Released : 25/03/2024 07:00

RNS Number : 0574I
Impact Healthcare REIT PLC
25 March 2024

25 March 2024

The information contained in this announcement is restricted and is not for publication, release or distribution in the United States of America, any member state of the European Economic Area (other than the Republic of Ireland or the Netherlands and then only to professional investors in such jurisdictions), Canada, Australia, Japan or the Republic of South Africa.

Impact Healthcare REIT plc

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

ANNUAL RESULTS FOR THE 12 MONTHS ENDED 31 DECEMBER 2023

Financial and operational gains with improved rent cover

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, with a focus on care homes, today announces the Company's annual results for the year ended 31 December 2023.

Summary of 2023

Our tenants continued to improve their performance with higher care home occupancy and increased fees to residents, as inflation peaked in the year. Our rent increases are largely capped at 4%, so this helps tenants' rent cover, and makes our income more secure. Boosted by an acquisition, our total rent roll grew strongly, and this has flowed through to both earnings and dividend growth.

Statutory profit before tax was up by 189% over the previous year, but this is flattered by revaluation movements. Adjusted earnings per share gives the best view of underlying performance, and it grew by 2.4%. We therefore met our dividend target, whilst still 108% covered by adjusted earnings.

Rental growth from the inflation-linkage in all of our leases drove up the value of our property investments by 4.1% on a like-for-like basis. This in turn grew NAV per share by 4.7% to 115.38 pence. Including the benefit of our dividend meant that total accounting return was 10.8% for the year.

Our dividend target for 2024 is 6.95 pence[1], up 2.7% on 2023.

Strategic Priorities

These are our strategic priorities, with an update on how they have fared in 2023:

- Growing our business: With a net increase of five homes taking our total to 140 properties and over 7,700 completed beds and contracted rent up 13.2% to £48.8 million[2]. Further growth was constrained by the general economic situation and the share price.

- Working with our tenants: They have successfully increased fees and occupancy in the year broadly in line with inflation, whilst reducing their dependency on expensive agency staff. Our weighted average unexpired lease term lengthened to 20.8 years (19.7 years in 2022). We managed the transfer of one failing tenant[3] as part of a recovery programme while achieving 99% rent collection across the portfolio.
- Improving the quality of our portfolio: We approved £11.7 million of new asset management projects that will increase the number of available beds and improve EPC ratings. The growing strength of our portfolio and its ability to generate stable and growing income enabled EPRA topped-up net initial yield to firm up to 6.9%.
- Maintaining the affordability of our rents: Our tenants' improved operational performance, alongside the 4% rent cap, led to rent cover[4] rising to 2.0x in the year, the highest annual cover since we listed in 2017. Rent cover was 2.2x in the second half of 2023.
- Enhancing our environmental sustainability: We increased the percentage of our homes rated EPC B or higher to 57% (up from 53%). We have set a target of achieving net zero status by 2045 with an interim target of a 15% reduction in absolute carbon emissions on a like-for-like basis by 2025.

Our strategic priorities are supported by our balance sheet with low gearing. We have £250 million of committed debt facilities and a weighted average term of 6.3 years. Drawn debt was £184.8 million at a 4.56% average cost, and 95% of our drawn debt facilities are fixed or hedged against interest rate rises. At the year-end our EPRA (net) LTV was 27.8%.

Simon Laffin, Chair, commented;

"Our aim is to work with our tenants to provide quality, affordable and sustainable care homes. The country needs a thriving and growing care home sector. The private sector can play an even more significant role in providing care for elderly people and helping the NHS, deploying capital and resources to enhance and grow affordable care home provision. By offering more step-down, nursing and residential care for elderly people, the sector has the medium-term potential to take tens of thousands of patients out of hospital beds: freeing up NHS resources and reducing costs.

As the economy recovers from 2023's high inflation and interest rate rises, and as government begins to recognise the larger role that this sector can play in the health infrastructure we believe that there will be opportunities for Impact. We are well positioned to play a larger role in helping both residents and the NHS, whilst delivering long-term sustainable returns to shareholders."

Financial Highlights

	Year ended 31 December 2023	**Year ended 31 December 2022**	**Change**
Dividends declared per share	6.77p	6.54p	+3.5%
Profit before tax	£48.8m	£16.9m	+188.8%
Earnings per share ("EPS")	11.79p	4.33p	+172.3%
EPRA EPS	8.33p	8.37p	-0.5%
Adjusted earnings per share	7.28p	7.11p	+2.4%
Adjusted earnings dividend cover	108%	109%	
Contracted annual rent roll[2]	£48.8m	£43.1m	+13.2%
Property Investments[5]	£651.3m	£568.8m	+14.5%
Net asset value ("NAV") per share	115.38p	110.17p	+4.7%
EPRA (net) LTV	27.8%	24.1%	+3.7% pts
Total accounting return	10.82%	3.78%	+7.0% pts
Cash	£9.4m	£22.5m	

ANNUAL RESULTS PRESENTATION

A Company presentation for analysts and investors will take place today at 8.30am (UK) via an in-person meeting and a live webcast and conference call.

To attend the in-person presentation, please contact:

impacthealth-maitland@h-advisors.global

To view the live webcast, please register in advance at:

https://stream.brrmedia.co.uk/broadcast/65e9a4042cbb0478a930d370

The conference call dial-in is available using the below details:

Phone number:	+44 (0) 33 0551 0200
Participant access quote:	**Impact Healthcare - Full Year Results**

If you would like to ask your questions verbally, please use the dial in number. Alternatively, you can type questions into the webcast question box.

The presentation will also be accessible on demand later in the day on the Company's website: www.impactreit.uk

ANNUAL REPORT

We have completely redesigned the Annual Report this year to make it more concise with less duplication, while making the key elements of the Company's strategy and its performance clearer. It can be accessed here http://www.rns-pdf.londonstockexchange.com/rns/0574I_1-2024-3-24.pdf

A copy of the Annual Report is also available on the Company's website at https://www.impactreit.uk/investors/reporting-centre/reports/. The Annual Report has also been submitted to the National Storage Mechanism and will shortly be available at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

2024 NOTICE OF ANNUAL GENERAL MEETING

The 2024 Notice of Annual General Meeting is now available to view on the Company's website at https://www.impactreit.uk/investors/reporting-centre/. The Company's Annual General Meeting will be held at 9:00 a.m. on Tuesday, 21 May 2024, at the offices of Travers Smith LLP, 10 Snow Hill, London EC1A 2AL.

The formal Notice of the Annual General Meeting will be posted to those shareholders who have requested that the Company should continue with postal correspondence and in accordance with Listing Rule 9.6.1 has been submitted to the Financial Conduct Authority and will shortly be available for inspection from the National Storage Mechanism at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

The Board encourages Shareholders to vote on any of the matters of business at the AGM in advance by proxy**.**

FOR FURTHER INFORMATION, PLEASE CONTACT:

Impact Health Partners LLP		Via H/Advisors Maitland
Andrew Cowley		
David Yaldron		
Jefferies International Limited		020 7029 8000
Tom Yeadon	tyeadon@jefferies.com	
Neil Winward	nwinward@jefferies.com	
Ollie Nott	onott@jefferies.com	
Winterflood Securities Limited		020 3100 0000
Neil Langford	neil.langford@winterflood.com	

Joe Winkley	joe.winkley@winterflood.com	
H/Advisors Maitland (Communications advisor)	impacthealth-maitland@h-advisors.global	
James Benjamin		07747 113 930
Rachel Cohen		020 7379 5151
Billy Moran		020 7379 5151

The Company's LEI is 213800AX3FHPMJL4IJ53.

Further information on Impact Healthcare REIT plc is available at 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's dividend policy is to maintain a progressive dividend that is covered by adjusted earnings.

On this basis, the target total dividend for the year ending 31 December 2024 is 6.95 pence per share[1], a 0.18 pence increase over the 6.77 pence in dividends paid or declared per ordinary share for the year ended 31 December 2023.

The Group's Ordinary Shares trade on the main market of the London Stock Exchange, premium segment. The Company is a constituent of the FTSE EPRA/NAREIT index.

Notes

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.

2 The annualised rent adjusting for: rent due following rent-free periods; underlying contractual rent on temporarily varied leases including rent due from Melrose); rent due on capex projects or profit-related deferred payments where the Group recognises a capital commitment; and post-tax income from interest received from property investments made via loans to operators for the acquisition of property portfolios.

3 These homes were transferred to Melrose Holdings Limited, an affiliate of a related party, Minster Care Group.

4 Rent cover is total annual rent divided by our tenants' EBITDARM (earnings before interest, tax, depreciation, amortisation, rent and management charges). EBITDARM is a useful approximation for our tenants' cash earnings, which they can use to pay their rent. This excludes Rent cover has been adjusted to exclude seven turnaround homes and one new home in build-up. These were also excluded in the quoted comparative adjusted rent covers.

5 This relates to the property portfolio along with property portfolios that have been invested in via loans to operators with an option for the Group to acquire.

INVESTING IN UK CARE HOMES FOR EVERYONE

2023 ANNUAL REPORT AND FINANCIAL STATEMENTS

About us

Impact Healthcare REIT plc is a specialist and responsible long-term owner of care homes and other healthcare properties across the UK.

We take a long-term view and look to generate secure and growing income. This has allowed us to offer attractive and progressive dividends to our shareholders, and the potential for capital growth.

Our purpose

Our purpose is to work with tenants to provide quality, affordable and sustainable care homes in order to deliver an attractive risk adjusted return.

Our values

- We focus on the long-term sustainability of our business.
- We are open and transparent with our stakeholders.
- We are a dependable partner who's trusted to deliver.
- We combine the strengths of a listed company with entrepreneurship.

Find us online

www.impactreit.uk

Key statistics

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Properties	140	135	+3.7%
Beds	7,721	7,336	+5.2%
Tenants[1]	14	14	
Portfolio valuation	£651.3m	£568.8m[2]	+14.5%
Contracted rent roll[3]	£48.8m	£43.1m	+13.2%
Weighted average unexpired lease term	20.8 years	19.7 years	+5.6%
Leases that are inflation linked	100%	100%	
Pence per share dividend for 2023	6.77p	6.54p	+3.5%
Assets rated EPC B or better based on English equivalent ratings	57%	53%	+4% pts
Tenant CQC ratings - Good or Outstanding	80.6%	78.0%	+2.6% pts

[1] Includes Minster and Croftwood, which are subsidiaries of Minster Care Group, and Melrose, which is an affiliate of Minster Care Group.

[2] Includes properties invested in via loans to operators where the Group has an option to acquire.

[3] Contracted rent roll is a defined term in the Glossary, this includes contractual rent on temporarily varied leases (including Melrose).

WE'RE HELPING TO MEET THE GROWING NEED FOR CARE BEDS FOR THE ELDERLY

The UK needs more care beds for the elderly

We're a real estate company that's deeply immersed in the social infrastructure of this country.

The UK has an ageing population, with 6.5 million people aged over 75 living in the United Kingdom in 2024. That number is forecast to increase by 55%, to 10.1 million over the next 25 years, and to double over the next years. The over 75s are the fastest growing part of the UK population. These increases will happen during the lives of our long leases. Demand for care home beds is therefore rising, but supply has changed little for almost three decades. This has important implications for the care older people receive, as well as for our wider healthcare system. Many thousands of older people find themselves stuck in hospital because there are no free care home beds or step-down care places to take them. On average during 2023, there were just over 12,000 people in hospital every night who had no clinical reason to be there but could not be safely discharged. Half of those people, nearly all of them elderly, had been waiting more than 21 days to be discharged. This "bed blocking" also has a knock-on effect on other patients in the NHS, who can't be admitted to hospital without a vacant bed.

Our society needs a thriving care home sector, which can provide the care older people need and relieve the cost and bed blocking pressure on the NHS. In short, the care home sector is vital to the health and wellbeing of everyone in the UK.

Our purpose and strategy reflect the need for more care beds for the elderly

Our purpose is to work with tenants to provide quality, affordable and sustainable care homes in order to deliver an attractive risk adjusted return. This purpose and our business model determine our strategic priorities. These are to:

Grow our business

By adding assets to the portfolio while carefully managing risk, so we can invest in care home beds for more of the people who need them;

Work with our tenants

To form long-term, mutually beneficial partnerships, so we can grow together;

Focus on quality

By investing in our buildings and supporting our tenants who provide quality care to their residents;

Maintain affordability

By seeking to set initial rents at affordable levels, which our tenants can afford both now and in the long term. This in turn helps our tenants to charge fees that are likely to be more affordable to residents; and

Increase our sustainability

By continuing to improve our portfolio's social and environmental sustainability.

We have opportunities to create value

We currently own 1.7% of a highly fragmented market. Successfully implementing our strategy gives us substantial scope for long-term growth. Our focus on generating secure income from a growing portfolio allows us to offer attractive and progressive dividends, that are targeted to be fully covered, to our shareholders, alongside the potential for capital growth. In the process, we add value for our tenants by helping them to grow their businesses, so they in turn can provide high standards of care to more people.

Impact Health Partners LLP, our Investment Manager (IM), plays a vital role in our success. Its senior team has decades of experience of owning and operating healthcare real estate, and their knowledge, skills and relationships give us an important advantage in our market.

2023 IN BRIEF

Our financial performance was robust and we made further progress with our strategy

Putting our purpose into practice: delivering attractive risk-adjusted returns

Our objectives are to generate:

- a progressive dividend that's fully covered by adjusted[1] earnings per share (EPS); and
- an average total accounting return of 9.0% per annum[2].

Achieving these goals requires us to grow our profit, cash earnings and the value of our assets, to produce an attractive overall return.

Despite some risks materialising in the year, we were able to deliver our highest total accounting return of the past five years and a growing dividend fully covered by adjusted EPS.

Our performance highlights in 2023 included the following

- We met our dividend target for 2023 of 6.77 pence per share, with the total dividend being 108% covered by adjusted EPS and 123% by EPRA EPS.
- The value of our property investments rose by 4.1% on a like-for-like basis (2022: (8.1)% like-for-like reduction). This was mainly due to inflation-linked rental growth which contributed to NAV per share increasing by 4.7%.

- Total accounting return improved by over seven percentage points to 10.82%, reflecting more stable asset values compared with 2022[2].
- Our dividend target for 2024 is 6.95 pence per share, up 2.66%[2].

The Group performed well in 2023, as shown below:

	Year ended 31 December 2023	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2019
Dividends declared per share	6.77p *(+3.5%)*	6.54p	6.41p	6.29p	6.17p
Adjusted EPS[1]	7.28p *(+2.4%)*	7.11p	6.68p	5.93p	5.26p
Profit before tax	£48.8m *(+188.8%)*	£16.9m	£32.0m	£28.8m	£26.3m
EPRA EPS[1,3]	8.33p *(-0.5%)*	8.37p	8.05p	7.25p	6.95p
Property investments[3]	£651.3m *(+14.5%)*	£568.8m	£496.9m	£418.8m	£318.8m
Net asset value (NAV) per share	115.38p *(+4.7%)*	110.17p	112.43p	109.58p	106.81p
Total accounting return[3]	10.82% *(+7.0% pts)*	3.78%	8.42%	8.46%	9.46%
EPRA (net) LTV	27.85% *(+3.8%)*	24.10%	23.17%	17.06%	-%

1 Adjusted EPS strips out non-cash and one-off items.

2 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. Total accounting return reflects the dividend we pay and growth in the value of our assets. We expect higher valuations to mainly result from rising rents and our asset management projects, rather than relying on wider market improvements.

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

Putting our purpose into practice: growing the business so we can invest in much-needed care home beds

We continued to grow the portfolio during the year, with a net increase of five homes. This resulted from:

- buying a portfolio of six homes for £56 million, on a net initial yield[1] of 7%; and
- selling one non-core asset for £1.25 million, in line with its book value.

At the year end, the key indicators of growth in our portfolio compared to the prior year were as follows:

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Properties	140	135	+3.7%
Completed Beds	7,721	7,336	+5.2%

Portfolio let	100%	100%	
Contracted annual rent roll	£48.8m	£43.1m	+13.2%

Working with our tenants

We work closely with our tenants to identify ways we can grow together, while keeping a close eye on their financial and operational performance. During 2023:

- higher occupancy and strong fee increases (see below) contributed to improved financial performance for most of our tenants;
- one tenant, Silverline, got into financial difficulties. We took firm action and successfully transferred their seven homes to another tenant[2] on variable rent. Trading in these homes has shown good signs of improvement since the transfer. Silverline's issues reduced our rental income for 2023 by £1.2 million;
- we expanded our relationship with Welford, which operates the six care homes we bought in 2023. Welford now runs 18 of our homes with 1,094 beds, making it one of our largest tenants; and
- our long-term partnership approach to our tenants is reflected in weighted average unexpired lease term (WAULT)[3] of 20.8 years at 31 December 2023 (31 December 2022: 19.7 years), with the increase reflecting new 30 and 35-year leases entered into during 2023.

Putting our purpose into practice: our focus on quality

Improving the quality of our assets

We continue to invest in our assets to improve the environment for residents and staff, enable our tenants to broaden their offer (for example, by adding specialist dementia beds) and to make them more environmentally sustainable. We typically rentalise these inflation-linked investments at 8%, which means we earn an extra £8 in annual rent for every £100 we invest.

In 2023:

- we approved £11.7 million new asset management projects;
- delays to some projects resulted in our actual investment in existing asset management projects in the year being lower than expected, at £4.7 million; and
- at the year end, we had four projects in the pipeline, with anticipated funding of £9.5 million over the next two to three years.

In addition to our total accounting return and the WAULT, the quality of our portfolio is reflected in the following metrics:

	Year ended 31 December 2023	Year ended 31 December 2022	Change
EPRA topped up net initial yield (NIY)[4]	6.92%	6.98%	(6) bps
Bed occupancy	88.2%	86.6%	+1.6% pts

- The NIY indicates the portfolio's ability to generate income, in comparison to its market value. It has improved during the year, reflecting a general trend of larger, better specified homes in our area of the market seeing improvement in their valuation yield.
- Occupancy continued to recover from the lows during the pandemic, showing our assets remain attractive to potential residents. We've seen signs that tenants are prioritising fee increases (see below) over filling empty beds, resulting in occupancy remaining around half a percent below the pre-pandemic average.

Our tenants continue to provide good care

While the quality of our assets is important, the quality of care our tenants provide to their residents is paramount: poor care in a great building is still poor care.

At the end of 2023, 80.6% of our homes were rated good or outstanding by the regulator. This was above the national

average of 79% for comparable homes[5].

Putting our purpose into practice: maintaining affordability

With our leases running for up to 35 years, it's vital that our rents remain affordable to tenants in the long term. We therefore look to set initial rents at sustainable levels and then increase them only with inflation each year. Almost all our leases set out minimum and maximum annual increases, which are typically 2% and 4% respectively.

We monitor affordability using the following metrics:

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Rent cover[6]	2.00x	1.80x	+0.20x
Average rental growth	4.1%	4.1%	+0% pts
Rent collection	99%	100%	(1)% pts

[1] The net initial yield is the annual rent generated by the assets, less non-recoverable property costs, divided by the assets' value.

[2] These leases were transferred to Melrose, an affiliate of a related party, Minster Care Group.

[3] The WAULT is the average unexpired lease term of the property portfolio, weighted by annual passing rents. The passing rent is the actual rent a tenant is paying at that point in time.

[4] This is the net income from the portfolio (rent less irrecoverable property costs) divided by the total amount a purchaser would have to pay to buy the assets (the market value plus the estimated costs the purchaser would incur).

[5] Homes outside of England are inspected by different regulatory bodies and rated on a separate system, in our reported metric we have aligned these ratings to those used by the CQC.

[6] Rent cover is our tenants' EBITDARM (earnings before interest, tax, depreciation, amortisation, rent and management charges) divided by total annual rent. EBITDARM is a useful approximation for our tenants' cash earnings, which they can use to pay their rent. This has been adjusted to exclude seven turnaround homes and one new home in build-up.

Rent cover is one of our most important key performance indicators. The increase in the year reflects improved occupancy, and in particular, our tenants' ability to continue to increase their fees in line with or ahead of inflation. The average weekly fee across the portfolio increased by 13.3% to £1,049 during 2023.

Our tenants' staff costs have benefited from reduced agency staff use, which declined from an average of 8.9% of their revenue to 4.7% in the year. The rate of inflation for other key costs such as energy and food came down in the second half of the year.

Rent reviews in the year increased rents by 4.1% on average, adding £1.6 million to the contracted rent roll.

One test to measure the sustainability of our rents over the long life of our leases is the percentage of their revenues our tenants pay in rent, with anything over 15% being potentially too high. In 2023 on average they paid 12.6% of their revenues to us in rent, down from 13.2% in 2022.

We collected 99% of rent due in respect of the year, with all tenants other than Silverline paying in full.

Putting our purpose into practice: increasing our sustainability

We continued to focus on improvements to the environmental sustainability of our portfolio with a target to achieve net zero status by 2045. During 2023, we continued to improve the energy efficiency of homes through asset management projects and improved energy performance certificate (EPC)[1] ratings through further energy efficiency projects.

We are also focusing on reducing the carbon emissions per m^2. During the year these increased slightly from 50kg to 54kg which is in part explained by the increased occupancy over the past two years while the improvements we are focusing on are taking time to embed. Reducing this metric remains a core focus, with an interim target to reduce by 15% by the end of 2025.

We also carried out "deep-dive" sustainability surveys of six homes, to inform our net zero delivery plan and ensure that our tenants' businesses and the care they provide can continue sustainably.

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Carbon emissions (kg CO_2e per m^2)	54	50	+8%
EPC B and above	57%	53%	+4% pts

Prudently financing the business

We use debt financing to support our growth and increase returns, while making sure we have a strong balance sheet at all times.

