IMPACT Healthcare REIT

Annual report 2022

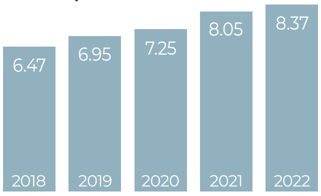
We invest in care homes, which are essential social infrastructure

Belmont House, Harrogate, Yorkshire and the Humber, which was refurbished in 2021-22. The refurbishment included 14 bedrooms with ensuite wet rooms, communal bathrooms and day space. The capital expenditure was £0.5 million.

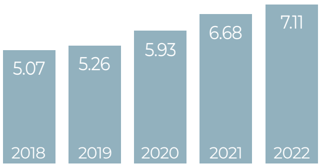
Highlights

We continued to deliver a strong financial and operational performance, benefiting from the resilience and growth of the portfolio and the annual rental increases inherent in the leases, underpinning our fully covered dividend.

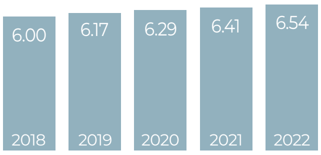
EPRA earnings per share ("EPS")* (p)
8.37p +4.0%



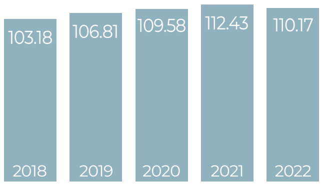
Adjusted EPS[2]* (p)
7.11p +6.4%



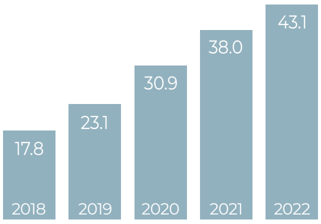
Dividends declared per share (p)
6.54p +2.0%



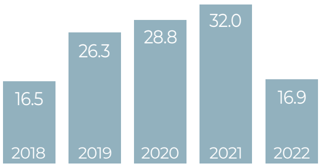
Net asset value ("NAV") per share (p)
110.17p -2.0%



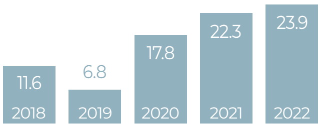
Contracted rent[1] (£m)
£43.1m +13.6%



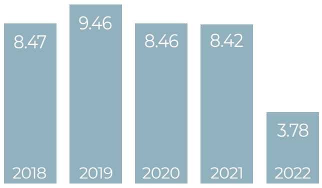
Profit before tax (£m)
£16.9m -47.2%



Gross loan to value ("LTV") ratio* (%)
23.9% +1.6%



Total accounting return* (%)
3.78% -4.6%



ESG highlights

Net zero
Produced a net zero strategy and delivery plan with a target date of 2045 and interim milestones.

Environmental improvements
Funded environmental improvements to four homes through asset management projects and completed update of EPCs.

First social impact report
Commissioned our first independent social impact report.

Operational highlights

Rent cover 1.80x
Overall, tenants continue to perform well with average rent cover for 2022 at 1.80x (2021: 1.91x[4]).

All leases are inflation-linked,
with upwards-only rent reviews. 107 properties had rent reviews during the year, adding £1.3 million to the annual contracted rent, representing an annualised 3.5% increase on a like-for-like basis.

Improved debt facilities
Increased the size and extended the tenure of a debt facility with Virgin Money to £50 million for seven years on improved terms.

In addition, we increased the debt facility with HSBC from £50 million to £75 million.

12 acquisitions
Invested in 12 care homes for a consideration of £69.2 million, further diversifying the portfolio and adding 764 beds.

New tenant
Welcomed a new tenant, Belmont, to the Group's operators, giving us 14 tenants[3] at the year end.

Completed development in Hartlepool... The forward-funded development in Hartlepool completed in May.

...and an asset management project in Bristol Phase 1 of the Fairview extension in Bristol completed in September and commenced Phase 2, which is due to be completed late 2023.

Post-year end
Invested in a portfolio of six homes with 438 beds for consideration of £56 million, 20% of which was paid in new shares issued at 116.62 pence per share. Purchased an interest rate option for £1.5 million, which caps SONIA at 3% for two years on £50 million of our RCF debt. Sold one non-core asset for £1.25 million, in line with its latest valuation.

1 Contracted rent includes all post-tax income from investments in properties, whether generated from rental income or post-tax interest income.
2 Adjusted earnings per share reflects underlying cash earnings per share in the period. The adjustments made to EPS in arriving at EPRA and Adjusted EPS are set out in note 11 to the Financial Statements.
3 Including Croftwood and Minster, which are both part of the Minster Care Group.
4 This includes the benefit of grant income, which largely ended in March 2022.
* For further discussion of these metrics see pages 26-27. EPRA EPS and all other EPRA alternative performance measures have been calculated in line with EPRA best practices recommendation, see pages 146-153.

Who we are

We're a specialist and responsible owner of care homes and other healthcare properties across the UK. Elderly care is an essential service and demand for it is high and continues to grow, as the UK's population gets older. We work with our tenants so we can grow together and help them care for more people, while continuing to improve our homes for their residents.

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

Our purpose

We invest in care homes, which are essential social infrastructure.

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

Our values

Our core values are to:

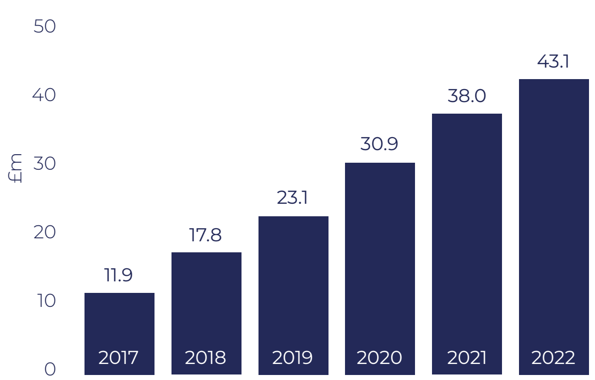
- focus on the long-term sustainability of our business;
- invest for lasting positive social impact;
- act openly and transparently with all our stakeholders;
- be a dependable partner who's trusted to deliver; and
- combine the strengths of a listed company with entrepreneurship.

Our business model

Our business model is to own and invest in a high-quality, resilient and diversified portfolio of care homes. We choose tenants who seek to provide high-quality care and work in long-term partnership with them to grow, create value and deliver lasting social impact. In return, we receive predictable, sustainable and inflation-linked rental income, which enables us to target a progressive and covered dividend.

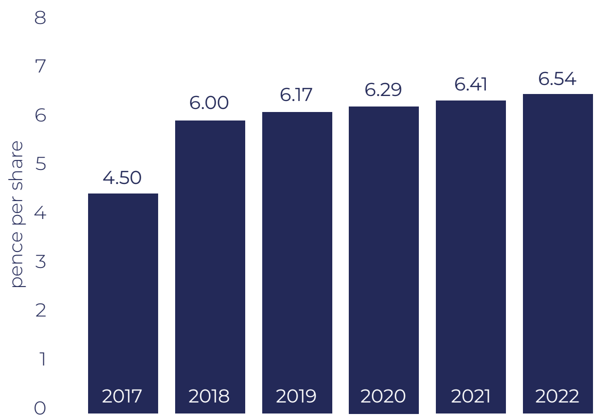
See pages 14-15

Measured growth with contracted rent[1] up by 13.6% in 2022



1 Contracted annual rent includes all post-tax income from investment in properties

Progressive dividend fully covered by adjusted earnings per share since 2021



IMPACT HEALTHCARE REIT

Freeland House, Freeland, Nr Witney, Oxfordshire.

Our portfolio as at 31 December 2022

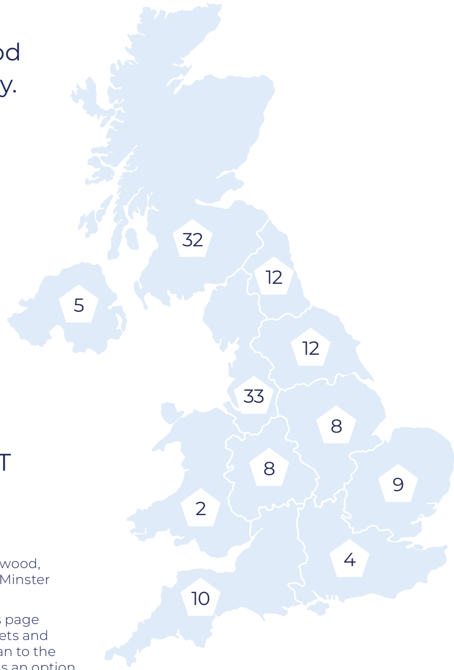
The care homes we own are primarily in the mid-market and have a good balance of residents funded by local authorities, the NHS and private pay.

At 31 December 2022, the portfolio's key characteristics were as follows:

- 14 tenants[1]
- £568.8 million property investments
- 100% inflation-linked leases
- 135 properties
- 6,842 completed beds
- 19.7 years WAULT
- £43.1 million contracted rent roll
- £1.3 million per annum uplift in rent from 107 rent reviews

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

Note: The information on this page includes forward-funded assets and portfolios invested in via a loan to the operator where the Group has an option to acquire.



See Portfolio page 22

15 asset management and development projects commenced or in planning

Fairview Court Bristol

Merlin Manor Care Centre Hartlepool

4 asset management and development projects completed in 2022

Chairman's statement

Net asset value ("NAV")

£445.9m

+13.1% 2021: £394.2m

Basic and diluted adjusted earnings per share

7.11p

+6.4% 2021: 6.68p

This year, the Group once again showed its resilience. We delivered good progress on a wide range of fronts, as we continued to grow the portfolio and created further value through asset management and by funding development. We've also developed our ESG strategy and set goals that will focus our efforts where we can make the most difference. As part of this, we've increased our understanding of the social value that we enable and how we can measure it.

We achieved all of this as we were buffeted by strengthening economic headwinds during 2022, caused mainly by the spike in inflation. Our tenants are in good shape overall, with one exception, which is discussed further in the Investment Manager's report (see pages 42-47). Their occupancy and fees are rising and their rent cover is above pre-pandemic levels. Demand for their services is strong and based on needs, not wants, which means it isn't directly linked to the broader economy. The urgent need for care beds to unblock space in the NHS also shows our tenants' services are crucial to society. Our tenants' performance during the year is discussed in more detail in the Investment Manager's report.

Economic uncertainty peaked at the end of the third quarter, at the time of the mini-budget, and led to a sharp rise in interest rates. This contributed to falls in asset values in many real estate sectors in the second half of 2022. While healthcare was not immune, the essential nature of our tenants' services – which translated into zero voids, 100% rent collection for 2022 and further rental growth – helped our asset values to hold up much better than most other real estate sub-sectors. At the same time, the returns available to us on acquisitions remain above our cost of capital and rising rents over the life of our leases, all of which are long duration with inflation-linked rent reviews, should support capital growth.

This is my last report to you as Chairman, as I'll be stepping down on 31 March after six years on the board. We've made great progress during these six years, growing from an initial portfolio of 56 assets and nearly 2,500 beds to 135[1] properties and 6,842 completed beds at the date of this report. We've paid a highly attractive dividend from the outset, which we've grown progressively while fully covering our payout by adjusted earnings since 2021. This has contributed to a total shareholder return of 44.1%[2] since inception. I'm confident that I'm handing on a business with good prospects for delivering further growth and value creation for our shareholders and all our wider stakeholders.

Successfully implementing the strategy

We continued to implement our growth strategy in 2022, investing £69.2 million in 12 care homes with 764 beds. We have since deployed a further £56 million, acquiring a further portfolio in January 2023. This transaction would have completed in 2022 had we not decided to pause the process and review its terms, following the mini-budget.

These acquisitions have further diversified the portfolio across the UK and allowed some of our existing tenants to increase the number of homes they run for us, providing the Group with a stronger covenant given the framework agreement we have in place across all homes leased to each tenant. We were also pleased to welcome our 14th tenant[3]. We choose tenants who prioritise high-quality care and share our vision of continuing to improve the assets.

We made good progress with asset management and committed £11.8 million to projects in 2022. These

CHAIRMAN'S STATEMENT

Property investments

£568.8m

+14.5% 2021: £496.9m

Dividend declared per share

6.54p

+2.0% 2021: 6.41p

Raised

£62.3m

through share placings

We developed our ESG strategy and set goals to focus our efforts

projects increase rents and asset values for us, make the homes a better business for our tenants, and a better place to live and work for residents and staff. They also enhance their environmental performance. We have a growing pipeline and expect to earn an average return of 8% on capital projects through increased rents, with the potential for capital growth in addition to this. Along with the Investment Manager, we're also very focused on maintaining our properties to a high standard and pay close attention to our tenants' repair and maintenance spend. The developments we're funding also progressed, with Merlin Manor in Hartlepool now in operation and increasing occupancy in line with our tenant's plan.

Robust and resilient financial performance

The net asset value ("NAV") at 31 December 2022 was £445.9 million or 110.17 pence per share (31 December 2021: NAV: £394.2 million; 112.43 pence per share). This small decline in NAV per share was mainly the result of the change in market value of the property portfolio, caused largely by the rise in investment yields in response to the tripling of interest rates during the year. This was partially offset by the benefits of rising rents and our asset management and development projects.

Basic and diluted earnings per share ("EPS") was 4.33 pence (2021: 9.41 pence). EPRA EPS was 8.37 pence (2021: 8.05 pence per share) and Adjusted EPS was 7.11 pence (2021: 6.68 pence).

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

Secure, attractive and inflation-linked dividends

We aim to grow our target dividend in line with rental growth in the year before. All of our leases include inflation-linked rental growth, with floors and caps typically between 2% and 4%. We want to ensure our assets are not over-rented with leases that are sustainable and put these caps in place to ensure the rent does not become onerous for our tenants, as a result of spikes in inflation of the kind we're currently experiencing.

For 2022, we set a target total dividend of 6.54 pence per share, a 2.0% increase over 2021. We achieved this by paying four quarterly dividends of 1.635 pence each. The total dividend was 128% covered by EPRA EPS and 109% by Adjusted EPS. For 2023, our target dividend is 6.77 pence per share[4], an increase of 3.53%.

