IMPACT Healthcare REIT

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

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Impact Healthcare REIT plc

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

FULL YEAR RESULTS FOR THE 12 MONTHS ENDED 31 DECEMBER 2021

Delivered a strong financial and operational performance, benefiting from the resilience and growth of the portfolio and the annual rental increases inherent in the leases, resulting in a fully covered growing dividend

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, is pleased to announce its full year results for the 12 months ended 31 December 2021.

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

"We have deliberately fostered our resilience by carefully selecting tenants, putting in place leases with robust rent cover and inflation linkages and maintaining a prudent balance sheet. Our tenants have provided high-quality care during the pandemic and in turn we have received 100% of the rent due. This has underpinned a fully covered dividend for 2021.

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

We have a good level of protection against the current inflationary environment, through the upwards-only index-linked rent reviews in our leases.

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

Financial highlights

	Year ended 31 December 2021	Year ended 31 December 2020	Change
Contracted rent roll[2]	£38.0m	£30.9m	+22.7%
Profit before tax	£32.0m	£28.8m	+11.1%
IFRS earnings per share ("EPS")	9.41p	9.02p	+4.3%
EPRA EPS	8.05p	7.25p	+11.0%
Adjusted EPS [1]	6.68p	5.93p	+12.6%
Dividends declared per share	6.41p	6.29p	+1.9%
EPRA dividend cover	126%	115%	+8.9%
Adjusted earnings dividend cover	104%	95%[1]	+9.6%
Property investments	£496.9m[3]	£418.8m	+18.6%
Gross loan to value ("LTV") ratio	22.26%	17.77%	
Net asset value ("NAV") per share	112.43p	109.58p	+2.6%
Total accounting return	8.42%	8.46%	-0.5%

- Contracted annual rent[2] at 31 December 2021 was £38.0 million (2020: £30.9 million). 104 properties had rent reviews during the year, adding £0.7 million to the contracted rent, representing an annualised 2.5% increase on a like-for-like basis.

- Total accounting return comprised dividends paid in the year of 6.41p per share and NAV growth of 2.85p per share and totalled 8.42%, against our target of 9.0% per annum[5].
- The Company has declared four quarterly dividends of 1.6025p each in respect of the year, meeting its target for 2021 of 6.41 pence per share.
    - Dividends declared for the year were 126% covered by EPRA EPS and 104% covered by Adjusted EPS.
- Our dividend target for 2022 is 6.54p[5], representing 2.03% growth.
- EPS for the year was 9.41 pence (2020: 9.02 pence) and EPRA EPS was 8.05 pence (2020: 7.25 pence). Adjusted EPS, which better reflects underlying cash earnings in the year, was 6.68 pence (2020: 5.98 pence). All the EPS figures listed above are on both a basic and diluted basis.
- As at 31 December 2021, the portfolio was valued at £459.4 million, an increase of £40.6 million from the valuation of £418.8 million at 31 December 2020. The components of this valuation increase were as follows:
    - acquisitions completed: £26.9 million;
    - disposal: £1.3 million;
    - acquisition costs capitalised: £1.3 million;
    - capital improvements: £0.8 million; and
    - valuation uplift: £12.9 million. Largely driven by rent increases received during the year.
- The NAV at 31 December 2021 was £394.2 million or 112.43 pence per share (31 December 2020: £349.5 million or 109.58 pence per share). NAV growth continued to be driven primarily by rental growth and the benefits of active asset management.
- This was an important year for the evolution of the Group's debt financing, reflecting the growing maturity of the business. In the year we:
    - Agreed a new £26 million NatWest facility, with an accordion agreement to extend up to £50 million.
    - Secured the Group's first long-term institutional fixed interest debt of £75 million facility with an average maturity 14 years. This provides an attractive fixed interest rate over the long term in an uncertain inflationary environment.
    - The Group now has £168 million of available debt facilities, as well as the second £38 million tranche of institutional debt, which is committed to be issued in June 2022, and the option to expand the NatWest facility by a further £24 million.

Operational highlights

Against the backdrop of the ongoing COVID-19 pandemic, we have continued to deliver solid growth and attractive sustainable value to our stakeholders, demonstrating the resilience of both the Group, its portfolio and its tenants. Our tenants are established healthcare providers, offering good-quality care and earning fees from a broad spectrum of public sector customers and private-pay residents.

- Continued to collect 100% of rent due, with no changes to any lease terms or payment schedules.
- The portfolio remains 100% let.
- The Group continued to demonstrate its resilience throughout 2021 with rent cover rising to 1.95x (2020: 1.76x) including the benefit of grant funding.
    - This is an important metric for both us and our tenants, as it reflects our tenants' profitability and headroom against future cost pressures.
- At the year end the Group had investments in 124 properties with 6,720 beds.
- All leases are inflation-linked, with upwards-only rent reviews.
- EPRA 'topped up' net initial yield of 6.71% as at 31 December 2021 (31 December 2020: 6.71%). The average net initial yield of our acquisitions to date was 7.5%.
- Invested in 16 care homes for net consideration of £61.9 million, further diversifying the portfolio and adding 780 beds. 12 of these homes have been initially invested in through a loan of £37.5 million to allow the operator, Holmes Care Group, to acquire the assets with put and call options for us to acquire the assets for £1 once regulatory approvals are received.
- Committed to forward fund a property in Norwich with 80 beds, on a pre-let basis. The development site was purchased in the year for £2.4 million.
- The development we forward funded in Hartlepool is due to complete in 2022.
- Welcomed a new tenant, Carlton Hall, to the Group's operators, giving us 13[4] tenants at the year end.
- The Group has grown its relationship with Holmes Care Group, contributing to the diversification of the tenant base and reducing exposure of contracted income from the Group's main tenant, Minster Care Group, to 41% (2020: 48%).
- Weighted average unexpired lease term ("WAULT") of 19.2 years at 31 December 2021 (31 December 2020: 20.0 years).

Sustainability - advancing our ESG agenda

- Completed EPC audit of the portfolio and assessed capital cost of improvements to achieve EPC band B.
- Commenced work on TCFD risk and opportunity analysis in preparation for full reporting.
- All new leases contain environmental obligations on tenants.
- Begun work on defining and measuring the social value of our investments.

Post-year end highlights

- Raised £40 million of gross proceeds from a placing of new ordinary shares.
- The Group completed the acquisition of two properties with 147 beds for £11.0 million in February 2022.
- The Group invested £11.1 million in two homes with 107 beds. The investment has initially been made by way of a loan to one of the Group's existing tenants, Welford, to acquire the assets with put and call options for us to acquire the assets once regulatory approvals are received.

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. The inclusion of profit on disposal of investment property was made in the current year to better reflect the underlying cash earnings of the Group. The prior year adjusted earnings figure has been restated.

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

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

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

5 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.

EPRA EPS and all other EPRA 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 on the Company's website: www.impactreit.uk.

NOTES:

Impact Healthcare REIT plc acquires, renovates, extends and redevelops high quality healthcare real estate assets in the UK and lets these assets on long-term full repairing and insuring leases to high-quality established healthcare operators which offer good quality care, under leases which provide the Company with attractive levels of rent cover.

The Company aims to provide shareholders with an attractive sustainable return, principally in the form of quarterly income distributions and with the potential for capital and income growth, through exposure to a diversified and resilient portfolio of UK healthcare real estate assets, in particular care homes for the elderly.

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 Company is targeting a dividend for the year to 31 December 2022 to increase by 2.0% to 6.54 pence per share*.

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.

Neither the content of the Company's website, nor the content on any website accessible from hyperlinks on its website for any other website, is incorporated into, or forms part of, this announcement nor, unless previously published by means of a recognised information service, should any such content be relied upon in reaching a decision as to whether or not to acquire, continue to hold, or dispose of, securities in the Company.

* 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.

RESULTS PRESENTATION

A Company presentation for investors and analysts will take place at 08:30am (UK) on the day via a live webcast and conference call.

To access the live webcast, please register in advance here:

https://www.lsegissuerservices.com/spark/ImpactHealthcareREIT/events/66e172be-4500-4633-9cf1-90cffbe35aa6

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 webcast presentation and slides will be available later in the day via the Company website: https://www.impactreit.uk/investors/reporting-centre/presentations/

Our purpose

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

Our values

Our core values are to:

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

Our business model

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

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

CHAIRMAN'S STATEMENT

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

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

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

Operational performance

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

At the year end, the Group's Property Investments were valued at £496.9 million, up 18.6% from £418.8 million on 31 December 2020, and we had investments in assets with 6,720 beds[1], giving us approximately 1.5% of a highly fragmented market. Our strategy is to secure further market share through consolidation and we see considerable scope to do so, while exercising strict capital discipline.

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

Our tenants

We have further diversified the Group's tenant base, adding Carlton Hall during the year, which gave us 13 tenants[2] at the year end. This diversification helps us to grow the business while spreading risk. We also look to grow with our tenants, by increasing the number of our homes they manage, which adds resilience to their businesses.

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

Financial performance

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

On both a basic and diluted basis, earnings per share (EPS) for the year was 9.41 pence (2020: 9.02 pence), EPRA EPS was 8.05 pence (2020: 7.25 pence) and Adjusted EPS was 6.68 pence (2020: 5.98 pence).

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

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

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

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

The Total accounting return for the year was 8.42%.

Financing
This was an important year for the evolution of the Group's debt financing, reflecting the growing maturity of the business. We put in place a new revolving credit facility with a major clearing bank, NatWest, and issued our first long-term debt in the institutional market, drawing down £37 million of £75 million being provided by two major UK insurers. The institutional debt has a weighted average term of 14 years and has an attractive fixed rate of interest, with a weighted average coupon of 2.967%. In parallel, we have reduced our more expensive Metro facility from £50 million to £30 million and extended the term of our HSBC facility by one year. These activities give the board further confidence that new sources of debt are readily available to the Group, as existing facilities start to mature from mid-2023.

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

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

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

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

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

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

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

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

Rupert Barclay Chairman
28 March 2022

1 Including forward-funded developments and the 12 care homes invested in through the loan to Holmes Care Group.
2 Including Croftwood and Minster, which are both part of the Minster Care Group.

INVESTMENT MANAGER'S Q&A

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

Q What has the pandemic changed in care homes?

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

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

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

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

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

Q Are your tenants focused on sustainability issues?

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

Q How are you progressing with your ESG strategy?

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

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

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

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

THE IMPACT OF COVID-19 ON CARE HOMES IN 2021

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

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

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

Over the past two years care home operators have also worked intensively to improve infection control measures and have received substantial support from government to do so. Between May 2020 and September 2021, the Adult Social Care Infection Control Fund provided £1.49 billion of ring-fenced funding for infection prevention and control, and a further £396 million for rapid testing in care settings. This fund has been extended until 31 March 2022, with an extra £388 million to help the care sector put in place crucial measures over the winter period. This brings the total ring-fenced funding for infection prevention and control to almost £1.75 billion and support for testing in care settings to almost £523 million.

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

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

MARKET GROWTH DRIVERS

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

1. The population is ageing

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

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

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

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

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

3. The market is fragmented

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

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

4. The number of people with dementia is rising

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

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

5. Fees have been rising faster than inflation

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

6. Government policy is increasing funding for social care

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

What these dynamics mean for our strategy

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

- act as a consolidator, growing our market share through further acquisitions that meet our strict investment criteria;

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

Investment case

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

1. A large and growing market

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

2. Risk-adjusted returns

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

3. Experienced and strategic management team

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

4. Strong cash generation and dividend growth

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

5. Adding value through asset management

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

6. Positioned for further accretive growth

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

OUR BUSINESS MODEL

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

How our business model helps to achieve our purpose

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

1. Build relationships

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

Link to purpose:

- Long-term partnerships with tenants

2. Identify assets

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

Link to purpose:

- Long-term partnerships with tenants
- Owning buildings

3. Appraise purchases

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

Link to purpose:

- Owning buildings
- Investing in buildings

4. Agree leases

5. Engage tenants

6. Optimise portfolio

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

Link to purpose:

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

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

Link to purpose:

- Long-term partnerships with tenants
- Investing in buildings

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

Link to purpose:

- Owning buildings

For further information see, Objectives and strategy; Sustainability, Principal risks and uncertainties; Governance

Our competitive advantages

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

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

1 deep knowledge of the sector is a critical advantage in assessing assets to acquire, selecting operators and identifying opportunities to add value through asset and portfolio management;

2 positive relationships with vendors and their agents, alongside existing and prospective tenants is core to our business. It enables us to deliver against stakeholder expectations including ensuring there is financial headroom to maintain and enhance the quality of care at the care homes. This proactive and flexible approach enables us to secure off market transactions and also succeed in competitive sales even if we are not the highest bid;

3 detailed development and asset management capability enables us to identify opportunities to enhance a care home before acquisition and work with tenants to develop new care homes; and

4 understanding of tenants' operations enables us to form supportive partnerships with them. These are crucial for sustainable value creation, and enables us to work with tenants to enhance the quality of care.

