert Barclay Chairman

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Cash flows from operating activities			
Profit for the year (attributable to equity shareholders)		28,783	26,332
Finance income		(49)	(110)
Finance expense	8	2,556	2,237
Profit on disposal of investment properties	12	(153)	-
Changes in fair value of investment properties	12	(5,585)	(9,070)
Net cash flow before working capital changes		25,552	19,389
Working capital changes			
Increase in trade and other receivables	13	(5,433)	(4,736)
Increase in trade and other payables	15	904	288
Net cash flow generated from operating activities		**21,023**	**14,941**
Investing activities			
Purchase of investment properties	12	(85,978)	(69,969)
Proceeds on sale of investment property	12	886	-
Acquisition costs capitalised		(2,533)	(3,447)
Capital improvements		(1,723)	(8,226)
Interest received		49	110
Net cash flow used in investing activities		**(89,299)**	**(81,532)**
Financing activities			
Proceeds from issue of ordinary share capital	20	-	135,000
Issue costs of ordinary share capital	20	21	(2,844)
Bank borrowings drawn	16, 24	51,243	35,971
Bank borrowings repaid	16, 24	-	(36,844)
Loan arrangement fees paid	16, 24	(1,156)	(791)
Loan commitment fees paid		(417)	(395)
Interest paid on bank borrowings		(1,261)	(1,043)
Dividends paid to equity holders	11	(19,965)	(16,143)
Net cash flow generated from financing activities		**28,465**	**112,911**
Net (decrease)/increase in cash and cash equivalents for the year		(39,811)	46,320
Cash and cash equivalents at the start of the year		47,790	1,470

Cash and cash equivalents at the end of the year	**7,979**	**47,790**

The accompanying notes to the Consolidated statement of cash flows can be found below.

Consolidated statement of changes in equity

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**

For the year ended 31 December 2019

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2019		**1,922**	**140,452**	**35,800**	**20,163**	**198,337**
Total comprehensive income		**-**	**-**	**-**	**26,332**	**26,332**
Transactions with owners						
Dividends paid	11	-	-	(11,723)	(4,420)	(16,143)
Shares issued	20	1,267	133,733	-	-	135,000
Share issue costs	20	-	(2,844)	-	-	(2,844)
31 December 2019		**3,189**	**271,341**	**24,077**	**42,075**	**340,682**

The accompanying notes to the Consolidated statement of changes in equity can be found below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2020 are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial information does not constitute the Group and Parent Company's statutory accounts for the year ended 31 December 2020 or the year ended 31 December 2019 but is derived from those accounts. The Group and Parent Company's statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies. The Group and Parent Company's statutory accounts for the year ended 31 December 2020 will be delivered to the Registrar of Companies in due course. The Auditor has reported on both the December 2020 and December 2019 accounts; the reports were unqualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under Section 498 of the Companies Act 2006.

The principal accounting policies adopted in the preparation of this financial information are set out below. The policies have been consistently applied to both years.

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 34-39 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 effect of the COVID-19 pandemic has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of COVID-19 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 in line with the possible ongoing effects of the pandemic, see Going concern and viability on pages 42-43 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:

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 25 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 2020. 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.

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 15 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.

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 expense

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.

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.

Business combinations

The Group acquires subsidiaries that own property and other property interests. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property that are capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or deferred tax arises. The fair value of assets and liabilities are established using industry-leading third-party professionals, instructed by the Company.

During the year ended 31 December 2019, the Group completed the acquisition of a number of assets and SPV's. The assets held by the SPV's have been incorporated into the existing subsidiaries of the Group without maintaining any of the underlying activities of the purchased SPV. The directors have reviewed the terms of the acquisition and determined that a business, as defined by IFRS 3, was not acquired. In the context of the acquisitions during the year, the principal consideration was whether an integrated set of activities were acquired. As part of the acquisition, new agreements were entered into between the Group and the operators of the assets, with the management of the assets going forward being independent of the SPV's purchased and their previous activities. No significant functions were acquired as part of the purchases and, as such the acquisitions are not determined by directors to be business combinations under IFRS 3.

For acquisitions occurring from 1 January 2020 onwards we have considered the IFRS 3 amendments to the definition of a business to determine if a business combination has occurred. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing outputs to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. For the purpose of identifying what constitutes a business combination, the director's apply the concentration test as detailed within IFRS 3. All acquisitions in the current year were concluded as asset acquisitions as none included acquisition of an integrated set of activities that combine an input and a substantive process to produce outputs.

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:

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
On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve (refer to note 20). This is a distributable reserve.

Trade payables
Trade payables are initially recognised at their fair value and are subsequently measured at amortised cost.