Our total accounting return for the year was 3.78%, compared with our medium-term total accounting return target, which is an average of 9.0% a year[4]. This reflects the reduction in market value of the assets, as discussed above.

Strong and conservative balance sheet

We've always taken a prudent approach to managing our balance sheet, using debt to improve returns while keeping our leverage modest to help manage risk.

We completed several significant funding activities in the year. We raised £62.3 million of new equity through share placings; issued the remaining £38 million of our long-term institutional loan notes at a fixed rate of 3.0%; extended our revolving credit facility ("RCF") with HSBC by £25 million to £75 million; cancelled the £15 million RCF with Metro Bank; and renegotiated our RCF with Virgin Money, which increased the facility from £25 million to £50 million, extended its term to 2029 and reduced its cost. Since the year end, we've also purchased an interest rate option at a cost of £1.5 million, which caps SONIA at 3.0% for two years on £50 million of our RCF debt.

We now have £241 million of committed debt facilities. Our drawn debt at the year end was £142.3 million, giving us a gross LTV of 23.9%, and we had cash of £22.5 million. Drawn debt at the date of this report is £187.3 million, of which 80% is hedged against rising interest rates.

Enhancing sustainability

This year the Investment Manager has done considerable work on developing our ESG strategy, which the board approved after the year end. As part of this, we have improved our understanding of the social value we add and how to measure it, as well as determining the actions we can take on our pathway to net zero. For more information, see pages 28 to 33.

Strong governance

We're delighted that Simon Laffin joined the board as a non-executive director on 1 January 2023 and will become Chairman when I step down. He has more than 30 years' experience as a director, including in real estate, with his past roles including chairing Assura plc. As part of our succession planning, Paul Craig will be stepping down as a director at the forthcoming Annual General Meeting. On behalf of the board, I want to thank him for his important contribution to our work over nearly six years.

We ran an internal evaluation of the board and its committees during the year, which produced positive results and identified some areas where we can further improve. More information can be found on page 79.

Specialist, experienced and disciplined Investment Manager

We continue to benefit from the diligence and expertise of our Investment Manager, Impact Health Partners LLP. The Investment Manager effectively implements our strategy, and its close relationship with and oversight of our tenants, alongside its knowledge of the sector, has helped us to navigate the challenges of the past few years. We're pleased to see that the Investment Manager has continued to grow its team and capability, to support our goals.

Post-balance sheet events

In addition to taking out the interest rate cap discussed above, since the end of the year we've invested £56 million in a portfolio of six care homes with 438 beds to be operated by our tenant, Welford Healthcare. We paid 80% of the consideration in cash and the remainder through issuing 9.6 million new shares. More information can be found on pages 23 and 137.

Well positioned to deliver sustainable value

We're a long-term responsible business and our resilient and defensive portfolio provides essential homes for the care of vulnerable older people across the UK. Our business model remains robust and we'll continue to be disciplined in investing capital, while managing the business efficiently. The acquisitions we've made and the indexation in our leases leave us well-positioned for future earnings growth and a progressive dividend.

Rupert Barclay Chairman
27 March 2023

1 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.
2 From inception to 31 December 2022.
3 Including Croftwood and Minster, which are both part of the Minster Care Group.
4 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.

Old Prebendal House,
Shipton-under-Wychwood,
Chipping Norton, Oxfordshire.

Why invest?

We've created a compelling business, which is resilient and has real opportunities for growth, creating sustainable value for our shareholders and wider stakeholders.

Andrew Cowley,
Managing Partner, Impact Healthcare Partners

Over the following pages, we set out how:

1. We're in a **large and growing market**. The population is getting older and as people live longer, their care needs become more complex. The need for care isn't affected by the wider economy and demand for care home beds exceeds supply. (Pages 9-13)
2. We designed our **business model** to produce **attractive and sustainable returns**, while we carefully manage risk. These returns are underpinned by our income from long-term inflation-linked leases that have helped deliver covered dividends for investors. (Pages 14-15)
3. The Investment Manager has an experienced and strategic **management team**, which gives us a competitive advantage in our market. (Pages 16-17)
4. We generate **strong cash flows**, we're **well financed** and we're **growing our dividend**. The Company also carefully considers dividend cover and its REIT requirements when deciding the dividend quantum. (Pages 18-19)
5. We're **adding value and improving environmental and social performance through active management**. We balance our portfolio between core assets and value-add, and invest in our assets to increase returns, enhance environmental performance and make our homes even more appealing to residents and their carers. (Pages 20-21)

Together, these strengths mean we're well positioned for further growth and value creation. We have around 1.5% of the market by number of beds, so we can continue to grow by taking market share. We've got a multi-year pipeline of asset management and development opportunities, and we'll continue our disciplined approach to adding homes to the portfolio.

For more information on our prospects, see the Chairman's statement (pages 4-6).

WHY INVEST?

A large and growing market

1. Growing demand for elderly care

There were just over six million people aged over 75 living in the United Kingdom in 2022. That number is forecast almost to double over the next 50 years, to just under 12 million. The over-85s are the fastest growing segment of the UK population.

To put these numbers into context, when the NHS was founded in 1948 one in two people died before the age of 65. This figure is now one in eight. By the time they reach 65, women can expect to live on average for another 20 years, and men for another 18 years.

That's the good news. The less good news is that the majority of people will spend the last 15 years of their life with some ill health. Around 10% of people over 80 have a level of care needs which make it difficult for them to continue to live at home.

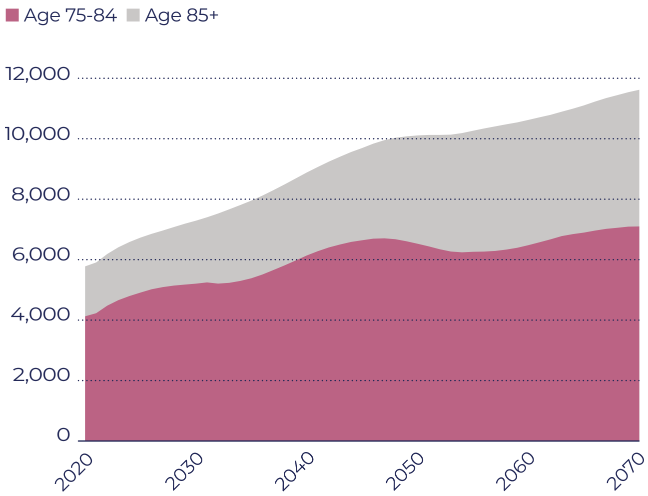
2. Falling supply

As the population has aged, the number of available care beds has been stagnant. This means that the total number of beds in both nursing and residential care homes for older people declined from 11.3 per 100 people aged over 75 in 2012, to 9.4 in 2021 – a 17% decrease.

This reduction in supply accelerated during the pandemic. Data from the CQC show that between March 2021 and August 2022, the number of registered care homes in England fell by 2.4%.

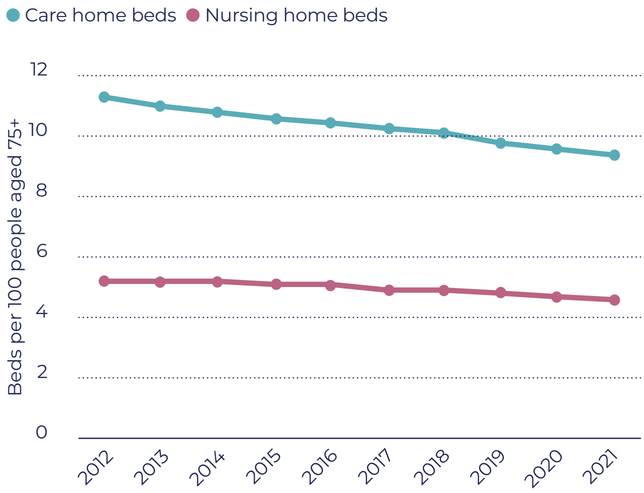
The failure of supply to match rising demand reflects several factors including a shift in social care policy towards home care. However, it might also reflect an element of rationing in the care system, as many elderly people struggle to access the care they need. Looking at longer-term trends, an estimated 25% of over-85s lived in elderly residential accommodation in 1996. By 2017, this had fallen to 15%.

UK elderly population ('000)



Source: ONS

Shrinking supply of care beds (%)



Source: Nuffield Trust and Health Foundation

WHY INVEST?

3. More people are living with dementia

Alzheimer's Research UK estimates that the number of people in the UK living with dementia will increase from more than 900,000 today to 1.5 million by 2050.

Dementia is a complex condition and treatment isn't always available from the NHS. Today, just under 40% of people who've been diagnosed with the condition are living in care homes, which now have 378,000 beds registered to provide care for people with some form of dementia. There could be a substantial rise in demand for such specialist capacity over the coming decades.

4. Investor interest in healthcare

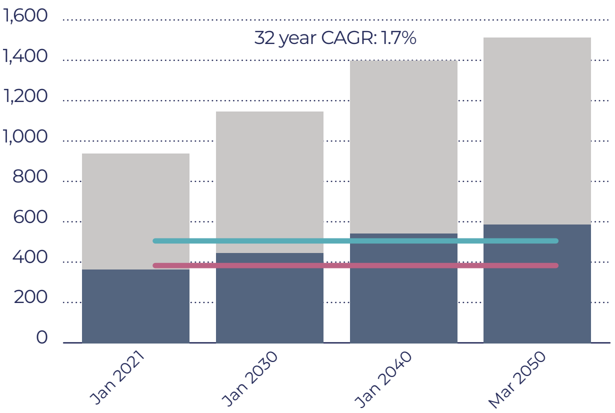
CBRE estimates that £25 billion has been invested in UK healthcare real estate over the past decade, of which 40% has been invested in care homes.

Annual investment volumes have been volatile, with sharp contractions in 2016, the year of the Brexit referendum, and 2020, the first year of the pandemic. In 2022, investment in the sector was £1.7 billion, a relatively high number in a year of great economic uncertainty.

The nature of the healthcare sector tends to attract long-term, index-linked investment. Turnover of asset ownership in the sector is therefore low, as investors generally have a buy-and-hold strategy. However, there has been a change over time in who the investors are. In 2019, over half the investment came from non-UK REITs. In 2022, over half the investment was from UK-based specialist healthcare investors, who are best placed to find value in a very fragmented market. Private equity has been very active in the healthcare space in the past but has pulled back as interest rates have risen.

Estimated number of people living with dementia in the UK (m)

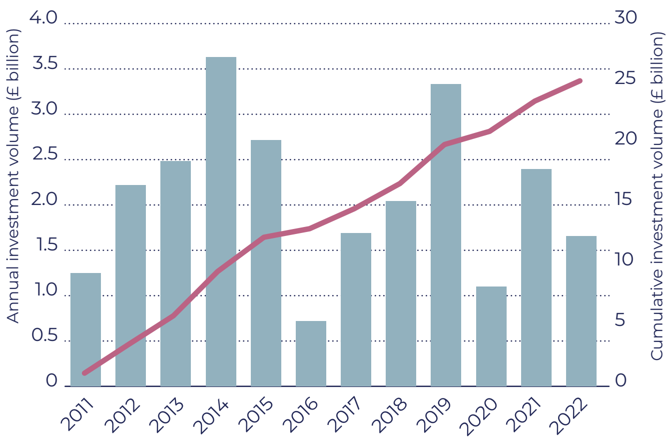
Not living in care homes Registered beds 2021
Living in care homes Registered dementia beds 2021



Source: Alzheimer's Research UK

Healthcare sector investment

Total UK healthcare investment Cumulative total



Source: CBRE

5. Government policy

To put it mildly, government policy for adult social care is a complicated field. There is no national government budget for adult social care in England. Instead, publicly funded social care is mostly financed through local government revenue. This is made up of central government funding from the local government finance settlement, combined with locally raised revenue from business rates, council tax and income from fees.

This complex funding picture was further complicated by several policy changes during 2022. At the end of 2021, the then government announced ambitious reforms to adult social care, with a series of White Papers. They set out reforms aimed at increasing government funding for the sector, while capping the costs individuals would have to pay before government funding became available. The additional costs were to be funded by a 1.25% levy on National Insurance, which came into effect in April 2022.

In the mini-budget in September 2022, the Truss government announced that this levy would be scrapped in November and that the reforms would be funded from general taxation. Then, in the Autumn Statement in November 2022, Jeremy Hunt, the new Chancellor, announced he was pushing back the start date for implementing the structural reforms from October 2023 to October 2025.

While this delay was disappointing, the reason Mr Hunt gave for delaying the reforms was to avoid imposing additional costs on the government and care providers at a time when the government's priority is to create more capacity. In his Autumn Statement he said that the government would make available up to an extra £2.8 billion in 2023/24, and £4.7 billion in 2024/25 to help support adult social care and hospital discharge.

There were two government initiatives that gained less attention during 2022, but may have important longer-term consequences for the sector. First, in England the government carried out a major data collection exercise from care providers to assess the Fair Cost of Care (FCOC). The aim was to ensure that care providers can meet local authority demand at a price that covers their costs and is sustainable for the future. The data was collected by the end of October 2022 and has been a significant input into large fee increases announced by some local authorities since then, as it showed they've been paying less than the FCOC (see page 12).

Second, new integrated care systems (ICSs) in England formally took up their responsibilities in July 2022. ICSs are partnerships that bring together NHS organisations and local authorities, to take collective responsibility for planning services and improving health across geographical areas. There are 42 ICSs, each covering between 500,000 and three million people. The changes have been described as the biggest legislative overhaul of the NHS in a decade.

If successful, these reforms will help to break down the silos between care for the elderly provided by the NHS, and care funded by local authorities. This should improve outcomes for the vulnerable people who need care and will make the NHS an increasingly important counterparty for elderly care providers who can deliver what the NHS needs – complex, higher acuity care.

Case study:

The impact of inflation on care providers

After two years at the frontline of managing the impact of the COVID-19 pandemic on the people most at risk from the virus, care providers had been hoping for a calmer, more normal 2022. Instead they found themselves in a perfect inflationary storm, with utility, food and, above all, staff costs rising very rapidly, as general inflation peaked in double digits in October 2022.

The one cost which our tenants had capped was their rent: 90% of our rent increases are capped at 4% per annum, and 8% are capped at 5% (the remaining 2% are uncapped). We put these caps in place to make sure that our rents continue to be affordable over the long term if inflation did spike, as it now sadly has.