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

The output from our business model

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

Quality of buildings

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

Quality of care

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

Quality of cash flows

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

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

Delivering sustainable value

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

Tenants

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

Residents

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

Lenders

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

Shareholders

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

OBJECTIVES AND STRATEGY

Our objectives

Our targets are to deliver:

- a progressive dividend, with a total target dividend in respect of 2022 of 6.54 pence per share[1]; and
- an average Total accounting return of 9.0% per annum[1], with capital growth driven primarily by annual inflation-linked rent increases and active asset management, rather than relying on yield compression.

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

Our strategy

To achieve our value-creation objectives, we:

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

Strategy	Our progress in 2021
Investment strategy	
• We can invest in a range of healthcare real estate (see investment policy). • Market dynamics mean the care home sector currently offers the most attractive opportunities. • We manage risk by diversifying the portfolio by location and tenant, adding new tenants and increasing the number of homes operated by existing tenants. • We primarily acquire portfolios, which may include other healthcare real estate where this offers a strategic or portfolio management opportunity.	• Acquired four care homes with 286 beds, for total consideration of £24.4 million. • Invested in a portfolio of 12 care homes with 480 beds in Scotland, through an initial loan to the operator of £37.5 million, with the option to acquire the assets when regulatory approvals are received. • Exchanged contracts to acquire two properties with 147 beds, for total consideration of £11.0 million. • The Group's percentage of contracted income from its largest tenant, Minster Care Group, has reduced from 48% in 2020 to 41% in 2021, owing to the successful execution of the Group's tenant diversification strategy.
Portfolio management strategy	
• We categorise each of our assets as core, value-add or non-core. • We manage the balance between these categories, to deliver our target returns and identify assets for active management.	• Disposed of a 67-bed care home in Sheffield for £1.68 million, 29% above the purchase cost and 12% ahead of the carrying value at 30 June 2021.
Asset management and development strategies	

• We prioritise investment and development in our value-add portfolio and projects that enhance sustainability. • We selectively forward fund the development of new homes on a pre-let basis, to achieve a better yield on cost than acquiring standing assets, while adding new and highly sustainable assets to the portfolio.	• Began work on a range of initiatives including an extension to link Fairview House and Fairview Court in Bristol, adding a net 11 beds and improving the EPC rating to A. • Reached practical completion after the year end on the pre-let development we forward funded in Hartlepool. • Agreed to forward fund a new 80-bed care home in Norwich.

Financing strategy

• We fund the business through equity and debt, aiming to time any equity raises to minimise earnings dilution from holding cash ahead of investing it in income-producing assets. • Our gearing policy is to have a maximum Group LTV of 35% at the time of drawdown. We maintain a prudent balance sheet and expect average gearing to be no higher than 25%.	• Raised gross proceeds of £35 million through a share placing in April 2021. • Agreed a new £26 million RCF with NatWest, along with an accordion to increase the facility to £50 million. • Agreed £75 million of institutional fixed-rate, term debt and drew down the first tranche of £37 million. • Repaid £10 million of the Metro Bank term loan and £10 million of the Metro Bank RCF.

KEY PERFORMANCE INDICATORS

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

1. Total accounting return	**2. Dividends**	**3. EPRA earnings per share**	**4. EPRA 'topped up' net initial yield ("NIY")**
8.42%	**6.41p per share**	**8.05p per share**	**6.71%**
for the year ended 31 December 2021 (2020: 8.46%)	for the year ended 31 December 2021 (2020: 6.29p per share)	for the year ended 31 December 2021 (2020: 7.25p per share)	as at 31 December 2021 (31 December 2020: 6.71%)
Definition The change in the 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** Passing rent at the year end, less non-recoverable property expenses, divided by the market value of the property, increased to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired lease incentives.
Relevance to strategy 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** This is a key measure of underlying operating results, as well as the extent to which current dividend payments are supported by earnings.	**Relevance to strategy** NIY indicates the income generating capacity of the portfolio, in comparison to its market value.
Commentary	**Commentary**	**Commentary**	**Commentary**

Total accounting return comprised dividend paid in the year of 6.41p per share and NAV growth of 2.85p per share and totalled 8.42%, against our target of 9.0% per annum[1]	We met our dividend target for 2021. Our dividend target for 2022 is 6.54p[1], representing 2.03% growth.	EPRA EPS increased by 11.0%, giving 126% dividend cover.	The NIY at 31 December 2021 was 6.7%. The average initial yield of our acquisitions in the year was 6.9%.

5. NAV per share	**6. Gross loan to value ("LTV")**	**7. Weighted average unexpired lease term ("WAULT")**	**8. Total expense ratio ("TER")**
112.43p per share	**22.26%**	**19.2 years**	**1.55%**
as at 31 December 2021 (31 December 2020: 109.58p per share)	as at 31 December 2021 (31 December 2020: 17.77%)	as at 31 December 2021 (31 December 2020: 20.0 years)	for the year ended 31 December 2021 (2020: 1.53%)
Definition Net asset value based on the properties and other investment interests at fair value.	**Definition** The gross debt as a percentage of our gross asset value.	**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 NAV throughout the period.
Relevance to strategy Provides shareholders with the most relevant information on the fair value of the assets we have assembled and the liabilities we have incurred in doing so.	**Relevance to strategy** This is an important indicator of the level of gearing we have used to implement the strategy. Higher gearing can lead to higher returns but also increases downside risk.	**Relevance to strategy** The WAULT is a key measure of the long-term security of our income. Long lease terms underpin the quality of our income stream and hence our dividends.	**Relevance to strategy** The TER is a key measure of our operational efficiency.
Commentary NAV growth continued to be driven primarily by rental growth and the benefits of active asset management.	**Commentary** We have total facilities of £168 million and had drawn £114.5 million at the year end, giving an LTV of 22.3%. If the facilities were fully drawn, with no changes to the Group's current equity base, the LTV would be approximately 32.7%.	**Commentary** We continued to grant leases of around 25 years during 2021, offsetting some of the natural reduction in the portfolio WAULT.	**Commentary** TER has remained stable in the year, reflecting the benefits of tight cost control. The EPRA cost ratio, calculated by dividing our recurring administrative and operating costs by gross rental income, was 15.84% for the year (2020: 17.09%).

INVESTMENT MANAGER'S REPORT

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

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

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

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

Although the reduction in occupancy caused by the pandemic pushed rent cover down to a low of 1.68 times in mid-2020, it has since bounced back to exceed the level before the pandemic, at 1.95 times in Q4 2021. This reflects our care in setting sustainable rents, as noted above, and the fact that our homes are part of a critical social infrastructure, in the communities where our homes are located, which has contributed to strong fee growth for our tenants. The improvement in rent cover also reflects grant support from government to help operators improve their infection control measures, and which therefore covers tenants' additional costs in areas such as PPE.

Continued successful implementation of the strategy
The Group's strategy has four elements, as described in Objectives and Strategy. Below we explain how we have implemented the Group's investment, portfolio management and asset management strategies during the year. Information on how we have implemented the Group's financial strategy can be found under Equity financing and Debt financing.

Implementing the investment strategy
We have identified a substantial pipeline of opportunities to acquire assets that fit the Group's investment policy and would be accretive to returns. This has enabled us to acquire four care homes with 286 beds during the year, for a total consideration of £24.4 million, while adding a new tenant to take the total to 13[1]. The homes acquired have been let on leases of between 20 and 30 years with no breaks, and with upward-only annual rent reviews linked to inflation. The Group also exchanged contracts to acquire two care homes with 147 beds for a total consideration of £11.0 million.

In addition, the Group invested in a portfolio of 12 care homes in Scotland, to be operated by an existing tenant, Holmes Care Group. The investment has been made initially through a loan to Holmes of £37.5 million, allowing it to complete the acquisition of the assets and take immediate operational control, thereby avoiding a lengthy transition period while regulatory approvals are sought to register the operation of the homes in new legal entities. The structure also delivers other financial and operational efficiencies.

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

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

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

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

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

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

In addition to Fairview, the Group is working with tenants on a number of smaller refurbishment and extension projects, the majority of which will complete during 2022, and has a pipeline of further projects under consideration.

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

Forward-funded developments

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

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

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

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

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

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

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

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

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

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

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

The Group's cost ratios remained stable this year, reflecting the Group's tight cost control. The total expense ratio, which is the Group's recurring administrative and operating costs as a percentage of average net assets, was 1.55% (2020: 1.53%). The EPRA cost ratio, which is administrative and operating costs as a percentage of gross rental income, was 15.84% (2020: 17.1%).

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

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

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

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

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

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

Dividends
To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least

90% of the qualifying profits each year from the Group's qualifying rental business.

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

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

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

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

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

On 28 June 2021, we announced a new £26 million revolving credit facility with NatWest, at a margin of 190 basis points over SONIA. The facility has a fully documented accordion agreement to increase it to £50 million, subject to lender approval. At the same, time the Group's facility with Metro Bank was reduced from £50 million to £40 million.

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

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

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

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

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

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

	Expiry	Facility size £m	Drawn at 31 Dec 2021 £m
Metro Bank			
Term loan	Jun 2023	15.0	15.0
Revolving credit facility	Jun 2023	15.0	7.3
Clydesdale Bank			
Revolving credit facility	Mar 2024	25.0	10.0
HSBC			
Revolving credit facility	Apr 2024[1]	50.0	20.0
NatWest			

Revolving credit facility[3]	Jun 2024[2]	26.0	25.2
Private placement			
Senior secured notes	Dec 2035	37.0	37.0
Total as at 31 Dec 2021		168.0	114.5
Senior secured notes[4]	Jun 2035	38.0	-
Total		206.0	114.5

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

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

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

4 Due to be issued in June 2022.

At 31 December 2021:

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

Post balance sheet events

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

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

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

Acquisition pipeline and outlook

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

Impact Health Partners LLP Investment Manager
28 March 2022

INVESTMENT MANAGER

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PORTFOLIO MANAGEMENT

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

We categorise each asset as follows:

Core (65.3% by market value)
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 (31.7% by market value)
Value-add assets are candidates for asset management initiatives.

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

Non-core (3.0% by market value)
Non-core assets may be candidates for sale and are likely to have been acquired as part of larger portfolios.

- Limited lifespan homes with a high degree of functional obsolescence
- Higher alternative use value
- Could be geographically isolated

SUSTAINABILITY

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

Our approach to managing ESG issues
As a long-term investor, we are committed to working in partnership with our tenants to deliver positive environmental and social outcomes. This starts with the due diligence on new investment and development opportunities to ensure that current and potential environment performance forms a key part of our approval process. We work collaboratively with tenants to deliver improvements in existing buildings through asset management projects, for example through the installation of LED lighting. As well as reducing the carbon emissions of the building this also helps to lower running costs for our tenants. We also consider the long-term social value of our investments by ensuring buildings are leased on long-term sustainable rents to enable our tenants to provide high-quality care at affordable levels to meet the needs of residents, providing a vital service at the heart of the community.

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

Our core principles of sustainability	**E**	**S**	**G**
Conduct our business with integrity and in an open and ethical manner and require the same standards from our stakeholder relationships.	X	X	X
Operate in an environmentally sustainable manner and minimise the environmental impact of our operations including on climate change.	X	X	

Climate resilience - protecting the business from the future effects of climate change and anticipated low carbon transition policies.	X	X	X
Extend the economically useful lives of our buildings through monitoring our tenants' obligations and investing in refurbishment and reconfiguration.	X		
Disseminate the Group's policies to advisers, suppliers, occupiers and our key stakeholders.			X
Comply with all legal and regulatory requirements and, where feasible, exceed minimum compliance.	X	X	X
Promote diversity and inclusion throughout our activities.		X	X

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

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

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

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

As noted above, we remain focused on our long-term programme to enhance EPC ratings where necessary, with the resulting energy efficiency improvements contributing to our overall decarbonisation efforts. From 1 April 2023, under the Minimum Energy Efficiency Standards ("MEES") a lease on a commercial property in England and Wales cannot continue if the EPC rating is below E. Tightening regulations mean the minimum EPC requirement will increase to grade B by 2030 and C by 2027.