We use the following metrics to monitor our financial position:

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Net debt[2]	£181.4m	£128.3m	+41.3%
EPRA (net) LTV[2]	27.8%	24.1%	+3.7% pts

During 2023 we:

- increased our revolving credit facility (RCF) with NatWest by £24 million to £50 million, extended the term from 2024 to 2028, and extended the term on our £75 million RCF with HSBC by one year to 2026;
- paid off the remaining £15 million of our term loan with Metro Bank, which was our most expensive debt; and
- increased our interest rate hedging by a net £75 million.

At the year end:

- the increase in LTV during 2023 was largely to finance the acquisition of a portfolio of six care homes in January 2023. This acquisition was accretive to earnings during the year after taking into account these additional financing costs;
- we had committed bank facilities of £250 million, with a weighted average term (excluding options to extend) of 6.3 years;
- we had significant liquidity available to us, with £65.2 million of undrawn facilities and £9.4 million of cash, against commitments of £16.2 million;
- the average cost of our drawn debt was 4.56%, with 95% of our drawn facilities fixed or hedged against interest rate rises; and
- our LTV was well within the maximum in our policy of 35%.

Outlook

We're well positioned to continue to deliver long-term sustainable returns to shareholders. As the economy recovers from 2023's high inflation and interest rate rises, and as the government sees the role that this sector can play in both health and the economy, we believe that we'll see more opportunities for growth in the future.

[1] An EPC rates a property's energy efficiency from A (most efficient) to G (least efficient).

[2] EPRA (net) LTV is calculated using net debt to gross portfolio valuation.

THE SOCIAL NEED FOR CARE BEDS FOR THE ELDERLY

Demand for care beds for the elderly is rising

There are 6.5 million people aged over 75 living in the United Kingdom in 2024. That number is forecast to increase by 55%, to 10.1 million over the next 25 years. The over 75s are the fastest growing part of the UK population. These increases will happen during the lives of our long leases.

Care needs are becoming more complex

While rising life expectancies are good news, the downside is that most people will spend the last 15 years of their life with some ill health. Around 10% of people over 80 have care needs that make it difficult for them to live at home.

Many people end up stuck in hospital beds, which means they're in the wrong setting for the type of care they need, particularly if they have dementia, and this increases costs for the NHS. On average during 2023, there were just over 12,000 people in hospital every night who had no clinical reason to be there but could not be safely discharged. Half of those people, nearly all of them elderly, had been waiting more than 21 days to be discharged. This "bed blocking" also has a knock-on effect on other patients in the NHS, who can't be admitted to hospital without a vacant bed.

Since the COVID-19 pandemic, there's evidence that people are moving into care homes later than before, that they're more likely to be frail or ill and that their stays are shorter. This is creating a longer term shift in the industry, with increasing demand for care providers who can deliver higher acuity care.

Dementia is the most common acute condition affecting people in care homes. Around 70% of care home residents suffer from some form of memory loss, which ranges from being mildly confused to severe dementia. The Alzheimer's Society projects that the number of people with some form of dementia in the UK will rise from just over 900,000 in 2020, to over 1.2 million in 2023, with the greatest rise being amongst people who have a severe form of the condition. By 2022 dementia and Alzheimer's diseases had already replaced heart disease and cancer as the leading cause of death in England and Wales.

The number of care beds isn't responding to demand

Despite the ageing population and rising acuity, the number of available care beds for elderly care has been stagnant. Between 2012 and 2021, the number of beds in nursing and residential care homes fell from 11.3 per 100 people aged over 75 to 9.4 - a 17% decrease. Looking at longer-term trends, an estimated 25% of over 85s lived in care homes for the elderly in 1996. By 2017, this had fallen to 15%. This reflects several factors, including a shift in social care policy towards home care. It might also reflect an element of rationing in the care system, as many older people struggle to access the care they need.

Although the care home market is attractive, for existing care homes the economics make it difficult to create much new supply.

Construction costs have risen substantially over the past two years, making it difficult to deliver a high quality new care home for less than £200,000 per bed. In contrast, an older home with an established record for providing good quality care can cost less than £100,000 per bed, which we believe offers a better risk adjusted return. Given the higher capital costs of brand new homes, tenants have to pay higher rents - up to 20% of their revenues as opposed to our average of 12.6% - which means that they in turn have to pass these costs on by charging higher fees to their residents. Higher fees do not automatically translate into better quality care, which depends more on the quality and stability of the team than the building.

Staffing rotas are highly regulated and tend to be similar in new and older homes. The higher fees needed by newly built care homes limit the number of residents who can afford this, restricting the size and growth of this segment of the market.

Slightly older homes also offer opportunities to add value, by updating them, adding facilities and improving their environmental performance, which is another reason we favour this part of the market over new builds.

The market is highly fragmented

There are currently just over 12,000 registered care homes in the UK. Our market is unusually fragmented. Over the past 15 years that fragmentation has increased as the market share of the top-10 care providers in the UK has declined from a peak of 27% in 2006, to 19% in 2023. The market share of sole traders operating one or two care homes has also declined, from over 80% in the early 1990s, to under 30% today.

Where there has been growth is of mid-sized care providers operating between three and 80 homes. Developing

partnerships with operators in this space has given us the opportunity to acquire good quality assets at attractive yields.

We currently own 1.7% of a highly fragmented market. Successfully implementing our strategy gives us substantial scope for long-term growth.

Government policy and funding for care is complicated

To put it mildly, government policy and funding for adult social care is a complicated field. There is no national government budget for adult social care in England. A person's care needs might be met by their local authority's social services budget or by their local NHS Trust, and the individual or their relatives may also have to contribute to the cost.

Most local authorities support their adult social care costs through a council tax levy and, in certain situations, local authority or NHS funding is means tested. The system is ripe for reform, but successive governments have failed to implement it, despite numerous white and green papers, plus industry reports. Our tenants are experienced at delivering care in this complex environment while also running sustainable businesses.

DELIVERING ATTRACTIVE RISK-ADJUSTED RETURNS | OUR BUSINESS MODEL

Our business model allows us to generate attractive returns, with managed risk.

We consider risk from many angles, from ensuring our balance sheet stays strong, to the way we pick tenants and make sure they're performing well, to our focus on sustainability and creating a positive social impact.

What we do

Select tenants	***Identify and appraise assets***	***Agree leases***
We have a diversified portfolio of tenants that includes national, regional and local businesses. When selecting a new tenant we consider: • track record and financial performance; • the strength of their business plan; • their ability to provide high-quality care to residents; and • their ability to deliver strong trading returns over the longer term, that will support our investment.	Sometimes tenants bring new opportunities to us and sometimes we select assets we'd like to acquire and determine which current or new tenant will operate them. We then check every aspect of the homes, including reviewing their local market and the building's environmental sustainability. Our disciplined approach means we can buy at attractive prices, which are often less than the cost of replacing the asset.	Our leases are typically for 25 years or more and balance rental growth with ensuring rent remains affordable to tenants. The leases require tenants to spend a minimum amount every year on repairs and maintenance, and all our leases since 2020 include "green" clauses, to help us work with tenants on our ESG objectives.

Monitor tenants' performance	***Work with tenants to improve our assets***	***Optimise portfolio***
We keep a careful watch on many aspects of our tenants' performance, including their financial results and the quality of their care, which we discuss with our tenants on a quarterly basis.	We agree plans with our tenants to upgrade and extend our homes. This makes them better places to live and work, increases their capacity, improves their sustainability and can broaden their offer, for example by adding specialist dementia beds. We can also work with tenants to develop new homes in areas with strong demand. These activities increase our rent, the value of our homes and our tenants' revenues.	We regularly review our assets and categorise them as core, value-add or non-core. Value-add assets are candidates for asset management. We may sell non-core assets, so we can reinvest the proceeds and create more value, while improving overall portfolio quality.

Our competitive advantages

Our strategy delivered by our Investment Manager is our main source of competitive advantage. In particular, we benefit from:

- our strategic focus on upper mid-market care homes which we can acquire at below replacement cost with rents at affordable rates;
- the IM's deep sector knowledge and understanding of how care businesses work, which helps with

everything from buying the right assets to forming and maintaining supportive tenant partnerships;
- the IM's relationships with care-home owners who might want to sell, the agents they work with and with potential new tenants. Great relationships and a proven track record can help us to buy assets off-market or beat the competition even when we're not the highest bidder; and
- the IM's asset management and development skills, so we can identify how to improve a care home before we buy it, successfully complete each project and improve returns by developing new homes.

The value we create

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

Tenants
Tenants can grow their business alongside ours, in a long-term relationship with affordable rents, which benefits both of us.

Residents and their carers
Residents benefit from security, stability and high-quality care and their carers benefit from a stable environment in which to receive training alongside potential career progression in a vocational sector supporting vulnerable members of their community. As a landlord we seek to support both residents and their carers through our willingness to invest in their homes to improve the spaces they live and work in to create a lasting social impact.

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

Shareholders
Our model delivers predictable and rising revenue, so we can pay a progressive, fully covered dividend. There is also the potential for capital growth, which supports an attractive total return.

Careful cost control enables us to benefit from economies of scale as we grow. Many of our costs are fixed and some variable costs will step down as our asset value rises (including the IM fee which reduces from 1.0% to 0.7% of NAV above £500 million). Along with our conservative approach to debt finance, this helps to maximise the cash we can distribute to shareholders.

1 | GROWING THE BUSINESS SO WE CAN INVEST IN MUCH-NEEDED CARE HOME BEDS FOR EVERYONE

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Beds	7,721	7,336	+5.2%
Properties	140	135	+3.7%

Growing our business requires us to make strategic choices that influence our returns and the risks we face.

These choices include the types of assets we buy, where they are and how we use debt finance to finance our growth.

Strategy: choosing which assets to buy
Our investment policy allows us to invest in different types of healthcare properties. Given the growing demand for care beds for the elderly, we've chosen to focus on care homes, in particular existing homes in the mid-market. These are attractive to us because:

- they provide a good setting for quality care;
- they're affordable for many more people than high-end homes, so they have a larger target market, which should mean fewer unfilled beds for our tenants;
- they're lower risk than new developments, as the capital cost is significantly less per bed and they don't need to build their occupancy and staff team from scratch; and
- they often give us scope to add value through asset management.

In January, we invested in a portfolio of six homes in Shropshire and Cheshire, for £56 million. The homes have 438 high-quality beds, a track record of strong operational performance and good sustainability credentials. We funded 80% in cash and the remainder by issuing 9.6 million shares at 116.62 pence per share. We made the initial investment by lending the money to Welford, an existing tenant of ours.

This allowed Welford to buy the companies that owned the homes and immediately take over running them, rather than having to wait several months for Care Quality Commission[1] (CQC) approval to come through. This minimised disruption for residents and made sure Welford could focus on care. The CQC approved the transfer in June, allowing us to take up our option to buy the homes from Welford and complete the 35-year leases we'd already agreed, at an initial rent of £3.9 million a year.

Approving the completion of the deal was one of the board's key decisions in the year. We also sell non-core assets, as the business model explains. During 2023, we sold Mulberry Manor, a 49-bed care home in Mexborough, which we acquired as part of the portfolio we bought following our IPO in 2017. The home wasn't a strategic fit for either us or the tenant, hence it wasn't classified as core and we disposed of it for £1.25 million, in line with its book value. We expect to make further disposals of non-core assets in 2024.

The transactions in 2023 increased our portfolio by a net five homes, from 135 at 31 December 2022 to 140 at the year end.

s172

Stakeholders' interests: long-term impact and the environment

We sign long leases with tenants and as directors, we require extensive due diligence, both before we start working with them and careful monitoring once they're running our homes.

In this case the directors concluded that Welford was a good partner for us, that the acquisition would further strengthen both businesses and that it was appropriate to agree 35-year lease terms.

The directors also have a keen interest in the assets' sustainability and we discussed the cost, strategy and regulations associated with decarbonising the homes and improving their energy performance certificate (EPC) ratings and alignment with our net zero delivery plans, before approving the acquisition.

[1] The CQC is the independent regulator for health and social care in England.

Measuring our progress

We also use the following key performance indicators (KPIs) to monitor our returns from the portfolio.

	Year ended 31 December 2023	Year ended 31 December 2022
Profit before tax	£48.8m	£16.9m

Profits have been enhanced by rental income growing at a faster rate than expenses as shown in the Group's reducing cost ratios. However, the key driver this year has been the valuation gains reversing the fair value losses seen in the previous period.

	Year ended 31 December 2023	Year ended 31 December 2022
NAV	£478.1m	£445.9m

Primarily driven by steady yields across the portfolio with rent reviews feeding directly into valuation growth.

	Year ended 31 December 2023	Year ended 31 December 2022
NAV per share	115.38p	110.17p

Total NAV of the Group grew by 7.22% to £478.1 million and the NAV per share grew by 4.73% to 115.38p. The reduced growth per share is reflective of the incremental 9.6 million shares issued in January 2023 as part (£11.2 million) of the consideration for the acquisition of six care homes.

	Year ended 31 December 2023	Year ended 31 December 2022
Adjusted earnings per share	7.28p	7.11p

The Group's adjusted earnings (closely aligned to cash profits) continued to increase in 2023 owing to inflation-linked rent reviews improving cash revenue while administrative costs further reduced as a percentage of income and the Group's well-hedged debt position mitigated the effects of high interest rates.

Strategy: where we buy assets

We manage risk by spreading the portfolio around the UK, so we don't rely on a small number of local markets. Most of our homes are in areas where asset prices are more attractive, there's strong demand for care and often less competition. This makes our homes an even more important part of their local communities.

At 31 December 2023, we owned homes in the following locations:

Location	Number of properties	2023 change in properties	Beds	2023 change in beds	% of portfolio market value
England					
East Midlands	8	-	405	-	6.0%
East of England	9	-	547	-	10.0%
North East	12	-	767	-	8.9%
North West	33	-	1,348	+6	14.3%
South East	4	-	318	+1	6.0%
South West	10	-	537	+5	9.9%
West Midlands	14	+6	860	+440	14.1%
Yorkshire & The Humber	11	(1)	693	(49)	6.3%
Northern Ireland	5	-	340	-	3.4%
Scotland	32	-	1,805	(16)	20.4%
Wales	2	-	105	(2)	0.7%
Total	**140**	**+5**	**7,721**	**+385**	

Strategy: financing our growth

We can grow the portfolio more quickly and increase returns by using an appropriate amount of debt. We're very aware of the risks of having too much leverage, so our policy is to have a maximum loan-to-value[1] (LTV) ratio of 35% at the time we drawdown the debt and to hedge at least 75% of our drawn debt against rising interest rates. We have also updated our hedging policy to ensure we have adequate hedging in place to manage the risk of interest rate increases within our risk tolerance. At the year end, 95% of our drawn debt was hedged against interest rate increases.

In June, we increased our revolving credit facility (RCF) with NatWest by £24 million to £50 million, and extended the term from 2024 to 2028. The interest rate on this RCF is 200 basis points above SONIA. We also extended the term of our £75 million RCF with HSBC by one year to 2026. At the same time, we agreed lower interest cover covenants with both banks.

Increasing the NatWest RCF enabled us to replace the last £15 million of our loan from Metro Bank. This was our most expensive debt, at 265 basis points above SONIA[2].

To manage our interest rate costs, we took out two interest rate caps in the year. These each hedge the cost of £50 million of debt, with the first capping SONIA at 3.0% until January 2025 and the second capping SONIA at 4.0% until August 2025. In June, a hedge which capped the interest rate on £25 million of debt expired. At the year end, we therefore had either fixed rates or caps on £175 million of debt or 95% of our drawn debt, in line with our policy.

Strategy: who funds our tenants' residents

We like our portfolio to have a good balance of funding for tenants' residents, from local authorities, the NHS and private pay. This helps to make our tenants' revenues more resilient than relying on one source of fees and means, we earn a predictable income from our assets.

Funding for our tenants' fee income changed only modestly during the year and remained well balanced:

Source of tenant income

	Year ended 31 December 2023	Year ended 31 December 2022
Local authorities	58.8%	60.2%
Private pay	31.3%	31.7%
NHS	9.9%	8.1%

How we monitor our financing

We use the following KPIs to monitor our debt position:

	Year ended 31 December 2023	Year ended 31 December 2022
Net debt	£181.4m	£128.3m

The increase was predominantly due to £44.8 million cash consideration to acquire the portfolio of six assets acquired in January 2023.

	Year ended 31 December 2023	Year ended 31 December 2022
EPRA (net) LTV	27.8%	24.1%

Increased in the year owing to an acquisition and capital expenditure on the existing portfolio, partially tempered by growing portfolio valuation.

[1] The gross LTV is our gross debt as a percentage of our gross asset value.

[2] The interest costs on our variable rate debt are linked to an interest rate benchmark called the Sterling Overnight Index Average (SONIA), which in turn is driven by the Bank of England's base rate.

Engaging with our shareholders and lenders

While all our stakeholders have an interest in the growth of our business and our financial stability, our shareholders and lenders are the most directly affected.

Understanding our shareholders' interests

The IM leads our investor relations programme and, along with our corporate brokers, ensures the board is kept well informed of shareholder views.

The Chair also offered meetings to our largest shareholders in the year.

Understanding our lenders' interests

The IM also regularly engages with our debt providers, providing quarterly information that shows we're complying with the covenants in our debt facilities and reporting on the performance of the tenants and the homes the facilities are secured against. In 2023, the IM was in regular contact with NatWest and HSBC, as it negotiated the increased and extended RCFs discussed above.

During the year, the IM took the lenders to visit several of the homes in their security pool to provide full transparency of the intended asset management works and environmental criteria we are upgrading these properties to. This regular and open engagement with our lenders, along with improved familiarity with the properties, has allowed us to increase and extend these facilities efficiently.

Key board decision - refining the dividend policy

Relevant stakeholders: shareholders

Dividends are a key attraction for shareholders in real estate investment trusts (REITs), with the UK REIT rules requiring us to pay out at least 90% of the profits from our property rental business each year. Paying an attractive and progressive dividend is therefore one of our most important objectives.

In 2018, the board adopted a policy of increasing the target dividend each year in line with the inflation-linked rental growth in the previous year. The board reviewed this policy in 2023.

While the policy gave shareholders certainty about dividend growth, the directors concluded that it was in shareholders' interests for the policy to be more flexible and forward looking.

The board therefore agreed an updated policy, to seek to maintain a progressive dividend that's covered by adjusted earnings. The directors continue to see adjusted earnings as the best yardstick for dividend payments, as they more closely reflect the Company's cash earnings than the IFRS or EPRA measures.

Case study
Morris Care

What was the opportunity?
To acquire a group of six homes in Shropshire and Cheshire, with a focus upon the wider Shrewsbury catchment area. We were attracted by the high specification of the assets, their local reputation and weighting towards higher acuity care provision.

Whilst the vendor was looking for a clean exit from the elderly care market, they were keen to ensure continuity of care for the residents. Operational and local management would remain with the business post completion and Welford agreed a licence to continue to use their well-established local brand name for at least three years after completion.

The IM identified an existing portfolio tenant, Welford Healthcare, as the best fit for the transfer of the operational businesses. Welford's own due diligence aligned with the IM's assessment regarding the potential for the portfolio and as a result, we were able to provide confidence to the vendor regarding continuity of care.

How did the timeline unfold?
The transaction was agreed in principle in mid-2022, with exchange targeted for the end of September. Unfortunately, the mini-budget in September 2022 created a market-wide hiatus and the transaction was paused by joint agreement. The terms were then revised to reflect the rise in the cost of capital after the mini-budget and agreement was reached in early December 2022, with completion occurring in January 2023. Given the increase in the cost of debt, the vendors' agreement to take 20% of the consideration in new shares issued by Impact at NAV was critical to ensure that the acquisition would be accretive to our earnings in 2023.

What has gone well?
Both Welford and ourselves saw opportunity within the trading performance, focusing on fees, occupancy and staffing. In particular, by extending an overseas recruitment campaign, there was scope to reduce the use of agency staffing in the short term. Coupled with some revenue growth as refurbished beds in one of the homes were filled, the business plan was expected to improve profit, and hence rent cover to over two times, within 6 - 12 months.

The latest available data demonstrates outperformance against the original business plan, with strong rent cover in the context of the portfolio overall. As a result of trading performance, despite wider market conditions, asset value is showing a healthy return against the original purchase price.

Looking forward, there are significant potential development concepts at two of the properties, including one that incorporates planning permission for a solar farm, which will help advance our ESG strategy.

Value uplift since acquisition
£3.3m *+5.8%*

% of Group's portfolio by market value
9.1%

2 | WORKING WITH OUR TENANTS

	Year ended 31 December 2023	Year ended 31 December 2022	Change

WAULT	20.8yrs	19.7yrs	+5.6%
Bed occupancy	88.2%	86.6%	+1.6% pts

We don't run our care homes, so we need to partner with tenants who will operate them well and who share our focus on providing high-quality, and increasingly higher-acuity, care.

We keep in close contact with our tenants throughout the year, receive detailed monthly and quarterly reporting from them and carefully monitor their performance.

The business model describes our process for selecting tenants. We also have important choices to make as we grow our portfolio. In particular, we need to determine the right balance between adding new tenants and growing with existing tenants, as well as deciding how long we want our tenant relationships to be.

Strategy: adding tenants and growing with them

When we buy assets, we can select a new tenant to run them or increase the number of homes an existing tenant operates. Adding new tenants manages risk by reducing our reliance on individual tenants. However, growing with an existing tenant strengthens their business and supports our long-term partnership.

The acquisition we made during the year further increased the number of assets run by Welford, which has been a tenant since 2018. Over that time, we've expanded our relationship from an initial two homes to the current 18 homes with 1,087 beds, making Welford one of our largest tenants.

There was one change to our tenant base during the year, as we replaced Silverline with Melrose[1].