Borrowings
All bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all bank 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, being the estimated amount that the Group would receive or pay to terminate the agreement at the year-end date, taking into account current interest rate expectations and the current credit rating of the Group and its counterparties. Premiums payable under such arrangements are initially capitalised into the Consolidated statement of financial position.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole. 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 2020

The following new accounting amendments have been applied in preparing the Consolidated financial statements:

IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and error" on definition of material
These amendments to IAS 1, IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immateriality information.

IFRS 3 "Business Combinations"
On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. As a result of this amendment business combinations is no longer believed to be a significant judgment for the acquisitions made in the year.

4.2 New standards issued but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 1 - Classification of liabilities as current or non-current
- Annual improvements to IFRS standards 2018-2020

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021, but are not yet applicable to the Group and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

5. Property income

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Rental income cash received in the year	**25,936**	**19,113**
Rent received in advance of recognition[1]	(1,016)	98
Rent recognised in advance of receipt[2]	5,898	4,769
Gross rental income	**30,818**	**23,980**
Insurance/service charge income	374	252
Insurance/service charge expense	(376)	(254)
Net rental income	**30,816**	**23,978**

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 leases.
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 uplift in rents over the term of the lease on a straight-line basis.

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 Ltd and Croftwood Care UK Ltd are both part of the Minster Care Group and represent more than 10% of the gross rental income:

	2020	2019
Minster Care Management Ltd	35.1%	43.3%
Croftwood Care UK Ltd	19.5%	25.4%
Others	45.4%	31.3%

6. Administrative and other expenses

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Investment Manager fees (note 21)	3,548	2,756
Directors' remuneration (see note 7)	209	193
Auditor's fees		
- Statutory audit of the Company and Group (including subsidiaries)	174	166
- Additional fees payable to the auditor in respect of the prior year audit	32	22
- Agreed upon procedures for the Company's interim report	14	13
- Other advisory services	-	15
Total auditor's fees	220	216
Administration fees	450	345
Regulatory fees	42	38
Legal and professional	448	419
Other administrative costs	347	451
One-off costs[1]	-	171
	5,264	**4,589**

1 One-off costs relate to premium listing costs incurred during the prior year.

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 2020 £'000	Year ended 31 December 2019 £'000
Rupert Barclay (Chairman)	46	46
Rosemary Boot	33	35
Philip Hall[1]	33	33
Paul Craig	33	33
Amanda Aldridge	38	31
Employer's National Insurance	20	15
Recruitment fees - non-executive director	**6**	-
	209	**193**

1 An additional £3,399 in expenses was paid to Philip Hall during the 2019 year.

Directors' remuneration payable at 31 December 2020 amounted to £7,000 (2019: £8,000).

8. Finance expenses

	Note	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest payable on bank borrowings		1,362	1,043
Commitment fee payable on bank borrowings		442	395
Amortisation of loan arrangement fee		665	416
Changes in fair value of interest rate derivatives	17	87	383
		2,556	2,237

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on bank borrowings which was £76.4 million at 31 December 2020 (2019: £25.1 million). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility, in the year ended 31 December 2020 £1,156,000 was capitalised (2019: £791,000).

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 2020 and the year ended 31 December 2019, 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 2020 £'000	Year ended 31 December 2019 £'000
UK corporation tax	-	-

Reconciliation of the corporation tax charge:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before tax	**28,783**	**26,332**
Theoretical tax at UK corporation tax rate (19%)	5,469	5,003
Effects of:		
REIT exempt income	(4,424)	(3,352)
Non-taxable items	(1,045)	(1,651)
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.

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 2020 £'000	Year ended 31 December 2019 £'000
Total comprehensive income (attributable to shareholders)	**28,783**	**26,332**
Adjusted for:		

- Revaluation movement	(10,467)	(13,937)
- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	4,882	4,867
Change in fair value of investment properties	(5,585)	(9,070)
Profit on disposal of investment property	(153)	-
Change in fair value of interest rate derivative	87	383
EPRA earnings	**23,132**	**17,645**
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(4,882)	(4,867)
Amortisation of loan arrangement fees[2]	665	416
Non-recurring costs	-	171
Adjusted earnings	**18,915**	**13,365**
Average number of ordinary shares	318,953,861	253,954,592
Earnings per share (pence)[1]	**9.02p**	**10.37p**
EPRA basic and diluted earnings per share (pence)[1]	**7.25p**	**6.95p**
Adjusted basic and diluted earnings per share (pence)[1]	**5.93p**	**5.26p**

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 on investment properties and interest rate derivatives, and removal of profit or loss on disposal of investment properties.

Adjusted earnings:
Adjusted earnings is used by the board to help assess the group's ability to deliver a cash covered dividend from recurring 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 loan arrangement fees[2]. The metric also adjusts for any one-off costs 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 year. In the prior year, non-recurring costs included listing fees from the transition to the premium segment of the main market.