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

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

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

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

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

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

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

The Group supports its tenants in the creation of social value. Very little public sector capital is being invested in social care assets, so the required investment must come from the private sector. We provide capital that enables tenants to invest in the homes, improving the environment for both residents and staff and helping to future-proof the buildings. This in turn helps to give residents a sense of security and stability. Through our asset management initiatives, we also provide facilities for people with particular care needs, such as dementia. Adding beds to existing homes and developing new homes also provides much-needed extra capacity in the system, given the growing demand for care home places.

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

Committed to strong governance and transparency
The Corporate governance report details our governance framework and the board's role in leading and overseeing the business.

An important part of our approach is our commitment to transparency in our engagement with stakeholders and in our reporting.

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

Priorities for 2022
Our priorities for the coming year are to:

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

STAKEHOLDERS

The board has identified our key stakeholders as our tenants, their residents, our shareholders and our lenders. The ways we typically engage with our key stakeholders is set out in the table below. In the Section 172(1) statement we describe how stakeholder considerations affected our decisions as a board.

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

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

Employees and directors

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

At the year end, the board comprised six non-executive directors including the Chairman, of which four were male and two were female.

Our engagement activities

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 • Our financial strength • Our knowledge and understanding of their operations • Our ability to share best practices across our tenant base	We engage through a variety of mechanisms, including site visits and meetings. We engage with tenants on a weekly and monthly basis and in more depth each quarter, when we receive reports from them setting out their performance. We work with tenants to identify and implement acquisition and asset management opportunities, and share best practice where pandemic-related issues are highlighted. See our business model for more information. The board looks to meet new tenants when they are appointed, or within six months of appointment. During the year, the board held calls with the majority of tenants, to hear their experience of working with the Investment Manager and learn more about their opportunities and challenge.	One example of effective tenant engagement during 2021 was at Blackwell Vale, where the tenant was planning an initial refurbishment with further improvements to follow. We identified the opportunity for an enhanced extension, instead of this piecemeal approach. The tenant saw the benefit of this and we have worked with them to ensure the design, EPC performance and funding are aligned with our thinking. Completing the work as a single project will also benefit residents, through reduced disruption and an enhanced living environment.
Tenants' residents The quality of care our tenants provide to their residents is of prime importance to us. It is central to residents' quality of life and directly influences demand for our tenants' services, which in turn affects their ability to pay rent to us.	• The quality of care provided by tenants • The quality of their home, including regular repairs and maintenance • The security and stability of their home • Our ability to use asset management to make their home a better place to live and to support additional needs such as dementia.	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. We also pay close attention to tenants' programmes of repairs and maintenance, to ensure the homes remain good places to	Following a flood at Old Prebendal House, we supported residents by helping secure space at another tenant's newly completed development. We then worked with the tenant to repair the home and make improvements, while looking to determine the reasons for the flood and ensure enhanced measures are being put in place to ensure this is less likely to happen again. This work will complete in 2022.

		live. The board also carefully monitors CQC ratings, to ensure tenants are managing their homes properly and providing an appropriate resident experience.	
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 • 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 continued to offer meetings to major shareholders during 2021. Shareholders are also invited to speak to the Chairman and other directors when the Company is raising funds through share placings. The board is also kept up to date through regular investor relations reports. See relations with shareholders for more information.	Our engagement has highlighted the importance of ESG to our shareholders, helping to ensure that we keep it at the top of our priority list. The Investment Manager has enhanced its capability in the year to help deliver our ESG agenda, including our preparedness for TCFD, ensuring homes acquired in the year are at EPC B or can reach that rating, and that we have an asset management plan or a commitment from our tenants to deliver this. Examples include the capital expenditure we agreed with Electus, the plan to upgrade Blackwell Vale (see above) and the sign-off of the work at Fairview House and Fairview Court, which targets an EPC A. We are also assessing the physical risk to our assets from climate changes, for example through flooding.
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 • The strength and diversification of our income streams	The Investment Manager is responsible for engaging with our lenders. It does this through quarterly compliance reporting. Information about debt funding is provided as appropriate to the board, as part of its regular papers ahead of board meetings.	During 2021, we worked with HSBC and Clydesdale Bank on the transition to SONIA, ensuring this was agreed comfortably ahead of the deadline to avoid undue pressure on us or the banks. We listened to Metro Bank's desire to reduce its facility with us and took the opportunity to cancel £20 million of the facility during the year. The Group also explored the market appetite for some long-term fixed rate debt. Following significant interest, the Group ran a competitive process and identified an attractive partnership to provide a long-term private placement for £75 million which was signed just before the year end.

PRINCIPAL RISKS AND UNCERTAINTIES

Our risk assessment
The list below shows the Group's post-mitigation principal risks and uncertainties.

1. Changes to government social care policy

2. Infectious diseases

3. General economic conditions

4. Weakening care market

5. Default of one or more tenants

6. Underinvestment in care homes

7. Environmental regulation and impact of climate change

8. Ability to meet our debt financing obligations

9. Reliance on the Investment Manager

Political

1. Changes to government social care policy

Probability: Medium Change in the year: No change
Impact: Moderate

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

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

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

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

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

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

Market conditions

2. Infectious diseases

Probability: High Change in the year: Decrease
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 have reduced over the past 12 months with increased vaccinations and immunity amongst residents and their carers; however, the requirements to close care homes to new admissions when positive cases are identified has limited the ability of operators to increase occupancy.

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

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

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

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

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

3. General economic conditions

Probability: High Change in the year: Increase
Impact: Moderate

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

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

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

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

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

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

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

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

4. Weakening care market

Probability: Medium   Change in the year: No change
Impact: Moderate

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

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

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

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

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

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

Underperformance of assets

5. Default of one or more tenants

Probability: Medium   Change in the year: Decrease
Impact: Moderate

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

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

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

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

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

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

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

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

6. Underinvestment in care homes

Probability: Medium Change in the year: No change
Impact Moderate

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

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

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

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

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

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

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

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

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

7. Environmental regulation and impact of climate change

Probability: Medium Change in the year: No change
Impact: Low

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

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

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

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

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

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

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

Financing
8. Ability to meet our debt financing obligations

Probability: Medium Change in the year: No change
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 SONIA and bank base rates. Any adverse movements in these rates could significantly impair our profitability and ability to pay dividends to shareholders.

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

Mitigation

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

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

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

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

Corporate risk

9. Reliance on the Investment Manager

Probability: Low Change in the year: No change
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 a risk of potential conflicts with the Investment Manager and its initial tenant for the Seed Portfolio.

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

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

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

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

Other risks that we monitor closely

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

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

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

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

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

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

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

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

SECTION 172(1) STATEMENT

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

Taking account of our stakeholder views
Information on our stakeholder engagement, including how the board keeps itself informed about stakeholder views and how we take their views into account in decision making, can be found in the section on Stakeholders.

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

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

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

Background
The board was required to consider a new investment structure in terms of its alignment with the Group's investment policy, the security in place against the lending and the requirement for the Group to remain REIT compliant.

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

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

Agreement of long-term fixed-rate debt financing

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

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

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

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. During the year, the board considered and approved the issuance of senior loan notes with a weighted average term of 14 years, the acquisition of 16 care homes on leases of up to 30 years and the pre-let forward funding of a further home, on a 35-year lease.
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. During the year, all the board members took part in calls with the majority of the Group's tenants, to ascertain their views on a range of issues. The board also reviews reports of tenant performance at each of its scheduled meetings. Our primary suppliers are our service providers, principally the Investment Manager and Administrator. The board engages regularly with both, including at its regular board meetings. Information on our service provider relationships can be found in the Management Engagement Committee report.
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. The board has a strong focus on ESG matters and the strategy day in November 2021 included a session dedicated to ESG. The board will continue to work with the Investment Manager on developing the Group's sustainability strategy in 2022.
e) The desirability of the company maintaining a reputation for high standards of business conduct.	The directors are aware that potential tenants will only sign leases of 20 years or more with landlords they can trust and want to work in partnership with over the long term. The Group therefore relies on a reputation for high standards of business conduct. This is reflected in one of our core values, which is to always act openly and transparently with all of our stakeholders, as well as in our ESG policy. The directors continue to increase their direct engagement with stakeholders, such as the tenant call noted above, contributing to open and transparent relationships. High standards of conduct require a robust policy framework and we continue to develop our policies as the business matures. During 2021, the board approved a new Counterparty Credit Risk policy.
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. In addition, the Chairman and Senior Independent Director seek to engage with large shareholders directly and are available to smaller investors upon request to ensure all interests are understood. The large majority of the directors are independent and the board committees only comprise the independent directors. This ensures that all decisions taken reflect the interests of shareholders as a whole. The board recognises the importance of pre-emption rights and therefore ensured that shares issued during the February 2022 equity raise were initially offered to existing qualifying shareholders.

GOING CONCERN AND VIABILITY

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

- The risk of default of the Group's tenants, taking into consideration current rent cover, the movement in tenant's average weekly fees from residents and the level of grant funding being received. We review the occupancy performance of each tenant over the preceding 12 months and then run sensitivities by tenant including a drop in occupancy of 5%, while average weekly fees remain unchanged, increase in staff costs by 5% and other costs by 10%. We consider the effect these sensitivities have on rent cover and appraise the risk of default of each tenant as low, medium, or high.

- The risk of a fall in investment property values. This could be driven by a number of risks, as outlined in the Principal Risks and Uncertainties section. We review the resulting impact on the Group's debt covenants and the remedial action that could be taken, including the extent of the resources available to the Company to address any covenant breaches.

The Group's going concern model includes a variety of stress tests variations including reduction in investment property valuations, restriction of income from tenants (i.e. non payment of rent), the inclusion of increases in underlying costs and increases in interest rates. Reverse stress tests have been prepared to evaluate how much valuations or net income would need to fall to trigger defaults in each of the security pools. Mitigating actions including stopping dividend payments, corresponding reductions in costs as valuations fall and the use of unsecured properties to prevent covenant breaches were also considered. The sensitivity scenarios reviewed by the Audit Committee and the board include:

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

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

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

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

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

Viability statement
The period over which the directors consider it feasible and appropriate to report on the Group's viability is the five-year period to 31 March 2027. This period has been selected because it is the period that is used for the Group's medium-term business plans. The Board considers the resilience of projected liquidity, as well as compliance with debt covenants, under a range of inflation and property valuation assumptions. These scenarios include stress tests and reverse stress tests consistent with those described in the preceding paragraphs and include a consideration of mitigating actions that may be taken to avert or mitigate potential threats to viability.

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

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

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

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by

Rupert Barclay Chairman

28 March 2022

STATEMENTS OF RESPONSIBILITIES

Directors' statement of responsibilities
The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with UK adopted international accounting standards. The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless

they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a strategic report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations.

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 UK adopted international accounting standards and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the Management Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the board by:

Rupert Barclay Chairman
28 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	31 December 2021 Total £'000	31 December 2020 Total £'000
Gross rental income	5	36,398	30,818
Insurance/service charge income	5	496	374
Insurance/service charge expense	5	(496)	(376)
Net rental income		**36,398**	**30,816**
Administrative and other expenses	6	(5,766)	(5,264)
Profit on disposal of investment properties	12	308	153
Operating profit before changes in fair value of investment properties		30,940	25,705
Changes in fair value of investment properties	12	4,220	5,585
Operating profit		**35,160**	**31,290**
Finance income		72	49
Finance expense	8	(3,264)	(2,556)
Profit before tax		**31,968**	**28,783**
Tax charge on profit for the year	9	-	-

Profit and total comprehensive income (attributable to shareholders)		**31,968**	**28,783**
Earnings per share - basic and diluted (pence)	**10**	**9.41p**	**9.02p**

The results are derived from continuing operations during the year, the Group had no other comprehensive income in the current or prior year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Investment property	12	437,635	405,657
Interest rate derivatives	17, 24	94	7
Trade and other receivables	13	61,948	15,915
Total non-current assets		**499,677**	**421,579**
Current assets			
Trade and other receivables	13	1,557	89
Cash and cash equivalents	14	13,261	7,979
Total current assets		**14,818**	**8,068**
Total assets		**514,495**	**429,647**
Current liabilities			
Trade and other payables	15	(6,703)	(3,129)
Total current liabilities		**(6,703)**	**(3,129)**
Non-current liabilities			
Borrowings	16, 24	(110,907)	(74,213)
Trade and other payables	15	(2,641)	(2,784)
Total non-current liabilities		**(113,548)**	**(76,997)**
Total liabilities		**(120,251)**	**(80,126)**
Total net assets		**394,244**	**349,521**
Equity			
Share capital	20	3,506	3,189
Share premium reserve	20	305,672	271,362
Capital reduction reserve	20	24,077	24,077
Retained earnings		60,989	50,893
Total equity		**394,244**	**349,521**
Net Asset Value per ordinary share (pence)	**22**	**112.43p**	**109.58p**