At the year end, our tenant base was as follows:

Tenant	Contracted rent (%)	Homes	Beds
Minster[1]	22	31	1,774
Welford	20	18	1,094
Holmes	14	21	1,129
Croftwood[1]	12	27	1,118
Careport	5	9	439
MMCG	5	7	508
Prestige	5	5	444
Electus	4	5	340
Carlton Hall	3	2	86
Melrose[1]	3	7	394
Belmont	2	2	168
Renaissance	2	2	128
Optima	2	2	99
NHS	1	2	-
	100	**140**	**7,721**

[1] Minster and Croftwood are part of Minster Care Group. Melrose is an affiliate of Minster Care Group.

s172

Stakeholders' interests: business relationships

The directors must consider the Group's business relationships, including with our tenants. In addition to receiving regular updates and detailed reports from the IM on each of our tenants, the directors all took part in calls with tenants during the year.

This allowed them to hear first-hand what tenants think of the Company as a landlord, and to discuss the issues tenants are facing.

Strategy: choosing the length of our tenant relationships

The length of new leases is an important decision for us. We favour leases of 25 years or more, since this generates long-term and growing income for our shareholders, encourages tenants to take a partnership approach, and gives residents and care home staff a stable environment to live and work in. Leases of this length also require us to be very selective when signing new tenants.

During the year, new leases came into effect on 18 assets. These were:

- the 35-year leases with Welford on the six homes we acquired in January 2023; and
- 30-year leases on 12 care homes we originally invested in through a loan to Holmes. We had an option to buy the homes following regulatory approval, which we exercised in June 2023.

How we measure our progress

The portfolio's weighted average unexpired lease term (WAULT) is a KPI for us.

	At 31 December		
KPI	**2023**	**2022**	**Comment**
WAULT	20.8 years	19.7 years	The WAULT increased by one year during 2023, due to the new 30 and 35-year leases described above. This was partially offset by the passage of time reducing the remaining period of existing leases.

Monitoring our tenants' performance

The IM engages with tenants on a weekly and monthly basis and in more depth each quarter, when it receives reports from them setting out their financial and operating performance.

Three main factors affect our tenants' financial performance and their ability to pay our rents: their occupancy; the fees they charge for the care they provide; and the cost and availability of staff. Trends in occupancy and fees were positive in 2023 and most tenants reported improved financial performance and higher rent cover.

In 2022, tenants struggled to recruit permanent staff and used more agency staff as a result. Encouragingly, we've seen clear signs since that tenants are getting these issues under control.

Their spending on agency staff fell from an average high of 14% of their total spending on staff at the beginning of 2022, to an average of 8% at the end of 2023.

With our largest tenants, we can also track whether they're maintaining staffing levels. Hours worked per occupied bed were stable at 36 hours a week, showing that while costs were rising sharply as inflation surged tenants were not cutting back on their main cost, staff.

Among other important costs, food prices rose but were steady as a percentage of tenants' revenues, and energy costs fell back to more normal levels in the second half of 2023.

Key board decision - replacing Silverline with Melrose

Relevant stakeholders: shareholders, lenders, tenants, tenants' residents

Despite the generally positive backdrop for our tenants in 2023, it became apparent at the start of the year that Silverline was in financial difficulties and in January 2023 they asked us for a six-month rent holiday.

Silverline rented seven homes from us - four in Scotland and three in Yorkshire - for £1.6 million per year. The IM reviewed the situation in detail, including why the homes were underperforming, and continued to engage with Silverline about its financial position.

The board and the IM considered several options for the homes and were clear throughout these discussions that the solution had to minimise disruption for residents and staff. Ultimately, the board decided it was in the best interests of all stakeholders to replace Silverline as the operator. After running a competitive process, the board agreed with the IM's recommendation to replace Silverline with Melrose, an affiliate of a related party - Minster Care Group Limited (our largest tenant), at the beginning of June 2023. For further detail of this transfer of operations please see Note 22 to the financial statements.

The lessons learnt

Between the Company's inception in 2017 and the end of 2022 our rent collection record was 100%. This was the first time we have had a problem with rent collection. Following Silverline, we've reviewed and updated the due diligence we carry out on potential new tenants.

We first started working with Silverline when we bought the three Yorkshire homes in 2020. These homes were bought as a

turnaround project on pricing that reflected their under-performance. We thought they had the potential to do much better. Silverline had a plan for turning them around but unfortunately failed to do so. Clearly the COVID pandemic made delivering a successful turnaround much more challenging. While we may buy homes that need turning around in the future, we'll only do this with an existing tenant and probably not with an operator we haven't worked with before.

s172

Stakeholders' interests: community impact and business reputation

The directors must consider how their decisions could affect the community, and whether they could harm the Group's reputation for high standards of business conduct. A fundamental stakeholder consideration in the board's decision making, is the conflict of interest risk as a result of the related party relationship between the Investment Manager and Minster, the Group's largest tenant. The directors take this very seriously.

These issues were relevant to Silverline. One option available to the Group would have led to the homes closing and then reopening under a new tenant. This would have caused the most disruption to the local community, given its impact on residents and staff, and could also have harmed the Group's reputation, which is important for attracting new tenants.

Case study

Silverline

Silverline was a tenant of the Group, operating three of our homes in Bradford with turnaround opportunities identified, and four in or near to Glasgow. The Bradford homes were acquired immediately prior to Covid, resulting in delays to the planned turnaround strategy at these homes. The acquisition of the four homes in Scotland was expected to help deliver growth for both Impact and Silverline; however, there were delays to the completion of this portfolio which was compounded by a material change in the broader business activity of the Silverline group. As a result, they requested a rent payment holiday for six months from the beginning of January 2023. Following a five-month period during which several solutions were considered, we decided that the best outcome for the residents, employees of the homes and our wider stakeholders was a consensual transfer of the Silverline operations to Melrose, an affiliate of a related party, Minster Group, who has been operating the homes since June 2023. In identifying the best alternative operator to partner with, both new and existing operators were approached. Ultimately, Melrose was selected due to a number of factors, including their significant experience operating mid-market homes in both England and Scotland, track record in turnarounds and the competitive cost structure offered to the Group.

To support the transfer of these operations to Melrose and the continued investment in the turnaround of the individual homes, we agreed a variable rent structure and provided a £1.6 million loan facility accruing interest at 8% on drawn funds.

Since transferring the operations of the homes, their underlying performance has improved, albeit at a faster pace in the assets located close to Glasgow than in Bradford, confirming our conviction in the quality of the homes. We will continue to work closely with all parties involved to secure the long-term future of the homes and to ensure the essential care services provided within the homes remain unaffected.

Whilst there is still a lot of hard work to do at each of the homes, we are proud to say that one year on from the failure to pay rent, the homes are now cash flow positive and each with their own future ahead. This unfortunate event helps demonstrate the positive impact we as landlord can have on the residents and staff who live and work within our buildings.

Number of beds

394

(properties: seven)

% of Group's portfolio by market value

2.6%

3 | OUR FOCUS ON QUALITY

Capex invested in improving homes for residents and staff

£4.69m

Quality has two main aspects for us: care and buildings. The quality of care is paramount for both us and our tenants.

We focus on the buildings which will best support our tenants in providing care. Both the quality of care and the building itself determine how full the homes are, how much our tenants can charge and how secure our income is.

Our strategic choices include how much capital we should allocate to asset management, what sort of improvements we should target, and the extent to which we should fund new developments. Our tenants are responsible for repairing and maintaining the buildings and for their quality of care. We monitor both of these and discuss them with our tenants on at least a quarterly basis.

Strategy: increasing quality by investing in our assets

Everyone gains from successful asset management: the residents who live in our homes; the staff who work there, our tenant who operates the home; and us as its owner. When we invest to improve our homes, the lease terms typically allow us to rentalise the investment at 8% with potential for valuation uplift on the capital invested, giving a rate of return above just the yield alone. The returns on asset management are therefore higher than on most asset acquisitions. These projects are also generally lower risk, since we and the tenant have a good understanding of the home and how the project will improve its performance.

However, we have to carefully consider how much to invest each year and which projects to favour, since:

- we want to continue to grow the portfolio and need to retain enough capital to buy assets; and
- our tenants have to balance a project's longer-term benefits with the short-term disruption to the home, which can reduce their income while rooms are upgraded and disturb residents. We therefore need our tenant's permission for a project to go ahead.

Our portfolio management process identifies homes with the potential to add value through asset management. Where we acquire homes as part of a portfolio, this may include non-core assets that have limited credentials for a long-term hold and will be earmarked for disposal. We then target projects that:

- improve the home for residents and staff, such as adding ensuite bedrooms and upgrading kitchens, laundries and other facilities;
- improve the environmental performance of the home and future-proof the home against obsolescence;
- expand the services our tenants can offer, such as adding specialist beds for dementia care; and/or
- improve the home for residents and staff, such as adding ensuite bedrooms and upgrading kitchens, laundries, outside spaces and other facilities.

We made good progress with our ongoing project at Fairview House and Court in Bristol, where we have invested £3.2 million to link the two buildings, add bedrooms and improve the environmental performance. When we bought Fairview in 2018, the rent was £356,000. After five years of inflation-linked rent increases and rentalising our investment in the home, we've grown the annual rent to £690,000. At the same time, the home's improved trading position has seen its rent cover rise.

The asset value has, as a result, grown by more than the capital investment.

Overall, however, we did not invest as much in asset management as we intended in 2023. Some larger projects were delayed, for example because increased build costs meant we needed to revisit the plans, while several smaller projects also started later than we expected. In total, we invested £4.7 million in asset management in the year.

Our pipeline currently has 24 such projects at various stages. The total funding for these projects is up to £31 million over the next two to three years, which we will support if it enhances the quality of care and environment, is accretive to shareholder returns and we have adequate financial resources available to deploy.

Our progress in 2023

During the year, we approved £11.7 million to asset management projects of which £2.2 million was spent in the year and £9.5 million remains outstanding. The largest projects are shown in the table below:

Asset and tenant	Amount committed	Project benefits
Mavern House		
Welford	£1.9m	Eight new bedrooms and improved EPC rating (C to B).
Elm House		
Croftwood	£3.0m	Extension with 21 high-specification bedrooms with wet rooms, upgraded bathrooms for five existing bedrooms, and improved EPC rating (C to B).
Amberley		
Minster	£2.5m	16 new bedrooms with wet rooms, upgrades to 10 existing bedrooms and bathrooms, and improved EPC rating (C to B).
Yew Tree		
Prestige	£2.5m	New 25-bed building on land we already own, increasing beds at Yew Tree to 101.

Ensuring our tenants maintain our buildings

Regular repairs and maintenance protect the value of our homes and keep them up to standard for residents and staff.

Our leases specify the minimum amount our tenants need to spend and we monitor this carefully, looking at spend in the current year and the total over the last three years. The IM regularly visits homes to inspect them and check progress, with over 110 visits taking place in 2023.

In addition, our valuer, surveyors, environmental specialists and other advisers support the IM in reviewing the quality of our buildings. Collectively, they undertook 197 home inspections in the year.

Where we identify concerns either by tenants falling behind on their repairs and maintenance commitments against our covenant requirements, or more generally a concern that the home does not meet the fully repairing standards expected, we will engage proactively with those tenants to resolve these issues.

How we measure our portfolio quality

The following KPIs reflect the overall quality of our assets. Our total return and the WAULT are also important measures of quality:

EPRA topped-up net initial yield (NIY)

2023 6.92%

2022 6.98%

The EPRA topped-up NIY has been steadily reducing over the year as the property values have stabilised following a sudden outward move at the end of 2022. This has been benefited further by the acquisition of high-quality assets during the year alongside continued improvements to the existing portfolio.

Year-end bed occupancy

2023 88.2%

2022 86.6%

Occupancy across the portfolio continued to increase during the year, although it was still around half a percent below pre-COVID levels at the year end. Tenants have prioritised passing on cost inflation rather than discounting fees to fill beds, which is reflected in the 13.3% average increase in their fees in 2023.

Impact Group average adjusted bed occupancy[1]

Looked at over a longer period, occupancy has steadily recovered since the COVID low point of 79% in January 2021, but has not yet fully returned to pre-covid levels of 90%.

[1] Excludes one new home in build-up and three turnaround assets which have not reached maturity.

Monitoring the quality of care

The IM tracks reports and ratings from regulators, and regularly reviews customer feedback on the homes.

During 2023, the regulator inspected 27 of our homes. If the regulator rates a home as inadequate or requires improvement, the IM reviews the report in detail and discusses the findings with the tenant's operations director.

This allows us to understand the issues, the actions the tenant is taking and whether there are any broader operational concerns the tenant is looking to address. Where appropriate, we'll seek independent support to help resolve any ongoing

issues.

s172

Stakeholders' interest: community impact and business reputation

In addition to the financial implications of building and care quality discussed above, the directors must consider how these issues can affect the community and the Group's reputation. Poor buildings or care have a direct impact on residents' quality of life and the working environment for staff and therefore the community within which they operate. Badly maintained buildings and poor care could do significant damage to tenants' reputations, which in turn could harm perceptions of the Group.

How we measure our tenants' care quality

The regulator's ratings are a KPI for us:

Home rated good or outstanding by CQC

2023 80.6%

2022 78.2%

The proportion of good or outstanding homes improved during the year and is above the sector average of 79%. At the year end, two homes were rated inadequate and 23 required improvement.

Taking account of residents' interests

Our tenants are responsible for their residents and we don't directly engage with them, except when we meet them during home visits. The main ways we look after residents' interests are through our oversight of care quality ratings and ensuring the homes are well maintained, as described above.

Case study

Asset management timeline

January Works commence at Mavern, Wiltshire to add eight new bedrooms and residents lounge	**February** Works commence at Golborne, adding new bedrooms and wet rooms	**May** Handover of link block incorporating 11 new bedrooms at Fairview, Bristol, enabling improved operational efficiency	**June** Handover at Isle Court Shropshire, creating three new premium rooms	**July** Works commence on new 25-bed care home alongside the existing Yew Tree Care Centre in Redcar
August Works commence at Amberley House, Truro, to create 16 new bedrooms, laundry and improved resident day space	**October** Works commence at Elm House, Cheshire, to add 21 bedrooms, resident lounge and sensory garden	**November** Handover at Golborne	**December** Handover at Mavern	

Mavern - refurbishment and extension in progress

We approved an extension and extensive refurbishment of Mavern in January 2023 which is due for completion in early 2024. The refurbishment will modernise the care home ensuring it can continue to provide high quality care over the term of the lease while delivering improved energy efficiency in line with our ESG strategy.

- Beds: +8 beds to 62 beds.
- New resident lounge.

- EPC improvement from C to B - including air source heat pumps and solar pv.
- Capital expenditure of £1.9 million.
- Target value uplift of £0.5 million.

"We are so pleased with the investment in our home and the wonderful new bedrooms and day spaces that have been created. We are sure that residents and staff will benefit from the improvements and further enhance our reputation locally."

Justine Old, Registered Manager

Freeland Lodge - three years on

Construction of Freeland Lodge, a 46-bed care home, was completed in 2020. Located adjacent to Freeland House the home offers nursing, dementia and residential care. Three years after opening, the home is delivering in line with projections with strong occupancy and similar fees from both self-funded and publicly funded residents, reflective of the quality of environment and care provided.

- Beds: 46.
- Capital expenditure: £5.2 million.
- Value uplift since completion £1.6 million[1].
- Year-end occupancy: 93.5%.
- AWF: £1,480.
- Carehome.co.uk: 9.5/10.
- CQC: Good.
- EPC: B37.

[1] This includes uplifts on the existing property, Freeland House.

"We are so pleased with the progress we have made over the last three years. Residents and staff really love the light and airy spaces and the wonderful views out over the gardens and beyond."

May Hernandez Vidal-Payne, Registered Manager

4 | OUR FOCUS ON AFFORDABILITY

Rent cover
2.0x *+11.7%*
2022: 1.8x

For our business to be sustainable, our tenants must be able to afford our rent and their fees must be affordable to a sufficient number of potential residents, both private and publicly funded.

Our strategic choices relate to the rents we set when we first agree leases and how we structure our rent review clauses.

Strategy: setting initial rents and ensuring sustainable rental growth

We believe that all our stakeholders will be better off in the long run if we make sure rents remain affordable. With this in mind:

- we typically set initial rents to ensure strong rent cover from day one; and
- all our leases include annual inflation-linked rental growth, with minimum and maximum increases each year. For most leases, these are set at 2% and 4% respectively.

This structure shares risk between us and our tenants. It guarantees that our income will grow every year, including when inflation is low, while protecting our tenants when inflation is high, as it has been over the last 12 to 18 months.

Impact leases inflation linkage

Percentage of Impact leases with RPI linkage	99%[1]

Percentage of Impact leases with CPI linkage	1%

Impact leases caps and collars

Percentage with floor 2%/cap 4%	85%[1]
Percentage with floor 1%/cap 5%	14%
Percentage with upwards-only inflation linkage	1%

s172
Stakeholders' interests: long-term impact and business reputation

The way we set initial rents and structure rent reviews are good examples of our focus on the long term. If rents become too high, we'll lose tenants and hence income, causing major disruption to residents and staff, reducing the value of our assets and risking damage to our reputation. Balancing rental growth with affordability is therefore a key part of providing sustainable returns for shareholders.

[1] This includes the seven leases with Melrose which have been temporarily amended to variable rent.

How we measure affordability
Rent cover is one of the most important KPIs for our business. We also track our rental growth and the amount of rent that's overdue:

Last 12 Months (LTM) Rent cover
2023 2.00x
2022 1.80x

Rent cover increased throughout the year and was the highest we'd recorded at the year end. This reflects our tenants' success in passing on inflationary cost pressures through higher fees, and the fact that fees grew faster than rent due to the caps in our leases.

Average rental growth from rent reviews
2023 4.1%
2022 4.1%

Across both years, all the Group's care home rents had increased in line with the rent review cap in their lease.

Rent collection
2023 99%
2022 100%

In the first half of 2023 Silverline stopped paying rent, the homes were re-tenanted by June 2023, although this was partially mitigated by a rental deposit held by the Group; it resulted in £236,000 rent written off.

The chart on page 31 of the annual report shows rent cover over time, demonstrating that rents have been consistently affordable for our tenants, as well as the scale of the improvement this year

The chart on page 31 of the annual report sets out the rental growth we've achieved over the last six years and compares the percentage increase with the rate of inflation. It shows that we've received above-inflation increases for much of this period, with our tenants being protected more recently from high inflation. In total, rent reviews added £1.6 million to our contracted rent in 2023.

[1] Rent cover excludes seven turnaround homes which were previously operated by Silverline and were re-tenanted in June 2023 and one new home in build-up stage. The adjustments are consistent with reporting in previous periods.

Affordability of our tenants' rent
An important indicator of whether our tenants' rent is affordable, is whether they can increase their fees at or ahead of the rate of inflation. As shown below, care home operators have a long history of achieving this:

This continued in 2023. Across our portfolio, the average weekly fee (AWF) rose by 13.3% to £1,049, contributing to rising tenant profitability and rent cover.

Case study

Q&A with our tenant - Careport

Careport summary

Number of care homes with us

9

2023 average occupancy

96%

Public/private fee split

74% / 26%

Average EBITDARM margin (since January 2020)

26%

Q: What are your main aims as a business?

A: Our principal aim is to ensure that Careport is the preferred provider of dementia care in all areas where we operate.

Q: How do you do that?

A: We need to show we can deliver on three fronts: we provide good quality care; we are a reliable partner for our staff, residents and the people paying for their care; and we manage well-invested care homes where people want to live and work.

Q: What are your plans for 2024 and beyond?

A: During the COVID pandemic we really focused on being a reliable and trusted care provider during a very challenging period. Then, in 2023, we had to concentrate on managing cost inflation. We are now moving into the next period where we are thinking about the investment required to enable our business to perform over the longer term.

Q: What kind of investments are you considering?

A: We are already quite advanced in rolling out modern digital care management tools and want to take that investment further. Our aim is not to reduce staff, but to ensure the staff we have work consistently better and have more job satisfaction.

That leads into the second major area of investment - our staff - where we are putting in place measures to be able recruit the best people, train them and offer a career with real potential.

Q: Over 75% of the residents you care for are funded by their local council or NHS on lower fees than are typically paid in the private market. Can you afford to invest?

A: We aim to deliver excellent care at affordable rates and never forget that in order to be a sustainable organisation we also need to be a profitable business. Since we started our relationship with Impact in 2018, our rent cover has been consistently better than two times during some very challenging times.

Q: There are significant capex programmes agreed with Impact due to start in 2024.What's the best project you've worked with Impact on so far?

A: The completion of the large-scale project we undertook to convert Blackwell Vale, a weak and underinvested care home bought in partnership with Impact, into what is now Riverwell Beck has been transformational. Impact supported us by envisioning the potential in Blackwell Vale and assisting us to undertake a complete overhaul of the internal layout, including a refurbishment and an extension which culminated in an additional five bedrooms and a significant improvement in the building specification and energy efficiency.

We worked with Impact to agree an affordable rent from day one which provided headroom for further investment. On Riverwell Beck, Impact challenged us to be more optimistic on the extent of the refurbishment and we are delighted we took this risk as performance has outperformed our initial expectations.

Q: And of course Impact have also worked with you on sustainability improvement programmes…

A: We are fully aware of the need for greener and more sustainable properties and have embarked on projects across our entire portfolio to enhance the energy efficiency of our buildings; a consequence of which has been lower energy costs. Impact has been instrumental in providing us with the tools and funding to improve our buildings' sustainability. This is an area of capex that we continue to explore, such as installing solar PV on many of our properties.

5 | INCREASING OUR SUSTAINABILITY

EPCs improved

12

8 of which moved up to a higher band

Carbon Intensity (kg CO_2e per m^2 per year)

54kg

(2022: 50kg)

Carbon intensity has increased, in part due to increased occupancy, while energy efficiency measures take time to embed.

We believe that high quality, affordable care should be accessible to all.

We were pleased to retain our EPRA sBPR Gold award for the fourth year running, demonstrating our commitment to transparent disclosure on the environmental performance of our portfolio. In 2023, our initial Carbon Disclosure Project report received a D grade. This is a good platform for a first submission and we are looking to build on this in the future. The IM is a signatory to the UN Principles of Responsible Investment (UN PRI) and has embedded those principles in its risk management and investment decision-making processes.