The board uses the adjusted earnings alongside the available distributable reserves in its consideration and approval of dividends.

1 There is no difference between basic and diluted earnings per share.
2 The removal of amortisation of loan arrangement fees is a change made in the current year and the prior year adjusted earnings figure has been restated to include an adjustment for the amortisation of loan arrangement fees.

11. Dividends

	Dividend rate (pence per share)	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Fourth interim dividend for the period ended 31 December 2018 (ex-dividend - 7 February 2019)	1.5p	-	2,883
First interim dividend for the period ended 31 December 2019 (ex-dividend - 16 May 2019)	1.5425p	-	4,420
Second interim dividend for the period ended 31 December 2019 (ex-dividend - 8 August 2019)	1.5425p	-	4,420
Third interim dividend for the period ended 31 December 2019 (ex-dividend - 31 October 2019)	1.5425p	-	4,420
Forth 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	-
Total dividends paid		**19,965**	**16,143**
Total dividends paid in respect of the year		4.7175p	4.6275p

Total dividends unpaid but declared in respect of the year	1.5725p	1.5425p
Total dividends declared in respect of the year - per share	**6.29p**	**6.17p**

On 30 January 2020, the Company declared an interim dividend of 1.5425 pence per ordinary share for the period from 1 October 2019 to 31 December 2019 and was paid in February 2020.

On 7 May 2020, the Company declared an interim dividend of 1.5725 pence per ordinary share for the period from 1 January 2020 to 31 March 2020 and was paid in June 2020.

On 12 August 2020, the Company declared an interim dividend of 1.5725 pence per share for the period from 1 April 2020 to 30 June 2020 and was paid in September 2020.

On 28 October 2020, the Company declared an interim dividend of 1.5725 pence per share for the period from 1 July 2020 to 30 September 2020 and was paid in November 2020.

On 29 January 2021, the Company declared an interim dividend of 1.5725 pence per share for the period from 1 October 2020 to 31 December 2020 and was paid on 26 February 2021.

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 affected 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 2020	As at 31 December 2019
	£'000	£'000
Opening value	318,791	223,845
Property additions	85,978	69,969
Property disposals[1]	(733)	-
Acquisition costs capitalised	2,677	3,857
Capital improvements	1,608	7,183
Revaluation movement	10,467	13,937
Closing value per independent valuation report	**418,788**	**318,791**
Guaranteed rent reviews and initial lease rental payment net (debtor)/creditor	(13,131)	(8,249)
Closing fair value per Consolidation statement of financial position	**405,657**	**310,542**

1 In 2020 the carrying value of disposals was £733,000 (2019: £nil), this combined with the profit on disposal of £153,000 (2019: £nil) makes up the total net proceeds shown in the Consolidated statement of cash flows.

During the year, the Group acquired an additional 22 properties and one forward-funded development. During the year the Group disposed of one property.

The majority of the properties owned are freehold except for ten properties which are long leasehold, seven 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 2020	Year ended 31 December 2019
	£'000	£'000
Revaluation movement	10,467	13,937
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(4,882)	(4,867)
Change in fair value of investment properties	**5,585**	**9,070**

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 2020 £'000	Year ended 31 December 2019 £'000
Rent received in advance of recognition[1]	5	(1,016)	98
Rent recognised in advance of receipt[2]	5	5,898	4,769
Rental income arising from recognising rental premium and future guaranteed rent uplifts		**4,882**	**4,867**

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:

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); 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 would increase the fair value.

Sensitivity of measurement of significant unobservable inputs
Initial yields range from 3.15% to 12.00% across the portfolio.

A 0.25% movement of the valuation yield would have approximately a £15.1 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £4.2 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 2020	405,657	-	-	405,657
Investment properties	31 December 2019	310,542	-	-	310,542

There have been no transfers between any of the levels during the year.

13. Trade and other receivables

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Non--current		
Rent recognised in advance of receipt	15,915	10,017
Current		
Loan receivable[1]	-	69
Prepayments	89	485
	16,004	**10,571**

1 During the year ended 31 December 2019, the Group entered into a revolving loan agreement with Careport which included a facility of up to £250,000 and was fully repaid in 2020. The loan facility bore interest at 7.5%.

No impairment losses have been recognised during the year (refer to note 18).

14. Cash and cash equivalents

	As at 31 December	As at 31 December

	2020	2019
	£'000	£'000
Cash and cash equivalents	**7,979**	**47,790**

Included as part of cash and cash equivalents are funds held on overnight deposit of £nil (2019: £39,090,000).

None of the Group's cash balances are held in restricted accounts.