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 28 March 2022 and are signed on its behalf by:

Rupert Barclay Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Cash flows from operating activities			
Profit for the year (attributable to equity shareholders)		31,968	28,783

	Notes	2021	2020
Finance income		(72)	(49)
Finance expense	8	3,264	2,556
Profit on disposal of investment properties	12	(308)	(153)
Changes in fair value of investment properties	12	(4,220)	(5,585)
Net cash flow before working capital changes		30,632	25,552
Working capital changes			
Increase in trade and other receivables		(9,183)	(5,433)
Increase in trade and other payables		2,133	904
Net cash flow generated from operating activities		**23,582**	**21,023**
Investing activities			
Purchase of investment properties	12	(26,900)	(85,978)
Proceeds on sale of investment property		1,676	886
Acquisition costs capitalised		(1,230)	(2,533)
Capital improvements		(1,050)	(1,723)
Loan advanced to operator for portfolio acquisition	13	(37,500)	-
Loan associated costs		(93)	-
Interest received		2	49
Net cash flow used in investing activities		**(65,095)**	**(89,299)**
Financing activities			
Proceeds from issue of shares	20	35,334	-
Issue costs of ordinary share capital	20	(707)	21
Borrowings drawn	16, 24	92,685	51,243
Borrowings repaid	16, 24	(54,507)	-
Loan arrangement fees paid	24	(1,844)	(1,156)
Loan commitment fees paid		(430)	(417)
Interest paid on bank borrowings		(1,864)	(1,261)
Dividends paid to equity holders	11	(21,872)	(19,965)
Net cash flow generated from financing activities		**46,795**	**28,465**
Net (decrease)/increase in cash and cash equivalents for the year		5,282	(39,811)
Cash and cash equivalents at the start of the year		7,979	47,790
Cash and cash equivalents at the end of the year		**13,261**	**7,979**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2021		**3,189**	**271,362**	**24,077**	**50,893**	**349,521**
Total comprehensive income		**-**	**-**	**-**	**31,968**	**31,968**
Transactions with owners						
Dividends paid	11	-	-	-	(21,872)	(21,872)
Share issue	20	317	35,017	-	-	35,334
Share issue costs	20	-	(707)	-	-	(707)
31 December 2021		**3,506**	**305,672**	**24,077**	**60,989**	**394,244**

For the year ended 31 December 2020

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2020		**3,189**	**271,341**	**24,077**	**42,075**	**340,682**
Total comprehensive income		**-**	**-**	**-**	**28,783**	**28,783**
Transactions with owners						
Dividends paid	11	-	-	-	(19,965)	(19,965)
Share issue costs	20	-	21	-	-	21
31 December 2020		**3,189**	**271,362**	**24,077**	**50,893**	**349,521**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2021 are prepared in accordance with UK adopted international accounting standards.

The financial information does not constitute the Group's financial statements for the periods ended 31 December 2021 or 31 December 2020, but is derived from those financial statements. Financial statements for the year ended 31 December 2020 have been delivered to the Registrar of Companies and those for the year ended 31 December 2021 will be delivered following the Company's Annual General Meeting. The auditors' reports on both the 31 December 2020 and 31 December 2021 financial statements were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

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 ongoing effect of the COVID-19 pandemic alongside the high inflationary environment has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of COVID-19 and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, see Going concern and viability 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 30 years with a tenant-only option to extend for one or two periods of ten years. At the inception of the lease, management do not judge any extension of the leases to be reasonably certain and, as such, do not factor any lease extensions into their considerations of lease incentives and their treatment.

2.2 Estimates

Fair valuation of investment property

The valuations have been prepared in accordance with the RICS Valuation - current edition of the global and UK standards as at the valuation date, or the RICS "Red Book" as it has become widely known.

The basis of value adopted is that of fair value being "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value.

The significant methods and assumptions used by the valuers in estimating the fair value of the investment properties are set out in note 12.

Gains or losses arising from changes in the fair values are included in the Consolidated statement of comprehensive income in the period in which they arise. In order to avoid double counting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or guaranteed minimum rent uplifts at the inception of the lease.

The nature of uncertainty regarding the estimation of fair value as well as sensitivity analysis has been considered as set out in note 12.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2021. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Segmental information

The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in healthcare assets. The board consider that these properties have similar economic characteristics and as a result these individual properties have been aggregated into a single reportable operating element. Reporting on customers with greater than 10% of revenue is included in note 5.

Rental income

Rental income arising on investment properties is included in gross rental income in the Consolidated statement of comprehensive income and is accounted for on a straight-line basis over the lease term. The change in the RPI is reviewed annually, with the minimum uplifts being taken into consideration when accounting for the rental income on a straight-line basis upon inception of the lease. The resulting asset or liability is reflecting as a receivable or payable in the Consolidated statement of financial position.

When a contract includes both lease and non-lease components, the Group applies IFRS 16 to allocate the consideration under the contract to each component.

The valuation of investment properties is increased or reduced by the total of the unamortised lease incentive and straight-line receivable or payable balances. Any remaining balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

The initial lease rental payments and guaranteed rental uplifts are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, except for where, at the inception of the lease, the directors have no certainty that the tenant will exercise that option.

Increased rental payments arising from the variation of the lease on capital improvement licences are spread evenly over the remaining lease term from the date of signing the licence agreement.

At each rent review, the uplift in rent is calculated in accordance with the terms of the lease. If greater than the minimum uplift then the uplift above and beyond the minimum recognised is calculated and recognised in the period in which it arises, with there being no rebasing of the amounts to recognise over the remaining lease.

Finance income

Finance income is accounted for on an accruals basis.

Service charges, insurance and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the year which the compensation becomes receivable. Service, insurance and other similar charges which are recoverable are included in gross rental income as the directors consider that the Group acts as principal in this respect.

Finance expenses

Finance expenses consist principally of interest payable, amortisation of loan arrangement fees and fair value movements on interest rate derivatives.

Loan arrangement fees are expensed over the term of the relevant loan. Interest payable and other finance costs which the Group incurs on bank facilities, are expensed in the period to which they relate.

Taxation

The Group is a REIT in relation to its property investments and is therefore exempt from tax, subject to the Group maintaining its REIT status.

Current tax is the expected tax payable on any non-REIT taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties

Investment properties consist of land and buildings (principally care homes) which are held to earn rental income and for capital growth potential.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Investment properties are recognised when the risk and rewards on the acquired properties passes to the Group on completion of the purchase. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Consolidated statement of comprehensive income in the period which they arise. Fair value measurement takes into consideration the improvements to the investment property during the year taking into account the future cash flows from increases in rent that have been contracted in relation to the improvement and discounting them at an appropriate rate to reflect the percentage of completion of the works being undertaken and the risk to completion that remains.

Gains and losses on disposals of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset. These are recognised in the Consolidated statement of comprehensive income in the period in which they arise.

Trade and other receivables

Trade receivables comprise mainly lease income receivable.

Trade and other receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost less impairment.

The Group applies the amortised cost basis as trade and other receivables are normally held with an objective to collect contractual cash flows, i.e. "held to collect"; which comprises payment of principal and interest on the principal amount outstanding.

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses ("ECLs") for trade receivables whereby the allowance or provision for all trade receivables are based on the lifetime ECLs.

The Group applies the general approach for initial recognition and subsequent measurement of ECL provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating ECLs. These stages are classified as follows:

Stage one
Twelve-month ECLs are recognised in profit or loss at initial recognition and a loss allowance is established. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month ECLs is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for ECLs).

Stage two
If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime ECLs are recognised and includes those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

Stage three
If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment at the reporting date), lifetime ECLs continue to be recognised. For financial assets in this stage, lifetime ECLs will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

The key estimation techniques including key inputs and assumptions regarding the Group's ECL provision for trade and other receivables are included as part of the Group's assessment of credit risk as set out in note 18.

Rent smoothing adjustments are not considered to be financial assets as the amounts are not yet contractually due. As such, the requirements of IFRS 9 (including the expected credit loss method) are not applied to those balances, although the credit risk is considered in the determination of the fair value of the related property.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and deposits with maturities of three months, or less, held at call with banks.

Dividends
Dividends are recognised when they become legally payable.

Share capital
The share capital relates to amounts subscribed for share capital at its par value.

Share premium
The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve
The capital reduction reserve is the result of the transfer of a portion of share premium into a distributable reserve.

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

Borrowings
All borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all borrowings are measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates within finance costs in the Consolidated statement of comprehensive income.

Interest rate derivatives
Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value.

Changes in fair value of interest rate derivatives are recognised within the Consolidated statement of comprehensive income in the period in which they occur.

The Group does not apply hedge accounting in accordance with IFRS 9.

4. New standards issued

4.1 New standards issued with effect from 1 January 2021
No new standards have been applied that have had a material effect on the financial position or performance of the Group.

4.2 New standards issued but not yet effective
There are no new standards issued but not yet effective that are expected to have a material effect on the Group.

5. Property income

	Year ended 31 December	Year ended 31 December

	2021 £'000	2020 £'000
Rental income cash received in the year	**30,472**	**25,936**
Rent received in advance of recognition [1]	143	(1,016)
Rent recognised in advance of receipt [2]	5,873	5,898
Rental lease incentive amortisation [3]	(90)	-
Gross rental income	**36,398**	**30,818**
Insurance/service charge income	496	374
Insurance/service charge expense	(496)	(376)
Net rental income	**36,398**	**30,816**

1This relates to movement in rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.

2 Relates to movement in both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in

the period to reflect the minimum uplift in rents over the term of the lease on a straight-line basis.

3 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

For accounting purposes, premiums received are reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all care home leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight-line basis.

Insurance/service charge relates to property insurance that is paid by the Group and recharged to tenants.

Minster Care Management Limited and Croftwood Care UK Limited are both part of the Minster Care Group Limited and together represent 48.4% of Gross rental income; Holmes Care Group Limited also represents more than 10% of the Gross rental income:

	2021	2020
Minster Care Management Limited	31.1%	35.1%
Croftwood Care UK Limited	17.3%	19.5%
Holmes Care Group Limited	11.6%	4.7%
Others	40.0%	40.7%

6. Administrative and other expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Investment Manager fees (see note 21)	3,858	3,548
Directors' remuneration (see note 7)	233	209
Auditor's fees		
- Statutory audit of the Company and Group (including subsidiaries)	203	174
- Additional fees payable to the auditor in respect of the prior year audit	-	32
- Agreed upon procedures for the Company's interim report	14	14
Total auditor's fees	217	220
Administration fees	472	450
Regulatory fees	20	42
Legal and professional	509	448
Other administrative costs	457	347
	5,766	5,264

The amounts shown above include irrecoverable VAT as appropriate.

7. Directors' remuneration

The Group had no employees in the current or prior period. The directors, who are key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents their fees for services provided during the year, are as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000

Rupert Barclay (Chairman)	46	46
Rosemary Boot	33	33
Philip Hall	33	33
Paul Craig	33	33
Amanda Aldridge	38	38
Chris Santer	21	-
	204	**183**
Employer's National Insurance	17	20
Recruitment fees - non-executive director	12	6
	233	**209**

Directors' remuneration payable at 31 December 2021 amounted to £8,860 (2020: £7,000).

8. Finance expenses

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest payable on bank borrowings		1,874	1,362
Commitment fee payable on borrowings		517	442
Amortisation of loan arrangement fee		960	665
Changes in fair value of interest rate derivatives	17	(87)	87
		3,264	**2,556**

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on borrowings, which were £114.5 million at 31 December 2021 (2020: £76.4 million). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility; in the year ended 31 December 2021 £2,444,000 was capitalised (2020: £1,156,000).

9. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the year ended 31 December 2021 and the year ended 31 December 2020, the Group did not have any non-qualifying profits except interest income on bank deposits.

Tax charge in the Consolidated statement of comprehensive income:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
UK corporation tax	**-**	**-**

Reconciliation of the corporation tax charge:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Profit before tax	**31,968**	**28,783**
Theoretical tax at UK corporation tax rate (19%)	6,074	5,469
Effects of:		
REIT exempt income	(5,256)	(4,424)
Non-taxable items	(818)	(1,045)
Total tax charge	**-**	**-**

Under the UK REIT rules within which the Group operates, capital gains on the Group's UK properties are generally exempt from UK corporation tax, provided they are not held for trading.

10. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to Ordinary equity holders of the Company by the time-weighted average number of ordinary shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Total comprehensive income (attributable to shareholders)	**31,968**	**28,783**
Adjusted for:		
- Revaluation movement	(12,896)	(10,467)
- Rental lease incentive	2,660	-

- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	6,016	4,882
Change in fair value of investment properties	(4,220)	(5,585)
Profit on disposal of investment property	(308)	(153)
Change in fair value of interest rate derivative	(87)	87
EPRA earnings	**27,353**	**23,132**
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(6,016)	(4,882)
Amortisation of lease incentives	90	-
Amortisation of loan arrangement fees	960	665
Profit on disposal of investment property	308	153
Adjusted earnings[2]	**22,695**	**19,068**
Average number of ordinary shares	339,705,743	318,953,861
Earnings per share (pence)[1]	**9.41p**	**9.02p**
EPRA basic and diluted earnings per share (pence)[1]	**8.05p**	**7.25p**
Adjusted basic and diluted earnings per share (pence)[1]	**6.68p**	**5.98p**

1 There is no difference between basic and diluted earnings per share.

2 The inclusion of profit on disposal of investment property is a change made in the current year to better reflect the cash earnings of the Group. The prior year adjusted earnings figure has been restated to include this adjustment.

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the changes in fair value of investment properties and interest rate derivatives, and removal of profit or loss on disposal of investment properties.

Adjusted earnings:
Adjusted earnings is used by the board to help assess the Group's ability to deliver a cash covered dividend from net income. The metric reduces EPRA earnings by other non-cash items credited or charged to the Group statement of comprehensive income including the effect of straight-lining of rental income from fixed rental uplift adjustments and amortisation of lease incentives and loan arrangement fees. The metric also adjusts for any one-off items that are not expected to be recurring.

Fixed rental uplift adjustments relate to adjustments to net rental income on leases with minimum uplifts embedded within their review profiles. The total minimum income recognised over the lease term is recognised on a straight-line basis and therefore not supported by cash flows during the early term of the lease, but this reverses towards the end of the lease.

No one-off costs were incurred in the current or prior year.

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

11. Dividends

	Dividend rate (pence per share)	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fourth interim dividend for the period ended 31 December 2019 (ex-dividend - 6 February 2020)	1.5425p	-	4,920
First interim dividend for the period ended 31 December 2020 (ex-dividend - 21 May 2020)	1.5725p	-	5,015
Second interim dividend for the period ended 31 December 2020 (ex-dividend - 20 August 2020)	1.5725p	-	5,015
Third interim dividend for the period ended 31 December 2020			

(ex-dividend - 5 November 2020)	1.5725p	-	5,015
Fourth interim dividend for the period ended 31 December 2020 (ex-dividend - 11 February 2021)	1.5725p	5,015	-
First interim dividend for the period ended 31 December 2021 (ex-dividend - 27 May 2021)	1.6025p	5,619	-
Second interim dividend for the period ended 31 December 2021 (ex-dividend - 5 August 2021)	1.6025p	5,619	-
Third interim dividend for the period ended 31 December 2021 (ex-dividend - 28 October 2021)	1.6025p	5,619	-
Total dividends paid		**21,872**	**19,965**

Total dividends paid in respect of the year	4.8075p	4.7175p
Total dividends unpaid but declared in respect of the year	1.6025p	1.5725p
Total dividends declared in respect of the year - per share	**6.41p**	**6.29p**

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

On 13 May 2021, the Company declared an interim dividend of 1.6025 pence per ordinary share for the period from 1 January 2021 to 31 March 2021 and was paid on 11 June 2021.

On 29 July 2021, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 April 2021 to 30 June 2021 and was paid on 27 August 2021.

On 15 October 2021, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 July 2021 to 30 September 2021 and was paid on 19 November 2021.

On 4 February 2022, the Company declared an interim dividend of 1.6025 pence per share for the period from 1 October 2021 to 31 December 2021 and will be paid on 11 March 2022.

12. Investment property

In accordance with the RICS "Red Book" the properties have been independently valued on the basis of fair value by Cushman & Wakefield, an accredited independent valuer with a recognised professional qualification. They have recent and relevant experience in the locations and categories of investment property being valued and skills and understanding to undertake the valuations competently. The properties have been valued on an individual basis and their values aggregated rather than the portfolio valued as a single entity. The valuers have used recognised valuation techniques in accordance with those recommended by the International Valuation Standards Committee and are compliant with IFRS 13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition including improvements effected during the year, rent coverage, location and comparable evidence.

The valuations are the ultimate responsibility of the directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

All corporate acquisitions during the year have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Opening value	418,788	318,791
Property additions	26,900	85,978
Property disposals[1]	(1,368)	(733)
Acquisition costs capitalised	1,311	2,677
Capital improvements	915	1,608
Revaluation movement	12,896	10,467

Closing value per independent valuation report	**459,442**	**418,788**
Guaranteed rent reviews debtor	(21,788)	(15,915)
Lease incentive debtor	(2,660)	-
Rent premium creditor	2,641	2,784
Closing fair value per Consolidation statement of financial position	**437,635**	**405,657**

1 In 2021 the carrying value of disposals was £1,368,000 (2020: £733,000), this combined with the profit on disposal of £308,000 (2020: £153,000) makes up the total net proceeds shown in the Consolidated statement of cash flows.

During the year, the Group acquired an additional five assets and disposed of one property.

The majority of the properties owned are freehold except for 11 properties which are long leasehold, eight of these are under a minimum of 999 year leases at a peppercorn rent and the remaining three are under 125 year leases at a peppercorn rent.

Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the consolidated financial statements:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revaluation movement	12,896	10,467
Rental lease incentive[1]	(2,660)	-
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(6,016)	(4,882)
Change in fair value of investment properties	**4,220**	**5,585**

1 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight-line basis. Rent premiums received are being reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 1% or 2% on all leases. These uplifts are also incorporated to recognise income on a straight-line basis. The elements are reported in the table below. Capital improvements funded by the Group are undertaken under Deeds of Variation to the leases. The period between signing the Deed of Variation and rent commencing is a rent-free period and rent is recognised on a straight-line basis from the signing of the Deed of Variation.

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rent received in advance of recognition[1]	5	143	(1,016)
Rent recognised in advance of receipt[2]	5	5,873	5,898
Rental income arising from recognising rental premium and future guaranteed rent uplifts		**6,016**	**4,882**

1 Rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.

2 Relates to both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to

reflect the minimum 1% or 2% uplift in rents over the term of the care home lease on a straight-line basis.

Descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of fair value which is defined in the RICS "Red Book" as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value. The valuation takes into consideration the current market conditions including improvements effected during the year, annual rentals, lease lengths, property condition, rent coverage and location.

Unobservable inputs

These include: estimated rental value ("ERV") based on market conditions prevailing at the valuation date; estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); a change in lease term; and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term or improvement in physical condition would increase the fair value.

Sensitivity of measurement of significant unobservable inputs
Initial yields range from 3.25% to 12.50% across the portfolio.

A 0.25% movement of the net initial yield would have approximately a £16.3 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £4.6 million impact on the investment property valuation.

Fair value hierarchy
The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 "Fair Value Measurement". This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

Level 1 - unadjusted quoted prices in active markets;

Level 2 - observable inputs other than quoted prices included within level 1; and

Level 3 - unobservable inputs.

The following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value:					
Investment properties	31 December 2021	437,635	-	-	437,635
Investment properties	31 December 2020	405,657	-	-	405,657

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

13. Trade and other receivables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Non-current		
Rent recognised in advance of receipt	21,788	15,915
Rental lease incentive	2,660	-
Loan receivable	37,500	-
	61,948	15,915
Current		
Loan interest receivable	70	-
Loan associated costs	748	-
Prepayments	739	89
	1,557	89
	63,505	**16,004**

During the year, the Group entered into a loan agreement with the Holmes Care Group, in which the Group provided a term loan facility of £37,500,000 which bears interest at 8.57% per annum. The funds were lent to Holmes Care Group to acquire a portfolio of properties. Upon certain conditions being met, a put and call option for the Group to acquire this portfolio of assets for £1 is exercisable. This can happen no sooner than June 2022.
No impairment losses have been recognised during the year (refer to note 18).

14. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Cash and cash equivalents	**13,261**	**7,979**

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

15. Trade and other payables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Non-current		
Rent received in advance of recognition	2,641	2,784
Current		
Trade and other payables	2,859	1,338
Interest payable	474	377
Withholding tax payable - (PID Dividends)	505	226

Rental received in advance	1,427	139
Rental deposits	443	-
Capital improvements payable	995	1,049
	6,703	3,129
	9,344	**5,913**

To reconcile Working capital changes, per the Consolidated statement of cash flows, the Interest payable and Capital improvements payable movements are excluded as these are allocated to Financing activities and Investing activities respectively.

16. Borrowings

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

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
At the beginning of the year	76,370	25,127
Borrowings drawn in the year	92,685	51,243
Borrowings repaid in the year	(54,507)	-
Total bank borrowings drawn[1]	**114,548**	**76,370**
Total bank borrowings undrawn	**53,452**	**48,630**

1 Total bank borrowings drawn are equal to its fair value

The Group signed a £50 million five-year loan facility with Metro Bank PLC (the "Metro Facility") on 15 June 2018; this facility terminates on 15 June 2023. The Metro Facility initially had two elements: a term loan of £25 million (the "Term Loan") and a revolving credit facility of £25 million (the "RCF"). During 2021 the Group repaid £10 million of the term loan and reduced the RCF by £10 million following the release of certain properties from Metro Facility's security pool, which have been used as security under the new NatWest Facility and the long-term senior secured notes. These amounts are not able to be redrawn. As at 31 December 2021 the balance of the Term Loan was £15 million (31 December 2020: £25 million). As at 31 December 2021 £7.3 million was drawn under the RCF (31 December 2020: £20.4 million).

The Metro Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five-year Term Loan and amounts drawn under the RCF can be repaid without penalty. The loan is secured over a portfolio of 38 care homes held in wholly owned Group companies (Impact Property 1 Limited (IP1) and Impact Property 2 Limited (IP2)). These assets had a closing value per the independent valuation report of £109.4 million as at 31 December 2021 (2020: £178.2 million). The lender also holds charges over the shares of the subsidiaries and intermediate holding companies.

On 6 March 2019, the Group agreed a five-year revolving credit facility of £25 million (the "Clydesdale Facility") with Clydesdale Bank PLC ("Clydesdale"); this facility terminates on 6 March 2024. In 2021 the Group drew down £5 million (2020: £10 million) from the Clydesdale Facility and repaid £5 million (2020: £nil). As at 31 December 2021 the Group had drawn £10 million (2020: £10 million) from the Clydesdale Facility.

The Clydesdale Facility had a margin of 225 or 250 basis points over three-month LIBOR, depending on the loan to value ratio of the 15 properties over which the Group has granted security to Clydesdale as security for the loan held in a wholly owned Group company (Impact Property 3 Limited (IP3)). These assets had a closing value per the independent valuation report of £68.7 million as at 31 December 2021 (2020: £67.7 million). From January 2022, the Clydesdale Facility has a margin of 225 or 250 basis points over three-month SONIA, with 12 basis point credit adjustment spread.

On 6 April 2020, the Group agreed a new three-year revolving credit facility of £50 million (the "HSBC Facility") with HSBC UK Bank Plc ("HSBC") with the option of two one-year extensions subject to HSBC approval. The Group drew down £15 million (2020: £21 million) from the HSBC Facility and repaid £16 million (2020: £nil) in 2021. As at 31 December 2021 the Group had drawn £20 million (2020: £21 million) from the HSBC Facility.

The HSBC Facility has a margin of 200 or 205 basis points over one-month SONIA, depending on the loan to value ratio of the 22 properties over which the Group has granted security to HSBC as security for the loan held in a wholly owned Group company (Impact Property 4 Limited (IP4)). These assets had a closing value per the independent valuation report of £114.1 million as at 31 December 2021. The HSBC Facility previously had a margin of 195 or 205 basis points over one-month LIBOR.

On 25 June 2021, the Group agreed a new revolving credit facility of £26 million (the "NatWest Facility") with National Westminster Bank Plc ("NatWest"). The Group drew down £25 million (2020: £0.3 million) from the NatWest Facility and made no repayments (2020: £nil) in 2021. As at 31 December 2021 the Group had drawn £25.3 million (2020: £0.3 million) from the NatWest Facility.

The three-year NatWest Facility has a margin of 190 basis points per annum over SONIA. depending on the loan to value ratio of the 16 properties over which the Group has granted security to NatWest as security for the loan held in a wholly owned Group company (Impact Property 7 Limited (IP7)). These assets had a closing value per the independent valuation report of £61.2 million as at 31 December 2021.