Two other things have helped to shelter care providers against these inflationary headwinds. First, their occupancy has been steadily rebuilding from the lows caused by the pandemic. Second, they provide an essential social service, demand for which is non-discretionary. This means they can increase their prices when they're forced to do so.

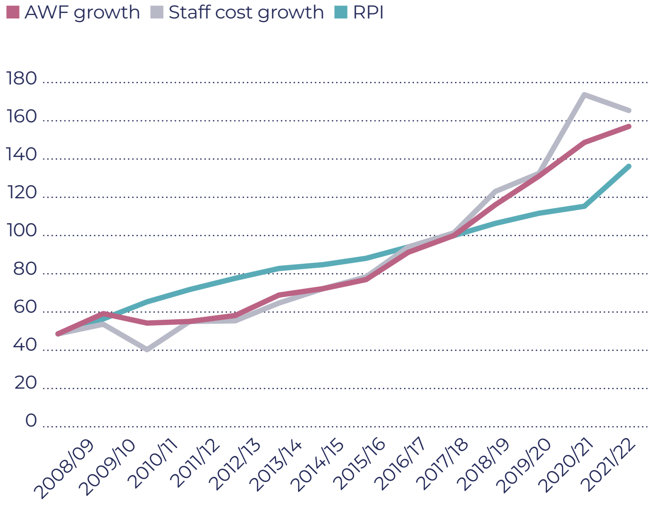
Different firms do annual surveys of fees charged by care providers. In 2022, all pointed in the same direction – substantial increases on 2021. The survey by Carterwood, for example, found that private fees for the year beginning April 2022 were up 9.6% for nursing care and 7.3% for residential care (compared to 6.1% and 6.6% in 2021), while local authority fees were up 7.4% and 6.9% (2021: 2.8% and 3.0% respectively). Our tenants performed slightly more strongly than these benchmark numbers (see the Investment Manager's report).

As ever, a note of caution is worthwhile. An increase to baseline fee rates does not necessarily translate into an increase in the fees received by operators, if they've already negotiated an uplift to those floor fees, as you would expect a successful operator to have done. And, paradoxically, a cut in baseline fees can be good news for successful operators with strong local reputations. Some local authorities – for example, Hampshire and Oxfordshire – announced cuts in their baseline fees in 2022 as they moved away from a standard model of a set fee, to reviewing fees on a case-by-case basis, greatly expanding the range of fees offered.

With that proviso, we expect the fee increases that come into effect in April 2023 to be in line with 2022, or slightly higher, which will be helpful to our tenants as inflation comes down.

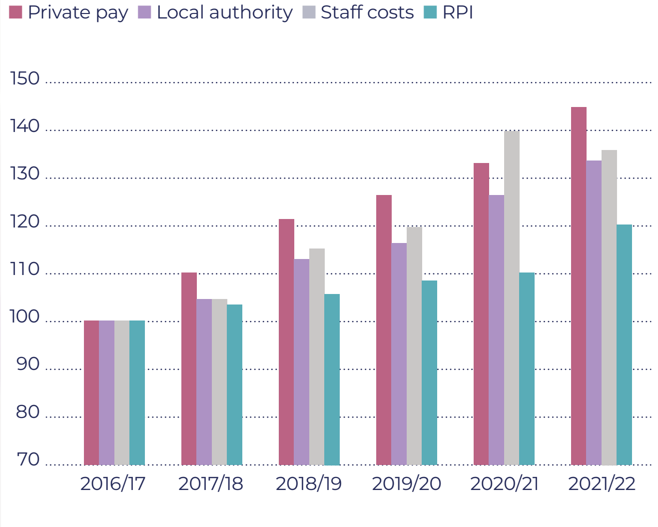
This confirms a long-term pattern, that care providers can increase their fees in line with inflation. Over the 24 years ending in April 2022, fees for nursing care have risen by an average of 3.6% per annum, and for residential care by an average of 3.5% per annum. RPI over that time averaged 2.8% per annum.

Fee and staff costs index (2009-2022)



Source: Knight Frank

Fee and staff costs index



Source: Knight Frank

WHY INVEST?

Generating attractive returns

Our business model

Our business model allows us to generate attractive returns (see page 1) with managed risk. We consider risk from many different angles, from ensuring our balance sheet stays strong, to the way we carefully pick tenants and make sure they're performing well, to our focus on sustainability and creating a positive social impact. Our external Investment Manager is essential to our success and its strengths give us an edge in our market. See pages 16-17 for more information.

How our business model supports our purpose

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

1. Build relationships

We build strong relationships with tenants who seek to provide high-quality care and who we can work with long term. We look to add new tenants over time, which reduces risk by diversifying our business and making us more resilient, and gives us more scope to grow our business responsibly.

Link to purpose:
- Long-term partnerships with tenants

2. Identify assets

We identify attractive assets to invest in, often in partnership with existing tenants, and frequently acquired from owner-operators who are exiting the market. Our disciplined approach results in attractive net initial yields and we often buy at less than the cost of replacing the asset, which helps create a barrier to entry for new competitors. See our investment strategy on page 24 for more information.

Link to purpose:
- Long-term partnerships with tenants
- Owning buildings

3. Appraise purchases

We're very selective in what we buy and rigorously check every aspect of the homes, including their environmental sustainability and the market within which it operates. This allows us to develop a plan for the improvements we'll make, once we own them.

Link to purpose:
- Owning and investing in buildings

WHY INVEST?

4. Agree leases

Our leases are typically 25 years or more, so we're careful that they protect everyone's long-term interests. That means setting rents so they're well covered by tenants' profits from day one, linking rents to inflation so they rise over time but stay affordable, and requiring tenants to spend a minimum amount every year on repairs and maintenance. All our new leases also include "green" clauses, to help us work with tenants on our ESG objectives.

Link to purpose:
- Long-term partnerships with tenants
- Owning and investing in buildings
- Predictable and sustainable rent

5. Work with tenants to improve our assets

Our asset management projects include upgrading and extending our homes, so they're even better places to live and can provide care for more people, including those living with dementia. We also look to work with tenants to develop new homes in areas with strong demand. These activities require tenant consent in accordance with the long leases and will increase our rent, our tenants' revenues and the value of our homes, and make them more sustainable.

Link to purpose:
- Long-term partnerships with tenants
- Owning and investing in buildings

6. Optimise portfolio

We regularly review our assets to look for those where it makes sense to sell, so we can reinvest the proceeds and create more value. We also put in place appropriate levels of debt to enhance shareholder returns in line with our leverage policy.

Link to purpose:
- Owning and investing in buildings
- Our focus on quality

Our focus on quality

Quality is at the heart of our business model. By following the process set out above, we maintain the:

Quality of our buildings, ensuring they're well maintained, that we've identified ways to improve them through asset management, and that they're fit for purpose for our tenants and their residents for years to come.

Quality of care, since our income depends on our tenants providing care that meets residents' needs and attracts new residents. The Investment Manager regularly meets our tenants as well as visiting the homes, reviewing what customers are saying and considering reports from regulators. If they see any ongoing issues with care, they'll seek independent support to help resolve them, where appropriate.

Quality of cash flows, as discussed on page 17, which together with our prudent approach to investment ensures we maintain a **healthy balance sheet**.

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

Residents benefit from security, stability and high-quality care, with a landlord who's willing to invest in their home.

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 is to deliver predictable and rising revenue, so that we can pay a progressive, fully covered dividend (see pages 18-19). There is also the potential for capital growth, which supports an attractive total return.

WHY INVEST?

An experienced and strategic management team

Impact Health Partners LLP is our Investment Manager. Its role includes sourcing investments for us, closely monitoring the progress of our homes and asset management.

Our portfolio and Investment Manager are our main sources of advantage in our market. We benefit significantly from the team's skills and experience, in particular their:

1. Deep knowledge of the sector, which allows us to buy the right assets, choose the right tenants and add value by actively managing our assets.
2. Positive relationships with care home owners who might want to sell their assets, the agents they work with and with potential new tenants, all of which help our business to grow and diversify. Great relationships can help us to buy assets off-market or beat the competition even when we're not the highest bidder.
3. Asset management and development skills, so we can identify how to improve a care home before we buy it, successfully complete each project and work with our tenants to develop new homes.
4. Understanding of how care businesses work, which allows us to form supportive partnerships with our tenants.

Mahesh Patel ACA
Managing Partner

Mahesh is a qualified accountant who has over 35 years' experience in healthcare-related industries and assets, including positions in finance. Prior to 2006, he built up and then sold three healthcare-related businesses.

Andrew Cowley MA (Oxon)
Managing Partner

Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000. He was previously a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports.

David Yaldron FCA
Finance Director

David is a chartered accountant with more than 25 years' experience, having held senior financial roles in real estate and investment companies. He was previously a senior director at Grosvenor, Britain & Ireland.

Martin Robb MRICS
Managing Director

Killian Currey-Lewis CA
Investment Director

Simon Gould MRICS
Development Director

Sam Josland CFA, ACA
Investment Manager

Charlotte Finch
Investment Manager

Sophie Shrestha ACCA
Finance Manager

Alison Hayward
Office Manager

WHY INVEST?

Our focus on quality

Quality is at the heart of our business model which is set out on pages 14-15. Our board and Investment Manager ensure we maintain this focus, as outlined below:

	Delivering quality in practice
Quality of our buildings We are constantly reviewing the quality and performance of our homes in partnership with our tenants. Our asset management strategy for each home identifies opportunities to invest further to improve the quality of environment for residents and staff, for example the addition of specialist beds for dementia and increasing the proportion of ensuite bedrooms. We also identify opportunities for improving the environmental performance of the building.	**Ensuring our buildings are well maintained is the responsibility of our tenants. To ensure this is properly executed we will seek to visit our homes both directly and indirectly. In addition, we review and discuss with our tenants their spend on repairs and maintenance across our portfolio.** **Directly via the Investment Manager,** who will routinely visit our properties to inspect and understand the operations with our tenants, to check the maintenance and progress on asset management projects at the homes and discuss opportunities for improvements. In 2022, the Investment Manager undertook 63 visits to both individual and portfolios of our homes. **Directly via the board.** A selection of board members look to engage directly with our tenants and visit some of the homes across the portfolio to understand the operations, how the tenant is performing and to help understand the challenges and opportunities across the portfolio. In 2022, our board members visited three homes. **Indirectly through our valuer, surveyors, environmental specialists and independent social value reviewers,** who support the Investment Manager in understanding the quality of our buildings and collectively undertook 197 home inspections in the year.
Quality of care The security of our rental income depends on tenants maintaining a high standard of care, so the homes remain relevant and meet the needs of residents. The Investment Manager works closely with our tenant partners to identify any areas of improvement and regularly reviews customer feedback and reports from regulators. Regular meetings and visits to homes help collaborative and proactive work with tenants to ensure quality of care is maintained. Where appropriate, we will seek independent support to resolve any ongoing issues.	**Delivering the service of care is undertaken by our tenants; the Investment Manager monitors occupancy across our homes weekly, receive notifications on care inspections as they are produced and reviews each tenant's financial performance quarterly either via conference calls or meetings in our tenants' offices** If a home is rated inadequate or requires improvement, the Investment Manager will review the reports in detail, have a conversation with the tenant's operations director to understand the issues identified, the remedial actions being undertaken and whether there are any broader concerns with the operations that the tenant is looking to resolve. During 2022, 28 of our homes were inspected by the regulator. Our Investment Manager also undertook 44 meetings with our tenants, reviewing their overall financial and operational performance. Outside of these meetings, our Investment Management team speaks regularly with our tenants on a variety of topics including occupancy, agency usage, asset management, environmental performance and quality assurance.
Quality of cash flows We regularly review our tenants' operational and financial performance. This helps us understand the overall performance of each home and help optimise performance, enabling tenants to maintain a sustainable EBTIDA margin and achieve resilient rent cover. Disciplined capital allocation has led to attractive net initial yields on acquisitions. Careful cost control enables us to benefit from economies of scale as we grow, as many of our costs are fixed and some variable costs step down as our asset value rises. This control, and our conservative financial approach, helps to maximise cash we can distribute to shareholders.	The quality of our cash flows starts with our tenants as outlined above. We have a disciplined approach to ensuring we are able to target delivery of a cash covered dividend and the headroom to manage downside scenarios as detailed in our going concern and viability statements on page 61. Our Investment Manager also regularly engages with our debt providers, providing quarterly financial information on covenant compliance and reporting on the performance of the tenants and homes within their security pool. In 2022, we successfully enlarged our debt facility with HSBC and enlarged and extended our debt facility with Virgin Money. The Group's Investment Manager undertook site visits with both banks as part of this process, enabling them to better understand the homes and activities of our tenants. Shortly after the year end, we put in place an additional £50 million interest rate cap to help manage our cash flows and cash security across the Group.