15. Trade and other payables

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Non-current		
Rent received in advance of recognition	2,784	1,768
Current		
Trade and other payables	1,338	1,158
Interest payable	377	250
Withholding tax payable - (PID Dividends)	226	-
Rental received in advance	139	659
Capital improvements payable	1,049	1,019
	3,129	3,086
	5,913	**4,854**

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. Bank borrowings

A summary of the bank borrowings drawn in the period are shown below:

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
At the beginning of the year	25,127	26,000
Bank borrowings drawn in the year	51,243	35,971
Bank borrowings repaid in the year	-	(36,844)
Total bank borrowings drawn[1]	**76,370**	**25,127**
Total bank borrowings undrawn	**48,630**	**49,873**

[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 has two elements: an interest only term loan of £25 million (the "Term Loan") which was fully drawn at 31 December 2020 and 31 December 2019, and a revolving credit facility of £25 million (the "RCF"), £20.4 million of which was drawn at 31 December 2020 (2019: £127,000). The Group drew down £20.2 million under the Metro Facility and no repayments were made during the year ended 31 December 2020.

The Metro Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five-year Term Loan is repayable without penalty after two years, and with a 1% penalty if prepaid within the first two years. Amounts drawn under the RCF can be repaid at any time without penalty. The loan is secured over a portfolio of 53 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 £178.2 million as at 31 December 2020 (2019: £176.2 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. The Group drew down £10 million (2019: £12.3 million) from the Clydesdale Facility and no repayments (2019: £12.3 million) were made during the year ended 31 December 2020.

The Clydesdale Facility has 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 £67.7 million as at 31 December 2020 (2019: £64.4 million).

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 £21 million from the HSBC Facility during the year ended 31 December 2020.

The HSBC Facility has a margin of 195 or 205 basis points over one-month LIBOR, 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 £111.8 million as at 31 December 2020.

Under the bank covenants related to the loans the Group is required to ensure that the:

- Loan to value of IP1 and IP2 combined does not exceed 35%;
- Loan to value of IP3 does not exceed 55%;
- Loan to value of IP4 does not exceed 55%;
- Interest cover of IP1 and IP2 combined based on passing rent from the ring-fenced properties must exceed 200%;
- Interest cover of IP3 based on passing rent from the ring-fenced properties must exceed 325%; and
- Interest cover of IP4 based on passing rent from the ring-fenced properties must exceed 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.

Any fees associated with arranging the bank 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 2020	As at 31 December 2019
	£'000	£'000
Bank borrowings drawn: due after more than one year	76,370	25,127
Arrangement fees - brought forward	(1,666)	(1,291)
Arrangement fees paid during the year	(1,156)	(791)
Amortisation of loan arrangement fees	665	416
Non-current liabilities: bank borrowings	**74,213**	**23,461**

Maturity analysis of borrowings:

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Repayable between one and two years	-	-
Repayable between two and five years	76,370	25,127
Repayable in over five years	-	-
Total	**76,370**	**25,127**

The weighted average term of the Group's debt as at the year end is 2.5 years (2019: 3.5 years).

17. Interest rate derivatives

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
At the beginning of the year	94	477
Change in fair value of interest rate derivatives	(87)	(383)
	7	**94**

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 1 month LIBOR.

The interest rate cap was acquired at a premium of £570,000, plus associated costs of £12,000.

The fair value of the derivative interest rate cap contract is estimated by discounting expected future cash flows using market interest rates. A sensitivity analysis performed to assess the impact of an increase of 0.25% in the interest rate would result in an increase of £11,145 in the fair value of the interest rate derivative. A decrease of 0.25% in the interest rate would result in a decrease of £5,126 in the fair value of the interest rate derivative.

At 31 December 2020, the Group has loans of £76.4 million (2019: £25.1 million) which are exposed to interest rate risk.

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 bank 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 2020	As at 31 December 2019
	£'000	£'000
Financial assets at amortised cost:		
Loan receivable	-	69
Cash and cash equivalents	7,979	47,790
Financial assets at fair value:		
Interest rate derivative	7	94
Financial liabilities at amortised cost:		
Bank borrowings	74,213	23,461
Trade and other payables	2,764	2,427

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	Total	Level 1*	Level 2*	Level 3*

	Valuation	£'000	£'000	£'000	£'000
Assets measured at fair value:					
Interest rate derivative	31 December 2020	-	-	7	-
Interest rate derivative	31 December 2019	-	-	94	-

*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 £39,895 (2019: £238,950) or a decrease of £39,895 (2019: £238,950).

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group has entered into an interest rate derivative to reduce its exposure to interest rate risk on its term debt (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 £256,850 (2019: £635) or a decrease of £256,850 (2019: £635).

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 2020.

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.

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.