On 21 December 2021, the Group agreed a new long-term debt financing in the form of senior secured notes of £75 million with two large institutional investors. The Group has agreed to issue £75 million of senior secured notes ("Notes"), comprising two tranches with a weighted average coupon of 2.967%, and a weighted average maturity of 14 years. The first tranche comprises of £37 million of Notes at a fixed coupon of 2.932% which were issued on 21 December 2021 and mature in December 2035. The second tranche comprises of £38 million of Notes at a fixed coupon of 3.002% which will be issued on 20 June 2022 and mature in June 2035. The debt is secured over a portfolio of 14 care homes held in a wholly owned Group company (Impact Property 8 Limited (IP8)). These assets had a closing value per the independent valuation report of £82.5 million as at 31 December 2021. The debt has been guaranteed by Impact Healthcare REIT plc.

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

	IP1 and IP2	IP3	IP4	IP7	IP8
Loan to value does not exceed	35%	55%	55%	50%	55%
Interest cover based on passing rent from the ring-fenced properties must exceed	200%	325%	250%	250%	250%

The Group has been in compliance with all of the financial covenants of the loan facilities as applicable throughout the year covered by these financial statements.

Any fees associated with arranging the borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Borrowings drawn: due after more than one year	**114,548**	**76,370**
Arrangement fees - brought forward	(2,157)	(1,666)
Arrangement fees incurred during the year	(2,444)	(1,156)
Amortisation of loan arrangement fees	960	665
Non-current liabilities: borrowings	**110,907**	**74,213**

Maturity analysis of borrowings:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Repayable between one and two years	22,286	-
Repayable between two and five years	55,262	76,370
Repayable in over five years	37,000	-
Total	**114,548**	**76,370**

The weighted average term of the Group's committed facilities is 4.7 years (2020: 2.5 years).

17. Interest rate derivatives

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
At the beginning of the year	7	94
Change in fair value of interest rate derivatives	87	(87)
	94	**7**

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group entered into an interest rate cap with the notional value of £25 million and a strike rate of 1% effective from 21 June 2018 with a termination date of 15 June 2023. The fair value of the interest rate cap is based on a floating reference of one-month SONIA.

At 31 December 2021, the Group has loans of £77.5 million (2020: £76.4 million) which are exposed to interest rate risk.

18. Financial instruments and financial risk management

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash held at bank. The Group's other principal financial assets and liabilities are borrowings and interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio and hedge against the interest rate risk arising.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Financial assets at amortised cost:		
Loan receivable including accrued interest	37,570	-
Cash and cash equivalents	13,261	7,979
Financial assets at fair value:		
Interest rate derivative	94	7
Financial liabilities at amortised cost:		
Borrowings	110,907	74,213
Trade and other payables	4,711	2,764

The interest rate derivative is the only financial instrument that is measured at fair value through the Group's Consolidated statement of comprehensive income.

The following table provides the fair value measurement hierarchy for the interest rate derivative:

	Date of Valuation	Total £'000	Level 1* £'000	Level 2* £'000	Level 3* £'000
Assets measured at fair value:					
Interest rate derivative	31 December 2021	-	-	94	-
Interest rate derivative	31 December 2020	-	-	7	-

*The fair value categories are defined in note 12.

Risk management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The board oversees the management of these risks. The board reviews and agrees policies for managing each of these risks that are summarised below.

Market risk (including interest rate risk)

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices. The financial assets held by the Group that are affected by interest rate risk are principally the Group's cash balances and the interest rate derivative.

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates on the Group's cash balances would result in an increase of £66,310 (2020: £39,895) or a decrease of £66,310 (2020: £39,895).

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group entered into an interest rate derivative to reduce its exposure to interest rate risk on the Term Loan (refer to note 17). A sensitivity analysis is performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates on the Group's unhedged borrowings would result in an increase of £447,740 (2020: £256,850) or a decrease of £447,740 (2020: £256,850).

The loan of £37.5 million, granted to one of the Group's operators, has a fixed interest rate and is not exposed to market risk.

All of the Group's LIBOR linked financial instruments had transitioned to SONIA linked rates by the reporting date. The margin above SONIA has been set at a rate to be equivalent in terms of risk and return to the rate above LIBOR that was in place previously and therefore management do not consider there to be any significant change in the risks to which the Group is exposed as a result of IBOR reform.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risks from its leasing activities. Credit risk is reduced by requiring tenants to pay rentals in advance under their lease obligations. The credit quality of the tenant is also assessed based at the time of entering into a lease agreement thereby reducing credit risk. Outstanding trade receivables are regularly monitored. There are no outstanding trade receivables at 31 December 2021.

Credit risk also arises with the cash balances held with banks and financial institutions. The board believes that the credit risk on current account cash balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies. The impairment loss identified on cash balances was considered immaterial.

The loan of £37.5 million, granted to one of the Group's operators, is secured against the property portfolio it was used to purchase. Periodic valuations of these properties are carried out to assess if the loan is credit impaired. There has been no deterioration in credit quality since initial recognition and the 12-month expected credit losses are nil.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by regular monitoring of forecast and actual cash flows by the AIFM ensuring the Group has appropriate levels of cash and available drawings to meet liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	< 3 months £'000	3-12 months £'000	1-2 years £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2021:						
Borrowings	-	-	22,286	55,262	37,000	114,548
Interest and commitment fees on borrowings	629	2,544	3,393	3,527	19,400	29,493
Trade and other payables	4,771	-	-	-	-	4,771
31 December 2020:						
Borrowings	-	-	-	76,370	-	76,370
Interest and commitment fees on borrowings	405	1,248	1,658	796	-	4,107

Trade and other payables	2,764	-	-	-	-	2,764

19. Capital management

The objective of the Group is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK and lease those assets, under full repairing and insuring leases, primarily to healthcare operators providing residential healthcare services. This provides ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes.

The board has responsibility for ensuring the Group's ability to continue as a going concern and continues to qualify for UK REIT status. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the board on a regular basis.

The Company achieved its increased targeted aggregate dividend of 6.41 pence per share for the year ended 31 December 2021 and its target aggregate dividend of 6.29 pence per share for the year ended 31 December 2020.

As at 31 December 2021, the Group remains within its maximum loan to value ("LTV") covenant which is 35% of gross asset value of the Group as a whole. The Group has a further £53.5 million RCF facilities available from which it can draw.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. Capital consists of ordinary share capital, other capital reserves and retained earnings.

20. Share capital, share premium and capital reduction reserve

	Shares in issue Number	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Total £'000
As at 31 December 2019	**318,953,861**	**3,189**	**271,341**	**24,077**	**298,607**
Adjustment to share issue costs	-	-	21	-	21
As at 31 December 2020	**318,953,861**	**3,189**	**271,362**	**24,077**	**298,628**
Share issue	31,690,327	317	35,017	-	35,334
Share issue cost	-	-	(707)	-	(707)
As at 31 December 2021	**350,644,188**	**3,506**	**305,672**	**24,077**	**333,255**

The Company had 350,644,188 shares of nominal value of 1 pence each in issue at the end of the year (31 December 2020: 318,953,861).

On 6 May 2021, the Company issued a further 31,690,327 ordinary shares at a price of 111.5 pence per ordinary share raising gross proceeds of £35,334,715.

21. Transactions with related parties

Investment Manager

The fees calculated and paid for the year to the Investment Manager were as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Amounts payable to Impact Health Partners LLP:		
Net fee	3,858	3,548
Gross fee	**3,858**	**3,548**

For the year ended 31 December 2021 the principals and Finance Director of Impact Health Partners LLP, the Investment Manager, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the Finance Director of Impact Health Partners LLP and they own 3.14%, 0.35% and 0.02% respectively (either directly, with related parties or through a wholly owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. Mr Patel also (directly and/or indirectly) holds a majority 72.5% stake in Minster Care Group Limited "MCGL". Mr Cowley also holds a 20% interest in MCGL. 48% of the Group's rental income was received from MCGL or its subsidiaries. A trade receivable of £nil was outstanding at the year end (2020: £nil).

During the year the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £701,160 (2020: £680,990); Andrew Cowley £74,140 (2020: £55,385) and David Yaldron £5,319 (2020: £4,359).

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Quilter Investors, which has an interest in 56,808,553 ordinary shares of the Company through funds under management. The remaining directors who are shareholders in the Company do not hold significant interest in the ordinary share capital of the Company.

During the year the directors, who are considered key management personnel, received the following dividends from the Company: Rupert Barclay £11,694 (2020: £11,474); Rosemary Boot £1,914 (2020: £1,878); Chris Santer £201 (2020: £nil) and Philip Hall £1,914 (2020: £1,878). In addition, funds managed by Paul Craig received dividends from the Company of £3,582,078 (2020: £3,385,012).

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

Minster Care Group Limited ("MCGL")

MCGL, a tenant of the Group, is considered a related party as it is majority owned by the principals of the Investment Manager. As at 31 December 2021 the Group leased 60 properties to MCGL (2020: 59), all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In 2021 the Group entered one new lease with MGCL for a rent of £414,000 (2020: one new lease for a rent of £225,000) and disposed of no properties let to MCGL (2020: disposed of one property let to MGCL, the lease, which was subject to annual rent of £61,000, was cancelled with 17 years remaining term). In 2021, the Group paid a performance-related deferred payment on one property of £2.0 million in return for a £160,000 increase in rent (2020: no deferred payments made). In 2021, the Group spent £0.2 million on approved capital expenditure, which will be rentalised at between 7-9% after completion of the works (2020: £0.5 million). These transactions were fully compliant with the Company's related party policy.

22. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the Consolidated statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA updated their guidance on NAV measures in October 2019, giving three new NAV measures to report, effective for periods commencing on or after 1 January 2020, see pages 120-125 for further detail. The Group has chosen to adopt EPRA net tangible assets ("NTA") as its primary EPRA NAV measure as it most closely aligns with the business practices of the Group. The adjustments between NAV and NTA are reflected in the following table:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Net assets per Consolidated statement of financial position	394,244	349,521
Fair value of derivatives	(94)	(7)
EPRA NTA	394,150	349,514
Issued share capital (number)	350,644,188	318,953,861
Basic NAV per share	**112.43p**	**109.58p**
EPRA NTA per share	**112.41p**	**109.58p**

23. Operating leases

The following table sets out the maturity analysis of leases receivables, showing the undiscounted lease payments under non-cancellable operating leases receivable by the Group:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Year one	33,281	29,183
Year two	33,904	30,746
Year three	34,538	31,457
Year four	35,034	32,148
Year five	35,693	32,570
Onwards	612,974	571,176
Total	**785,424**	**727,280**

The Group's investment properties are leased to tenants under the terms of property leases that include upward-only rent reviews that are performed annually. These are annual inflation uplifts linked to either CPI or RPI. RPI linked leases have a floor and cap at either 2% and 4% or 1% and 5%.

24. Reconciliation of liabilities to cash flows from financing activities

	Notes	Borrowings £'000	Interest rate derivative £'000	Total £'000
As at 1 January 2020		23,461	(94)	23,367
Cash flows from financing activities:				
Borrowings drawn	16	51,243	-	51,243
Loan arrangement fees paid	16	(1,156)	-	(1,156)
Non-cash movements:				
Amortisation of loan arrangement fees	16	665	-	665
Fair value movement	17	-	87	87
As at 31 December 2020		**74,213**	**(7)**	**74,206**
Cash flows from financing activities:				
Borrowings drawn	16	92,685	-	92,685
Borrowings repaid	16	(54,507)	-	(54,507)
Loan arrangement fees paid	16	(1,844)	-	(1,844)
Non-cash movements:				
Amortisation of loan arrangement fees	16	960	-	960

Fair value movement	17	-	(87)	(87)
Loan arrangement fees accrued		(600)	-	(600)
As at 31 December 2021		**110,907**	**(94)**	**110,813**

25. Capital commitments
At 31 December 2021 the Group had committed capital expenditure on two forward-funded developments of new properties and on capital improvements to 13 existing properties, in total this amounted to £19.8 million.

The Group has committed to deferred payment agreements on two investments in return for increased rent based on trading performance. As at 31 December 2021 the total capital commitment for these deferred payments was estimated at £6.5 million.

The Group had a further £11.0 million committed to the acquisition of portfolio of two properties which was exchanged during the period and completed in February 2022.

26. Contingent liabilities
Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated as £5.4 million (31 December 2020: £5.0 million) on the net purchase price of the assets acquired in corporate acquisitions over the preceding three years.

27. Controlling parties
The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

28. Subsequent events
In February 2022, the Company issued 35,087,720 new ordinary shares at an issue price of 114 pence per share raising gross proceeds of £40.0 million.