Care homes are an essential part of the UK's social infrastructure and have a crucial part to play in their communities. Our care homes can also free up much-needed bed space in hospitals, improving people's lives by reducing the time they spend in hospital and providing them with a more appropriate setting for community-based care. Our homes also benefit the wider community and sustain and create local employment. We believe that our long-term investment in these homes delivers positive social outcomes for residents, their families and the staff providing their care in a community setting.

Homes for publicly funded residents have traditionally had less investment than those for private payers.

As a long-term investor and partner to care home operators, ensuring our rents are at appropriate levels helps enable our tenants to provide affordable care for residents who may have less choice which aligns with our purpose.

We set rents at levels that enable operators to provide quality care and value for money to residents, irrespective of whether they are funded privately or by the local authority and NHS.

Alongside supporting tenants to deliver excellent care, we are focused on improving the environmental performance of our portfolio, by increasing our EPC ratings and by achieving net zero by 2045. We are engaging with tenants to identify areas where energy consumption can be reduced in line with our net zero milestones and targets. While the EPC rating of our homes improved in the year our energy intensity increased from 50kg CO_2e/m^2/year to 54kg CO_2e/m^2/year. This can in part be explained by the increased occupancy in our homes and increased carbon factors for energy compared to 2022. Energy efficiency measures will take time to embed, and we recognise that our 2025 interim target of a 15% like for like reduction in carbon emissions is challenging. We remain committed to identifying areas to invest in measures to achieve this and are engaging with our tenants to seek alignment of reducing energy use and carbon emissions in a managed and affordable way.

Building on our materiality assessment completed in 2022, the priorities (listed below) informed our ESG strategy, both of which we referenced in last year's report. During 2023, we have made good progress with embedding these priorities in our day-to-day operations and our decision-making, as well as setting ourselves performance targets where appropriate. Our challenge, as for many businesses, is that we do not have direct control over certain areas. We also need to ensure that everything we do is set within a commercial context.

	Environmental	Social	Governance
Direct influence	• Energy efficiency	• Close collaboration	• Governance and

	management • Carbon reduction and net zero strategy	with care home operators • Refurbishment of care homes • Provision of affordable care	policies for our operations, acquisitions and disposals • Stakeholder engagement • Transparent reporting
Indirect influence	• Physical impacts of climate change • Water and waste management	• Residential care and wellbeing • Employee wellbeing, training and retention	• Responsible management of care homes

Environment	Social	Governance
Strategic investment in our portfolio to improve environmental impact.	Having a positive impact on the people living and working in our homes.	Robust governance and transparent reporting to all stakeholders.
Improving EPCs through enhancements to our properties' energy efficiency and reduction in carbon emissions in line with our net zero pathway.	Recognising the vital social role care homes play and investing in homes that provide high-quality care to a range of residents.	Maintain effective partnerships with key stakeholders and providing clear and accountable data.
Aligns with the following UN Sustainable Development Goals.	Aligns with the following UN Sustainable Development Goals.	Aligns with the following UN Sustainable Development Goals.
13, 11	3, 10, 11	8

Key pillars of our ESG framework

ESG Pillar 1 Strategic Investment in our portfolio to improve environmental impact.

Objectives	How we do it	Metrics	Update
Ensure all assets achieve a minimum of EPC Grade C by 2026 and a minimum of B by 2030.	Investing in assets that are highly energy efficient or have the potential to be with further capex.	Percentage of assets with EPC of C or higher. Number of assets with improved EPC.	93% of portfolio rated C or higher. (2022: 88%)[1]. 12 homes with improved EPCs (2022: 5).
Ensure our portfolio is net zero by 2045 with interim targets of: - 15% reduction in absolute carbon emission on a like-for-like basis by the end of 2025, and - 50% reduction in absolute carbon emission on a like-for-like basis by the end of 2030. Ensure our portfolio is resilient to climate change.	Modelling the carbon footprint of the portfolio and implementing our net zero strategy and plan. Investing in asset management projects to improve energy efficiency. Climate change scenario planning.	Carbon intensity of portfolio in kg CO_2e/m^2/year. Embodied carbon associated with developments and extensions. Percentage of assets with green leases. Absolute carbon emissions. Capex deployed on environment improvements.	Carbon intensity has increased to 54 kg CO_2e/m^2/year (2022: 50). Asset specific carbon mapping underway on potential capital projects. 17% (2022: 13%). 15,923 tCO_2e (2022: 13,768). £741,000 capital deployed on sustainability measures in 2023 (2022: n/a).

Pillar 2: Having a positive impact on the people living and working in our homes.

Objectives	How we do it	Metrics	Update
Support health and well-being of vulnerable people. Ensure access to quality and value for money care for both the publicly funded and private-pay sectors.	Investing in quality buildings and actively monitor care provider performance. Developing close partnerships with operators through formal and informal engagement. Conducting detailed due diligence on long-term need for care. Maintaining balance of private and publicly funded residents.	Tenant satisfaction survey. Affordability of rental payments to tenants. Proportion of publicly funded and private-pay residents. Independent impact report. CQC ratings.	82% rate relationship with Impact as moderately or very satisfied (2022: 87%). Rent cover 2.0x (2022: 1.8x). 69% of tenant income funded by NHS/LA (2022: 69%). Not commissioned for 2023. 80.6% of homes rated Good or Outstanding (2022: 78%).

Pillar 3: Robust Governance and transparent reporting to all stakeholders.

Objectives	How we do it	Metrics	Update
Be transparent with all stakeholders. Maintain robust corporate governance. Proactively listen and engage with public and private	Maintain clear disclosures on operational performance. Maintain policies on supplier code of conduct, anti-money laundering and bribery. Manage the business in	Investment Manager's UN PRI submission. EPRA sustainability rating. Carbon Disclosure Project rating.	UN PRI Signatory Status (2022 N/A). Gold rated (fourth year running). D rated (2022: F).

stakeholders.	accordance with our responsible investment policy. Engage with tenants on good governance practices.	

[1] Based of English equivalent data for Scottish EPCs.

Delivering on a credible net zero delivery plan

In 2022, we published our commitment to achieving net zero by 2045, following a specialist consultancy's desktop analysis of the care homes in our portfolio, using the widely adopted CRREM toolkit. We also included interim targets for 2025 (15% reduction against 2022 baseline) and 2030 (50% reduction against 2022 baseline), mindful that it's important that we demonstrate progress in the near to medium term whilst balancing the affordability of the investment for our tenants. Over time we expect the affordability and efficiency of low carbon technologies to improve, however we are focusing on what measures can also be achieved today to help deliver against these targets.

In 2023, our CO_2e emissions on a like-for-like basis increased on a m^2 basis. Occupancy is a key driver of energy intensity and this has increased over the past two years, however our target remains to reduce this overall and as we implement energy efficiency measures through asset management projects we expect these emissions to fall.

During 2023, we have continued to research and refine our path to net zero to ensure that we're creating a credible net zero delivery plan. We've conducted on-site energy audits in six homes, which are representative of our portfolio. The audit results are helping us to engage more effectively with our tenants to agree a practical, sustainability-related capital expenditure programme, which takes into account our tenants' considerations.

We continue to improve our data collection for energy consumption from our tenants. We have 85% coverage, with estimates based on previous years for where we don't have up to date data. As the quality and quantity of our data improves, we're in a better position to engage with tenants to identify opportunities where we can increase energy efficiency, reduce harmful CO_2 emissions and reduce running costs.

In 2023, the energy use intensity and carbon emissions of our portfolio were as follows:

	2023	2022
Like-for-like building energy intensity (kWh per bed)	**10,966**	10,615
Like-for-like greenhouse gas emissions from building energy consumptions (tCO_2e per bed)	**2.02**	1.99
Like-for-like total indirect greenhouse gas emissions (kg CO_2e per m^2)	**53**	50
Total indirect greenhouse gas emissions (kg CO_2e per m^2)	**54**	50

Improving the energy performance of our portfolio

In 2022, we also set out our target to improve the EPC ratings across our portfolio. Our objective is to achieve a minimum B rating (or Scottish equivalent) by 2030, with an interim target of 50% by 2025.

During 2023, we continued to assess where EPC ratings can be improved through interventions such as building fabric improvements, more efficient LED lighting and more efficient heating systems. Where we have implemented measures like these, we have updated the EPC in accordance with current building regulations. As a result, we're pleased to report a positive movement in the proportion of our homes rated EPC B or higher across the portfolio.

Percentage of assets with an EPC of B or above[1]:

Year	Target	Progress in 2023
2025	50%	57%
2030	100%	

[1] This data is derived using the English equivalent EPC ratings for all properties including Scotland as documented by the published EPC Certification. The full breakdown of EPCs in Scotland, based on Scottish methodology, is C (3%), D, (15%), E (59%), F (12%) and G (12%).

Charitable causes

In 2023, we were delighted to establish a partnership with the Care Workers Charity. It supports care workers in times of need, particularly with mental health support, financial grants and advocating for care workers generally. We look forward to supporting its work throughout 2024.

Satisfaction with Impact as long-term partner

Very satisfied	**46%**
Moderately satisfied	**36%**
Neutral	**9%**
Not satisfied at all	**9%**

Tenant survey

In 2023, we have again conducted a tenant survey, facilitated by an independent external body. We are pleased to report a 92% response rate of which 81% of tenants reported having a positive relationship with Impact and viewed us a good long-term partner and 91% reported satisfaction with Impact's level of engagement with them. We are always keen to get feedback from tenants and we seek to maintain and grow our positive relationships with them.

Progress with our climate resilience

In last year's report, we included our initial response to the Task Force on Climate-related Financial Disclosures (TCFD) methodology. We examined the possible physical climate change risks of three IPCC warming scenarios: RCP 2.6 (1.5-2 degrees), RCP 4.5 (2-3.5 degrees) and RCP 8.5 (4 degrees) across a representative sample of 20 properties from our portfolio and considered the wider climate transition risks and opportunities. The findings, alongside the concurrent work on our net zero strategy, helped to inform our financial planning and risk management processes.

During 2023 we have made good progress with developing our understanding, management, measurement and decision-making in regard to climate action.

The IM has established an ESG committee to drive actions and monitor progress, and improved EPC ratings. From a risk and opportunity perspective, "deep-dives" have been undertaken into four material issues, namely:

- physical risk of flooding;
- stranded assets due to an inability to satisfy MEES requirements;
- the associated costs involved in improving energy efficiency and fulfilling our net zero delivery plan; and
- initial consideration of carbon pricing mechanisms.

RISK MANAGEMENT IS INTEGRAL TO THE WAY WE MANAGE OUR BUSINESS

Our purpose is to deliver attractive risk-adjusted returns.
To achieve that, we've built risk management into everything we do.

The board sets our risk appetite, which then guides the IM's actions when implementing our strategy. While our appetite for risk will vary over time, in general we maintain a balanced overall level of risk, which is appropriate for achieving our strategic objective; working with tenants to provide quality, affordable and sustainable care homes. The board reviews our risk appetite each year.

The diagram on page 39 of the annual report shows the Group's principal risks and uncertainties, in order of the residual risk that remains after taking account of the mitigations we have in place.

As the diagram shows, two of our risks are outside our risk appetite and we're looking to mitigate them further:

- for significant tenant default, our target is for no tenant to account for more than 25% of our contracted rent. The Minster Group and its affiliates are currently 37% of our contracted rent. We aim to continue adding new tenants over time, to further diversify our income; and
- for underinvestment in care homes, the board is working with the IM to understand the cost and delivery plan for achieving our net zero carbon target by 2045. We're looking at whether we can do this by investing in the homes in return for higher rents, whether our tenants could fund the work through increased fees for residents, or, in the worst case, if it could be an irrecoverable cost for us.

Risk tolerance

Our appetite for risk has been reviewed to assess whether we are operating within our risk tolerance. Risk tolerance is a

continuum and the range for some risks extends over more than one of these categories.

Risk appetite
We have defined risk appetite from high to low in the following categories: 'Accepting' (where we are focused on maximising opportunities); 'Flexible' (willing to consider all options); 'Cautious' (where we are willing to tolerate a degree of risk); 'Minimalist' (preferring options with low inherent risk); and 'Averse' (where we avoid risk and uncertainty).

Infectious diseases
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

An outbreak of a significant new infectious disease would clearly place care home residents, who are naturally vulnerable, at significant danger. It may result in lower care home occupancy, reduced tenant profitability and higher costs. All of these would impact on the ability of our tenants to pay us rent, the value our portfolio and our ability to work with tenants successfully.

How we manage this risk
COVID-19, together with other illnesses, means care home operators have experience of managing infectious diseases. Since the outbreak of COVID-19, we have increased our monitoring of occupancy statistics to a weekly format, giving us rapid feedback on this KPI. Also, having an affordable rent, and thus strong rent cover, enables our tenant operating partners to react better to unforeseen changes. In an extreme outbreak we would expect the government to support operators as they did through COVID-19; however, should they not provide this support, we have ensured that our business can sustain a delay in rent collection.

We continually work with our tenants to explore improvements to the homes, this can include ensuring the home is better protected to help with infection control, including air filtration, temperature sensors and unitisation of the home, to help with isolating outbreaks.

We believe that, especially with the learnings from the recent pandemic, the mitigations are sufficient to reduce the risk to moderate, and to be within our risk tolerance.

Opportunity
None.

Significant tenant default
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

This is the risk that either a single large tenant (more than 10% of rent roll) defaults or several smaller tenants default. Any tenant failure is likely to cost us money (as the Silverline situation shows), but some tenants are larger than others. Failure of most tenants would have a moderate impact on us, but a Minster Group failure, as by far the largest group (37% of rent, including affiliates), would be critical and is why the risk is outside of our risk tolerance. This could reduce our revenues and asset values.

How we manage this risk
Our close monitoring of tenants' performance enables us to spot issues quickly and we have shown we can replace a tenant if needed. Most tenants have seen improved profitability this year.

Our strategy is for no tenant to account for more than 25% of our contracted rent. Accordingly, we aim to continue adding new tenants over time, to further diversify our income. We also maintain close contact with Minster and the IM receives quarterly accounts which they discuss in detail with the tenant, confirming its financial health.

Opportunity
None.

Underinvestment in care homes
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

Underinvestment could occur if: tenants don't invest in maintaining the properties, which could reduce the quality of care they can provide; the market or regulation may demand enhanced or different facilities (such as limiting the size of a care home); or, failure to consider the effects of climate change which could accelerate obsolescence of our care homes (both physical and low carbon transition risks) including minimum requirements for EPCs and to meet our net zero target by 2045.

How we manage this risk
All of our leases have full repair and maintenance obligations, as described above. In extreme circumstances, we could replace a tenant who fails to comply.

We identify asset management opportunities before we buy assets and where appropriate we commit with our tenants to ensure this works begins in the first 12 to 18 months.

The board is working with the IM to understand the cost and delivery plan for achieving our net zero carbon target by 2045. We are looking at whether we can do this by investing in the homes in return for higher rents, whether our tenants could fund the work through increased fees for residents, or, in the worst case, if it could be an irrecoverable cost for us. While we continue this work and await guidance on future regulation, we have put this risk slightly outside of our risk tolerance and we keep it under close review.

Opportunity
We can fund building extensions or other improvements, in return for an increase in rent.

Economic disruption
Probability: High
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

An economic downturn could have a moderate to significant impact on the business, but we believe that our mitigations are sufficient to bring it within our risk tolerance.

Difficult economic conditions could put further pressure on local authority funding, affecting our tenants' fees and their ability to pay our rent.

High inflation has led to sharp increases in interest rates, hitting property valuations across all sectors and placing pressure on the financial covenants of our debt facilities which if breached, could result in the banks taking security over our assets. While inflation has come down, interest rates are not expected to return to the previous very low levels.

How we manage this risk
We can limit the impact of this risk by buying well, ensuring our tenants have strong rent cover and managing the assets to increase their value.

Tenant profitability and long-term affordable rents are the key to a sustainable business. We regularly assess our tenants' financial performance, particularly their rent cover. The Care Act 2014 places responsibilities upon local authorities to support individuals who need care, which helps to mitigate this risk.

The board agrees cash flow and debt levels, maintaining a cautious leverage in line with our risk appetite. Our LTV cap is 35% and we our aiming to keep our debt levels below this cap. We also have a policy to limit our exposure to increases in interest rates through fixed rate debt and interest rate caps. Our inflation-linked leases ensure our income grows every year, which supports property valuations.

Opportunity
Reduced asset valuations and/or higher debt costs may create attractive buying opportunities.

Political events
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

Changes to government in the next 12 months are likely to heighten the risk of changes in policy and funding that affect our market. Increased regulation, changes to immigration or changes to care worker pay levels alongside the risk of alternative ways of providing care could make it harder for our tenants to pay their rent, reducing the value of our properties.

How we manage this risk
We see this risk as moderate, because if government were to change regulation that increases operational costs in care homes (for whatever reason) it would have to accept that fees would rise to pay for this - the alternative being tenants losing money and homes closing, which would be politically unacceptable and disastrous for local authorities and the NHS. We have enhanced our knowledge of likely future developments in the health service and sought contact with opinion formers to increase their understanding of the sector.

Opportunity
Increased government funding could help the sector to grow and provide more opportunities for us to support adult social care.

Reputational damage
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Minimalist

Circumstances that could damage our reputation include our tenants providing poor care or breaching standards around matters like minimum wage or modern slavery. In addition, Minster Group is a related party to the IM. If there is a breakdown in trust on related party disclosures, this could damage our reputation.

We have also set targets to deliver net zero carbon by 2045, failure to deliver against our carbon reduction strategy could damage our reputation with investors and the community within which our care homes operate.

How we manage this risk
We are a responsible company and so conscious of reputational risks, which we think could be critical if unmitigated, but are minor after the measures we take. We monitor tenants carefully for the quality of the care, through regular meetings, care home visits and CQC ratings. We select only tenants with high standards.

The board ensures we transparently disclose related party activities and take decisions in the best interest of stakeholders. The board also oversees the monitoring of our progress against our ESG targets.

Opportunity
None.

Investment Manager fails
Probability: Low
Impact: High
Change in the year: No change
Risk appetite: Minimalist

We rely on the IM's capabilities to execute our strategy and support our day-to-day relationships. If the IM fails to retain the key staff, this could result in poor relationships with stakeholders and, ultimately, failure to collect rent and a reduction in value of our portfolio.

How we manage this risk

The service requirements are set out in the Investment Management Agreement which the board monitors annually through the management engagement committee and more regularly through board member interactions with the IM. The IM is a well-run partnership closely bound into the success of the Company. In the last resort, the board believes that it could find an alternative manager to take over. The net risk is therefore within our risk tolerance.

Opportunity

None.

Other risks

There are several other risks that we monitor closely but we don't believe are principal risks for us. These include:

Taxation risk - We're a UK REIT and have to comply with certain rules to maintain that status. Any change to our tax status or in UK tax legislation could make it harder to achieve our investment objectives.

Cyber security - We need to protect our customer and company data from cyber attacks. Losing sensitive information could materially harm our financial condition. We have relatively few IT systems, as the IM runs our business and the Administrator runs the accounting and banking systems. The risk committee reviews our internal controls and provides assurance to the audit committee that they're effective. The audit committee also reviews our internal controls once a year.

Financial management - There's a risk that our budgets and plans are inaccurate, that we've made unrealistic assumptions or not applied them correctly, leading to our financial position deteriorating. The board reviews our financial results and any differences to our forecasts at least once a quarter, so we can investigate any issues.

Development activity - Developments are inherently risky and can face unexpected cost overruns and delays. High inflation and global supply chain delays have increased this risk over recent years. Through careful planning, site optimisation and ensuring our forward-fund commitments are capped, we seek to ensure all developments remain accretive to investors even if risks materialise.

FINANCIAL REVIEW

Portfolio valuation reflects stabilising asset values

Cushman & Wakefield independently values our portfolio in accordance with the RICS Valuation - Professional Standard (the "Red Book").

As at 31 December 2023, the portfolio was valued at £651.3 million (31 December 2022: £532.5 million), up £118.8 million or 22.3%. The increase was made up as follows:

	Contribution to valuation increase	
	£'m	%
Acquisitions completed	91.7[1]	17.2
Acquisition costs capitalised	1.8	0.3
Capital improvements	4.7	0.9
Disposals	(1.3)	(0.2)
Valuation movement	21.9	4.1
Total	**118.8**	**22.3**

The like-for-like valuation increase of £21.9 million equates to 5.30 pence per share. Of this, 5.22 pence per share resulted from inflation-linked rental growth, with 0.08 pence per share due to market value movements.

Resilient financial performance

Net rental income for the year increased by 17.0% to £49.4 million (2022: £42.2 million). Under IFRS, net rental income includes some rent we're required to recognise as income before we receive it, reflecting the minimum uplift in rents over the lease terms, on a straight-line basis. Our cash rental income for the year increased by 18.5% to £42.5 million (2022: £35.9 million). The issue with Silverline resulted in written off rental income of £0.2 million for the year.

In addition to our net rental income, the total income we earned from the portfolio in the year included interest on the loans we'd made to Holmes in December 2021 and Welford in January 2023, to finance asset purchases. This income

totalled £3.7 million in 2023 (2022: £3.2 million) and is included within our interest income (see below). Having exercised our options to buy the assets in June 2023, this finance income came to an end and was replaced by rental income from that date.

Our administrative and other expenses totalled £7.1 million (2022: £7.0 million), which led to a total expense ratio of 1.54% for the year (2022: 1.67%). The EPRA cost ratio reduced to 14.4% (2022: 16.6%). Adjusting revenue to include interest income from our loans to operators and exclude the Silverline rent write-off reduces the cost ratio further to 13.4% (2022: 15.4%).

Finance costs were £12.0 million (2022: £5.4 million), mainly reflecting the increase in SONIA. Interest income was £3.8 million (2022: £3.2 million), which was largely from the operator loans and also included £0.1 million of interest on deposits.