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 2020:						
Bank 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
31 December 2019:						
Bank borrowings	-	-	-	25,127	-	25,127
Interest and commitment fees on borrowings	286	870	1,159	1,827	-	4,142
Trade and other payables	2,427	-	-	-	-	2,427

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 to 6.29 pence per share for the year ended 31 December 2020 and its target aggregate dividend of 6.17 pence per share for the year ended 31 December 2019.

As at 31 December 2020, 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 £48.6 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.

20. Share capital, share premium and capital reduction reserve

Capital

	Shares in issue	Share capital	Share premium	reduction reserve	Total
	Number	£'000	£'000	£'000	£'000
As at 31 December 2018	**192,206,831**	**1,922**	**140,452**	**35,800**	**178,174**
Shares issued 15 May 2019	94,339,623	943	99,057	-	100,000
Shares issued 9 December 2019	32,407,407	324	34,676	-	35,000
Share issue costs	-	-	(2,844)	-	(2,844)
Dividends declared (note 11)	-	-	-	(11,723)	(11,723)
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**

The Company had 318,953,861 shares of nominal value of 1 pence each in issue at the end of the year (31 December 2019: 318,953,861).

On 15 May 2019, the Company issued a further 94,339,623 ordinary shares at a price of 106 pence per ordinary share raising gross proceeds of £100.0 million.

On 9 December 2019, the Company issued a further 32,407,407 ordinary shares at a price of 108 pence per ordinary share raising gross proceeds of £35.0 million.

There were no shares issued during the year ended 31 December 2020.

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 2020	Year ended 31 December 2019
	£'000	£'000
Amounts payable to Impact Health Partners LLP		
Net fee	3,548	2,674
VAT	-	82
Gross fee	**3,548**	**2,756**

For the year ended 31 December 2020 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 3.41%, 0.27% and 0.03% 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. 55% of the Group's rental income was received from MCGL or its subsidiaries. A trade receivable of £nil was outstanding at the year end (2019: £349,490).

During the year the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £680,990 (2019: £666,915); Andrew Cowley £55,385 (2019: £51,190) and David Yaldron £4,359 (2019: £3,378).

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Quilter Investors, which has an interest in 54,073,678 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 £11,474 (2019: £9,982); Rosemary Boot £1,878 (2019: £1,838) and Philip Hall £1,878 (2019: £1,838). In addition, funds managed by Paul Craig received dividends from the Company of £3,385,012 (2019: £3,136,080).

Directors' remuneration for the year is disclosed in note 7 as well as in the Directors' remuneration report.

Minster Care Group Limited ("MCGL")

MCGL is considered a related party, as a tenant, which is majority owned by the principal of the Investment Manager. The Group has undertaken the following transactions with MCGL:

- On 5 May 2017, the Company entered into a sale and leaseback of 56 homes and a further home was transferred under the sale and leaseback in June 2017. The net purchase price of this portfolio was £156.2 million. The group entered into new leases for two more properties on 22 May 2018 and one property on 6 January 2020 with a performance related deferred payment of up to £2.0 million to be paid to MCGL in return for an increase in rent of up to £160,000. The Group also agreed the disposal of one property on 11 August 2020 for net proceeds of £886,000 including the cancellation of the lease with MCGL.

- The Group entered into lease variation to align rent review dates on 7 March for all MCGL properties and undertook rent review uplift on 7 March 2020 in relation to portfolio acquired on 5 May 2017, June 2017 and 22 May 2018:

    - Out of approved capital improvement expenditure of £5.2 million (on three homes in 2018) and £7.9 million (on eight homes in 2017) in the MCGL portfolio, £12.4 million has been delivered and £0.7 million is remaining at 31 December 2020 (on two homes).

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 2020 £'000	As at 31 December 2019 £'000
Net assets per Consolidated statement of financial position	349,521	340,682
Fair value of derivatives	(7)	(95)
NTA	349,514	340,587
Issued share capital (number)	318,953,861	318,953,861
Basic NAV per share	**109.58p**	**106.81p**
NTA per share	**109.58p**	**106.78p**

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 2020 £'000	As at 31 December 2019 £'000
Year one	29,183	22,713
Year two	30,746	23,685
Year three	31,457	24,152
Year four	32,148	24,584
Year five	32,570	25,160
Onwards	571,176	462,013
Total	**727,280**	**582,307**

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	Bank borrowings £'000	Interest rate derivative £'000	Total £'000
As at 1 January 2019		24,709	(477)	24,232
Cash flows from financing activities:				
Bank borrowings drawn	16	35,971	-	35,971
Bank borrowings repaid	16	(36,844)	-	(36,844)
Loan arrangement fees paid	17	(791)	-	(791)
Non-cash movements:				
Amortisation of loan arrangement fees	16	416	-	416
Fair value movement	17	-	383	383
As at 31 December 2019		**23,461**	**(94)**	**23,367**
Cash flows from financing activities:				
Bank 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**

25. Capital commitments

The Group has entered into Licences for Alterations and Deeds of Variation for four of its properties in 2020 (2019: one) and completed its capital commitments on two of its properties during 2020. At 31 December 2020 the Group had Capex outstanding on seven properties (2019: five), of these four are for newly acquired properties in December 2020 all of these are due for completion in 2021. The Group has outstanding capital commitments of £3.2 million (2019: £2.1 million) in relation to the cost of improvements on these properties and a further £5.1 million on a forward-funding agreement.