In February 2022, the Group completed the acquisition of two care homes in Northern Ireland, with 147 registered beds, for consideration of £11.0 million. There properties were leased to an existing tenant, Electus, for initial annual rent of £854,500.

In March 2022, the Group invested in two homes in Nottinghamshire with 107 beds. The investment has initially been made by way of an £11.1 million loan to one of the Group's existing tenants, Welford, allowing it to complete the acquisition of these two homes. Upon receipt of certain regulatory approvals, a put and call option for the Group to acquire these homes for consideration of £1 becomes exercisable.

In March 2022, the Group exercised its second one-year extension option on its £50 million RCF with HSBC, bringing the expiry of the facility to April 2025.

The following rent reviews took place in the period between year end and the date of this report:

(i) on 3 March 2022, in relation to portfolio of three assets let to Silverline;

(ii) on 7 March 2022, in relation to portfolio of 59 assets let to Minster Care Group;

(iii) on 10 March 2022, in relation to three assets let to MMCG;

(iv) on 21 January 2022 and 16 March 2022, in relation to two assets let to Prestige; and

(v) on 18 March 2022, in relation to two assets let to the NHS.

Rent reviews were linked to the annual RPI over the 12 months up to the rent review date, with a floor of 2% and a cap of 4% for Minster Care Group, Prestige, Silverline and MMCG. The two properties let to the NHS had an annual consumer price index-linked rent review. These rent reviews have contributed £0.7 million to contracted rent.

The Group has paid £3.1 million of capital expenditure in relation to £19.8 million of committed capital expenditure outstanding as at 31 December 2021.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.

Company statement of financial position

As at 31 December 2021

Company Registration Number: 10464966

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Investment in subsidiaries	6	392,486	369,371
Total non-current assets			
		392,486	**369,371**
Current assets			
Trade and other receivables	7	7,828	7,587

Cash and cash equivalents	8	10,336	6,806
Total current assets		**18,164**	**14,393**
Total assets		**410,650**	**383,764**
Current liabilities			
Trade and other payables	9	(25,490)	(47,863)
Total liabilities		**(25,490)**	**(47,863)**
Total net assets		**385,160**	**335,901**
Equity			
Share capital	10	3,506	3,189
Share premium reserve	10	305,672	271,362
Capital reduction reserve	10	24,077	24,077
Retained earnings		51,905	37,273
Total equity		**385,160**	**335,901**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit attributable to the parent company for the year ended 31 December 2021 amounted to £36,504,000 (2020: profit of £48,539,000).

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022 and are signed on its behalf by:

Rupert Barclay Chairman

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

Company statement of changes in equity

For the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2021		**3,189**	**271,362**	**24,077**	**37,273**	**335,901**
Total comprehensive income		-	-	-	36,504	36,504
Transactions with owners						
Dividends paid	5	-	-	-	(21,872)	(21,872)
Share issue	10	317	35,017	-	-	35,334
Share issue costs	10	-	(707)	-	-	(707)
31 December 2021		**3,506**	**305,672**	**24,077**	**51,905**	**385,160**

For the year ended 31 December 2020

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2020		**3,189**	**271,341**	**24,077**	**8,699**	**307,306**
Total comprehensive income		-	-	-	48,539	48,539
Transactions with owners						
Dividends paid	5	-	-	-	(19,965)	(19,965)
Share issue costs	10	-	21	-	-	21
31 December 2020		**3,189**	**271,362**	**24,077**	**37,273**	**335,901**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Basis of Preparation

General information

The financial statements for the year ended 31 December 2021 are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and in accordance with the Companies Act 2006, with comparatives presented for the year ended 31 December 2020.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

In preparing the separate financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

A reconciliation of the number of shares outstanding at the beginning and end of the period has not been presented as the reconciliations of the Group and the parent company would be identical;

No statement of cash flows has been presented for the parent company;

Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;

The requirement to present related party disclosures between the Company and fellow subsidiaries where ownership is all 100%; and

No disclosures have been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

Convention

The financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the directors consider that the Company has adequate resources to continue in operational existence for the next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The ongoing effect of the COVID-19 pandemic alongside the high inflationary environment has been considered by the directors. The directors have reviewed the forecasts for the Company taking into account the impact of COVID-19 and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, see Going concern and viability report for further detail.

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

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

The most significant estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings. The nature, facts and circumstance of the investment are taken into account in assessing whether there are any indications of impairment. Provisions provided reflect any reduction in net asset value of subsidiaries in the year.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Company will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits.

Dividends

Dividends are recognised when they become legally payable.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

The capital reduction reserve is the result of the transfer of a portion of share premium into a distributable reserve.

Trade and other payables

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

Investments in subsidiaries

The investments in subsidiary companies are included in the Company's statement of financial position at cost less provision for impairment.

4. Taxation

The Company is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however, will continue to be subject to corporation tax.

Tax charge included in total comprehensive income:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000

UK corporation tax	**-**	**-**

5. Dividends

Details of dividends paid by the Company are included in note 11 to the consolidated financial statements.

6. Investment in subsidiaries

	31 December 2021 £'000	31 December 2020 £'000
At the beginning of the year	369,371	242,990
Cost of investments acquired through share purchases	23,115	126,381
At the end of the year	**392,486**	**369,371**

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ("Propco 1")*	Real Estate Investment	England and Wales	100
Impact Property 2 Limited ("Propco 2")*	Real Estate Investment	England and Wales	100
Impact Property 3 Limited ("Propco 3")*	Real Estate Investment	England and Wales	100
Impact Property 4 Limited ("Propco 4")*	Real Estate Investment	England and Wales	100
Impact Property 5 Limited ("Propco 5")*	Real Estate Investment	England and Wales	100
Impact Property 6 Limited ("Propco 6")*	Real Estate Investment	England and Wales	100
Impact Property 7 Limited ("Propco 7")*	Real Estate Investment	England and Wales	100
Impact Property 8 Limited ("Propco 8")*	Real Estate Investment	England and Wales	100
Impact Finance 1 Limited ("Finance 1")*	Financing company	England and Wales	100
Impact Finance 2 Limited ("Finance 2")*	Financing company	England and Wales	100
Impact Finance 3 Limited ("Finance 3")*	Financing company	England and Wales	100
Impact Finance 4 Limited ("Finance 4")*	Financing company	England and Wales	100
Impact Finance 5 Limited ("Finance 5")*	Financing company	England and Wales	100
Impact Holdco 1 Limited ("Holdco 1")	Investment holding company	England and Wales	100
Impact Holdco 2 Limited ("Holdco 2")	Investment holding company	England and Wales	100
Impact Holdco 3 Limited ("Holdco 3")	Investment holding company	England and Wales	100
Impact Holdco 4 Limited ("Holdco 4")	Investment holding company	England and Wales	100
Impact Holdco 5 Limited ("Holdco 5")	Investment holding company	England and Wales	100
Roseville Property Limited*#	Property holding company	England and Wales	100
Sandbanks Property Redcar Limited*#	Property holding company	England and Wales	100
Cardinal Healthcare (UK) Ltd*#	Property holding company	England and Wales	100
Cholwell Care (Nailsea) Limited*#	Property holding company	England and Wales	100
Barham Care Centre Limited*#	Property holding company	England and Wales	100
Baylham Care Centre Limited*#	Property holding company	England and Wales	100
Butterfly Cumbria Properties Limited*	Property holding company	England and Wales	100
The Holmes Care Holdings Limited*#	Property holding company	England and Wales	100
Hollyblue Healthcare (Countrywide) Limited*#	Property holding company	England and Wales	100
Hollyblue Healthcare (Ulster) Limited*#	Property holding company	England and Wales	100
Tower Bridge Homes Care Limited*#	Property holding company	England and Wales	100
The Holmes Care Group GB Limited*#	Property holding company	England and Wales	100
Lakewood Limited*#	Property holding company	England and Wales	100
The Holmes Care (Greenock) Limited*#	Property holding company	England and Wales	100
The Holmes Care (Bathgate) Limited*#	Property holding company	England and Wales	100
Tower Bridge Homes Care (Central Care) Limited*#	Property holding company	Scotland	100
Aviemore Homes Limited*#	Property holding company	Scotland	100
Flagship Tower (Greenock) Limited*#	Property holding company	England and Wales	100
Heatherfield Community Care Limited*#	Property holding company	Scotland	100
Central Care Limited*#	Property holding company	Scotland	100
Beeley (Holdings) Limited*#	Property holding company	England and Wales	100
Hillcrest House Limited*	Property holding company	England and Wales	100
Springhill Properties (No1) Limited*	Property holding company	England and Wales	100
Carlton Hall (Lowestoft) Limited*	Property holding company	England and Wales	100

*As at 31 December 2021 these entities were held indirectly by the Company.

#As at 31 December 2021 these entities are in the process of winding up.

6. Investment in subsidiaries (continued)

The registered address for the above subsidiaries incorporated in England and Wales is:
The Scalpel, 18th Floor, 52 Lime Street, London EC3M 7AF, England

The registered address for the above subsidiaries incorporated in Scotland is:
Atria One, 144 Morrison Street, Edinburgh EH3 8EX, Scotland

Where the entity is in the process of winding up, the registered address is that of the liquidator appointed by the Company.

7. Trade and other receivables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Loan to Group companies	7,766	7,513
Prepayments	62	74
	7,828	**7,587**

As at 31 December 2021, there were no trade receivables past due or impaired (2020: none).

8. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Cash and cash equivalents	**10,336**	**6,806**

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

9. Trade and other payables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Loan from Group companies	23,954	46,792
Trade and other payables	1,536	926
Interest on loans to Group companies	-	145
	25,490	47,863

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

10. Share capital, share premium and capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and are included in note 20 to the consolidated financial statements.

11. Transactions with related parties

The Company has taken advantage of the exemption provided by FRS 102 not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 21 of the consolidated financial statements for disclosure of related party transactions of the Group.

12. Capital commitments

There were no capital commitments held by the Company (2020: nil).

13. Contingent liabilities

On the 21 December 2021 the Company guaranteed a new long-term loan note issue made by its wholly owned subsidiary. The loan notes total £75 million and mature in 2035. See note 16 of the consolidated financial statements for further detail.

14. Subsequent events

Significant events after the reporting period are the same as those of the Group. See note 28 to the consolidated financial statements.

No other significant events have occurred between the Statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in, the financial statements.

EPRA performance measures (unaudited)

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

1. EPRA earnings per share

£27.4m

8.05p per share
for the year to 31 December 2021

(for the year to 31 December 2020: £23.1m / 7.25p)

Definition
Earnings from operational activities.

Purpose
A key measure of a company's underlying operating results are an indication of the extent to which current dividend payments are supported by earnings.

2.1 EPRA net reinstatement value ("NRV")

£423.7m

120.84p per share

for the year to 31 December 2021

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

Definition
Net asset value adjusted for fair value of derivatives and transaction costs under the assumption they will not crystallise if the company never sells assets.

Purpose
The aim of this measure is to represent the value required to rebuild the entity.

2.2 EPRA net tangible assets ("NTA")

£394.2m

112.41p per share

for the year to 31 December 2021

(for the year to 31 December 2020: £349.5m / 109.58p per share)

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")

£389.8m

111.16p per share

For the year to 31 December 2021

(for the year to 31 December 2020: £347.4m / 108.91p per share)

Definition
Net asset value adjusted to align borrowings to their drawn amount. If the company was in an immediate disposal scenario certain assets and liabilities are adjusted to show the full value if not held to maturity.

Purpose
This measure aims to show the shareholders' value under a disposal scenario.

3.1 EPRA Net Initial Yield ("NIY")

6.71%

for the year 31 December 2021

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

Definition
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

Purpose
This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.

3.2 EPRA "topped-up" NIY

6.71%

for the year to 31 December 2021

(for the year to 31 December 2020: 6.71%)

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%

for the year to 31 December 2021

(for the year to 31 December 2020: 0.00%)

Definition
Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.

Purpose
A "pure" (%) measure of investment property space that is vacant, based on ERV.

5. EPRA cost ratio

15.84%

for the year to 31 December 2021

(for the year to 31 December 2020: 17.09%)

Definition
Administrative and operating costs (including, and excluding, direct vacancy costs) divided by gross rental income.

Purpose
A key measure, to enable meaningful measurement of the changes in a company's operating costs.

6. Like-for-like rental growth

5.74%

For the year to 31 December 2021

(for the year to 31 December 2020: 4.26%)

Definition
Rental growth on the portfolio of properties that have been owned and operational for two full reporting cycles.

Purpose
Growth of rental income excluding acquisitions and disposals allows stakeholders to estimate the organic income growth.