Strong cash generation supporting our progressive dividend policy

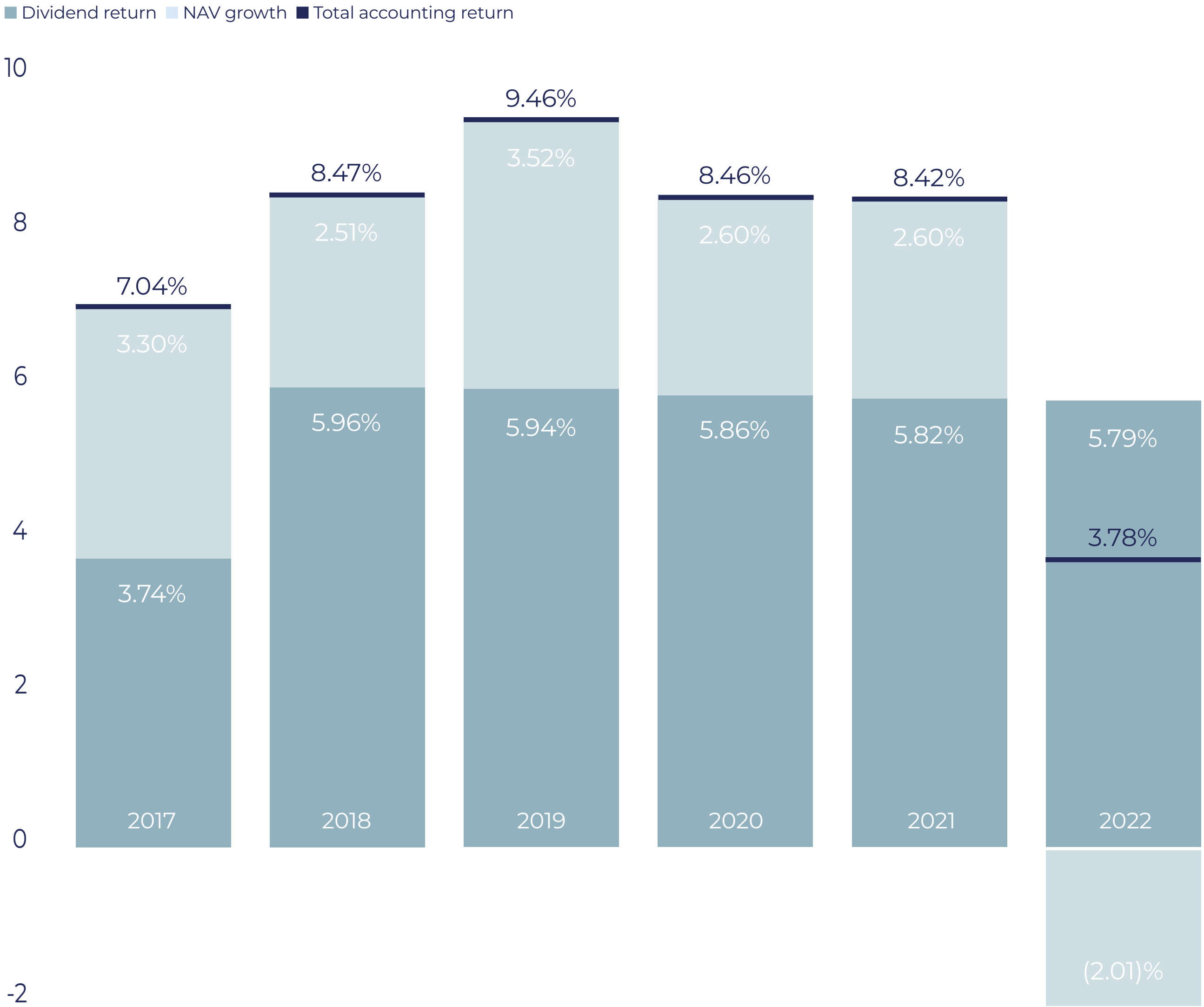
Dividends fully covered by adjusted earnings since 2021, supporting attractive total accounting returns

We've designed our business to produce growing, long-term income. All of our leases include rent increases linked to inflation, typically with a minimum increase of 1% or 2% and a maximum of 4% or 5%, so rents stay affordable for our tenants.

This allows us to have a progressive dividend policy, which has grown our dividend by 9% since 2018 to 6.54 pence per share in 2022. This has been fully covered by EPRA earnings since 2018 and by adjusted earnings, which is the Group's benchmark for cash earnings, since 2021.

The Company has announced its target dividend for 2023 of 6.77 pence per share[1], an increase of 3.53%.

Total accounting return (%)



1 This is a target not a profit forecast.

WHY INVEST?

As a REIT, we're required to pay out at least 90% of our profits as dividends each year.

The dividend is a key part of our total accounting return, which includes the movement in our net asset value each year. Our target is to achieve an average return of 9% a year over the medium term[1].

High-quality cash generation

As outlined in our business model on pages 14-15, we're always focused on the quality of our cash flows.

Our cash flows rely on having tenants who perform well and pay their rent on time. We regularly review the performance of our tenants and each home, so we understand how they're doing and can offer practical support if needed. This helps our tenants to maintain their profit margins, so their rent payments are well covered. We also carefully control our own costs and benefit from economies of scale as we grow, as many of our costs are fixed and some step down as our asset value rises.

The result has been a rapid increase in our operating cash flows, as we've grown the portfolio.

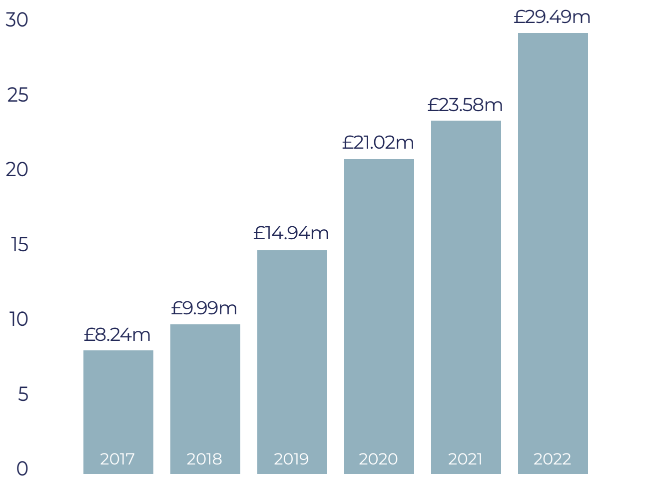
A prudently financed business

As a property business, prudently using a modest level of debt is a key part of our business model. It gives us additional money to invest in assets, which increases returns and reduces risk by diversifying our portfolio. At the same time, we have to balance these upsides with the need to ensure we're prudently and sustainably financed, so we're flexible and resilient. We have limited our leverage to 35% and are seeking to ensure that 75% of our drawn debt is fixed or hedged. Since the year end we have put in place a further £50 million of hedging to align with our hedging policy and 80% of our current drawn debt of £150 million is now hedged.

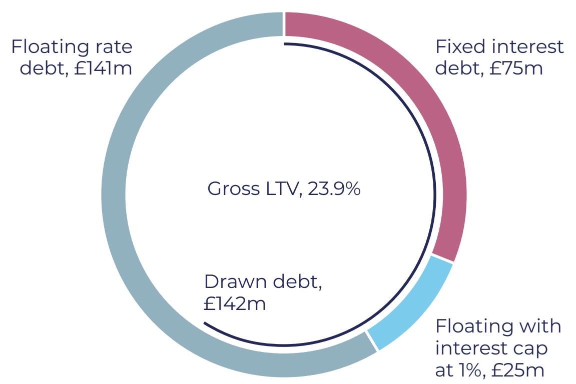
We carefully manage the maturity of our debt, with the capital structure including a long-term private placement that runs to 2035, and protect the business from rising interest rates through a suitable amount of fixed-rate and capped debt.

See our financing strategy on page 25 for more information.

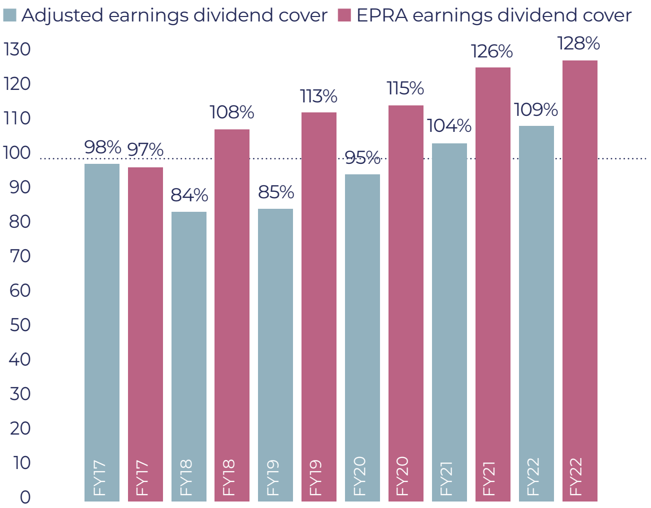
Net cash flows from operating activities (£m)



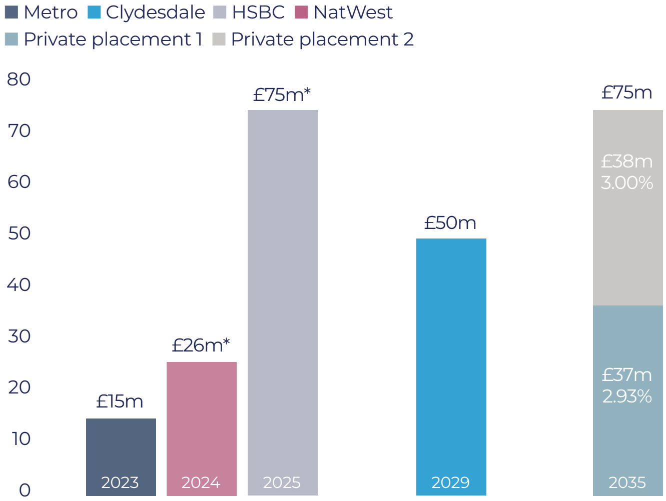
70% of drawn debt as at year end was capped or fixed. This has since increased to 80%



Dividend cover (%)



Debt facilities maturity (£m)



*These maturities exclude extension options.

1 This is a target not a profit forecast.

WHY INVEST?

Adding value through asset management and development

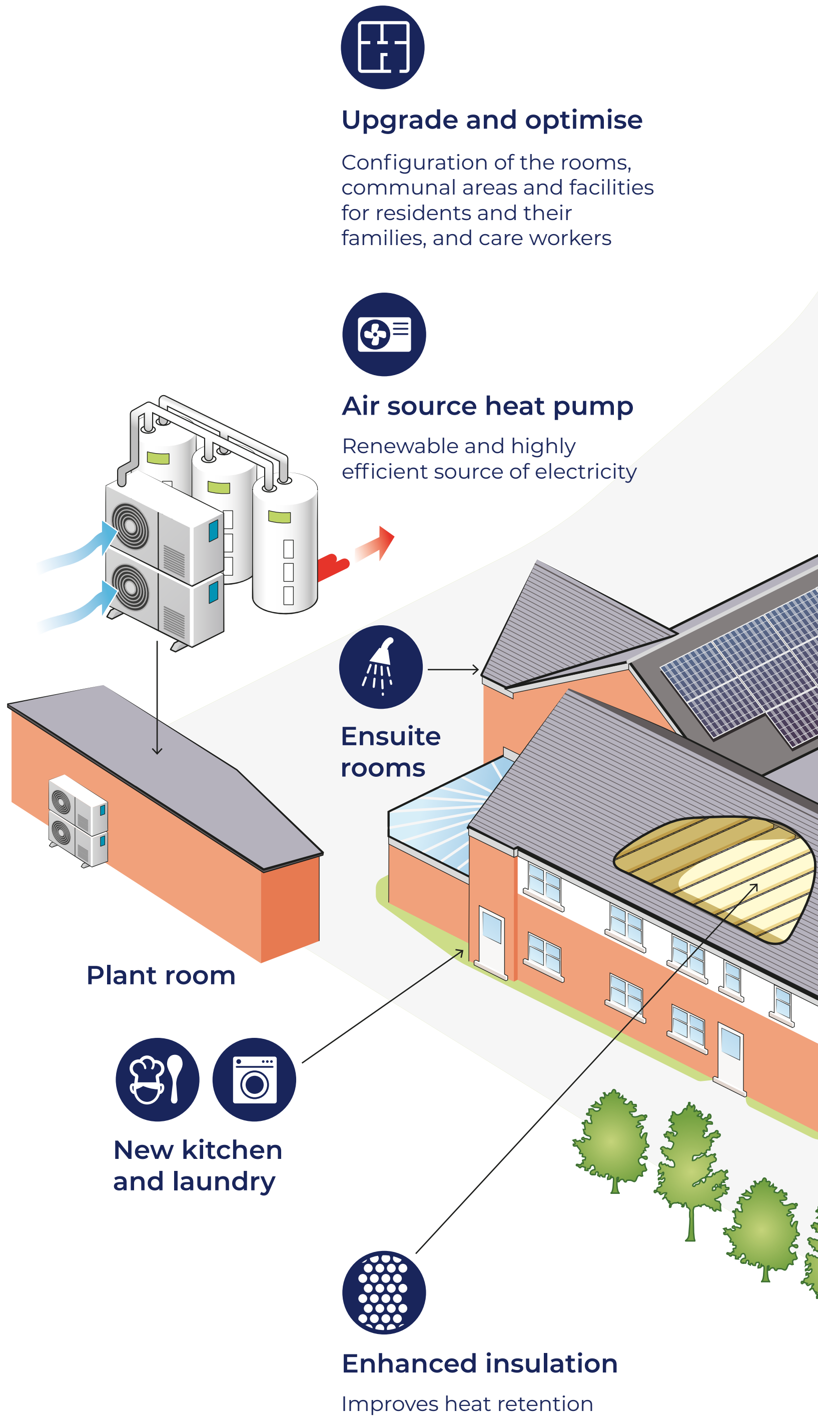
Capital investment is a key part of our value-creation strategy and we have numerous projects at different stages across the portfolio. Many of the projects add new beds while making the homes even better places to live, improving environmental performance and helping the homes to compete better in their markets.

Investing in asset management is a great way to improve our properties, provide better facilities to our residents, whilst increasing returns. We typically target an 8% return on each project through increased rents, with the potential for capital growth in addition to this. In 2022, we invested £11.8 million in asset management projects and over the next two years, we've identified a further £16 million of projects. The main initiatives are shown below:

Asset	Project description	Capital investment	Expected completion
Mavern House	Extension and additional ensuites	£2.0m	Q4 23
Yew Tree Care Centre	New 25 beds	£1.5m	Q4 23
Wombwell Hall	Reconfiguration and upgrading	£4.0m	Q4 24
Amberley	Extension and internal reconfiguration	£2.5m	Q2 24
Craigend	Extension and internal reconfiguration	£1.2m	Q2 24
Elm House	Extension and internal reconfiguration	£1.8m	Q1 24
Barham	Extension and internal reconfiguration	£3.0m	Q3 24

For more information, see our portfolio management, asset management and development strategies on page 25 and the Investment Manager's report on pages 42-47.

The graphic on the right shows a selection of the many ways that we can improve a home through asset management, making the building a better place to live and work and improving its environmental performance.