The Group has deferred commitments estimated at £5.0 million (2019: £2.1million) related to two new acquisitions in 2020.

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 at £5.0 million (2019: £9.4 million) on the net purchase price of assets acquired in corporate acquisitions in the past three years. £7.0 million of the prior year contingent liability related to the SDLT on the seed portfolio; in the 2020 year these properties have been owned for three years and hence this portion of the contingent liability is no longer recognised.

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.

28. Subsequent events

- On 6 January 2020, the Group completed the acquisition of Mavern House Nursing Home in Melksham, Wiltshire and leased it to an existing tenant, Welford. This added 51 registered beds to the Group's portfolio for a net consideration of £5.1 million. The initial consideration was funded from the Group's cash. The group has committed to £0.6 million of capital expenditure to expand the home over the next 18 months.

Rent reviews took place in the period between year end and the date of this report as follows:

- On 3 March 2021, in relation to the portfolio of three assets let to Silverline.
- On 7 March 2021, in relation to the portfolio of 56 assets acquired in May 2017, an additional asset acquired in June 2017 and two further assets acquired in May 2019 let to Minster and Croftwood.
- On 10 March 2021, portfolio of four assets let to MMCG.
- On 21 January 2021 and 16 March 2020, in relation to two assets let to Prestige.
- On 18 March 2020, 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, Croftwood, Prestige, Silverline and MMCG. The two properties let to the NHS had an annual CPI linked rent review.

As a result of these reviews and transactions occurring post year end, the annual contracted rent increased from £30.9 million to £31.7 million, of which £0.3 million is from rent reviews.

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 2020

Company Registration Number: 10464966

	Notes	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Investment in subsidiaries	6	369,371	242,990
Total non-current assets		**369,371**	**242,990**
Current assets			
Trade and other receivables	7	7,587	44,829
Cash and cash equivalents	8	6,806	46,702
Total current assets		**14,393**	**91,531**
Total assets		**383,764**	**334,521**
Current liabilities			
Trade and other payables	9	(47,863)	(27,215)
Total liabilities		**(47,863)**	**(27,215)**
Total net assets		**335,901**	**307,306**
Equity			
Share capital	10	3,189	3,189
Share premium reserve	10	271,362	271,341
Capital reduction reserve	10	24,077	24,077
Retained earnings		37,273	8,699
Total equity		**335,901**	**307,306**

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 2020 amounted to £48,539,000 (2019: profit of £470,000).

The financial statements were approved and authorised for issue by the board of directors on 26 March 2021 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 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**

For the year ended 31 December 2019

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2019		**1,922**	**140,452**	**35,800**	**12,649**	**190,823**
Total comprehensive income		-	-	-	470	470
Transactions with owners						
Dividends paid	5	-	-	(11,723)	(4,420)	(16,143)
Shares issued	10	1,267	133,733	-	-	135,000
Share issue costs	10	-	(2,844)	-	-	(2,844)
31 December 2019		**3,189**	**271,341**	**24,077**	**8,699**	**307,306**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. Basis of Preparation

General information
The financial statements for the year ended 31 December 2020, 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 2019.

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 effect of the COVID-19 pandemic has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of COVID-19 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 in line with the possible effects of the pandemic, see Going concern and viability report on pages 42-43 for further detail.

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. There were no significant accounting judgements, estimates or assumptions in preparing these financial statements.

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
On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve. This is a distributable reserve.

Trade and other payables
Trade 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.

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 2020 £'000	Year ended 31 December 2019 £'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 2020 £'000	31 December 2019 £'000
At the beginning of the year	242,990	188,223
Cost of investments acquired through share purchases	126,381	54,767
At the end of the year	**369,371**	**242,990**

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 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 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
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

*As at 31 December 2020 these entities were held indirectly by the Company.
** As at 31 December 2020 these entities are in the process of winding up.

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

7. Trade and other receivables

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Loan to Group companies	7,513	43,829
Interest on loans to Group companies	-	805
Loan receivable[1]	-	69
Prepayments	74	126
	7,587	44,829

[1] During the year ended 31 December 2019, the Group entered into a revolving loan agreement with Careport which includes a facility up to £250,000, this was repaid in 2020. The loan facility bears interest at 7.5%.

As at 31 December 2020, there were no trade receivables past due or impaired (2019: none).