The change in the fair value of investment properties was a gain of £14.8 million (2022: £(14.5) million loss), contributing to profit before tax of £48.8 million (2022: £16.9 million).

Earnings per share (EPS) for the year was 11.79 pence (2022: 4.33 pence) and EPRA EPS was 8.33 pence (2022: 8.37 pence per share). Adjusted EPS, which strips out non-cash and one-off items, was 7.28 pence (2022: 7.11 pence).

These EPS figures are all on both a basic and diluted basis. More information on the calculation of EPS can be found in note 11 to the financial statements.

Attractive and fully covered dividends

As a REIT, the Company must distribute at least 90% of its qualifying profits each year. The Company has therefore declared four quarterly dividends of 1.6925 pence each in respect of 2023, meeting the total dividend target of 6.77 pence per share, up 3.5% on the 6.54 pence paid in respect of 2022. All four dividends were Property Income Distributions.

The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £'m
31 March 2023	25 April 2023	19 May 2023	7.0
30 June 2023	9 August 2023	20 September 2023	7.0
30 September 2023	20 October 2023	24 November 2023	7.0
31 December 2023	30 January 2024	23 February 2024	7.0
Total			**28.0**

The total dividend for 2023 was 123% covered by EPRA EPS and 108% covered by adjusted EPS.

At 31 December 2023, the Company had distributable reserves of £97.2 million.

[1] This includes the acquisition of a portfolio of nine assets which were invested in via a loan to operator in December 2021, where the Group had an option to acquire upon certain regulatory requirements being met. This option was exercised in June 2023.

Portfolio valuation drives higher net asset value

The NAV at 31 December 2023 was £478.1 million, up 7.2% (31 December 2022: £445.9 million). NAV per share was 115.38 pence (31 December 2022: 110.17 pence per share), with the growth rate of 4.7% reflecting the share issue as part of the portfolio acquisition in January, which increased the number of shares in issue by 2.4%.

The chart on page 44 of the annual report shows the main contributors to the movement in NAV per share. As we're required to pay out the large majority of our property rental earnings, the portfolio revaluation was the largest factor.

Strong and prudent balance sheet

During the year, we increased the size and duration of our RCFs, repaid our £15.0 million term loan with Metro Bank and put further interest rate caps in place. As a result, our facilities at the year end were as follows:

	Expiry	Facility size (£'m)	Drawn at 31 Dec 2023 (£'m)	Propco interest cover covenant	Propco LTV covenant
CYBG					

RCF	Dec 2029	50.0	32.5	200%	50%
HSBC					
RCF	Apr 2026	75.0	47.0	200%	55%
NatWest					
RCF	Jun 2028[1]	50.0	30.3	175%[2]	50%
Private placement					
Senior secured notes	Dec 2035	37.0	37.0	250%	55%
Senior secured notes	Jun 2035	38.0	38.0	250%	55%
Total		**250.0**	**184.8**		

With the option to extend for up to two years to June 2030, subject to NatWest's agreement.

Interest cover covenant is 175% until June 2025 after which it will increase to 200% for the remainder of the term.

At the year end, our debt facilities had an average maturity of 6.3 years (31 December 2022: 6.3 years). If we exercise the extension options on the NatWest facility, this increases to 6.7 years.

We had significant liquidity at 31 December 2023, with cash and cash equivalents of £9.4 million and undrawn debt facilities of £65.2 million. This gave us total headroom of £60.5 million, after accounting for our capital commitments.

Dividends and net interest costs fully covered by operating cashflows:

Our cash movements in the year show that our dividends and net annual interest payments are fully covered by operating activities.

GOING CONCERN

The board regularly monitors the Company and 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 2025. 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. As part of the Group's assessment, the modelling includes (but is not limited to) the identification of uncertainties facing the Group, including:

- the risks of default of the Group's tenants, taking into consideration current rent cover. We review the occupancy performance of each tenant over the preceding 12 months and then run sensitivities by the tenant, including a drop in occupancy of 5%, an increase in staff costs by 5% and other costs by 10% and the effect these sensitivities have on rent cover and appraise the risk of a tenant default as low, medium or high; and
- the risk of a fall in investment property values. This may be because of a multitude of risks. We review the resulting impact on the Group's debt covenants and the remedial action that may be taken, including the extent of the resources available to the Company to cure covenant breaches.

The Group's forecasting model includes a variety of stress tests including reduction in investment property valuations, restriction of income from tenants (i.e. non-payment of rent), the inclusion of increases in underlying costs and increases in interest rates. Reverse stress tests have been prepared to evaluate how much valuations or net income would need to fall to trigger defaults in each of the security pools.

Mitigating actions including corresponding reductions in costs as valuations fall, the use of unsecured properties to prevent covenant breaches and stopping dividends 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 while increasing SONIA and bank base rates to 5.5% on variable interest rate loans;
- assessing the level of loss of rents that could be sustained within a security group before each covenant or default level is triggered; and
- assessing the loss of rents or 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 IM and presented to the audit committee and board for review, challenge and debate. The projections and scenarios considered in connection with the approval of this financial information had particular regard to stresses arising from rising inflation and interest rates and, in particular, the impact on the trading and financial strength of the Group's tenants as highlighted above.

Property values would need to fall by more than 38% before loan-to-value covenant breaches would arise with all facilities being fully drawn. Rental income would need to fall by 36% before interest cover covenant breaches would arise, with all facilities being fully drawn.

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 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.

In 2024, the Company's Articles of Association require the board to propose an ordinary resolution at the Annual General Meeting (AGM) for the Company to continue in its current form. This will be the first continuation vote since the Company's inception, if the vote is passed the Company will continue its business as presently constituted and the continuation vote will be held at every fifth AGM thereafter. If the vote is not passed the directors shall within three months after the date of the resolution, put forward proposals to members to the effect that the Company be reconstructed, reorganised or wound up. The board are not aware of any significant or material issues raised by shareholders in relation to this continuation vote but will continue to engage with shareholders as the 2024 AGM approaches. In the event that a continuation vote was not passed, and the Group instructed to wind up, there would be a process of selling off the Group's assets and exiting its current business agreements, this would be expected to take at least 12 months following the AGM so the Company would continue to be a going concern.

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 2029. 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 paragraphs preceding the going concern statement 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 in order 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 included:

- debt re-financings during the forecast period. In relation to additional refinancing obligations within the period of the viability assessment, the directors have reasonable confidence that extensions or replacement debt facilities will be put in place; and
- furthermore, the Group has the ability to make disposals of investment properties to meet its future financing requirements; however, this assessment did not assume any disposals took place.

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 2029.

Section 172 statement

Section 172 of the Companies Act 2006 gives the directors several duties relating to the matters shown in the table below. During 2023, the directors consider that they've acted in good faith and in the way that would be most likely to promote the Company's success for the benefit of shareholders, while also considering the broad range of stakeholders who interact with our business.

Matter	Response
a) The likely consequence of any decision in the long term.	See pages 13 and 30 of the annual report.
b) The interests of the Company's employees.	The Company doesn't have any employees, so this doesn't apply.
c) The need to foster the Company's business relationships with suppliers, customers and others.	Tenants: see pages 19, 21 and 54 of the annual report. Service providers: see pages 54 and 55 of the annual report.
d) The impact of the Company's operations on the community and environment.	See pages 13, 21 and 26 of the annual report.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	See pages 21, 26 and 30 of the annual report.
f) The need to act fairly between members of the Company.	The directors must ensure they treat all shareholders fairly when making their decisions. The board wasn't required to make any decisions in 2023 where any group of shareholders could be treated differently from others, so this issue didn't arise.

Key board decisions

The board's key decisions in the year included approving:

- the portfolio acquisition in January (page 17 of the annual report);
- the revised dividend policy (page 16 of the annual report); and
- replacing Silverline as a tenant (page 21 of the annual report).

The other significant matters the directors considered are shown on pages 52 to 54 of the annual report.

This strategic report was approved by the board on 22 March 2024 and signed on its behalf by:

Simon Laffin

Chair

STATEMENT 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 https://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:

Simon Laffin

Chair

22 March 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**31 December 2023 Total £'000**	31 December 2022 Total £'000
Gross rental income	5	**49,659**	42,242
Bad debts written off	5	**(236)**	-
Insurance/service charge income	5	**871**	704
Insurance/service charge expense	5	**(871)**	(704)
Net rental income		**49,423**	42,242
Administrative and other expenses	6	**(7,137)**	(7,009)
(Loss)/profit on disposal of investment properties	13	**(16)**	130
Operating profit before changes in fair value		**42,270**	35,363
Changes in fair value of put option		**-**	(1,811)
Changes in fair value of investment properties	13	**14,788**	(14,456)
Operating profit		**57,058**	19,096
Finance income	8	**3,761**	3,200
Finance expense	9	**(11,988)**	(5,408)
Profit before tax		**48,831**	16,888
Tax charge on profit for the year	10	**-**	-
Profit and total comprehensive income (attributable to shareholders)		**48,831**	16,888
Earnings per share - basic and diluted (pence)	11	**11.79p**	4.33p

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 2023

	Notes	**31 December 2023 £'000**	31 December 2022

Non-current assets			
Investment property	13	**616,006**	504,318
Interest rate derivatives	18	**1,750**	-
Trade and other receivables	14	**39,237**	68,131
Total non-current assets		**656,993**	572,449
Current assets			
Trade and other receivables	14	**907**	1,181
Interest rate derivatives	18	**-**	363
Cash and cash equivalents	15	**9,389**	22,531
Total current assets		**10,296**	24,075
Total assets		**667,289**	596,524
Current liabilities			
Borrowings	17	**-**	(14,814)
Trade and other payables	16	**(6,915)**	(9,126)
Total current liabilities		**(6,915)**	(23,940)
Non-current liabilities			
Borrowings	17	**(179,937)**	(122,382)
Put option	16	**-**	(1,811)
Trade and other payables	16	**(2,330)**	(2,471)
Total non-current liabilities		**(182,267)**	(126,664)
Total liabilities		**(189,182)**	(150,604)
Total net assets		**478,107**	445,920
Equity			
Share capital	21	**4,144**	4,048
Share premium reserve	21	**376,716**	365,642
Capital reduction reserve	21	**24,077**	24,077
Retained earnings		**73,170**	52,153
Total equity		**478,107**	445,920
Net asset value per ordinary share (pence)	23	**115.38p**	110.17p

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 22 March 2024 and are signed on its behalf by:

Simon Laffin

Chair

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	**31 December 2023 £'000**	31 December 2022 £'000
Cash flows from operating activities			
Profit for the year (attributable to equity shareholders)		**48,831**	16,888
Finance income	8	**(3,761)**	(3,200)
Finance expense	9	**11,988**	5,408
Loss/(profit) on disposal of investment properties	13	**16**	(130)
Changes in fair value of put option	18	**-**	1,811
Changes in fair value of investment properties	13	**(14,788)**	14,456
Net cash flow before working capital changes		**42,286**	35,233
Working capital changes			
Increase in trade and other receivables		**(6,308)**	(5,952)
(Decrease)/increase in trade and other payables		**(2,618)**	207
Net cash flow generated from operating activities		**33,360**	29,488
Investing activities			
Purchase of investment properties		**(44,799)**	(69,217)
Proceeds on sale of investment property		**1,234**	2,625
Acquisition costs capitalised		**(1,765)**	(2,661)
Capital improvements		**(3,375)**	(11,195)
Loan advanced to operator		**(1,600)**	-
Loan associated costs		**-**	(478)
Interest received		**3,695**	3,270
Net cash flow used in investing activities		**(46,610)**	(77,656)
Financing activities			
Proceeds from issue of shares	21	**-**	62,269
Issue costs of ordinary share capital	21	**(30)**	(1,757)
Borrowings drawn	17	**82,500**	85,074
Borrowings repaid	17	**(40,000)**	(57,362)
Loan arrangement fees paid		**(2,827)**	(1,265)
Loan commitment fees paid		**(528)**	(628)
Purchase of derivative		**(3,238)**	-
Interest payments received on interest rate derivatives	18	**1,035**	112
Interest paid on bank borrowings		**(8,990)**	(3,281)
Dividends paid to equity holders	12	**(27,814)**	(25,724)
Net cash flow generated from financing activities		**108**	57,438
Net (decrease)/increase in cash and cash equivalents for the year		**(13,142)**	9,270
Cash and cash equivalents at the start of the year		**22,531**	13,261
Cash and cash equivalents at the end of the year	15	**9,389**	22,531

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2023		**4,048**	**365,642**	**24,077**	**52,153**	**445,920**
Total comprehensive income		-	-	-	48,831	48,831
Transactions with owners						
Dividends paid	12	-	-	-	(27,814)	(27,814)
Share issue	21	96	11,104	-	-	11,200
Share issue costs	21	-	(30)	-	-	(30)
31 December 2023		**4,144**	**376,716**	**24,077**	**73,170**	**478,107**

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2022		**3,506**	**305,672**	**24,077**	**60,989**	**394,244**
Total comprehensive income		-	-	-	16,888	16,888
Transactions with owners						
Dividends paid	12	-	-	-	(25,724)	(25,724)
Share issue	21	542	61,727	-	-	62,269
Share issue costs	21	-	(1,757)	-	-	(1,757)
31 December 2022		**4,048**	**365,642**	**24,077**	**52,153**	**445,920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2023 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 2023 or 31 December 2022, but is derived from those financial statements. Financial statements for the year ended 31 December 2022 have been delivered to the Registrar of Companies and those for the year ended 31 December 2023 will be delivered following the Company's Annual General Meeting. The auditor's reports on both the 31 December 2022 and 31 December 2023 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, the put option and interest rate derivatives, 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 in this report and note 19 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 high inflation and interest rate environment has been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of heightened interest rates and rising costs 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 10 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 13.

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 13.

3. Summary of material accounting policies

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2023. 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 tenants providing greater than 10% of revenue is included in note 5.

4. New standards issued

4.1. New standards issued with effect from 1 January 2023

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 2023 £'000	Year ended 31 December 2022 £'000
Rental income cash received in the year	**42,513**	35,889
Rent received in advance of recognition[1]	**141**	170
Rent recognised in advance of receipt[2]	**7,145**	6,324
Rental lease incentive amortisation[3]	**(140)**	(141)
Gross rental income	**49,659**	42,242
Bad debts written off[4]	**(236)**	-
Insurance/service charge income	**871**	704
Insurance/service charge expense	**(871)**	(704)
Net rental income	**49,423**	42,242

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

[2] Relates to movement in both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum uplift in rents over the term of the lease on a straight-line basis.

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

[4] Bad debts written off relates to rental arrears due from one tenant who leased seven of the Group's properties, in the period these properties were re-tenanted, see note 22 for further detail.

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 38.4% of gross rental income:

	2023	2022
Minster Care Management Limited	**24.9%**	29.3%
Welford	**17.1%**	11.3%
Croftwood Care UK Limited	**13.5%**	15.4%
Holmes Care Group	**12.5%**	10.3%
Others	**32.0%**	33.7%

Accounting policy

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 reflected 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.

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 that are recoverable are included in gross rental income as the directors consider that the Group acts as principal in this respect.

6. Administrative and other expenses

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Investment Manager fees (see note 22)	**4,810**	4,581
Directors' remuneration (see note 7)	**276**	250
Auditor's fees		
- Statutory audit of the Company and Group (including subsidiaries)	**302**	280
- Agreed upon procedures for the Company's interim report	**17**	16
Total auditor's fees[1]	**319**	296
Administration fees	**523**	497
Regulatory fees	**34**	18
Legal and professional	**912**	630
Recruitment services and remuneration committee advice	**32**	70
Other administrative costs	**231**	667
	7,137	7,009

[1] In 2023, the auditor also received fees of £nil (2022: £66,000) relating to other advisory services in relation to share issues during the year. These fees have been recognised in share premium as share issue costs.

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 2023 £'000	Year ended 31 December 2022 £'000
Simon Laffin (Chair)	**55**	-

	2023	2022
Rupert Barclay (resigned)	**15**	49
Rosemary Boot	**40**	35
Philip Hall	**40**	35
Paul Craig (resigned)	**15**	35
Amanda Aldridge	**46**	41
Chris Santer	**40**	35
	251	230
Employer's National Insurance	**25**	20
	276	250

Directors' remuneration payable at 31 December 2023 amounted to £18,440 (2022: £10,242).

8. Finance income

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Bank interest	**55**	8
Loan interest	**3,706**	3,192
	3,761	3,200

Loan interest income relates to interest on loans made to operators to purchase property portfolios. Upon granting these loans, the Group enters into put and call option agreements that allows it to purchase the property-owning entity for £1 upon certain conditions being met.

Accounting policy

Finance income

Finance income is accounted for on an accruals basis.

9. Finance expenses

	Note	**Year ended 31 December 2023 £'000**	Year ended 31 December 2022 £'000
Interest payable on bank borrowings		**9,584**	3,985
Commitment fee payable on borrowings		**528**	599
Amortisation of loan arrangement fee		**1,418**	1,205
Changes in fair value of interest rate derivatives	18	**458**	(381)
		11,988	5,408

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on borrowings, which was £184.8m at 31 December 2023 (2022: £142.3m). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility, in the year ended 31 December 2023 £1.2m was capitalised (2022: £2.6m).

Accounting policy

Finance expense

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

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

10. 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 2023 and the year ended 31 December 2022, the Group did not have any non-qualifying profits except interest income.

Tax charge in the consolidated statement of comprehensive income:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
UK corporation tax	**-**	-

Reconciliation of the corporation tax charge:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Profit before tax	**48,831**	16,888
Theoretical tax at UK corporation tax rate 23.5% (2022: 19%)	**11,475**	3,209
Effects of:		
REIT exempt profits	**(8,860)**	(5,905)
Non-taxable items	**(2,615)**	2,696
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. The Group also received income outside of the property rental business (not covered by the REIT tax exemptions), this was namely in the form of interest income on loans to operators for the acquisition of property portfolios where the Group had an option to acquire upon certain regulatory requirements being met. This income was offset by residual business expenses and carried forward losses so incurred no tax charge for the period.

Accounting policy

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.

11. 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 2023 £'000	Year ended 31 December 2022 £'000
Total comprehensive income (attributable to shareholders)	**48,831**	16,888
Adjusted for:		
- Revaluation movement	**(21,934)**	8,103
- Rental lease incentive	**(140)**	(141)
- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	**7,286**	6,494
Change in fair value of investment properties	**(14,788)**	14,456
Change in fair value of put option	**-**	1,811
Loss/(profit) on disposal of investment property	**16**	(130)
Change in fair value of interest rate derivative	**458**	(381)
EPRA earnings	**34,517**	32,644
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	**(7,287)**	(6,494)
Amortisation of lease incentives	**141**	141
Cash received on interest rate cap	**1,393**	112
Amortisation of loan arrangement fees	**1,418**	1,205
(Loss)/profit on disposal of investment property	**(16)**	130
Adjusted earnings	**30,166**	27,738
Average number of ordinary shares	**414,157,674**	390,058,661
Earnings per share (pence)[1]	**11.79p**	4.33p
EPRA basic and diluted earnings per share (pence)[1]	**8.33p**	8.37p
Adjusted basic and diluted earnings per share (pence)[1]	**7.28p**	7.11p

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

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 recurring net income. The metric adjusts EPRA earnings by other non-cash items credited or charged to the Group statement of comprehensive income including the effect of straight-lining of rental income from fixed rental uplift adjustments and amortisation of loan arrangement fees. The metric also adjusts for any one-off costs that are not expected to be recurring

and for cash items which are excluded from the EPRA earnings calculation such as interest income on hedging arrangement.

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.

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

12. Dividends

	Dividend rate (pence per share)	**Year ended 31 December 2023 £'000**	Year ended 31 December 2022 £'000
Fourth interim dividend for the period ended 31 December 2021 (ex-dividend - 25 February 2022)	1.6025p	**-**	6,181
First interim dividend for the period ended 31 December 2022 (ex-dividend - 5 May 2022)	1.6350p	**-**	6,307
Second interim dividend for the period ended 31 December 2022 (ex-dividend - 25 August 2022)	1.6350p	**-**	6,618
Third interim dividend for the period ended 31 December 2022 (ex-dividend - 3 November 2022)	1.6350p	**-**	6,618
Fourth interim dividend for the period ended 31 December 2022 (ex-dividend - 31 January 2023)	1.6350p	**6,775**	-
First interim dividend for the period ended 31 December 2023 (ex-dividend - 25 April 2023)	1.6925p	**7,013**	-
Second interim dividend for the period ended 31 December 2023 (ex-dividend - 9 August 2023)	1.6925p	**7,013**	-
Third interim dividend for the period ended 31 December 2023 (ex-dividend - 20 October 2023)	1.6925p	**7,013**	-
Total dividends paid		**27,814**	25,724
Total dividends paid in respect of the year		**5.0775p**	4.9050p
Total dividends unpaid but declared in respect of the year		**1.6925p**	1.6350p
Total dividends declared in respect of the year - per share		**6.77p**	6.54p

On 31 January 2023, the Company declared an interim dividend of 1.6350 pence per share for the period from 1 October 2022 to 31 December 2022 and was paid on 24 February 2023.

On 25 April 2023, the Company declared an interim dividend of 1.6925 pence per ordinary share for the period from 1 January 2023 to 31 March 2023 and was paid on 19 May 2023.

On 9 August 2023, the Company declared an interim dividend of 1.6925 pence per share for the period from 1 April 2023 to 30 June 2023 and was paid on 20 September 2023.

On 20 October 2023, the Company declared an interim dividend of 1.6925 pence per share for the period 1 July 2023 to 30 September 2023 and was paid on 24 November 2023.

Accounting policy

Dividends

Dividends are recognised when they become legally payable.

13. Investment property

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

The valuers of the Group property portfolio have a working knowledge of the various ways that environmental, social and governance factors can impact the value of property. Concerning Governance, within the care sector in the UK, the valuers

reflect the latest available regulatory reports from the various regulatory bodies within the UK (being CQC, CSSIW, Care Inspectorate and RQIA). With regards to Social, there are fewer established benchmarks in this area but the valuers are aware that care homes generally meet a social need to residents and are also employment providers.