Notes to the EPRA performance measures (unaudited)

For the year ended 31 December 2021

1. EPRA earnings per share

	31 December 2021 £'000	31 December 2020 £'000
Total comprehensive income (attributable to shareholders)	**31,968**	**28,783**
Adjusted for:		
Profit on disposal of investment property	(308)	(154)
Change in fair value of investment properties	(12,896)	(10,467)
Rental lease incentives	2,660	-
Rental income arising from recognising guaranteed rent uplifts and rental premiums	6,016	4,882
Change in fair value of interest rate derivatives	(87)	87
Profits to calculate EPRA earnings per share	**27,353**	**23,131**
Weighted average number of ordinary shares (basic and diluted)	339,761,521	318,953,861
EPRA earnings per share - basic and diluted	**8.05p**	**7.25p**

2. EPRA NAV measures
The updated EPRA best practice recommendations, released in October 2020, give three new NAV metrics: EPRA net reinstatement value ("NRV"), EPRA net tangible assets ("NTA") and EPRA net disposal value ("NDV") to replace the previously reported EPRA NAV and EPRA 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 2021:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	394,244	394,244	394,244
Exclude:			
Fair value of derivatives	(94)	(94)	-
Include:			
Fair value of debt [1]	-	-	(4,471)
Transaction costs [2]	29,581	-	-
Net assets (per EPRA NAV measure)	**423,731**	**394,150**	**389,773**

Shares in issue at 31 December (basic and diluted)	350,644,188	350,644,188	350,644,188
Net assets per share (per EPRA NAV measure)	120.84p	112.41p	111.16p

2. EPRA NAV measures (continued)
As at 31 December 2020:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	349,521	349,521	349,521
Exclude:			
Fair value of derivatives	(7)	(7)	-
Include:			
Fair value of debt [1]	-	-	(2,156)
Transaction costs [2]	26,964	-	-
Net assets (per EPRA NAV measure)	**376,478**	**349,514**	**347,365**
Shares in issue at 31 December (basic and diluted)	318,953,861	318,953,861	318,953,861
Net assets per share (per EPRA NAV measure)	**118.04p**	**109.58p**	**108.91p**

1. Difference between interest-bearing loans and borrowings included in the balance sheet at amortised cost, and fair value of interest-bearing loans and borrowings at drawn amount.

2. NTA and NDV are calculated using property values in line with IFRS, where values are net of real estate transfer tax and other purchasers' costs. These transaction costs are added back for NRV.

3. EPRA net initial yield ("NIY") and EPRA "topped-up" NIY

	31 December 2021 £'000	31 December 2020 £'000
Investment property - wholly owned	**459,442**	**418,787**
Less capital improvements under construction	(5,614)	(1,907)
Completed property portfolio	**453,828**	**416,880**
Allowance for estimated purchasers' cost [1]	28,591	26,263
Gross up completed property portfolio valuation (B)	482,419	443,143
Annualised cash passing rental income	32,353	29,111
Property outgoings (non-recoverable insurance)	-	(2)
Annualised net rents (A)	**32,353**	**29,109**
Add:		
Contractual uplifts on rent-free periods of funded capital improvements	-	634
Topped-up net annualised rent (C)	**32,353**	**29,743**
EPRA net initial yield (A/B)	**6.71%**	**6.57%**
EPRA topped-up net initial yield (C/B)	**6.71%**	**6.71%**

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

4. EPRA vacancy rate

	31 December 2021 £'000	31 December 2020 £'000
Estimated rental value of vacant space	-	-
Estimated rental value of the whole portfolio	30,277	28,922
EPRA vacancy rate	**0.00%**	**0.00%**

5. EPRA cost ratio

	31 December 2021 £'000	31 December 2020 £'000
Administrative and other expenses	5,766	5,264
Net service charge cost	-	2
Total costs including and excluding vacant property costs	5,766	5,266
Gross rental income	36,398	30,818

Total EPRA cost ratio (including, and excluding, direct vacancy costs)	**15.84%**	**17.09%**

None of the costs in this note have been capitalised. Only costs directly associated with the purchase of properties as well as subsequent value-enhancing capital expenditure qualify as acquisition costs and are capitalised.

6. Like-for-like rental growth

This note shows the rental income and market value for property assets that have been owned and operational for two full reporting periods, hence all below information relates to the property portfolio that has been owned and operational since 31 December 2018.

	Rent £'000	Market value £'000
Property portfolio as at 31 December 2019	21,708	318,125
Inflation-linked rental uplifts	542	
Rental uplifts in return for capital improvements or deferred payments	383	
Increase/(decrease) due to vacancy rate	-	
Property portfolio as at 31 December 2020	**22,633**	**327,593**
Inflation-linked rental uplifts	527	
Rental uplifts in return for capital improvements or deferred payments	772	
Increase/(decrease) due to vacancy rate	-	
Property portfolio as at 31 December 2021	**23,932**	**335,444**

All properties operate within the same sector, UK healthcare.

Alternative performance measures

The other alternative performance measures may not be comparable with similarly titled measures presented by other companies. Alternative performance measures should not be viewed in isolation but as supplementary information.

1. Total expense ratio ("TER")

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening NAV	349,521	340,682
Closing NAV	394,244	349,521
Average NAV for the year	371,883	345,102
Administrative expenses	5,766	5,264
One-off costs	-	-
Recurring expenses	5,766	5,264
TER	1.55%	1.53%

2. Total accounting return

The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period.

	Year ended 31 December 2021	Year ended 31 December 2020
Opening NAV per share (pence)	109.58	106.81
Closing NAV per share (pence)	112.43	109.58
NAV growth for the year (pence)	2.85	2.77
Dividends per share paid in the year (pence)	6.38	6.26
Total return (pence)	9.23	9.03
Total accounting return	**8.42%**	**8.46%**

3. Gross loan to value ("LTV")

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

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Gross debt	114,548	76,369

Gross assets	514,495	429,647
LTV	**22.26%**	**17.77%**

4. Property Investments
This relates to the portfolio valuation along with investments via loans to operators for the acquisition of property portfolios.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Portfolio valuation	459,442	418,788
Investments in properties via loans to operators	37,500	-
Property Investments	**496,942**	**418,788**

Our portfolio

At 31 December 2021, the Group owned the homes listed in the table below:

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
Careport				
Blackwell Vale	North West	Dec 2020	60	+6
Briardene	North East	Aug 2018	60	
Derwent	North East	Aug 2018	45	
Holly Lodge	North East	Nov 2018	41	
Kingston Court	North West	Jun 2019	75	
Old Prebendal House and Court	South East	Jun 2019	39	
Sovereign Court and Lodge[4]	North East	Aug 2018	60	
The Grove	North East	Sep 2018	57	
Value at 31 December 2021: £33.7m				
Carlton Hall				
Carlton Hall	East of England	Sep 2021	86	
Oasis Development Site	East of England	Sep 2021	-	+80
Value at 31 December 2021: £13.0m				
Croftwood Care*				
Ancliffe	North West		40	
Astbury Lodge	North West		41	
Croftwood	North West		47	
Crossways	North West		39	
Elm House	North West		40	
Florence Grogan	North West		40	
Garswood	North West		53	
Gleavewood	North West		32	
Golborne House	North West		40	
Greenacres	North West		40	
Hourigan	North West		40	

Ingersley Court	North West		46	
Lakelands	North West		40	
Leycester House	North West		40	
Loxley Hall	North West		40	+5
Lyndhurst	North West		40	
New Milton House	North West		39	
Parklands	North West		40	
The Cedars	North West		27	
The Elms	North West		41	
The Hawthorns	North West		39	
The Laurels	North West		40	
Thorley House	North West		40	
Turnpike Court	North West		53	
Wealstone	North West		42	
Westhaven	North West		52	
Whetstone Hey	North West		42	
Value at 31 December 2021: £69.3m				
Electus Care				
Cedarhurst Lodge	Northern Ireland	Dec 2020	67	
Edgewater Lodge	Northern Ireland	Dec 2020	75	
Saintfield Lodge	Northern Ireland	Dec 2020	51	
Value at 31 December 2021: £9.2m				
Maria Mallaband and Countrywide Group (MMCG)				
Belmont House	Yorkshire & The Humber	May 2019	106	
Croft House	Yorkshire & The Humber	Mar 2020	68	
Howgate House	Yorkshire & The Humber	Mar 2020	63	
Manor Park	Yorkshire & The Humber	Mar 2020	75	
Park Springs	Scotland	May 2019	96	
Thorntree Mews	Scotland	May 2019	40	
Wallace View	Scotland	May 2019	60	
Value at 31 December 2021: £35.1m				
Minster Care*				
Abbeywell	West Midlands		45	
Amberley	South West		30	
Ashgrove	Yorkshire & The Humber		56	
Attlee	Yorkshire & The Humber		68	
Broadgate	East Midlands		40	
Carnbroe	Scotland	May 2018	74	
Craigend	Scotland		48	

Diamond House	East Midlands		74
Duncote Hall	East Midlands		40
Duncote, The Lakes	East Midlands		47
Emmanuel	Yorkshire & The Humber		44
Eryl Fryn	Wales		31
Falcon House	East Midlands		46
Freeland House	South East		111
Gray's Court	East of England		87
Grenville	East of England	May 2018	64
Hamshaw Court	Yorkshire & The Humber		45
Hillcrest	South West	Nov 2021	88
Ideal	West Midlands		50
Karam Court	West Midlands		47
Littleport Grange	East of England		80
Meadows & Haywain	East of England		65
Mowbray	West Midlands		39
Mulberry Manor	Yorkshire & The Humber		49
Red Hill	West Midlands	Jan 2020	90
Rydal	North East		60
Saffron	East Midlands	Jun 2017	48
Sovereign House	West Midlands		60
Stansty House	Wales		74
Three Elms	North West		60
Waterside	West Midlands		47
Woodlands Court	North West		40
Wordsley	West Midlands		44
Value at 31 December 2021: £141.4m			
Holmes Care Group			
Alexander House[5]	Scotland	Dec 2021	44
Almond Court	Scotland	Aug 2020	42
Almond View	Scotland	Aug 2020	78
Bankview (&BVDC)	Scotland	Aug 2020	65
Barrogil House[5]	Scotland	Dec 2021	40
Beechwood	Scotland	Aug 2020	90
Camilla[5]	Scotland	Dec 2021	42
Cragielea	Scotland	Aug 2020	85
Craigie House[5]	Scotland	Dec 2021	30
Fernlea House[5]	Scotland	Dec 2021	38

Finavon Court[5]	Scotland	Dec 2021	24	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Lomond View[5]	Scotland	Dec 2021	50	
Methven House[5]	Scotland	Dec 2021	62	
Preston House[5]	Scotland	Dec 2021	64	
Roselea House[5]	Scotland	Dec 2021	20	
Three Towns	Scotland	Aug 2020	60	
Walton House[5]	Scotland	Dec 2021	40	
Willow House[5]	Scotland	Dec 2021	40	
Value at 31 December 2021: £90.1m				
NCUH NHS Trust				
Reiver House	North West	Jun 2019	-	
Surgical Unit	North West	Jun 2019	-	
Value at 31 December 2021: £4.5m				
Prestige Group				
Hartlepool	North East	Mar 2020	-	+94
Parkville	North East	Mar 2018	94	
Roseville	North East	Mar 2018	103	
Sandbanks	North East	Oct 2018	77	
Yew Tree	North East	Jan 2019	76	
Value at 31 December 2021: £23.3m				
Renaissance Care				
Croftbank	Scotland	Nov 2018	68	
Rosepark	Scotland	Nov 2018	60	
Value at 31 December 2021: £13.3m				
Silverline				
Laurel Bank	Yorkshire & The Humber	Mar 2020	63	
Springhill	Scotland	Nov 2021	61	
The Beeches	Yorkshire & The Humber	Mar 2020	60	
Willow Bank	Yorkshire & The Humber	Mar 2020	59	
Value at 31 December 2021: £10.9m				
Optima				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	
Value at 31 December 2021: £14.8m				
Welford				
Argentum Lodge	South West	Sep 2019	56	

Birchlands	Yorkshire & The Humber	Jun 2019	54	
Fairview Court and House [4]	South West	Mar 2018	73	+11
Mavern House	South West	Jan 2021	51	+8
St Peter's House	East of England	Dec 2020	66	
Holmesley	South West	Jun 2019	55	

Value at 31 December 2021: £38.5m

1 May 2017 unless stated

2 Number of registered beds

3 Capital improvement bed additions under development

4 Treated as two properties

5 These assets were invested in via a loan

* Minster and Croftwood are both part of Minster Care Group

END

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