Loans to Group companies are unsecured and are repayable on demand.

8. Cash and cash equivalents

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Cash and cash equivalents	**6,806**	**46,702**

Included as part of cash and cash equivalents are funds held on overnight deposit of £nil (2019: £39,090,000).

None of the Company's cash balances are held in restricted accounts.

9. Trade and other payables

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Loan from Group companies	46,792	26,358
Trade and other payables	926	857
Interest on loans to Group companies	145	-
	47,863	**27,215**

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.

12. Capital commitments

There were no capital commitments held by the Company (2019: nil).

13. 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.

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

£23.1m
7.25p per share
for the year to 31 December 2020
(for the year to 31 December 2019: £17.6m / 6.95p)

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. EPRA net reinstatement value ("NRV")

£376.5m
118.04p per share
for the year to 31 December 2020
(for the year to 31 December 2019: £361.2m / 113.25p per share)

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")

£349.5m
109.58p per share

for the year to 31 December 2020
(for the year to 31 December 2019: £340.6m / 106.78p per share)

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.

2.3 EPRA net disposal value ("NDV")
£347.4m
108.91p per share
for the year to 31 December 2020
(for the year to 31 December 2019: £339.0m / 106.29p per share)

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")
6.57%
for the year 31 December 2020
(for the year to 31 December 2019: 6.66%)

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 2020
(for the year to 31 December 2019: 6.66%)

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.

4. EPRA vacancy rate
0.00%
for the year to 31 December 2020
(for the year to 31 December 2019: 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
17.09%
for the year to 31 December 2020
(for the year to 31 December 2019: 19.15%)

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.

6.0 Like-for-like rental growth
3.47%
for the year to 31 December 2020
(for the year to 31 December 2019: 2.48%)

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 2020

1. EPRA earnings per share

	31 Dec 20 £'000	31 Dec 19 £'000
Total comprehensive income (attributable to shareholders)	**28,783**	**26,333**
Adjusted for:		
Profit on disposal of investment property	(154)	-
Change in fair value of investment properties	(10,467)	(13,937)
Rental income arising from recognising guaranteed rent uplifts and rental premiums	4,882	4,867
	(5,739)	(9,070)
Change in fair value of interest rate derivatives	87	383
Profits to calculate EPRA earnings per share	**23,131**	**17,646**
Weighted average number of Ordinary shares (basic and diluted)	318,953,861	253,954,292
EPRA earnings per share - basic and diluted	**7.25p**	**6.95p**

2. EPRA NAV measures

The updated EPRA best practice recommendations, released in October 2019, 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 NNNAV. 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 2020:	**Old measures**		**New measures**		
	EPRA NAV £'000	**EPRA NNAV £'000**	**EPRA NRV £'000**	**EPRA NTA £'000**	**EPRA NDV £'000**
Net assets at end of year	**349,521**	**349,521**	**349,521**	**349,521**	**349,521**
Exclude:					
Fair value of derivatives	(7)	-	(7)	(7)	-
Include:					
Fair value of debt[1]	-	(2,156)	-	-	(2,156)
Transaction costs[2]	-	-	26,964	-	-
Net assets (per EPRA NAV measure)	**349,514**	**347,365**	**376,478**	**349,514**	**347,365**
Shares in issue at 31 December (Basic and diluted)	318,953,861	318,953,861	318,953,861	318,953,861	318,953,861
Net assets (per EPRA NAV measure)	**109.58p**	**108.91p**	**118.04p**	**109.58p**	**108.91p**

As at 31 December 2019:	**Old measures**		**New measures**		
	EPRA NAV £'000	**EPRA NNAV £'000**	**EPRA NRV £'000**	**EPRA NTA £'000**	**EPRA NDV £'000**
Net assets at end of year	**340,682**	**340,682**	**340,682**	**340,682**	**340,682**
Exclude:					
Fair value of derivatives	(95)	-	(95)	(95)	-
Include:					
Fair value of debt[1]	-	(1,665)	-	-	(1,665)
Transaction costs[2]	-	-	20,641	-	-
Net assets (per EPRA NAV measure)	**340,587**	**339,017**	**361,229**	**340,587**	**339,017**
Shares in issue at 31 December (Basic and diluted)	318,953,861	318,953,861	318,953,861	318,953,861	318,953,861
Net assets (per EPRA NAV measure)	**106.78p**	**106.29p**	**113.25p**	**106.78p**	**106.29p**