Environmental and sustainability standards, which vary across parts of the UK are also referenced within the valuers' report. The valuers also note that they continue to monitor the wider property market for evidence of transactional activity that evidences the views of market participants in this area.

The Group continues to share recently conducted physical climate and transitional risk assessments with the valuers, which they have reviewed and reflected in their valuations to the extent that current market participants would do so.

Valuers observe, assess and monitor evidence from market activities, including market sentiment, on issues such as longer-term obsolescence and, where known, future environmental, social and governance related risks. These may include, for example, the market's approach to capital expenditure required to maintain the utility of the asset. In the absence of reliable benchmarking data and indices for estimating costs, specialist advice on cost management may be required. This is usually agreed with the valuer in the terms of engagement and without reasonable estimates, assumptions may be needed properly to reflect market expectations in arriving at the valuation.

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 2023 £'000	As at 31 December 2022 £'000
Opening value	**532,479**	459,442
Property additions	**91,688**	69,217
Property disposals[1]	**(1,250)**	(2,495)
Acquisition costs capitalised	**1,765**	2,591
Capital improvements	**4,697**	11,826
Revaluation movement	**21,934**	(8,102)
Closing value per independent valuation report	**651,313**	532,479
Guaranteed rent reviews debtor	**(35,258)**	(28,112)
Lease incentive debtor	**(2,379)**	(2,519)
Rent premium creditor	**2,330**	2,470
Closing fair value per consolidation statement of financial position	**616,006**	504,318

[1] In 2023 the carrying value of disposals was £1,250,000 (2022: £2,495,000), this combined with the loss on disposal of £16,000 (2022: £130,000 profit), makes up the total net proceeds shown in the consolidated statement of cash flows.

During the year, the Group acquired an additional £91.7m assets, of which £35.7m relates to a portfolio which was purchased via a loan to operator in December 2021 where the Group had an option to acquire, this option was exercised in June 2023 and £56m relates to the purchase of a portfolio in 2023 where 20% of the consideration was made up of shares in the Company, see note 21 for further detail.

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 2023 £'000	Year ended 31 December 2022 £'000
Revaluation movement	**21,934**	(8,102)
Rental lease incentive[1]	**140**	141
Rental income arising from recognising rental premiums and guaranteed rent uplifts	**(7,286)**	(6,495)
Change in fair value of investment properties	**14,788**	(14,456)

[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 care home 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 2023 £'000**	Year ended 31 December 2022 £'000
Rent received in advance of recognition[1]	5	**140**	170
Rent recognised in advance of receipt[2]	5	**7,145**	6,324
Rental income arising from recognising rental premium and future guaranteed rent uplifts		**7,286**	6,494

[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 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); estimated rental value (ERV) based on market conditions prevailing at the valuation date and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

The Group's investment properties, which are all healthcare assets, are considered to be a single class of asset. Initial yields range from 3.6% to 12.5% across the portfolio, the average yield, as measured by the EPRA "topped-up" net initial yield for the portfolio, was 6.92% as at 31 December 2023. Annual rent roll for the portfolio as at 31 December 2023 was £47.2m and the total ERV was £48.2m. ERV per bed ranges from £2,300/bed to £12,000/bed.

A 0.25% movement of the valuation yield would have approximately a £22.6m impact on the investment property valuation. A 1% movement in the rental income would have approximately a £6.5m 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 2023	616,006	-	-	616,006
Investment properties	31 December 2022	504,318	-	-	504,318

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

Accounting policy

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.

14. Trade and other receivables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Non-current		
Rent recognised in advance of receipt	**35,258**	28,112
Rental lease incentive	**2,379**	2,519
Loan receivable[1,2]	**1,600**	37,500
	39,237	68,131
Current		
Interest receivable on interest rate derivatives	**358**	-
Interest receivable on operator loan	**66**	-
Loan associated costs	**-**	671
Accrued income	**142**	-
Prepayments	**196**	510
Other receivables	**145**	-
	907	1,181
	40,144	69,312

[1] In December 2021, 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 (see note 16 for further detail). In June 2023, the option was exercised and the portfolio was acquired by the Group.

[2] In June 2023, the Group entered into a loan agreement with Melrose Holdings Limited, a related party, where the Group provided a working capital loan of £1,600,000 which bears interest at 8.00% per annum (see note 22 for further detail).

No impairment losses have been recognised as at 31 December 2023 (2022: £nil), refer to note 19 for further detail. However, the Group did write-off £236,000 of rent in the period as a result of non-payment by one of the Group's tenants, see note 22 for further detail.

Accounting policy

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.

15. Cash and cash equivalents

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Cash and cash equivalents	**9,389**	22,531

Included as part of cash and cash equivalents is restricted cash of £nil (2022: £14.7m). This restricted cash relates to the proceeds of the loan notes issued and will be released upon addition of the designated properties into the security pool.

Accounting policy

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.

16. Trade and other payables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Non-current		
Rent received in advance of recognition	**2,330**	2,471
Put option	**-**	1,811
Current		
Trade and other payables	**1,686**	3,420
Interest payable	**1,745**	1,149
Withholding tax payable - (PID dividends)	**606**	609
Rental received in advance	**-**	1,949
Rental deposits	**-**	443
Capital improvements payable	**2,878**	1,556
	6,915	9,126
	9,245	13,408

To reconcile working capital changes in 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.

On 23 December 2021, 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 bore interest at 8.57% per annum. The funds were lent to Holmes Care Group to acquire a portfolio of properties.

On the same date, put and call options were entered into between entities owned by Holmes Care Group and Impact Property 6 Limited which, upon certain conditions being met, gave the Group the right to acquire and Holmes Care Group the right to sell the company holding the portfolio of properties and the £37,500,000 loan liability, to the options' counterparty for consideration of £1.

This option became exercisable primarily upon Holmes Care Group receiving approval from the Care Inspectorate to re-register the operations of the care homes into another operating entity. This was considered to be a substantive condition to be met before the options was exercisable and therefore management did not consider there was any present ownership interest in the property company which may be acquired at a future date until the conditions were met. The fair value of the option reflects the underlying investment properties, offset by loan and interest due at each balance sheet date. The investment properties were valued on the same basis as the Group's investment property. In June 2023 the option was exercised, and the portfolio was acquired by the Group.

Accounting policy

Trade payables

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

Put and call options

Put and call option instruments, comprising the right for an operator to sell to the Group or Impact to acquire from the operator the share capital of a company holding a portfolio of properties, are measured at fair value.

Changes in fair value of put and call option instrument 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.

17. Borrowings

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

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
At the beginning of the year	**142,260**	114,548
Borrowings drawn in the year	**82,500**	85,074
Borrowings repaid in the year	**(40,000)**	(57,362)
Total bank borrowings drawn[1]	**184,760**	142,260

[1] Total bank borrowings drawn are equal to its fair value.

As at 31 December 2023, the Group had £250m (2022: £241m) of available facilities of which £65.2m was undrawn (2022: £98.7m).

A summary of the bank borrowings by lender are shown below:

As at 31 December 2023:

	Clydesdale Bank PLC ('Virgin')	HSBC UK Bank Plc ('HSBC')	National Westminster Bank Plc ('NatWest')	Senior secured loan notes (tranche A)	Senior secured loan notes (tranche B)	Total
Facility type	RCF	RCF	RCF	Private placement	Private placement	
Size (£'m)	50.0	75.0	50.0	37.0	38.0	250
Drawn debt (£'m)	32.5	47.0	30.3	37.0	38.0	184.8
Start date	December 2022	April 2020	May 2017	December 2021	December 2021	
Expiry date	December 2029	April 2026	June 2028	December 2035	June 2035	
Margin	2.00%	2.00%	2.00%	N/A	N/A	
Fixed interest rate	N/A	N/A	N/A	2.93%	3.00%	
Independent valuation of secured properties (£'m)	118.2	163.6	129.2	171.3		582.3
Financial covenants:						
LTV[1]	50%	55%	50%	55%		
Interest cover[2]	2.00x	2.00x	1.75x	2.50x		

As at 31 December 2022:

	Metro Bank PLC ('Metro')	Clydesdale Bank PLC ('Virgin')	HSBC UK Bank Plc ('HSBC')	National Westminster Bank Plc ('NatWest')	Senior secured loan notes (tranche A)	Senior secured loan notes (tranche B)	Total
Facility type	Term loan	RCF	RCF	RCF	Private placement	Private placement	
Size (£'m)	15.0	50.0	75.0	26.0	37.0	38.0	241.0
Drawn debt (£'m)	15.0	17.0	10.0	25.3	37.0	38.0	142.3
Start date	June 2018	December 2022	April 2020	May 2017	December 2021	December 2021	
Expiry date	June 2023	December 2029	April 2025	June 2024	December 2035	June 2035	
Margin	2.65%	2.00%	2.00%	1.90%	N/A	N/A	
Fixed interest rate	N/A	N/A	N/A	N/A	2.93%	3.00%	
Independent valuation of secured properties (£'m)	53.9	110.9	146.8	64.7	128.9		505.2
Financial covenants:							

LTV[1]	50%	55%	50%	55%
Interest cover[2]	2.00x	2.50x	2.50x	2.50x

[1] Loan to value must not exceed the stated percentage.

[2] Passing rent from ringfenced properties divided by interest expense must exceed the stated cover ratio.

In June 2023, the Group repaid its £15m term loan with Metro Bank PLC.

In June 2023, the Group increased its RCF facility with NatWest from £26m to £50m, extended the facility term from June 2024 to June 2028 with a further two one-year extension options (subject to lender approval) to June 2030. In recognition of the maturity extension, the margin was increased to 200 bps above SONIA (previously 190 bps). The interest cover covenant was reduced from 2.50x to 1.75x in the first two years, after which it increases to 2.00x for the remainder of the term.

In June 2023, the Group agreed a one-year extension option to its HSBC RCF to April 2026. The interest cover covenant was reduced from 2.50x to 2.00x, with the margin remaining at 200 bps above SONIA.

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 2023 £'000	As at 31 December 2022 £'000
Borrowings drawn	**184,760**	142,260
Arrangement fees - brought forward	**(5,064)**	(3,641)
Arrangement fees incurred during the year	**(1,177)**	(2,628)
Amortisation of loan arrangement fees	**1,418**	1,205
Borrowings at amortised cost	**179,937**	137,196
Borrowings at amortised cost due within one year	**-**	14,814
Borrowings at amortised cost due after one year	**179,937**	122,382

Maturity analysis of borrowings:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Repayable within one year	**-**	15,000
Repayable between one and two years	**-**	25,260
Repayable between two and five years	**77,260**	10,000
Repayable in over five years	**107,500**	92,000
Total	**184,760**	142,260

The weighted average term of the Group's committed facilities is 6.8 years (2022: 6.3 years).

As at 31 December 2023, the nominal value of the Group's loans equated to £184.8m, the fair value of these loans, based on a discounted cash flow using relevant rates based on market conditions as at 31 December 2023, totalled £161.8m.

Accounting policy

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.

18. Interest rate derivatives

	As at	As at

	31 December 2023 £'000	31 December 2022 £'000
At the beginning of the year	**363**	94
Purchase of derivative	**3,238**	-
Change in fair value of interest rate derivatives	**(458)**	381
Payments received and accrued on interest rate derivatives	**(1,393)**	(112)
	1,750	363

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group has entered into interest rate caps.

In June 2018, the Group entered into an interest rate cap with the notional value of £25m and a strike rate of 1% which terminated in June 2023.

In January 2023, the Group purchased a two-year interest rate cap for £1.5m, which caps SONIA at 3% for a notional amount of £50m.

In August 2023, the Group purchased a two-year interest rate cap for £1.8m, which caps SONIA at 4% for a notional amount of £50m.

At 31 December 2023, the Group had loans of £109.8m (2022: £67.3m) which were exposed to interest rate risk.

Accounting policy

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.

19. 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 2023 £'000	As at 31 December 2022 £'000
Financial assets at amortised cost:		
Loan receivable	**1,600**	37,500
Cash and cash equivalents	**9,389**	22,531
Trade and other receivables	**711**	-
Financial assets at fair value:		
Interest rate derivative	**1,750**	363
Financial liabilities at amortised cost:		
Borrowings	**179,937**	137,196
Trade and other payables	**6,309**	6,568
Financial liabilities at fair value:		
Put option	**-**	1,811

The interest rate derivative and put option are the only financial instruments that are 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 and put option:

	Date of valuation	Total £'000	Level 1[1] £'000	Level 2[1] £'000	Level 3[1] £'000
Assets measured at fair value:					
Interest rate derivative	31 December 2023	1,750	-	1,750	-
Interest rate derivative	31 December 2022	363	-	363	-
Financial liabilities at fair value:					
Put option	31 December 2023	-	-	-	-

Put option	31 December 2022	1,811	-	-	1,811

The fair value categories are defined in note 13.

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 the 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 a movement of £46,945 (2022: £112,660) in interest receivable for the year.

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group has entered into an interest rate derivatives to reduce its exposure to interest rate risk on its floating-rate debt (refer to note 18). 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 a movement of £48,800 (2022: £211,300) in interest payable for the year.

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 2023.

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.

Accounting policy

Expected credit losses

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

12-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).

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.

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 2023:						
Borrowings	**-**	**-**	**-**	**77,260**	**107,500**	**184,760**
Interest and commitment fees on borrowings	**937**	**2,853**	**3,790**	**9,318**	**15,382**	**32,280**
Trade and other payables	**6,309**	**-**	**-**	**-**	**-**	**6,309**
31 December 2022:						
Borrowings	-	15,000	25,260	10,000	92,000	142,260
Interest and commitment fees on borrowings	968	2,765	3,458	8,195	18,065	33,451
Trade and other payables	6,568	-	-	-	-	6,568

20. 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 6.77 pence per share for the year ended 31 December 2023 and its target aggregate dividend of 6.54 pence per share for the year ended 31 December 2022.

As at 31 December 2023, 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 £65.2m of 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.

21. 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 2021	**350,644,188**	**3,506**	**305,672**	**24,077**	**333,255**
Share issue	54,120,140	542	61,727	-	62,269

Share issue cost	-	-	(1,757)	-	(1,757)
As at 31 December 2022	**404,764,328**	**4,048**	**365,642**	**24,077**	**393,767**
Share issue	9,603,841	96	11,104	-	11,200
Share issue cost	-	-	(30)	-	(30)
As at 31 December 2023	**414,368,169**	**4,144**	**376,716**	**24,077**	**404,937**

The Company had 414,368,169 shares of nominal value of 1 pence each in issue at the end of the year (2022: 404,764,328).

On 13 January 2023, the Company issued 9,603,841 ordinary shares at a price of 116.62 pence per ordinary share raising gross proceeds of £11.2m. These shares were part consideration for the acquisition of a portfolio of six properties purchased in January 2023, the remaining consideration of £44.8m was paid in cash, see note 13 for further detail.

Accounting policy

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.

22. 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 2023 £'000	Year ended 31 December 2022 £'000
Amounts payable to Impact Health Partners LLP		
Net fee	**4,810**	4,581
Gross fee	**4,810**	4,581

Certain members of the Investment Manager are also directors of the Group's subsidiary companies. Neither they, nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

For the year ended 31 December 2023, 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. 41% of the Group's rental income was received from MCGL or its subsidiaries. No trade receivables were outstanding at the year end (2022: £nil).

During the year, the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £722,610 (2022: £723,130); Andrew Cowley £109,445 (2022: £91,871) and David Yaldron £11,137 (2022: £7,975).

Directors' interests

During the year, the directors, who are considered key management personnel, received the following dividends from the Company: Simon Laffin £5,078 (2022: £nil); Rupert Barclay (resigned on 31 March 2023) £2,997 (2022: £11,927); Rosemary Boot £2,014 (2022: £1,952); Chris Santer £949 (2022: £920) and Philip Hall £2,014 (2022: £1,952). In addition, funds which were managed by Paul Craig (resigned on 17 May 2023) received dividends from the Company of £1,070,323 (2022: £4,089,458).

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 2023, the Group leased 58 properties to MCGL (2022: 59), all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In 2023, the Group entered into no new

leases with MCGL (2022: no new leases) and disposed of one property let to MCGL to a third party, the lease, which was subject to annual rent of £166,035, was cancelled with 14 years remaining (2022: disposed of one property). In 2023, the Group spent £nil on approved capital expenditure on homes operated by MCGL (2022: £0.8m). These transactions were fully compliant with the Company's related party policy.

The Group had seven homes let to Silverline (3.4% of the Group's contracted annual income), who did not pay its contractual rent for the quarters to 31 March 2023 and 30 June 2023. This was partially covered by a £0.4m rent deposit. The Group had extensive discussions with alternative care providers to take over Silverline's responsibilities, following which it decided on 2 June 2023 that it was in the best interests of the Group's stakeholders that it enable the solvent sale of Silverline's tenant companies to Melrose Holdings Limited (MHL). MHL immediately took over responsibility for operating the seven homes. MHL is a new company, wholly-owned by connected parties of Mahesh Patel, and benefits from a service agreement with MCGL, under which MCGL supports the turnaround of these homes. To assist in the funding of Silverline's overdue liabilities to third parties other than the Group and to fund remedial capital expenditure, the Group agreed to provide a £1.6m loan facility for up to three years to MHL. This facility has an interest rate of 8.0% per annum on drawn funds and will be repaid in priority to rent from surplus funds in MHL. In the initial phase of the operational turnaround of these care homes, the existing leases have been temporarily amended to replace the fixed rent with a variable rent, payable once the loan has been repaid. The lease variations allow MHL to pay MCGL a fixed management fee of £1,000 per registered bed in the homes (approximately £400,000 per annum plus VAT) to cover the direct costs it incurs in overseeing the turnaround, payable only from any surplus cash generated by the seven homes. Any surplus cash after the management fee will first be used to repay the loan facility and accrued interest and, once the loan is repaid, will be paid as rent to the Group. Once the turnaround is complete, it is expected that the lease amendment will be cancelled by mutual consent and the rent payable will revert to the amount under the original lease.

23. 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.

The Group has chosen to adopt EPRA net tangible assets (EPRA NTA) as its primary EPRA NAV measure as it most closely aligns with the business practices of the Group. The adjustments between NAV and EPRA NTA are reflected in the following table:

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Net assets per consolidated statement of financial position	**478,107**	445,920
Fair value of derivatives	**(1,750)**	(363)
EPRA NTA	**476,357**	445,557
Issued share capital (number)	**414,368,169**	404,764,328
Basic NAV per share	**115.38p**	110.17p
EPRA NTA per share	**114.96p**	110.08p

24. 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 2023 £'000	As at 31 December 2022 £'000
Year one	**48,541**	40,477
Year two	**49,409**	41,125
Year three	**50,158**	41,901
Year four	**51,046**	42,509
Year five	**51,761**	43,270
Onwards	**986,920**	762,841
Total	**1,237,835**	972,123

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%.

25. Reconciliation of liabilities to cash flows from financing activities

	Notes	Interest rate £'000	Borrowings derivative £'000	Interest payable £'000	Total £'000
As at 1 January 2022		**110,907**	**(94)**	**474**	**111,287**
Cash flows from financing activities:					
Borrowings drawn	17	85,074	-	-	85,074
Borrowings repaid	17	(57,362)	-	-	(57,362)
Loan arrangement fees paid		(1,265)	-	-	(1,265)
Interest received	18	-	112	-	112
Interest and commitment fees paid		-	-	(3,909)	(3,909)
Non-cash movements:					
Amortisation of loan arrangement fees	17	1,205	-	-	1,205
Fair value movement	18	-	(381)	-	(381)
Loan arrangement fees accrued		(1,363)	-	-	(1,363)
Interest and commitment charge		-	-	4,584	4,584
As at 31 December 2022		**137,196**	**(363)**	**1,149**	**137,982**
Cash flows from financing activities:					
Borrowings drawn	17	82,500	-	-	82,500
Borrowings repaid	17	(40,000)	-	-	(40,000)
Loan arrangement fees paid		(2,827)	-	-	(2,827)
Interest received	18	-	1,035	-	1,035
Interest and commitment fees paid		-	-	(9,518)	(9,518)
Purchase of interest rate derivatives	18	-	(3,238)	-	(3,238)
Non-cash movements:					
Amortisation of loan arrangement fees	17	1,418	-	-	1,418
Fair value movement	18	-	458	-	458
Loan arrangement fees - reversal of accrual		1,650	-	-	1,650
Interest and commitment charge		-	-	10,114	10,114
Accrued interest receivable on interest rate derivatives		-	358	-	358
As at 31 December 2023		**179,937**	**(1,750)**	**1,745**	**179,932**

26. Capital commitments

At 31 December 2023, the Group had committed capital expenditure on one forward-funded development of a new property and on capital improvements to three existing properties; this amounted to £9.5m (2022: £9.2m).

The Group has committed to deferred payment agreements on two acquisitions in return for increased rent based on certain trading performance conditions being met by the tenant. As at 31 December 2023, the total capital commitment for these deferred payments is estimated at £4.6m (2022: £4.6m).

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

No 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 2023

Company Registration Number: 10464966

	Notes	**31 December 2023 £'000**	31 December 2022 £'000
Non-current assets			
Investment in subsidiaries	6	**418,861**	430,079
Total non-current assets		**418,861**	430,079
Current assets			
Trade and other receivables	7	**60,994**	18,862
Cash and cash equivalents	8	**7,773**	283
Total current assets		**68,767**	19,145
Total assets		**487,628**	449,224
Current liabilities			

Trade and other payables	9	**(9,521)**	(11,720)
Total liabilities		**(9,521)**	(11,720)
Total net assets		**478,107**	437,504
Equity			
Share capital	10	**4,144**	4,048
Share premium reserve	10	**376,716**	365,642
Capital reduction reserve	10	**24,077**	24,077
Retained earnings		**73,170**	43,737
Total equity		**478,107**	437,504

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 2023 amounted to £57,247,000 (2022: profit of £17,556,000).