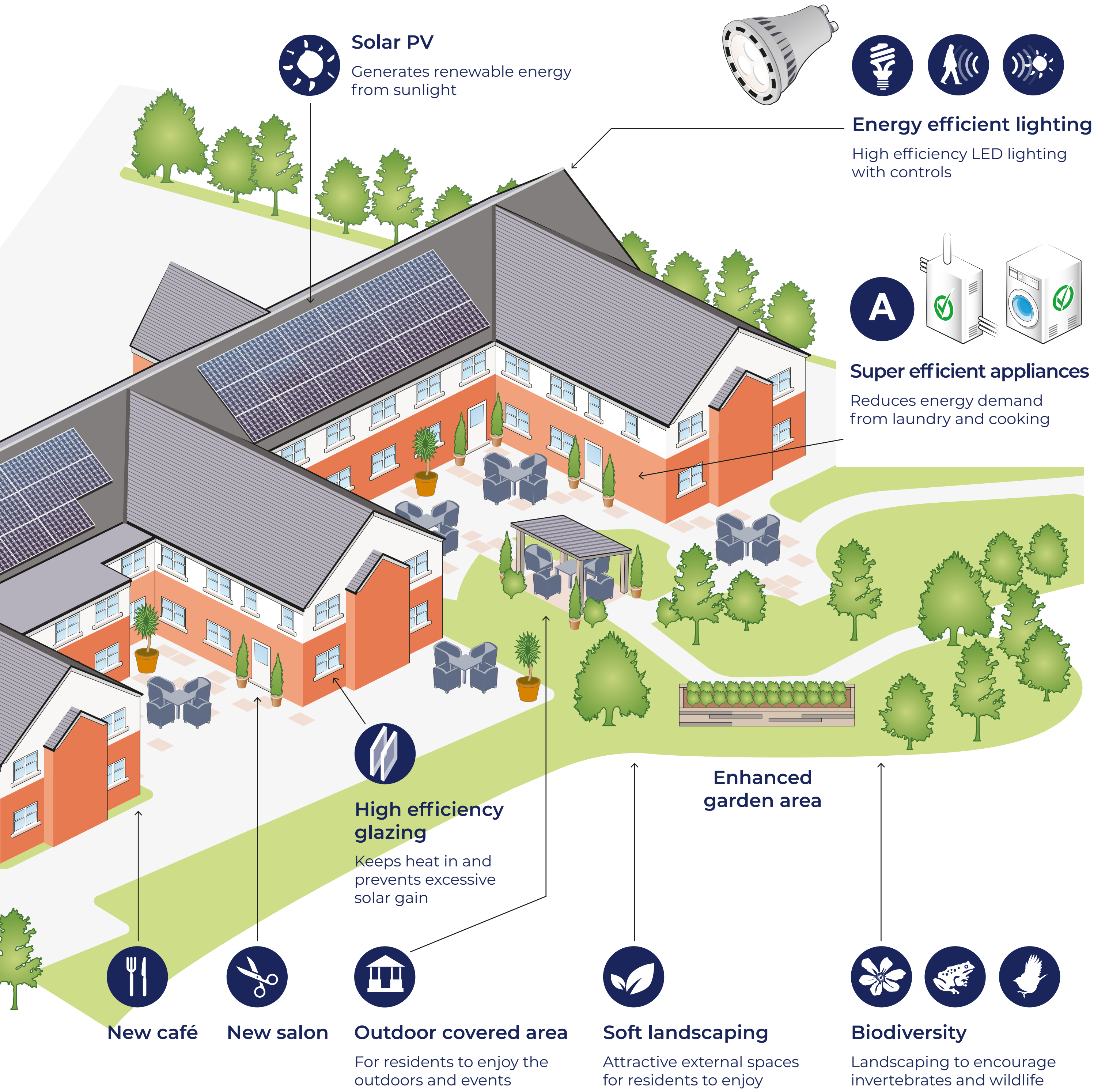


WHY INVEST?

Projects in planning or immediate pipeline
15
(next 12 months)

Capital deployed in 2022
£11.8m
(£4.0m forward-funded development, £7.8m asset management projects)

Yield on funds deployed excluding capital growth
8%



Portfolio

For the year ended 31 December 2022

Since our IPO in 2017, we've deliberately constructed a portfolio that's diversified by location, tenant and funding of our tenants' residents, which is well diversified across local authorities, the NHS and private pay. This helps to make us more resilient and means we earn a predictable income from our assets.

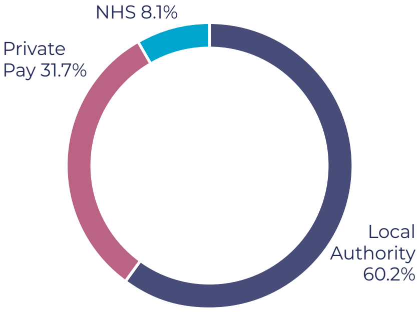
Our tenants

Our tenants are established healthcare providers. They seek to provide great care and have the ambition to grow their businesses alongside ours.

Region	Number of properties	Beds	% of portfolio market value
East Midlands	8	405	6.7%
East of England	9	627	11.1%
North East	12	767	9.4%
North West	33	1,348	15.6%
Northern Ireland	5	340	3.8%
Scotland	32	1,805	22.8%
South East	4	318	6.6%
South West	10	537	10.4%
Wales	2	105	0.8%
West Midlands	8	422	5.5%
Yorkshire & The Humber	12	742	7.3%

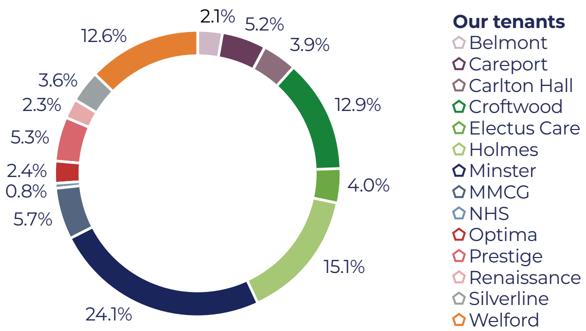
Security of tenant income (%)

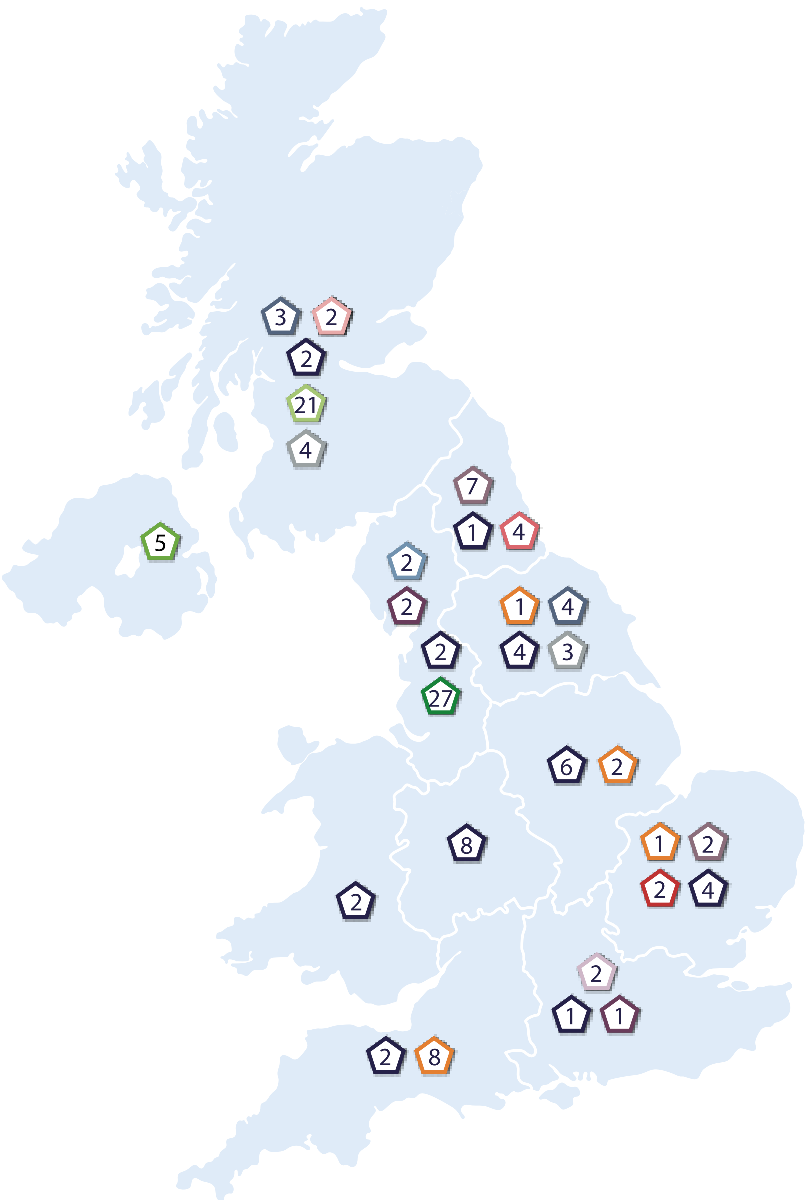
based on % revenue, for the quarter to 31 December 2022, to care home tenants



Diverse tenant base (%)

based on % contracted income





Note: The information on this page includes forward-funded assets and portfolios invested in via a loan to operator where the Group has an option to acquire.

Welford Healthcare

Building strong partnerships

- During the year we continued to build on and strengthen our partnerships with our tenants.
- Growth with existing tenants helps to de-risk the portfolio, by enabling them to develop larger and more resilient businesses, diversified by the number of homes.
- In H1 2022 we completed the purchase of three homes in south-west England and two homes in the East Midlands in partnership with Welford Healthcare. In both cases, the existing owner operator was exiting the business. Working with Welford, we acquired the freehold interests and assigned the operations to Welford with new long-term leases that reflected attractive value for both of us.

  These acquisitions took our total number of homes with them to 12. This equates to 12.6% of our annual rental income.
- All five homes are well established, with excellent local reputations, and have CQC ratings of either Good or Outstanding and benefit from favourable underlying demographics in the local catchment areas with attractive demand/supply fundamentals.
- EPC ratings are B on two homes and C on three, with a clear pathway to convert them to EPC B, in line with our ESG strategy.
- Building scale with operators provides more secure returns with enhanced diversity and a stable platform for undertaking asset management opportunities. We are on-site with Welford at Fairview House in Bristol and have a further two asset management projects in our immediate pipeline.

"We welcome the opportunity to grow our partnership with Impact, who have shown themselves to be a supportive and pro-active partner to us since our first transaction in 2018."
Peter Madden, Welford Healthcare

2022 acquisition highlights

Capital committed
£36.1m

Number of registered beds
294

Additional rent
£2.4m

Total number of beds with Welford
649

Post-year end
In January 2023, the Group invested a further £56 million, in partnership with Welford, in six care homes across Shropshire and Cheshire, adding an additional 438 predominantly ensuite beds to the Group's portfolio. Following this, Welford now comprises c.20% of our income. This acquisition was funded 80% by cash, with the remainder in shares priced at 116.62 pence per share.

Top, left: Raleigh Mead, South Molton, Devon. This is a 61-bed specialist dementia nursing home which was purpose-built in 2011 and benefits from 100% ensuite wet rooms

Top, right: East Street and Rossiter House, South Molton Devon.

Bottom: Periton Road, Minehead, Somerset.

Objectives and strategy

Our objectives

Our targets are to deliver:

- a progressive dividend, with a target for 2023 of 6.77 pence per share[1]; and
- an average total accounting return of 9.0% per annum[1], with the capital growth element mainly coming from rising rents and our asset management projects, rather than relying on increases in market values.

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. See page 159 for the definition of total accounting return.

Our strategy

To achieve our objectives, we:

- buy the right assets that enhance our portfolio through improved geographic and tenant diversity and are accretive to shareholder returns, by implementing our investment strategy;
- effectively manage the portfolio and individual assets, by implementing our portfolio management and asset management strategies; and
- ensure we're appropriately financed, by implementing our financing strategy.

Lomond View, Falkland, Fife, one of 32 properties that we own in Scotland. It has 50 high-quality ensuite beds, and is tenanted by Holmes Care Group.

OBJECTIVES AND STRATEGY

Strategy	Our progress in 2022
Investment strategy ▪ Our investment policy (see pages 157-158) allows us to invest in different types of healthcare properties. The market conditions described on pages 9-13 mean care homes currently offer us the best opportunities. ▪ We manage risk by having a portfolio that's well diversified by location and tenant, by adding new tenants over time and by increasing the number of homes our tenants run. ▪ We mainly buy portfolios, which can include other types of healthcare properties where this gives us a strategic opportunity to add value or we intend to sell them on when the time is right.	During 2022, we: ▪ invested in 12 care homes with 764 beds, for a total of £69.2 million; ▪ further diversified the portfolio geographically and strengthened existing tenants by increasing the number of homes they run; and ▪ added one new tenant, to give us 14 tenants[1] at the year end. Since the end of the year, we've invested £56 million in a portfolio of six care homes with 438 beds, leased to an existing tenant.
Portfolio management strategy ▪ We class each of our assets as core, value-add or non-core. ▪ We make sure we have the right balance between these categories and that we identify the assets where we can add value through asset management, or which are candidates for sale.	In October 2022, we sold a non-core care home with 68 beds for £2.65 million, 4% above its valuation at 30 June 2022. Since the year end, we sold a further non-core home with 49 beds for £1.25 million, in line with its valuation at 31 December 2022.
Asset management and development strategy ▪ Investing to add value to our assets and to enhance their social impact and sustainability is a priority for us. ▪ We also provide funding to develop new homes, once we've agreed a lease with the tenant who'll run it. This gives us better returns than buying existing homes and adds new and highly sustainable assets to the portfolio.	During 2022, we committed £11.8 million to asset management projects, which will earn an average return of 8% through higher rents. Notable projects we completed, in partnership with our tenants, were: ▪ completing our project at Riverwell Beck (previously called Blackwell Vale); ▪ completing phase one of our project at Fairview and starting phase two; and ▪ refurbishments of Belmont House, Harrogate, and three homes in Northern Ireland. We also reached practical completion on the 94-bed care home development we funded in Hartlepool, which is being run by Prestige.
Financing strategy ▪ We fund the business through equity and debt. When we issue new shares, we aim to invest the cash as quickly as possible in assets that generate income for us, to minimise the impact on our earnings per share of holding cash. ▪ Our policy is to have a maximum Group LTV of 35% at the time we draw down the debt (see page 19). ▪ We aim to hedge at least 75% of our drawn debt against rising interest rates.	We completed several significant funding initiatives in 2022. These were: ▪ raising £62.3 million of new equity, through share placings in February and July; ▪ issuing the remaining £38 million of the long-term institutional notes we arranged in 2021; ▪ extending our RCF with HSBC by £25 million and cancelling the £15 million RCF with Metro Bank; and ▪ renegotiating our RCF with Virgin Money, increasing it from £25 million to £50 million, extending the term to 2029 and reducing its cost. Since the year end, we have taken out a £50 million cap at a cost of £1.5 million, which caps SONIA at 3.0% for two years.