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 Dec 20 £'000	31 Dec 19 £'000
Investment property - wholly owned	**418,787**	**318,791**
Less capital improvements under construction	(1,907)	(6,954)
Completed property portfolio	**416,880**	**311,837**
Allowance for estimated purchasers'' costs[1]	26,263	19,765
Gross up completed property portfolio valuation (B)	**443,143**	**331,602**
Annualised cash passing rental income	**29,111**	**22,081**
property outgoings (non recoverable insurance)	(2)	(2)
Annualised net rents (A)	**29,109**	**22,079**
Add		
Contractual uplifts on rent free periods of funded capital improvements	634	-
Topped-up net annualised rent (C)	**29,743**	**22,079**
EPRA Net Initial Yield (A/B)	**6.57%**	**6.66%**
EPRA Topped-Up Net Initial Yield (C/B)	**6.71%**	**6.66%**

1 Assumes a purchaser of the Company's portfolio would pay SDLT and transaction costs equal to 6.3% of the portfolio's value

4. EPRA vacancy rate

	31 Dec 20 £'000	31 Dec 19 £'000
Estimated rental value of vacant space	-	-
Estimated rental value of the whole portfolio	28,922	22,512
EPRA Vacancy rate	**0.00%**	**0.00%**

5. EPRA cost ratio

	31 Dec 20 £'000	31 Dec 19 £'000
Administrative and other expenses	5,264	4,589
Net service charge cost	2	2
Total costs including and excluding vacant property costs	5,266	4,591
Gross rental income	30,818	23,980
Total EPRA cost ratio (including, and excluding, direct vacancy costs)	**17.09%**	**19.15%**

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 2018	16,452	223,179
Inflation-linked rental uplifts	400	
Rental uplifts in return for capital improvements or deferred payments	8	
Increase/(decrease) due to vacancy rates	-	
Property portfolio as at 31 December 2019	**16,860**	**242,084**

Inflation-linked rental uplifts	429	
Rental uplifts in return for capital improvements or deferred payments	156	
Increase/(decrease) due to vacancy rates	-	
Property portfolio as at 31 December 2020	**17,445**	**248,068**

All properties operate within the same sector, UK healthcare.

OUR PORTFOLIO

At 31 December 2020, the Group owned the homes listed in the table below:

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
Minster Care*				
Abbeywell	West Midlands		45	
Amberley	South West		30	
Ashgrove	Yorkshire and The Humber		56	
Attlee	Yorkshire and 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 and 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 and The Humber		45	
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 and 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		41	
Value as at 31 December 2020: £130.04m				
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 as at 31 December 2020: £67.07m				
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 as at 31 December 2020: £21.76m				
Welford				
Argentum Lodge	South West	Sep 2019	56	
Birchlands	Yorkshire and The Humber	Jun 2019	54	
Fairview House and Court[4]	South West	Mar 2018	73	
St Peter's House	East of England	Dec 2020	66	
Holmesley	South West	Jun 2019	55	
Value as at 31 December 2020: £33.11m				
Careport				
Blackwell Vale	North West	Dec 2020	60	
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 as at 31 December 2020: £32.79m				
Renaissance Care				
Croftbank	Scotland	Nov 2018	68	
Rosepark	Scotland	Nov 2018	60	
Value as at 31 December 2020: £13.07m				
Maria Mallaband and Countrywide Group (MMCG)				
Belmont House	Yorkshire and The Humber	May 2019	106	
Croft House	Yorkshire and The Humber	Mar 2020	68	
Heeley Bank	Yorkshire and The Humber	Mar 2020	67	
Howgate House	Yorkshire and The Humber	Mar 2020	63	
Manor Park	Yorkshire and The Humber	Mar 2020	75	
Park Springs	Scotland	May 2019	96	
Thorntree Mews	Scotland	May 2019	40	
Wallace View	Scotland	May 2019	60	
Value as at 31 December 2020: £35.75m				
NCUH NHS Trust				
Reiver House	North West	Jun 2019	-	
Surgical Unit	North West	Jun 2019	-	
Value as at 31 December 2020: £4.41m				
Optima				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	
Value as at 31 December 2020: £14.25m				

Silverline				
Laurel Bank	Yorkshire and The Humber	Mar 2020	63	
The Beeches	Yorkshire and The Humber	Mar 2020	60	
Willow Bank	Yorkshire and The Humber	Mar 2020	59	
Value as at 31 December 2020: £8.10m				
Holmes Care Group				
Almond Court	Scotland	Aug 2020	42	
Almond View	Scotland	Aug 2020	78	
Bankview (&BVDC)	Scotland	Aug 2020	65	
Beechwood	Scotland	Aug 2020	90	
Cragielea	Scotland	Aug 2020	85	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Three Towns	Scotland	Aug 2020	60	
Value as at 31 December 2020: £50.30m				
Electus Care				
Edgewater Lodge	Northern Ireland	Dec 2020	75	
Cedarhurst Lodge	Northern Ireland	Dec 2020	67	
Saintfield Lodge	Northern Ireland	Dec 2020	51	
Value as at 31 December 2020: £8.14m				

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

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