The financial statements were approved and authorised for issue by the board of directors on 22 March 2024 and are signed on its behalf by:

Simon Laffin

Chair

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

Company statement of changes in equity

For the year ended 31 December 2023

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2023		**4,048**	**365,642**	**24,077**	**43,737**	**437,504**
Total comprehensive income		-	-	-	57,247	57,247
Transactions with owners						
Dividends paid	5	-	-	-	(27,814)	(27,814)
Share issue	10	96	11,104	-	-	11,200
Share issue costs	10	-	(30)	-	-	(30)
31 December 2023		**4,144**	**376,716**	**24,077**	**73,170**	**478,107**

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2022		**3,506**	**305,672**	**24,077**	**51,905**	**385,160**
Total comprehensive income		-	-	-	17,556	17,556
Transactions with owners						
Dividends paid	5	-	-	-	(25,724)	(25,724)
Share issue	10	542	61,727	-	-	62,269
Share issue costs	10	-	(1,757)	-	-	(1,757)
31 December 2022		**4,048**	**365,642**	**24,077**	**43,737**	**437,504**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. Basis of preparation

General information

The financial statements for the year ended 31 December 2023 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 2022.

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 Company would be identical;
- no statement of cash flows has been presented for the Company;
- disclosures in respect of the 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 high inflation and interest rate environment has been considered by the directors. The directors have reviewed the forecasts for the Company, taking into account the impact of heightened interest rates and rising costs 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 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, typically as a result of dividends declared in the year.

3. Summary of significant accounting policies

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

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	Year ended

	31 December 2023 £'000	31 December 2022 £'000
UK corporation tax	-	-

5. Dividends

Details of dividends paid by the Company are included in note 12 to the consolidated financial statements.

Accounting policy

Dividends

Dividends are recognised when they become legally payable.

6. Investment in subsidiaries

	31 December 2023 £'000	31 December 2022 £'000
At the beginning of the year	**430,079**	392,486
Additions	**165,234**	93,425
Impairment	**(176,452)**	(55,832)
At the end of the year	**418,861**	430,079

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ('Propco 1')[1]	Real estate investment	England and Wales	100
Impact Property 2 Limited ('Propco 2') [1]	Real estate investment	England and Wales	100
Impact Property 3 Limited ('Propco 3') [1]	Real estate investment	England and Wales	100
Impact Property 4 Limited ('Propco 4') [1]	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') [1]	Real estate investment	England and Wales	100
Impact Property 8 Limited ('Propco 8') [1]	Real estate investment	England and Wales	100
Impact Property 9 Limited ('Propco 9') [1]	Real estate investment	England and Wales	100
Impact Finance 1 Limited ('Finance 1') [1]	Financing company	England and Wales	100
Impact Finance 2 Limited ('Finance 2') [1]	Financing company	England and Wales	100
Impact Finance 3 Limited ('Finance 3') [1]	Financing company	England and Wales	100
Impact Finance 4 Limited ('Finance 4') [1]	Financing company	England and Wales	100
Impact Finance 5 Limited ('Finance 5') [1]	Financing company	England and Wales	100
Impact Finance 6 Limited ('Finance 6') [1]	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
Impact Holdco 6 Limited ('Holdco 6')	Investment holding company	England and Wales	100
Roseville Property Limited[1,2]	Property holding company	England and Wales	100
Romney Care Home Limited[1,2]	Property holding company	England and Wales	100
Cholwell Care (Nailsea) Limited[1,2]	Property holding company	England and Wales	100
Butterfly Cumbria Properties Limited[1]	Property holding company	England and Wales	100
The Holmes Care Holdings Limited[1,2]	Property holding company	England and Wales	100
Hollyblue Healthcare (Ulster) Limited[1,2]	Property holding company	England and Wales	100
Tower Bridge Homes Care Limited[1,2]	Property holding company	England and Wales	100
The Holmes Care Group GB Limited[1,2]	Property holding company	England and Wales	100
Hillcrest House Limited[1,2]	Property holding company	England and Wales	100
Carlton Hall (Lowestoft) Limited[1,2]	Property holding company	England and Wales	100
Abingdon Manor Care Centre Limited[1,2]	Property holding company	Northern Ireland	100
Larne Care Centre Limited[1,2]	Property holding company	Northern Ireland	100
Larne C C Limited[1,2]	Property holding company	Northern Ireland	100
Welford Bidco 5 Midco Limited[1]	Investment holding company	England and Wales	100
Morris Care Limited[1]	Property holding company	England and Wales	100
Kingdom Finco 1 Limited[1]	Investment holding company	England and Wales	100
Kingdom Homes Limited[1]	Property holding company	Scotland	100
Barrogil Limited[1]	Property holding company	Scotland	100
Eastleigh Care Group Limited[1]	Property holding company	England and Wales	100
Woodleigh Christian Care Home Limited[1]	Property holding company	England and Wales	100
Welford Bidco 2 Midco Limited[1]	Investment holding company	England and Wales	100
Welford Bidco 4 Midco Limited[1]	Investment holding company	England and Wales	100

[1] As at 31 December 2023 these entities were held indirectly by the Company.

[2] As at 31 December 2023 these entities are in the process of winding up.

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

The registered address for the above subsidiaries incorporated in Northern Ireland is: 21 Arthur Street, Belfast, BT1 4GA, Northern Ireland

The registered address for the above subsidiaries incorporated in Scotland is: 177 Bothwell Street, Glasgow, G2 7ER, Scotland

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

Accounting policy

Investments in subsidiaries

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

7. Trade and other receivables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Loan to Group companies	**60,797**	18,658
Prepayments	**197**	204
	60,994	18,862

As at 31 December 2023, there were no trade receivables past due or impaired (2022: none). Loans to subsidiaries are interest free, repayable on demand and management expect them to be settled within the next 12 months.

Accounting policy

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.

8. Cash and cash equivalents

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Cash and cash equivalents	**7,773**	283

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

Accounting policy

Cash and cash equivalents

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

9. Trade and other payables

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Loan from Group companies	**7,781**	9,977
Trade and other payables	**1,740**	1,743
	9,521	11,720

Loans from Group companies are unsecured, interest-free and are repayable on demand.

Trade and other payables

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

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 21 to the consolidated financial statements.

Accounting policy

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 the share premium into a distributable reserve.

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 22 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 (2022: £nil).

13. Contingent liabilities

On 21 December 2021, the Company guaranteed a long-term loan note issue made by a wholly owned subsidiary. The loan notes total £75m and mature in 2035. See note 17 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.

Reporting against the Task Force on Climate-Related Financial Disclosures framework

Positive progress

In last year's report, we included our initial response to the Task Force on Climate-related Financial Disclosures (TCFD) methodology, where we reported across the framework's four key pillars of governance, strategy, risk management and metrics and targets and responded to the underlying 11 recommended disclosures. In line with the TCFD's suggested approach, we considered a 1.5-2 degrees warming scenario, based on the Intergovernmental Panel on Climate Change's (IPCC) defined Representative Concentration Pathway 2.6 and assessed the associated physical and transition risks. We also considered IPCC's RCP 4.5 (2-3.5 degrees warming) and RCP 8.5 (4 degrees warming). We have not repeated that analysis in this report.

During 2023 we have made good progress in terms of continuing to develop our understanding, management, measurement and decision-making in regard to climate action. The IM has established an ESG committee chaired by the Finance Director; we have continued to develop a credible climate net zero delivery plan and model the associated finances; and, building on

last year's TCFD analysis, we have considered specific material risks and opportunities in greater detail.

Reporting against the TCFD Framework

The table below highlights how we have reported in line with the 11 recommendations of TCFD and includes our own informed assessment of our level of alignment. We recognise that this is an iterative process and have highlighted those areas where we still need to make improvement or continue to progress.

Recommended disclosure	Current status	Comment
Governance		
Describe the board's oversight of climate-related risks and opportunities	Reporting in line with the recommendations	We have included these disclosures in the report
Describe the management's role in assessing and managing climate-related risks and opportunities	Reporting in line with the recommendations	We have included these disclosures in the report
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Reporting in line with the recommendations	We have included these disclosures in the report
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	We have made disclosures but are not yet fully reporting in line with the recommendations	We have assessed the impacts of climate-related risks and opportunities from a qualitative perspective but have yet to translate this fully into quantifiable financial impacts. This will continue to be reviewed during 2024
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	We have made disclosures but are not yet fully reporting in line with the recommendations	We have assessed the impacts of climate-related risks and opportunities and the actions we are taking to increase our resilience, however we have yet to translate this fully into quantifiable financial impacts and articulate our resilience on this basis. This will continue to be reviewed during 2024
Risk management		
Describe the organisation's processes for identifying and assessing climate-related risks	Reporting in line with the recommendations	We have included these disclosures in the report
Describe the organisation's processes for managing climate-related risks	Reporting in line with the recommendations	We have included these disclosures in the report
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Reporting in line with the recommendations	We have included these disclosures in the report
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	Reporting in line with the recommendations	We have included these disclosures in the report
Describe Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	We have made disclosures but are not yet fully reporting in line with the recommendations	We continue to improve the accuracy of our reported Scope 3 emissions, which represents a significant proportion of our total emissions. We now collect over 85% of scope 3 emissions data from our tenants and continue to explore ways to improve the quality and quantity of this data capture and disclosure
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We have made disclosures but are not yet fully reporting in line with the recommendations	We have developed some headline targets but in 2024, we will consider further targets related to transition and physical risks and opportunities

Governance

The board sets our risk appetite and oversees our risk management, which the Investment Manager carries out on our behalf. This risk framework includes climate change and sustainability related matters. Twice a year, the board and the Investment Manager review our principal risks and consider emerging risks. Following the board's approval of the ESG Strategy in February 2023 the IM established an ESG Committee to provide further structure and formality to its ESG workstreams and to track progress against targets for climate related targets.

The IM's ESG Committee, which meets on a quarterly basis and documents minutes and actions, is responsible for reviewing and advising on the recommendations made by the IM's ESG Working Group, also established in 2023, chaired by the IM's Development Director.

The IM's ESG Committee is chaired by the IM's Finance Director who, in partnership with the Development Director, oversees the operational and financial aspects of our sustainability programme. The IM's Finance Director reports directly into the board and consults with the audit committee to ensure the relevant level of assurance is being provided. ESG/Sustainability is an item on the board agenda and a dedicated Board session takes place periodically.

More information on our governance of climate change considerations can be found within our reporting on Principal Risk and our Audit, Risk and Internal Control.

Board
Overall accountability for ESG strategy

Audit committee
Identification and management of climate risks

ESG committee
Review and advise on climate strategy

Risk committee
Identification and management of climate risks

ESG working group
Accountable for execution of Sustainability/ ESG strategy

TCFD working group
Initial assessment of risks and opportunities linked to climate change

Strategy
Having modelled a net zero strategy, which we reported on in our 2022 annual report, we used 2023 to develop further our net zero delivery plan. We identified six properties which were representative of the energy performance across our portfolio and commissioned detailed on-site energy audits to test our assumptions and associated financial modelling.

In tandem with our net zero delivery planning we continue to make good progress on making the necessary improvements to our properties to ensure that they comply with future MEES regulation.

Building on last year's assessments of risks and opportunities, we undertook a detailed review of the following areas which we considered material to our business (see below). Once again, to align with our business strategy, we have defined short term as one to three years, medium term as five to 10 years and a long-term timeframe as up to 25 years.

While we have assessed the potential financial impacts relating to our net zero planning and MEES compliance, we still need to quantify the financial impacts posed by physical risks of flooding and other risks and opportunities.

Following our review of climate related risks and opportunities in 2022 we have highlighted in the table below the most material risks and how we are managing these.

Detailed review of risks and opportunities
Flooding
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious
Timescale: Medium/Long

Disruption to provision of care or possible closure of care home

How we are assessing the risk
Using the Environment Agency (EA) current data, we have assessed all care homes within our portfolio for flood risk related to seas, rivers, surface and ground water. We have also cross-referenced IPCC longer-term data which we had mapped against a representative 20 care homes in our portfolio. As regards EA's current data, we have identified 12 assets which are potentially at high risk (greater than 3.3% chance of flooding each year), and within our longer-term assessment, we have identified three properties from our representative sample which are at high risk from rising sea levels under a high-emissions longer term scenario.

Flooding risk is also included in our due diligence sustainability reports for new acquisitions. During 2024, we will conduct a more detailed risk assessment for those considered high risk, reviewing aspects such as local authority flood defence planning.

How we manage this risk
All of our homes are fully insured against damage including loss of rent. Our tenants separately have insurance for loss of earnings for their own business. Where flood risk has been identified, or occurred, we look to work with our tenants and insurers to enhance the flood defences and safety for residents.

Opportunity
Increased investment in our homes and capital deployed in return for increased rent.

Improved long-term care of residents

Additional capital expenditure
Probability: High
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious
Timescale: Medium/Long

Additional costs required to improve energy efficiency and realise net zero targets
How we are assessing the risk
We have mapped and estimated a capex profile from the present day until 2045 when we plan to be net zero. We are targeting approximately 15% of our asset management budget towards energy-efficiency improvements.

During 2023, we conducted a first round of on-site energy audits to verify our net zero modelling assumptions. These findings and costings are being incorporated into our climate transition planning.

How we manage this risk
Our leases with our tenants are fully insuring and repairing and require tenants to ensure the property is compliant with legislation. Therefore, as legislation comes in to align with these targets, our tenants will be responsible for the cost and have the ability to factor this in to the cost of their services.

We are working with our tenants to ensure our buildings are well prepared for future legislation and our ESG targets. We do this by having a good understanding of the environmental performance of our homes We also ensure that any capital improvements that require our permission include some environmental enhancements.

Opportunity
Increased investment in our homes and capital deployed in return for increased rent.

Ability to utilise Improvements in technology to help reducing the carbon footprint of our portfolio

Improved long-term care of residents

Regulation
Probability: High
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious

Timescale: Medium/Long

Potential loss of value for assets not meeting expected future standards. Assets may become "stranded" by evolving environmental legislation

How we are assessing the risk
We work closely with environmental and political consultants to help us understand future proposals for any changes in regulation and we appraise our portfolio against these proposed regulations.

For new acquisitions, we have set ourselves a target of an EPC B rating or the ability to achieve a B rating in the short term. We also undertake environmental due diligence including CRREM analysis to model stranding year and key mitigations. An objective of our net zero delivery plan is to ensure our portfolio is upgraded to meet our targets.

We now have full visibility of EPCs across our entire portfolio of properties and have an active asset management improvements schedule in place to ensure we are compliant with anticipated 2030 MEES regulation. Our leases require our tenant operators to ensure the buildings are in compliance with legislation.

How we manage this risk
As explained above, our leases require our tenant operators to ensure the buildings are in compliance with legislation.

Opportunity
Increased investment in our homes and capital deployed in return for increased rent.

Ability to utilise Improvements in technology to help reducing the carbon footprint of our portfolio.

Cost of carbon
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious
Timescale: Medium

Introduction of carbon levy by Govt to encourage reduction in carbon emissions that results in additional taxation liability for the Company

How we are assessing the risk
The IM has held two workshops to discuss the possible options re carbon pricing/taxation and how best to introduce this into our business strategy and financial planning.

We continue to ensure we are capturing as much underlying data from our tenants on our Scope 3 emissions.

We will continue to monitor the situation in 2024 and also ensure that we are compliant with future ISSB/government guidance. We expect to start to embed an internal carbon price within our planning to inform decision-making.

How we manage this risk
By understanding the legislation being applied in other countries we are able to model similar legislation being applied in the UK and ensuring this can be incorporated into our risk modelling in 2024.

Opportunity
With increased regulation there is the opportunity for our tenants to charge increased fees for their services and therefore enable us to increase our investment in our homes in return for an increased rent.

Additional Risk & opportunities disclosed in 2022
Water stress and heatwaves
Probability: Medium
Impact: Significant
Change in the year: No change
Risk appetite: Cautious

Timescale: Medium/Long

Environment within assets is detrimental for wellbeing of residents and staff and additional capex is required to retro fit cooling and improve water use

How we are assessing the risk
Our net zero strategy includes assumptions on additional cooling requirements for existing assets.

We will continue to work with our environmental consultants to help us understand the expected regular peak temperatures across the UK as a result of a 1.5^{o} or more global increase in temperature and ensure this is factored into our design parameters when approving asset management activity.

How we manage this risk
This continues to be work in progress to understand on an asset by asset basis what the implications could be and how we can mitigate these.

Opportunity
Increased investment in our homes and capital deployed in return for increased rent.

Market
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Cautious
Timescale: Medium

Investors and markets increasing awareness of environmental performance. If we fail to communicate a strategy and implications for our portfolio investors are less likely to want to invest in our business

How we are assessing the risk
We are undertaking a significant amount of work to ensure we can deliver against our ESG strategy and net zero targets and communicate the risks and opportunities that come with this.

We regularly engage with investors and ensure we are open and transparent about our business in our reporting to ensure we understand any investor concerns and address these.

How we manage this risk
Alongside investor engagement we have already retained our EPRA sBPR Gold award for our sustainability reporting and a D rating for our initial Carbon Disclosure Project submission (a voluntary disclosure for companies seeking to be transparent on climate related risks and opportunities.

In 2024 we are looking to gain GRESB accreditation which will provide investors with incremental benchmarking about the quality of information we hold on our portfolio.

Opportunity
By taking our environmental targets seriously and transparently reporting, more investors could be interested in investing in our business.

Reputation
Probability: Medium
Impact: Moderate
Change in the year: No change
Risk appetite: Minimalist
Timescale: Short

Investors, tenants and commissioners may have increasing expectations of real estate owners for environmental issues and if we fail to meet these or deliver against our objectives and net zero targets our reputation would be damaged and stakeholders may be less willing to engage with us

How we are assessing the risk
We are continuing to appraise our portfolio and collect as much evidence as possible to be able to benchmark and report on our portfolio.

How we manage this risk
We aim to be fully transparent and honest about our ESG targets, the activities we are undertaking and how we are performing against these. Our aim is to achieve these targets and provide comfort that the Company is committed to improving environmental standards.

Opportunity
If we are successful in communicating and delivering against these targets, existing stakeholders will want to continue to work with us and potentially, more will be keen to work with us.

Risk management
As a principal risk for the business, climate-related risks are subject to the same formal governance and review process as other risks on our risk register.

The Investment Management team has a risk committee which assesses and reviews the Company's risk register on a quarterly basis and reports to the audit committee. Prioritised risks are discussed and considered by the audit committee and board twice a year. Environmental regulation and impact of climate change is already a principal risk for the Group; the assessment has been maintained/changed from Probability: Medium, Impact: Low to Probability: Medium, Impact: Medium. Following a full climate risk analysis undertaken in 2022 we continue to review risks and opportunities.

As part of our due diligence process for potential new acquisitions and asset management projects, environmental performance and opportunities to decarbonise are considered in detail. Risks around our portfolio and ability to decarbonise in accordance with our net zero delivery plan are assessed using the CRREM toolkit which measures the potential rate of decarbonisation against the Paris Climate Treaty 1.5 degree warming scenario. Assets with higher risks associated with this are reviewed annually as part of our portfolio stratification (Core, Value Add and Non-Core).

Looking ahead, this due diligence will continue to factor in possible identified risks and opportunities associated with climate change and a decarbonisation pathway.

Metrics and targets
As part of our EPRA reporting responsibilities, we have been disclosing our energy consumption data since 2019 in accordance with the EPRA Best Practice Sustainability requirements. Impact's Scope 1 and 2 emissions are minimal with all reported emissions relating to tenant-obtained energy consumption falling under Scope 3. In this report we have included our GHG emissions for the 12 months to 31 December 2023 in order to provide as up-to-date information as possible.

We have been modelling our portfolio as part of our net zero strategy planning and have referenced our progress within this report. This net zero strategy incorporates projections and impacts based on the size of our current portfolio and on the size of our projected portfolio.

Last year, we published our incremental emissions reduction targets and longer-term net zero target. As we continue to gain greater insight into our Scope 3 emissions, we will continue to review and refine our metrics and targets.

In 2023 our CO2e emissions per m2 increased slightly from 50kg to 54kg. This in part reflects the increased occupancy experienced over this period. It will take time for the improvement measures being implemented to embed in energy performance. We continue to explore how we can accelerate progress to meet our interim milestone of a 15% reduction in like-for-like emissions by 2025, whilst maintaining affordability for our tenant's businesses.