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

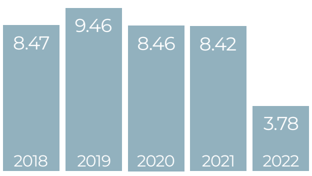
Key performance indicators

We use the following measures to assess the progress we're making with our strategy.

1. Total accounting return*

3.78%

for the year ended
31 December 2022
(2021: 8.42%)



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

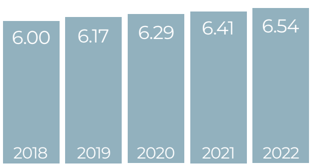
Relevance to strategy
Shows the returns we're creating for our shareholders, by paying out our earnings and growing our portfolio value.

Commentary
NAV total return comprised dividend paid in the year of 6.51p per share and the change in NAV of (2.26)p per share, and totalled 3.78%, against our target of 9.0% per annum[1].

2. Dividends

6.54p
per share

for the year ended
31 December 2022
(2021: 6.41p per share)



Definition
Dividends declared in relation to the period.

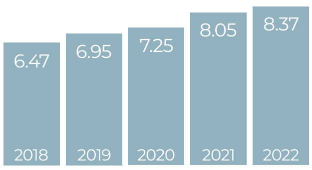
Relevance to strategy
Shows the quality of our buildings and tenants, which allow us to earn a predictable income and pay a growing dividend.

Commentary
We met our dividend target for 2022. Our dividend target for 2023 is 6.77p[1], representing 3.53% growth.

3. EPRA earnings per share*

8.37p
per share

for the year ended
31 December 2022
(2021: 8.05p per share)



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

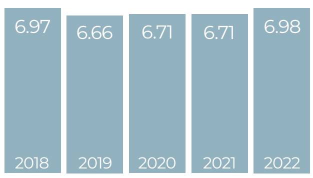
Relevance to strategy
This is a key measure of our operational performance and the extent to which earnings support our dividend.

Commentary
EPRA EPS increased by 4.0%, giving 128% dividend cover.

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

6.98%

as at 31 December 2022
(31 December 2021: 6.71%)



Definition
Annualised rental income based on the cash rents passing on the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property portfolio, increased by 6.3% to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired. lease incentives.

Relevance to strategy
NIY indicates the portfolio's ability to generate income, in comparison to its market value.

Commentary
The NIY at 31 December 2022 was 6.98%. The average NIY of our acquisitions in the year was 6.50%.

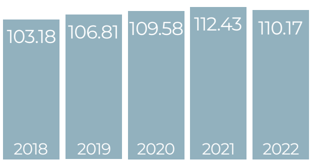
KEY PERFORMANCE INDICATORS

5. NAV per share

110.17p

per share

as at 31 December 2022 (31 December 2021: 112.43p per share)



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

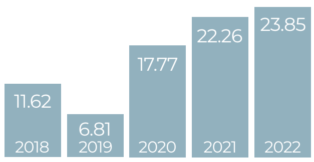
Relevance to strategy
We believe this is the most relevant measure of the fair value of our assets and liabilities.

Commentary
NAV at 31 December 2022 was 110.17 pence per share (-2.0%), (2021: 112.43p per share), reflecting the change in market value of the property portfolio, partially offset by the benefit of inflation-linked rent reviews and stable operator performance.

6. Gross loan to value ("LTV")*

23.85%

as at 31 December 2022 (31 December 2021: 22.26%)



Definition
Our gross debt as a percentage of our gross asset value.

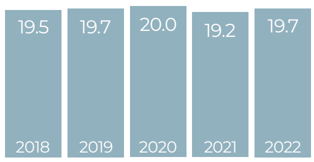
Relevance to strategy
This is an important indicator of the amount of debt we've used in implementing our strategy. A higher LTV can lead to higher returns but also increases downside risk.

Commentary
We have total facilities of £241 million and had drawn £142.3 million at the year end, giving an LTV of 23.85%. If the facilities were fully drawn, with no changes to the Group's current equity base, the LTV would be approximately 34.7%.

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

19.7yrs

as at 31 December 2022 (31 December 2021: 19.2 years)



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

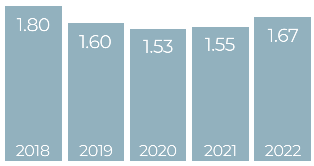
Relevance to strategy
The WAULT is a key measure of the long-term security of our income. Long leases support the quality of our income stream and our dividends.

Commentary
We continued to agree new leases of 25 years or longer during 2022, offsetting some of the natural reduction in the portfolio WAULT over time.

8. Total expense ratio ("TER")*

1.67%

for the year ended 31 December 2022 (2021: 1.55%)



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

Relevance to strategy
The TER is a key measure of how efficiently we're running the business.

Commentary
The TER increased 12bps in the year. The EPRA cost ratio (reported on page 148) increased to 16.59% (2021: 15.84%). Adding the interest received on loans to tenants to our rental income reduces the EPRA cost ratio to 15.4%.

* EPRA and alternative performance measures and associated notes can be found on pages 146-153.

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.

Responsible investment

Our homes are part of the UK's essential social infrastructure, allowing our tenants to care for and support some of the country's most-vulnerable people. Quality homes and strong partnerships with our tenants help us to achieve positive outcomes for society, while generating sustainable cash flows for our shareholders. We're also focused on making sure our assets are environmentally sustainable, so our portfolio remains resilient to the physical and transitional risks of climate change, and we can reduce fossil fuel use and carbon emissions from our portfolio and our tenants' operations.

The Investment Manager 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.

Signatory of:

PRI Principles for Responsible Investment

Assessing our material issues

In 2022, we updated the materiality assessment we originally carried out in 2019 and used the results to help inform our sustainability strategy. We based the areas of questioning on the UN PRI's Real Estate and Healthcare guidelines and the relevant industry metrics defined by the Sustainability Accounting Standards Board (SASB).

The materiality assessment included input from board members, representatives of the Investment Manager, care home operators and two financial institutions, representing equity and debt. We had strong engagement with our stakeholders and they recognised that we've taken steps to further embed ESG considerations in the business.

We rated the issues we identified on their importance to our stakeholders and the potential impact on our business. The table below categorises the most important items into environmental, social and governance issues, and between those we can influence directly and those where we have indirect influence, as the ultimate responsibility lies with our tenants.

	Environmental	Social	Governance
Direct Influence	▪ Energy efficiency management ▪ Carbon reduction and net zero strategy	▪ Close collaboration with care home operators ▪ Refurbishment of care homes ▪ Provision of affordable care	▪ Governance and 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

RESPONSIBLE INVESTMENT

Key impact pillars

Having identified the material issues, we distilled the overarching themes and used them to define the three pillars of our ESG strategy. Improving the UK's social healthcare infrastructure is at the heart of our investment strategy and is therefore a central pillar of our ESG strategy. We will combine this with a robust focus on the environmental impact of our portfolio and making sure we have a comprehensive governance framework. More information on our objectives, actions and metrics for each pillar can be found on page 33.

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

Environment

The UK needs more care beds in the right locations and of the right standard and we help this need through our asset management projects and carefully selected new developments. At the same time, we're aware of the carbon emissions resulting from building work – known as embodied carbon – which includes the carbon footprint of the materials we use, transporting them to the site and the construction process itself. In the future, we intend to measure embodied carbon and reduce it where we can.

Investing to improve a building and extend its life has significantly less impact on the environment than building new assets. We use refurbishment and extension projects as opportunities to improve the sustainability of a home, including fitting LED lighting, better insulation and renewable energy sources such as solar PV and air source heat pumps. We target a minimum EPC band B for all significant asset management projects. More information can be found on pages 20-21. For new build projects, we will target an EPC rating of A and, where possible, we will seek a BREEAM rating of Very Good or Excellent.

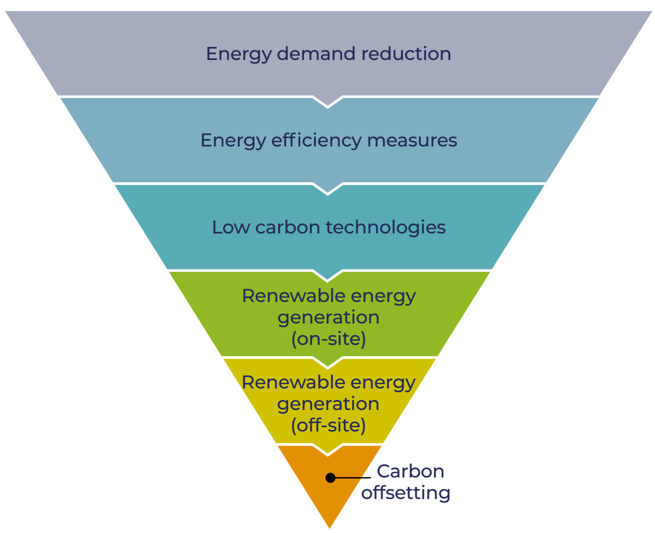
When we're considering buying a home, we screen its environmental performance, including its current and expected EPC rating and energy use intensity. Specialist consultants create a full energy model for the building to identify ways to improve the EPC rating and move along the net zero pathway (see opposite). We assess any capex required for environment improvements as part of the acquisition decision process. We undertake due diligence on potential climate related risk, for example fluvial and surface water flooding.

Net zero

To help to futureproof our portfolio and preserve its value, we've developed a net zero strategy and delivery plan. To do this, we used the industry-leading CRREM (Carbon Risk Real Estate Monitor) toolkit. This shows the decarbonisation trajectory required for us to comply with the 2015 Paris Climate Agreement target to limit the global temperature increase to 1.5°C. The CRREM toolkit is the major global standard for operational decarbonisation of buildings and its pathways are aligned with science-based targets.

We've developed our net zero strategy with the assistance of a leading sustainability consultancy. We have applied the principles of the energy reduction hierarchy (see the diagram below) to the stages of the real estate lifecycle, to ensure our decarbonisation pathway is as efficient and cost effective as possible. Initially, we're focusing on reducing energy demand by engaging with our tenants and through measures such as installing LED lighting and insulation upgrades. The next stage will be more substantive retrofits and moving from fossil fuel heating systems to low-carbon electrical systems, alongside a roll out of on-site renewable energy sources such as solar PV cells. We'll offset any residual carbon emissions using recognised offsetting programmes, in accordance with the UK Green Building Council guidelines. Importantly, we have included all tenant energy and refrigerant carbon emissions in our decarbonisation strategy, which are classed as "Scope 3" under the Greenhouse Gas Protocol. We consider this to be a responsible and transparent approach to the environmental impact of our portfolio.

Net zero pathway



Riverwell Beck Care Home, Durdar Road, Blackwell, Carlisle CA2 4SE

Creating a brighter, more energy efficient home

Before

- Purpose-built two-storey care home, three miles south of Carlisle town centre. Well located on a main bus route and close to local amenities.
- 51 bedrooms with eight ensuite rooms.
- Home was well regarded locally but needed upgrading to meet modern standards.
- EPC rating of C.

What we did

- Refurbished existing home, including floor finishes, furniture, decoration and upgraded lighting.
- Added two extensions, to create six additional ensuite wet room bedrooms and a new laundry.
- New cinema room, hairdressing salon and welcoming entrance café area.
- Upgraded garden.

Outcomes

- Additional facilities and new and refurbished bedrooms and day spaces improve the resident experience and comfort.
- Additional capacity helps to meet increasing demand from the local hospital to discharge people into an appropriate community setting.
- Upgraded garden provides calm and sheltered areas for residents and their families to enjoy fresh air.
- New and larger laundry makes daily routines more efficient for staff and adds much-needed storage space.
- New high efficiency boiler, improved insulation and LED lighting throughout improves energy efficiency and reduces carbon emissions and costs for the operator.
- EPC rating improved from C to B.

"We are delighted with the outcome of the project and feedback from residents and staff has been very positive."

Wendy Carruthurs, Home Manager

Operator
Careport

Bedrooms
57 (+6)

Capex investment
£1.825 million

Incremental rent
£146,740

Commencement
Feb 2022

Completion
Sep 2022

Sustainability
New high efficiency boiler, increased insulation, LED lighting and lighting controls.

EPC
B (previously C)

CQC Rating
Good

RESPONSIBLE INVESTMENT

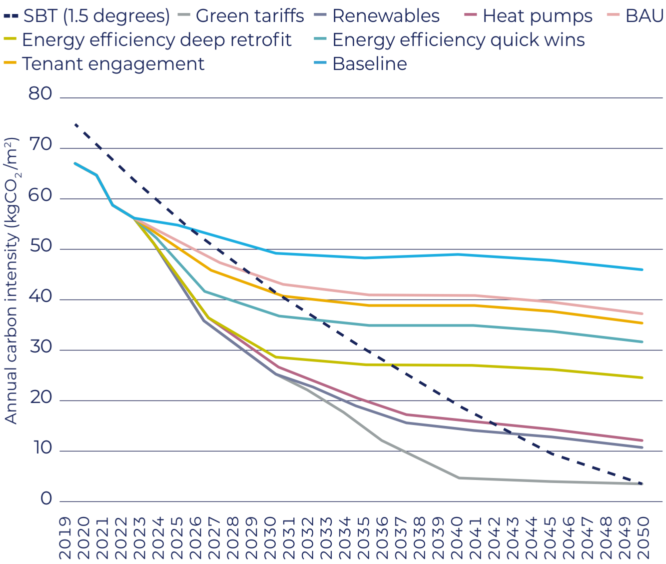
We have set interim targets for our net zero strategy and delivery plan, which we will continue to monitor and review as we progress.