Our key climate related metrics are:

- EPC Ratings
- Energy Intensity per bed (KWh per bed)
- GHG Emissions Intensity (CO_2e per bed)

- Capex deployed on sustainability improvements (£pa)
- Interim net zero targets
- Proportion of leases with 'Green' obligations

Energy and carbon disclosures

Environmental performance measures[1,2,3]

Performance measure - Impact Healthcare REIT plc	*Unit*	*Scope*	*2023*	*2022*	*Change*
Electricity Absolute Consumption	kWh	3	**21,197**	18,077	17%
Electricity Total & like-for-like consumption	kWh	3	**19,630**	18,077	9%
Gas Absolute Consumption	kWh	3	**60,502**	52,592	15%
Gas Total & like-for-like consumption	kWh	3	**54,464**	52,592	4%
Other Fuels Absolute Consumption	kWh	3	**5,424**	2,758	97%
Other Fuels Like-for-like consumption[1]	kWh	3	**4,349**	2,758	58%
Building energy intensity absolute[1]	kWh/bed/year	3	**11,284**	10,615	6%
Building energy intensity like-for-like[1]	kWh/bed/year	3	**10,966**	10,615	3%
Building energy intensity like-for-like	kWh/m^2/year	3	**286**	268	7%
Total indirect greenhouse gas (GHG) emissions from tenant obtained fuel usage[1]	Tonnes CO_2e	3	**15,923**	13,768	16%
Total indirect greenhouse gas (GHG) emissions from tenant obtained fuel usage like-for-like[1]	Tonnes CO_2e	3	**14,482**	13,768	5%
Greenhouse gas (GHG) emissions intensity from building energy consumption	Tonnes CO_2e /bed/year	3	**2.06**	1.99	3%
Greenhouse gas (GHG) emissions intensity from building energy consumption	Kg CO_2e/m^2/year	3	**54**	50	8%
Greenhouse gas (GHG) emissions intensity from building energy consumption like-for-like[1]	Tonnes CO_2e/bed/year	3	**2.02**	1.99	1%
Greenhouse gas (GHG) emissions intensity from building energy consumption like-for-like[1]	Kg CO_2e/m^2/year	3	**53**	50	5%
Performance measure - Investment Manager	*Unit*	*Scope*	*2023*	*2022*	*Change*
Total electricity consumption	kWh	Total Investment Manager electricity	**7,336**	5,470	34%
Investment Manager energy intensity	kWh/FTE	Average kWh electricity consumption per FTE in year	**734**	521	41%
Total indirect greenhouse gas (GHG) emissions	tCO_2e	Indirect - Scope 2 (location-based)	**1.5**	1.1	44%
Business travel - Land - Car	tCO_2e	Scope 3 - Private vehicles (incl. WTT2)	**4.0**	3.7	8%
Business travel - Land - Air	tCO_2e	Scope 3 - Flights (With RF incl. WTT3)	**1.7**	1.6	9%
Business travel - Land - Rail	tCO_2e	Scope 3 - Rail (incl. WTT3)	**0.2**	1.2	(84)%
Total Emissions	**tCO_2e**		**7.4**	**7.6**	**(3)%**

[1] Like-for-like figures adjusted to exclude 3 biomass boilers which were not disclosed in 2022 based on available data at time of publication.

[2] Well-to-tank (WTT) business travel - air conversion factors are used to account for the upstream Scope 3 emissions associated with extraction, refining and transportation of the aviation fuel to the plane before take-off.

[3] Well-to-tank (WTT) conversion factors for passenger vehicles and business travel on land are used to report the upstream Scope 3 emissions associated with extraction, refining and transportation of the raw fuels before they are used to power the transport mode.

EPRA PERFORMANCE MEASURES

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

£34.5m

8.33p per share

for the year to 31 December 2023

(for the year to 31 December 2022: £32.6m/8.37p per share)

2023	**8.33p**
2022	8.37p
2021	8.05p
2020	7.25p

Definition

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

Purpose

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

2.1 EPRA net reinstatement value (NRV)

£518.8m

125.20p per share

as at 31 December 2023

(as at 31 December 2022: £479.7m/118.51p per share)

2023	**125.20p**
2022	118.51p
2021	120.84p
2020	118.04p

Definition

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

Purpose

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

2.2 EPRA net tangible assets (NTA)

£476.4m

114.96p per share

as at 31 December 2023

(as at 31 December 2022: £445.6m/110.08p per share)

2023	**114.96p**
2022	110.08p
2021	112.41p
2020	109.58p

Definition

Net asset value adjusted for fair value of derivatives as these will not crystallise if held to maturity.

Purpose

This represents the value of the Company assuming assets are bought and sold.

2.3 EPRA net disposal value (NDV)

£473.3m

114.22p per share

as at 31 December 2023

(as at 31 December 2022: £440.9/108.92p per share)

2023	**114.22p**
2022	108.92p
2021	111.16p
2020	108.91p

Definition

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

Purpose

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

3.1 EPRA net initial yield (NIY)

6.69%

as at 31 December 2023

(as at 31 December 2022: 6.98%)

2023	**6.69%**
2022	6.98%
2021	6.71%
2020	6.57%

Definition

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

Purpose

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

3.2 EPRA "topped-up" NIY

6.92%

as at 31 December 2023

(as at 31 December 2022: 6.98%)

2023	**6.92%**
2022	6.98%
2021	6.71%
2020	6.71%

Definition

This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).

Purpose

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

4. EPRA vacancy rate

0.00%

as at 31 December 2023

(as at 31 December 2022: 0.00%)

2023	**0.00%**
2022	0.00%
2021	0.00%
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

14.37%

for the year to 31 December 2023

(for the year to 31 December 2022: 16.59%)

2023	**14.37%**
2022	16.59%
2021	15.84%
2020	17.09%

Definition

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

Purpose

A key measure, to enable meaningful measurement of the changes in a company's operating costs. The EPRA cost ratio does not include the interest income received on the Group's property investments made via a loan to operator, adjusting for this gives a cost ratio of 13.4%.

6. Like-for-like rental growth

4.67%

for the year to 31 December 2023

(for the year to 31 December 2022: 5.07%)

2023	**4.67%**
2022	5.07%
2021	5.74%
2020	4.26%

Definition

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

Purpose

Growth of rental income excludes acquisitions and disposals, but includes increases in rent from inflationary uplifts and rentalised capital expenditure. This allows stakeholders to estimate the organic income growth.

7. EPRA (net) LTV

27.85%

as at 31 December 2023

(as at 31 December 2022: 24.10%)

2023	**27.85%**
2022	24.10%
2021	23.17%
2020	17.06%

Definition

Debt drawn at nominal value net of cash and net payables divided by portfolio value.

Purpose

To assess the gearing of the shareholder equity within a real estate company.

Notes to the EPRA performance measures

For the year ended 31 December 2023

1. EPRA earnings per share

	31 December 2023 £'000	31 December 2022 £'000
Total comprehensive income (attributable to shareholders)	**48,831**	16,888
Adjusted for:		
- Revaluation movement	**(21,934)**	8,103
- Rental lease incentives	**(140)**	(141)
- Rental income arising from recognising future guaranteed rent uplifts and rental premiums	**7,286**	6,494
Change in fair value of investment properties	**(14,788)**	14,456
Loss/(profit) on disposal of investment property	**16**	(130)
Change in fair value of put option	**-**	1,811
Change in fair value of interest rate derivatives	**458**	(381)
Profits to calculate EPRA earnings per share	**34,517**	32,644
Weighted average number of ordinary shares (basic and diluted)	**414,157,674**	390,058,661
EPRA earnings per share - basic and diluted	**8.33p**	8.37p

2. EPRA NAV measures

The EPRA best practice recommendations, released in October 2020, give three NAV metrics: EPRA net reinstatement value (NRV), EPRA net tangible assets (NTA) and EPRA net disposal value (NDV). 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 2023:

	EPRA NRV £'000	**EPRA NTA £'000**	**EPRA NDV £'000**
Net assets at end of year	**478,107**	**478,107**	**478,107**
Exclude:			
Fair value of derivatives	**(1,750)**	**(1,750)**	**-**
Include:			
Fair value of debt[1]	**-**	**-**	**(4,823)**
Transaction costs[2]	**42,452**	**-**	**-**
Net assets (per EPRA measure)	**518,809**	**476,357**	**473,284**
Shares in issue at 31 December (basic and diluted)	**414,368,169**	**414,368,169**	**414,368,169**
Net assets per share (per EPRA measure)	**125.20p**	**114.96p**	**114.22p**

As at 31 December 2022:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	445,919	445,919	445,919
Exclude:			
Fair value of derivatives	(363)	(363)	-
Include:			
Fair value of debt[1]	-	-	(5,064)
Transaction costs[2]	34,139	-	-
Net assets (per EPRA measure)	479,695	445,556	440,855
Shares in issue at 31 December (basic and diluted)	404,764,329	404,764,329	404,764,329
Net assets per share (per EPRA measure)	118.51p	110.08p	108.92p

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 2023 £'000	31 December 2022 £'000
Investment property - wholly owned	**651,313**	532,478
Less capital improvements under construction	**(9,669)**	(7,535)
Completed property portfolio	**641,644**	524,943
Allowance for estimated purchasers' cost[1]	**40,424**	33,071
Gross up completed property portfolio valuation (B)	**682,068**	558,014
Annualised cash passing rental income	**45,601**	38,932

Property outgoings (non-recoverable insurance)	**-**	-
Annualised net rents (A)	**45,601**	38,932
Add:		
Contractual rent on properties with interim variable rents whilst in turnaround	**1,617**	-
Topped-up net annualised rent (C)	**47,218**	38,932
EPRA net initial yield (A/B)	**6.69%**	6.98%
EPRA topped-up net initial yield (C/B)	**6.92%**	6.98%

[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 2023 £'000	31 December 2022 £'000
Estimated rental value of vacant space	**-**	-
Estimated rental value of the whole portfolio	**48,154**	39,476
EPRA vacancy rate	**0.00%**	0.00%

5. EPRA cost ratio

	31 December 2023 £'000	31 December 2022 £'000
Administrative and other expenses	**7,137**	7,008
Net service charge cost	**-**	-
Total costs including and excluding vacant property costs	**7,137**	7,008
Gross rental income	**49,659**	42,243
Total EPRA cost ratio (including, and excluding, direct vacancy costs)	**14.37%**	16.59%

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 2021. It therefore excludes any rental increases or values in relation to properties acquired after 31 December 2021.

	Rent £'000	Market value £'000
Property portfolio as at 31 December 2021	31,925	450,897
Inflation-linked rental uplifts	1,308	
Rental uplifts in return for capital improvements or deferred payments	269	
Increase/(decrease) due to vacancy rate	-	
Property portfolio as at 31 December 2022	**33,502**	**451,664**
Inflation-linked rental uplifts	1,395	
Rental uplifts in return for capital improvements or deferred payments	168	
Increase/(decrease) due to vacancy rate	-	
Property portfolio as at 31 December 2023	**35,065**	**472,808**

All properties operate within the same sector, UK healthcare.

7. EPRA (net) LTV

	31 December 2023 £'000	31 December 2022 £'000
Gross debt	**184,760**	142,260
Include:		
Net payables	**6,009**	8,617
Less:		
Cash and cash equivalents	**(9,389)**	(22,531)
Net debt	**181,380**	128,346
Property portfolio	**651,313**	532,478
EPRA (net) LTV	**27.85%**	24.10%

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 2023 £'000	Year ended 31 December 2022 £'000
Opening NAV	**445,920**	394,244
Closing NAV	**478,107**	445,920
Average NAV for the year	**462,013**	420,082
Administrative expenses	**7,137**	7,009
One-off costs	**-**	-
Recurring expenses	**7,137**	7,009
TER	**1.54%**	1.67%

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 2023	Year ended 31 December 2022
Opening NAV per share (pence)	**110.17**	112.43
Closing NAV per share (pence)	**115.38**	110.17
NAV growth for the year (pence)	**5.21**	(2.26)
Dividends per share paid in the year (pence)	**6.71**	6.51
Total return (pence)	**11.92**	4.25
Total accounting return	**10.82%**	3.78%

3. Gross loan to value (LTV)

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

	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Gross debt	**184,760**	142,260
Gross assets	**667,289**	596,524
LTV	**27.69%**	23.85%

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 2023 £'000	As at 31 December 2022 £'000
Portfolio valuation	**651,313**	532,478
Investments in properties via loans to operators	**-**	36,360
Property Investments	**651,313**	568,838

OUR PORTFOLIO

At 31 December 2023, the Group owned the homes listed in the table below:

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
Belmont Healthcare				
Madeira Lodge	South East	Nov 2022	48	
Wombwell Hall	South East	Nov 2022	120	
Value at 31 December 2023: £14.2m				
Careport				
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	76	
Old Prebendal House and Court	South East	Jun 2019	40	
Riverwell Beck	North West	Dec 2020	60	
Sovereign Court and Lodge4	North East	Aug 2018	60	
The Grove	North East	Sep 2018	57	
Value at 31 December 2023: £35.5m				
Carlton Hall				
Carlton Hall	East of England	Sep 2021	86	
Oasis Development Site	East of England	Sep 2021	-	+80
Value at 31 December 2023: £13.8m				

Croftwood Care[5]				
Ancliffe	North West		40	
Astbury Lodge	North West		41	
Croftwood	North West		47	
Crossways	North West		39	
Elm House	North West		40	+19
Florence Grogan	North West		40	
Garswood	North West		53	
Gleavewood	North West		32	
Golborne House	North West		45	
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	
Lyndhurst	North West		40	
New Milton House	North West		39	
Parklands	North West		40	+1
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 2023: £72.8m				
Electus Care				
Abingdon Manor	Northern Ireland	Feb 2022	60	
Cedarhurst Lodge	Northern Ireland	Dec 2020	67	
Edgewater Lodge	Northern Ireland	Dec 2020	75	
Larne	Northern Ireland	Feb 2022	87	
Saintfield Lodge	Northern Ireland	Dec 2020	51	
Value at 31 December 2023: £22.9m				
Holmes Care Group				
Alexander House	Scotland	Dec 2021	40	
Almond Court	Scotland	Aug 2020	42	
Almond View	Scotland	Aug 2020	78	
Bankview (& BVDC)	Scotland	Aug 2020	65	
Barrogil House	Scotland	Dec 2021	40	
Beechwood	Scotland	Aug 2020	90	
Camilla	Scotland	Dec 2021	40	
Craigie House	Scotland	Dec 2021	30	
Cragielea	Scotland	Aug 2020	85	
Fernlea House	Scotland	Dec 2021	36	
Finavon Court	Scotland	Dec 2021	24	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Lomond View	Scotland	Dec 2021	50	
Methven House	Scotland	Dec 2021	60	
Preston House	Scotland	Dec 2021	60	
Roselea House	Scotland	Dec 2021	20	
Three Towns	Scotland	Aug 2020	60	
Walton House	Scotland	Dec 2021	40	
Willow House	Scotland	Dec 2021	40	
Value at 31 December 2023: £92.1m				
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	
Parksprings	Scotland	May 2019	96	
Thorntree Mews	Scotland	May 2019	40	
Wallace View	Scotland	May 2019	60	
Value at 31 December 2023: £35.7m				
Minster Care[5]				
Abbeywell	West Midlands		45	
Amberley	South West		30	+7
Ashgrove	Yorkshire & The Humber		56	
Broadgate	East Midlands		40	
Carnbroe	Scotland	May 2018	76	
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		30	
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	
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		73	
Three Elms	North West		60	
Waterside	West Midlands		47	
Woodlands Court	North West		40	
Wordsley	West Midlands		44	
Value at 31 December 2023: £137.3m				
NCUH NHS Trust				
Reiver House	North West	Jun 2019	-	
Surgical Unit	North West	Jun 2019	-	
Value at 31 December 2023: £4.3m				
Optima				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	
Value at 31 December 2023: £15.6m				
Prestige Group				
Merlin Manor Care Centre	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	+25
Value at 31 December 2023: £36.3m				
Renaissance Care				
Croftbank	Scotland	Nov 2018	68	
Rosepark	Scotland	Nov 2018	60	
Value at 31 December 2023: £13.3m				
Melrose[5]				
Baillieston	Scotland	Aug 2022	60	
Cardonald	Scotland	Aug 2022	31	
Laurel Bank	Yorkshire & The Humber	Mar 2020	63	
Springhill	Scotland	Nov 2021	61	
Stobhill	Scotland	Aug 2022	60	
The Beeches	Yorkshire & The Humber	Mar 2020	60	
Willow Bank	Yorkshire & The Humber	Mar 2020	59	
Value at 31 December 2023: £17.1m				
Welford				
Argentum Lodge	South West	Sep 2019	56	
Baily House	East Midland	Jun 2022	66	
Birchlands	Yorkshire & The Humber	Jun 2019	54	
Corbrook Park	North West	Jan 2023	80	
Eastleigh - East Street & Rossiter House	South West	May 2022	54	
Eastleigh - Periton Road	South West	May 2022	69	
Eastleigh - Raleigh Mead	South West	May 2022	62	
Fairview Court and House4	South West	Mar 2018	73	
Isle Court	West Midlands	Jan 2023	82	
Mavern House	South West	Jan 2021	55	
Morris Care Centre	West Midlands	Jan 2023	96	
Oldbury Grange	West Midlands	Jan 2023	69	
Radbrook	West Midlands	Jan 2023	63	
Stretton Hall	West Midlands	Jan 2023	50	
St Peter's House	East of England	Dec 2020	66	
Vale View Heights Care Home	South West	Jun 2019	55	
Woodleigh Christian Care Home	East Midlands	Jun 2022	44	
Value at 31 December 2023: £140.5m				

[1] May 2017 unless stated.

[2] Number of registered beds.

[3] Capital improvement bed additions under development.

[4] Treated as two properties.

[5] Croftwood Care and Minster Care are both part of Minster Care Group Limited. Melrose Holdings Limited is an affiliate of Minster Care Group Limited.

AIFM statement

Impact Health Partners LLP have served as the Alternative Investment Fund Manager since 15 March 2019; references in this statement to "AIFM" are to Impact Health Partners LLP.

Quantitative remuneration disclosure for the AIFM

Information in relation to the remuneration paid by the AIFM is available upon request.

Liquidity

At the date of this annual report there are no assets held by the Company which are subject to special arrangements arising from their illiquid nature. There has been no change to the liquidity management system and procedures during the

period since incorporation. Please refer to note 19 in the financial statements for an analysis of the Company's liabilities and their maturity dates at 31 December 2023.

The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks
The Company's risk management framework and risk appetite are set out in "Audit, risk and internal control" on pages 127 to 129 of the annual report.

Please refer to pages 39 to 42 of the annual report for the board's assessment of the principal risks and uncertainties facing the Company. The AIFM has assessed the current risk profile of the Company to be low.

Leverage
The Group's maximum and actual leverage levels at 31 December 2023 are shown below:

Leverage exposure	Gross method	Commitment
Maximum limit	200.0%	200.0%
Actual	149.8%	151.7%

For the purposes of (i) the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the "EU AIFMD"); and (ii) the UK version of EU AIFMD as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018, and as implemented by the Financial Conduct Authority in the UK (the "UK AIFMD"), leverage is any method that increases the Group's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other. Both methods include the Group's interest rate swaps measured at notional value.

There has been no change to the maximum level of leverage that the AIFM may employ on behalf of the Company. The actual level of gearing employed by the Company at 31 December 2023 was 27.69%.

Material changes to information
Article 23 of the EU AIFMD (in respect of the marketing of the Company in the EU) and FUND 3.2.2, 3.2.5 and 3.2.6 if the UK AIFMD (in respect of the marketing of the Company in the UK) require certain information to be made available to investors before they invest (the "Required Information") and require material changes to the Required Information to be disclosed to investors. An updated copy of the Company's disclosure schedule containing the Required Information was published on 27 January 2022. There have been no other material changes to the Required Information.

INVESTMENT POLICY

The Company's investment policy is to acquire, own, lease, renovate, extend and redevelop high-quality, healthcare real estate assets in the UK, in particular elderly care homes, and to lease those assets to care home operators and other healthcare service providers under full repairing and insuring leases.

The Company pursues the investment policy as follows:

Policy	Status
In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 15% of the total gross asset value of the Group.	Achieved
No single customer paying for care provided in assets owned by the Group will account for more than 15% of the aggregate revenues of the tenants to whom the Group's assets are leased from time to time, measured at the time of acquisition.	Achieved
The annual contracted rent from any single tenant is not expected to exceed 40% of the total annual contracted rent of the Group, measured at the time of investment.	Achieved
The portfolio will be diversified by location across the UK, with focus on areas where there is a good balance of supply and demand for the provision of care and assets are available at attractive valuations.	Achieved
Within these locations, the Group will acquire existing modern buildings or those that are currently considered fit for purpose by occupiers, but in respect of which the Investment Manager has developed a plan to add value to, and improve the environmental sustainability of, the asset through targeted capital expenditure.	Achieved
Leases granted by the Group will be linked to inflation, have long duration (with an unexpired lease term of at least 20 years) and will not be subject to break clauses. The Group will seek to amend any future leases acquired by the Group to obtain similar terms.	Achieved
The Group will not undertake speculative development (that is, development of property which has not been leased or preleased), subject to the limitation in the final bullet below, so as to reposition a	Achieved

home in its local market and thus to increase the rent due.	
The Group may invest in forward-funding agreements or forward commitments to pre-let developments, or as part of a structured acquisition of an asset, subject to the limitation in the final bullet below, where the Group will own the asset on the completion of the work, or has the ability to acquire the asset upon agreed conditions being satisfied.	Achieved
The gross budgeted development costs of any refurbishment, extension or replacement of existing holdings and/or forward funding and forward commitments, is limited to 25% of the Company's gross assets at the time of commitment.	Achieved

The Group is permitted to generate up to 15% of its gross income in any financial year from non-rental revenue or profit-related payments from the tenants in addition to the rental income due under the leases. The Group is also permitted to invest up to:

I. 10% of its gross assets, at the time of investment, in non-residential Healthcare Real Estate Assets, such as properties which accommodate GP or dental practices and other healthcare-related services including occupational health and physiotherapy practices, pharmacies and hospitals or in non-healthcare-related residential assets attached to residential Healthcare Real Estate Assets;
II. 25% of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Company; and
III. 15% of its gross assets, at the time of investment, in other closed-ended investment funds listed on the Official List. The directors have no current intention to acquire non-residential Healthcare Real Estate Assets or indirect property investment funds.

The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Company's investment policy.

The Group will not acquire any asset or enter into any lease or related agreement if that would:

I. result in a breach of the conditions applying to the Company to hold real estate investment trust (REIT) status; or
II. result in any investment by the Group in assets located outside of the UK.

The Company may invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds. It will not invest in derivatives but it may use derivatives for hedging purposes.

Any material change to the investment policy will require the prior approval of shareholders.

Board composition and diversity reporting in line with LR9

The tables below show the diversity of the board as at 31 December 2023

	Number of board members	Percentage of the board	Number of senior positions on the board (SID and Chair)
Men	3	60%	1
Women	2	40%	1

	Number of board members	Number of senior positions on the board (SID and Chair)
White British or other White (including minority-white groups)	5	2
Black/African/Caribbean/Black British	0[1]	0

The data was collected by asking the directors to confirm their diversity characteristics. The Company has no executive management and these disclosures are therefore not applicable.

[1] This increases to one with effect from 1 April 2024.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary

Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our Privacy Policy.

END

FR DZGZFRDFGDZM