Year	Reduction in absolute carbon emissions on a like-for-like basis	**Percentage of assets with an EPC of B or above
2025	15%	50%
2030	50%	100%
2045	90%*	100%

* At present we estimate that there will be some residual carbon emissions which we will offset. This will be kept under review as low carbon options become more widely available and effective.
** There may be cases where exemptions apply under MEES regulations in which case we will provide all viable energy efficiency measures. EPC B is for England & Wales only but an equivalent rating will be sought for assets in Scotland.

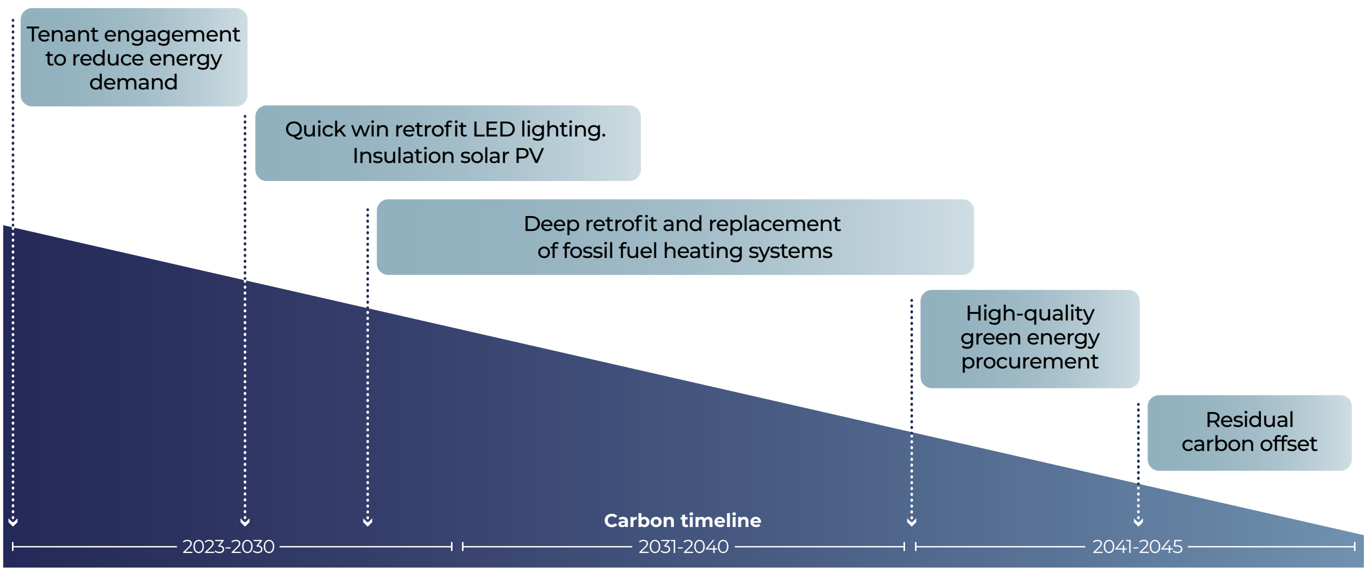
The chart below shows the effect of different actions on the carbon intensity of our portfolio. Our approach is to deliver a methodical, planned and considered decarbonisation plan working in partnership with our tenants. Based on current assumptions on available technology we estimate that we will be fully net zero in 2045, well ahead of legislative targets. We will continually review this pathway to assess whether we can accelerate this process as new low carbon options become more widely available and effective. The pathway has also been developed on the basis that the government preferred approach to the Minimum Energy Efficiency Standards (MEES), which will require all buildings to be an EPC B rating or above by 2030, comes into effect. See page 44 for the Group's EPC rating across the portfolio.

Carbon intensity



The chart above shows the impact of carbon reduction interventions over time on our portfolio compared to the 1.5°C trajectory.

Net zero pathway



RESPONSIBLE INVESTMENT

Partnerships with tenants

We've leased all of our portfolio to tenants on a full repairing basis, which means upgrading the building's environmental performance and buying utilities are outside our direct control. The carbon emissions are therefore classed as Scope 3 under the UN Greenhouse Gas Protocol.

However, we have a responsibility to use our influence and partnership working to improve the energy performance of the buildings, and this is key to our net zero strategy. Since 2020, we've used "Green" leases, which require tenants to plan for expected changes in environmental legislation and to share energy performance data with us. Making our buildings more energy efficient will reduce costs for our tenants and make the homes better places to live and work. It will also help to future-proof the buildings against rising expectations from customers and commissioners of care. We increasingly see our tenants working on their own energy efficiency plans and we will continue to support them so that they can comply with environmental regulations.

A vital social role

The majority of residents in our homes are funded by their local authority or the NHS. Homes for publicly funded residents have traditionally had less investment than those for private payers. This gives us an important role as a capital partner for operators who deliver vital care to residents who may have less choice. These homes can also free up much-needed bed space for the NHS, improving people's lives by reducing the time they spend in hospital and providing them with appropriate community-based care. Our homes also benefit the wider community and sustain and create local employment. We believe therefore that our long-term investment in these homes delivers positive social outcomes for residents and their families and for the staff providing care in a community setting.

We aim to have a portfolio that continues to serve both the publicly-funded and private-pay markets, with appropriate rents that allow our tenants to provide a sustainable and commercially viable care service for people, irrespective of their background. This balanced approach gives us a prudent and resilient commercial strategy, enables our tenants to grow their businesses and helps us deliver substantial positive social impact.

Positive social impact

Majority of residents from the publicly funded sector – we provide long-term institutional investment in a sector traditionally overlooked by investors

We set rents at appropriate levels, enabling tenants to grow and invest in quality of care and provide value for money care publicly-funded and private-pay residents

We form long-term partnerships with tenants, with high satisfaction survey results

RESPONSIBLE INVESTMENT

Our ESG framework

The tables below show our objectives against each of our three pillars, how we intend to reach those objectives and the metrics we'll use to measure our progress.

Pillar 1: Strategic investment in our portfolio to improve our environmental impact			Aligns with the following UN Sustainable Development Goals:
Our objectives	**How we do it**	**Metrics**	
▪ Ensure all assets achieve a minimum of EPC Grade C by 2026 and a minimum of B by 2030 ▪ Ensure our portfolio is net zero by 2045 ▪ Ensure our portfolio is resilient to climate change	▪ Investing in assets that are highly energy efficient or have the potential to be with further capex ▪ 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	▪ Percentage of assets with EPC of C or higher ▪ Number of assets with improved EPC ▪ Carbon intensity of portfolio in Kg CO_2e/m2/year ▪ Embodied carbon associated with developments and extensions ▪ Percentage of assets with green leases ▪ Absolute carbon emissions	13 CLIMATE ACTION 11 SUSTAINABLE CITIES AND COMMUNITIES

Pillar 2: Having a positive impact on the people living and working in our homes			Aligns with the following UN Sustainable Development Goals:
Our objectives	**How we do it**	**Metrics**	
▪ 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	3 GOOD HEALTH AND WELL BEING 10 REDUCED INEQUALITIES 11 SUSTAINABLE CITIES AND COMMUNITIES

Pillar 3: Robust governance and transparent reporting to all stakeholders			Aligns with the following UN Sustainable Development Goal:
Our objectives	**How we do it**	**Metrics**	
▪ Be transparent with all stakeholders ▪ Maintain robust corporate governance ▪ Proactively listen and engage with public and private stakeholders	▪ Maintain clear disclosures on operational performance ▪ Maintain policies on supplier code of conduct, anti-money laundering and bribery ▪ Manage the business in accordance with our responsible investment policy ▪ Engage with tenants on good governance practices	▪ Investment Manager's UN PRI submission ▪ EPRA sustainability rating	8 DECENT WORK AND ECONOMIC GROWTH

Report against the Task-force on Climate Related Financial Disclosures ("TCFD") framework

Overview

Through the 2015 Paris Climate Agreement, world governments have committed to keeping the global temperature rise to well below 2˚C above pre-industrial levels and are working to limit warming to 1.5˚C. In the UK, the government aims to reduce emissions by 78% by 2035 and achieve net zero by 2050. It has made net zero by 2050 part of UK law, providing opportunities to introduce further legislation and regulations to promote change.

Climate change and the laws and regulations needed to mitigate it create both risks and opportunities for our business. During 2022, the board oversaw the Investment Manager's work in this area. This included developing an initial analysis of our portfolio, defining the actions we need to take to decarbonise the portfolio over time and increasing our focus on physical risks during acquisitions and portfolio management.

Being accountable for and transparent about how we assess and manage climate-related risks and opportunities is important for maintaining our stakeholder relationships. We're therefore reporting against the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations for the first time this year. As an investment company, we're not currently required to report against TCFD, but we believe starting to do so helps our stakeholders to understand the possible effect of climate change on our business and the actions we are taking.

This is our first year of voluntary reporting against the TCFD framework and we are making progress towards full compliance with the TCFD requirements. We expect to improve our compliance in future years as we continue to refine our assessment of climate change risks and opportunities and embed climate change risk management in our day-to-day operations and acquisitions. The implementation of our net zero strategy, targets and delivery plan will also be kept under close review.

Our consideration of climate change

The Investment Manager set up an ESG working group, with members from its asset management and finance functions. The working group met regularly with external advisers during 2022, to:

- understand the potential consequences of climate change;
- review and discuss the portfolio analysis and the options for decarbonising the business;
- work through scenarios; and
- consider the associated risks and opportunities.

The working group also analysed how this work would match the expectations of the TCFD framework.

Climate change scenario planning

To improve our understanding of climate change risks and opportunities, we've considered the recommended 1.5-2 degrees warming scenario, based on the Intergovernmental Panel on Climate Change's (IPCC) defined Representative Concentration Pathway ("RCP") 2.6 (1.5-2 degrees), as well as the IPCC's RCP 4.5 (2-3.5 degrees) and RCP 8.5 (4 degrees). RCP 2.6 takes into account actions to keep warming to 1.5-2 degrees, while RCP 8.5 sets out the worst-case warming scenario. We also included IPCC's 4.5 pathway, as this is generally considered the middle-of-the-road option.

To align with our business strategy, we've defined a short-term timeframe as one to three years, medium term as five to ten years (aligned to our business plan), and a long-term timeframe as up to 25 years.

Governance

Our board is made up of non-executive directors, who set our risk appetite and oversee the Investment Manager, which is responsible for the day-to-day management of the business, risk management and strategy. The board and the Investment Manager both recognise the importance of climate action and what it means for our ongoing sustainability and success. Through the Investment Management Agreement, the Investment Manager is accountable to the board and reports regularly to the board and committees. The Investment Manager's Finance Director is responsible for reporting to the board on sustainability, including how we're mitigating climate change and the actions we're taking to adapt to it, and the progress we have been making with our revised sustainability strategy.

To supplement the ESG working group, the Investment Manager intends to set up its own formal ESG Committee, with appropriate terms of reference. This committee will be chaired by the Investment Manager's Finance Director and will meet quarterly.

Strategy

Our strategy is to invest in existing care homes through refurbishments and asset management projects, with selective new build developments. All our investment decisions take into account environmental matters and the longer term impacts of climate change.

Our net zero strategy and delivery plan will enable us to mitigate the impact of transitional climate-related risks.

Risk management

The Investment Manager has a Risk Committee which assesses and reviews our risk register every quarter and reports to the Audit Committee. The board and Audit Committee discuss and consider the principal risks twice a year. Environmental regulation has been a principal risk for us since 2019 and we changed our assessment of environmental regulation and the impact of climate change in September 2022 from Probability: Medium, Impact: Low to Probability: High, Impact: Medium. The board pushed for this decision, reflecting our need to start acting now to reduce our risks over the longer term.

As part of our acquisition due diligence, we've used specialist consultants to assess environmental performance on all acquisitions since 2020. We'll continue to factor in climate change risks and opportunities, including a broader consideration of physical risks and the decarbonisation pathway, in line with our net zero strategy.

Metrics

We've disclosed our energy consumption data since 2019, in line with the EPRA Best Practice Sustainability Requirements. Our Scope 1 and 2 emissions are minimal, and our reported emissions relate to energy that our tenants buy and use, which fall under Scope 3.

We've been modelling our portfolio as part of our net zero strategy planning and have discussed our progress in this report. Our net zero strategy takes into account projections of our future carbon emissions and decarbonisation pathways, based on the size of our current portfolio and assumptions about how it will grow. We have adopted a zero carbon target of 2045 with interim milestones for 2025 and 2030 (see page 29).

REPORT AGAINST THE TCFD FRAMEWORK

TCFD's recommended disclosures

Disclosure	Commentary
Describe the board's oversight of climate-related risks and opportunities.	The board sets our risk appetite and oversees our risk management, which the Investment Manager carries out on our behalf, as our Alternative Investment Fund Manager (AIFM) registered with the FCA. 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. Climate change has been a principal risk for us since 2019. Following the board strategy day in October 2021, the board asked the Investment Manager to develop a sustainability strategy and carry out the analysis needed to propose a net zero strategy in 2022. These were considered and approved by the board in February 2023. The strategy and its implementation will be reviewed by the board on an annual basis. The board has delegated responsibility to the Audit Committee for monitoring compliance with our internal financial controls, reviewing our risk management framework, reviewing external reporting related to risks and internal controls, and reviewing our processes and controls to ensure our ESG disclosures are accurate, comparable and consistent. This is the first year that we've voluntarily reported our climate risks and opportunities using the TCFD framework. The AIFM's ESG working group, established in 2021 and responsible for leading the process, presented to the board on progress and options in August and December 2022. The board approved the strategy in February 2023.
Describe the management's role in assessing and managing climate-related risks and opportunities.	As an externally managed REIT, the Investment Manager performs portfolio and risk management functions on our behalf. This includes monitoring our systems and controls to manage risk, due diligence, screening potential acquisitions and ongoing management of our assets. The AIFM's ESG working group assessed our climate-related risks and opportunities during the year and these are now being embedded in our day-to-day operations. These include: ▪ assessing transitional and physical climate-related risks for potential acquisitions; ▪ developing a net zero strategy and delivery plan that sets a framework, methodology and metrics and targets for the reduction in operational carbon to net zero status by 2045 with interim milestones. The plan has been developed using the globally recognised CRREM toolkit; ▪ updating and reviewing the EPC ratings of our assets; ▪ identifying opportunities to improve energy efficiency through asset management; ▪ obtaining energy consumption data and reporting on GHG emissions; and ▪ engaging with our tenants to raise the profile of environmental issues and objectives, and identify areas of mutual benefit. **Scenario planning** To improve our understanding of physical and transitional climate risks, we've mapped 20 of our properties against the IPCC's 2.6, 4.5 and 8.5 emissions pathways. We selected these properties to provide a representative cross section of the portfolio, ensuring we had a good spread: ▪ across different tenants; ▪ across Northern Ireland, Scotland, England and Wales; and ▪ of different ages of properties.

TCFD's recommended disclosures (continued)

Disclosure	Commentary
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	We've assessed our climate-related risks and opportunities, and identified and reviewed a range of physical and transitional risks which could affect our strategy. The assessment also covered potential opportunities arising from climate change. We grouped the risks and opportunities as follows: ▪ Transition risks arise from the shift to a lower-carbon economy and may involve policy, legal, fiscal, market and regulatory compliance. ▪ Physical risks arise from climate-related events or longer-term changes in weather patterns, which could damage our assets or affect our tenants' ability to use them. In line with the TCFD methodology, we grouped the risks and opportunities into five subcategories: Market, Reputation, Policy & Legal, Chronic and Acute. We then recorded the risks and opportunities on a register and ranked them by how likely they were to occur and their potential impact on our strategy. We assessed the risks and opportunities over short (one to three years), medium (five to ten years) and long-term (up to 25 years) timeframes. The risks and opportunities are summarised in the table on page 40.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	As a real estate investor rather than a care home operator, many of the effects of climate change are outside our direct control. At the same time, we recognise that we and our tenants can only mitigate climate change risks and maximise any opportunities through close collaboration. We're therefore developing an ongoing stakeholder engagement plan, so we can better understand the challenges and find appropriate solutions working together. Our net zero plan includes a granular assessment of the energy performance of each home in our portfolio. Through a combination of analysing the EPC ratings across our portfolio and our net zero planning, we're now prioritising properties that require action to reduce their carbon emissions and improve their energy efficiency. When we're looking to acquire assets, we commission specialist reports on their environmental performance and climate change considerations. We also inform our decision-making by modelling the capex required to improve their energy efficiency, in line with our net zero strategy.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Having mapped our risks and opportunities under the IPCC's 2.6, 4.5 and 8.5 warming scenarios, and considered their likelihood, the mitigations we can put in place and the potential outcomes, we consider that our strategy is resilient to physical risk. We're incorporating short-term considerations into our planning and we'll continue to assess the longer-term physical risks linked to the locations of our care homes. Environmental regulation and the impact of climate change is already a principal risk for the Group. Following a board review in September 2022 and in line with our net zero planning, we changed our assessment from Probability: Medium, Impact: Low to Probability: High, Impact: Medium.
Describe the organisation's processes for identifying and assessing and managing climate-related risks.	As part of the scenarios we modelled for our portfolio, we considered potential physical risks including heatwaves, water stress/drought, rainfall, flooding, wildfires and sea level rises, for a representative sample size of 20 care homes. In terms of transition risks, we've reviewed legislative and policy changes (such as MEES and carbon taxation), as well as reporting requirements (TCFD, net zero) and other related risks, such as permanently higher utility costs, higher insurance costs and protracted planning processes. We also considered climate-related reputational risks. We continue to monitor transition risks, including potential environmental taxes, anticipated legislation (MEES) and reputational risk, and plan to mitigate these risks by implementing our net zero strategy.

TCFD's recommended disclosures (continued)

Disclosure	Commentary
Describe the organisation's processes for managing climate-related risks.	Our processes for managing climate-related risks are embedded in our operations and procedures. In particular: ▪ we communicate regularly with our tenants on their energy use and costs, and actions to reduce them; ▪ climate-related considerations are core to our new acquisition and asset management due diligence process; ▪ we've put green leases in place, to ensure we and our tenants have common goals for energy efficiency and that we're capturing data to improve energy performance; ▪ we have a targeted capex programme to improve energy efficiency, add renewable energy generation where possible and reduce operating costs, to mitigate transitional and regulatory risk; ▪ regularly reviewing our physical risk climate scenarios to understand if risks have materially changed; ▪ for any assets considered at greater risk developing a resilience plan, for example flood risk management plan; and ▪ we've developed a well-considered net zero strategy, underpinned by our medium to long-term decarbonisation strategy.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	We will continue to update and review our climate physical risk scenario planning to understand if any risks have materially changed. We will continue to assess the regulatory landscape and potential new regulations, taxes or other requirements. The Investment Manager's Development Director sits on the British Property Federation Sustainability Committee and therefore has access and insight to current industry thinking and lobbying on climate-related matters. The AIFM's ESG working group's findings feed into the Investment Manager's risk assurance process via the Investment Manager's proposed ESG Committee. The Investment Manager's Risk Committee assesses and reviews our risk register every quarter and reports to the Audit Committee. The board considers our principal risks twice a year. We've already identified climate change as a principal risk in our risk register. It's therefore subject to annual review and we assess and manage risk at the Investment Manager's ESG and Risk Committees and agree risk ratings before and after taking account of our mitigation strategies. The Audit Committee considers the findings of this process and the board discusses and approves the conclusions.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.	We disclose our GHG emissions and energy consumption each year through our EPRA Sustainability Best Practice reporting. The emissions we report are mainly Scope 3 and are aligned to the Greenhouse Gas Protocol Corporate Standard and DEFRA Environmental Reporting Guidelines. We report Scope 3 emissions in our annual report. See page 44 for detail of the Group's EPC ratings.
Describe Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	We report our Scope 1 and 2 emissions in our EPRA Sustainable Best Practice Report **www.impactreit.uk/about/sustainability/** The majority of our Scope 3 emissions come from energy that our tenants buy and use. The related risk is that these Scope 3 emissions are beyond our direct control. However, we're mitigating this risk through the actions described in the section above: processes for managing climate-related risks. See emissions data on the following page.

REPORT AGAINST THE TCFD FRAMEWORK

TCFD's recommended disclosures (continued)

Disclosure	Commentary
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	We use several measures to understand and manage climate-related risks. We assess these when considering acquisitions or asset management projects and as part of our ongoing portfolio management, in particular in relation to our net zero strategy. **EPC ratings** **Energy intensity per bed (kWh per bed)** **Absolute carbon emissions (tCO_2e)** **GHG emissions intensity (CO_2e per bed)** **Capex deployed on sustainability improvements (£pa)** **Net zero target of 2045 and interim targets/milestones and delivery plan** **Proportion of leases with "Green" obligations**

Energy and carbon disclosures

Environmental performance measures – Impact Healthcare REIT plc[1,2,3,6]

Performance measure	Unit	Scope	2022	2021	Change
Electricity absolute	mWh	3	18,077	16,732	8.0%
Gas absolute	mWh	3	52,592	44,769	17.5%
Biomass/LPG/heating oil/propane absolute	mWh	3	2,758	n/a	n/a
Total indirect greenhouse gas (GHG) emissions from tenant obtained energy use	tCO_2e	3	13,521	11,609	16.5%
Building energy intensity	kWh/bed/year	3	10,615	10,666	-0.5%
Greenhouse gas (GHG) emissions intensity from building energy consumption	tCO_2e/bed/year	3	1.95	2.01	-2.8%

Environmental performance measures – Investment Manager

Performance measure	Unit	Scope	2022	2021	Change
Total electricity consumption	kWh	Total Investment Manager electricity (office) – Scope 2	5,470	5,623	-2.7%
Investment Manager energy intensity	kWh/FTE	Average kWh electricity consumption per FTE in year	521	655	-20.5%
Total indirect greenhouse gas (GHG) emissions	tCO_2e	Indirect – Scope 2 (location-based)	1.1	1.2	-11.9%
Business travel – land – car	tCO_2e	Scope 3 – private vehicles (incl. WTT[4])	3.7	1.0	275.2%
Business travel – land – air	tCO_2e	Scope 3 – flights (with RF incl. WTT[5])	1.6	3.0	-46.8%
Business travel – land – rail	tCO_2e	Scope 3 – rail (incl. WTT[5])	1.2	0.2	493.6%
Total emissions	tCO_2e		**7.6**	**5.4**	**40.6%**

1 Biomass energy estimated based on 2021 data.
2 Data for three Electus homes estimated for three months.
3 Data for three Silverline homes estimated for three months.
4 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.
5 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.
6 Includes additional LPG, Biomass and heating oil data excluded in 2021.

Risks and opportunities associated with climate change

Risk type	Description	Timescale	Impact	Mitigation
Transitional				
Legal	Higher regulatory standards for energy performance (MEES)	Short to medium term	Potential loss of value for assets not meeting expected future standards. Assets may become "stranded" by evolving environmental legislation	We've assessed our assets for their current and expected regulatory compliance. Our leases require our tenants to ensure the buildings comply with legislation
Policy	Carbon taxation	Medium term	Additional taxation liability for the Group	Our net zero strategy has identified the current emissions and the pathway to reduce them over time. We continue to review potential future environmental taxation policy.
Market	Investors and markets increasing awareness of environmental performance	Medium term	Reduced pool of capital available and impact on portfolio valuation	Our net zero strategy has identified the current emissions and the pathway to reduce them over time. Investing in existing assets is far more sustainable than new build
Reputation	Investors, tenants and commissioners may have increasing expectations of real estate owners for environmental issues	Medium term	Reduced number of potential partners for the Group to work with	We disclose our net zero targets and ESG strategy and targets to give comfort that we're committed to improving environmental standards
Physical				
Extreme weather	Weather events cause disruption (e.g. flooding)	Short to long term	Risk to life of our tenants' residents Loss of revenue and disruption to operations	We've enhanced our due diligence on flood risk for acquisitions, carried out scenario planning for the existing portfolio, and have a capital investment strategy to improve resilience
Extreme weather	Water stress and heatwaves	Medium to long term	Environment within assets is detrimental for wellbeing of residents and staff. Additional capex required to retrofit cooling	Our net zero strategy includes assumptions on additional cooling requirements for existing assets
Opportunities				
Capital	New sources of capital	Short to medium term	Having a credible net zero strategy and investing in existing assets (as opposed to carbon-intensive new builds) may give us access to new capital and improved terms (sustainability linked finance)	
Technological	New and more environmentally efficiency technology comes on stream	Medium to long term	Technological advances may enable more efficient heating and cooling systems and renewable energy, resulting in lower running costs for our tenants	
Market	Commissioners and customer demand for more energy efficient homes	Medium	Technological advances may enable more efficient heating and cooling systems and renewable energy, resulting in lower running costs for our tenants	As awareness of sustainability grows homes that are low carbon may become in greater demand

Social value impact

6,842

beds in the portfolio with diversified geographical spread

Investing in homes meeting local need

87%

of tenants describe relationship with Impact as “very good” from tenant survey[1]

Proactive partner with deep sector understanding

64%

of beds are in the **40%** most deprived areas of the UK

Investing in communities where care homes provide an important community resource and source of employment

75%

of tenants rate Impact as “very good” as a long-term partner[1]

We create lasting relationships with tenants and stability for residents and families

75%

of beds are commissioned by local authorities or the NHS

Our approach enables operators to deliver care to a range of sectors at affordable rents

14

different operators[2]

Diversified and growing range of partners

£29.9m

invested since inception on asset management and development initiatives

Increasing quality of building for staff and residents

78%

of homes have CQC ratings of Good or Outstanding

Tenant selection and active management

1 Based off responses from eight tenants
2 Includes Minster and Croftwood which are both part of Minster Care Group

Investment Manager's report

We were pleased with the Group's progress during 2022, as we successfully implemented its strategy for the sixth year. The strategy is designed to ensure the Group remains highly resilient during challenging times and at its heart is our aim to work closely with the Group's tenants to support their objectives and the high-quality care they deliver to residents.

Strong and resilient tenants

The Group signs long-term leases of 20 years or more with its tenants. That means we're very selective about new tenants and it's extremely important to us that their businesses are strong and resilient, so they can successfully weather challenges such as COVID-19 and the current high levels of inflation.

Inflation rose significantly in the second half of 2022, reaching levels not seen in several decades. While inflation isn't expected to persist at this level and the government and Bank of England are committed to bringing it down, the level it will settle at is unclear and further periods of volatility seem likely. In the current environment both tenants and the Group have benefited from the principles we've consistently applied since the business was founded. Specifically:

- we set rents at prudent and sustainable levels when the Group first partners with a tenant;
- we've ensured that 100% of the leases have inflation-linked rents; and
- we've focused on keeping rents affordable for tenants over the life of the lease, by putting caps and floors in place on our rent increases.

The link to inflation means the Group benefits from the certainty of rising rents each year. In 98% of the leases these uplifts are capped, at 4% in 90% of the leases and 5% in 8% of them. Two NHS leases have no floor or caps. Caps give the Group's tenants some protection when inflation spikes, and the floors, which kicked in in 2019, mean the Group gets progressive rental growth when inflation is low.

The success of our approach is shown by the tenants' overall rent cover, which was 1.8 times in 2022, which is higher than before the pandemic. The Group received 100% of rent due for 2022 and has no voids.

Since the year end one tenant, who manages seven of the Group's homes and accounts for less than 4% of the Group's contracted rent, has not paid its rent for the first quarter of 2023 and we've drawn down on rent deposits relating to four of the homes for the first quarter. This portfolio includes three homes acquired in the first quarter of 2020 as a turnaround project, but the turnaround was made significantly more challenging by the COVID pandemic. We're in active discussions with this tenant to resolve the situation in a way which shouldn't affect the residents and staff in these homes.

Tenants generally benefited from rising occupancy and fees, and this is reflected in the rent cover across our tenant group. Across the portfolio, occupancy averaged 81% during 2021. In January 2022, it was 83%, and had recovered to 87% by the end of the year. In the fourth quarter of 2021, tenants' average weekly fee (AWF) was £822, excluding any COVID-19 infection control grants from the government. By the fourth quarter of 2022, the AWF had increased to £926, a 13% increase that matched inflation. The Group's tenants provide an essential service and the sector has shown over long periods that it can increase fees ahead of inflation. Over the past two decades, nursing and residential care fees rose by 3.8% and 3.6% a year respectively, while RPI averaged 2.8% a year.

The growth in tenants' revenues as they rebuilt occupancy and benefited from AWF increases, helped to offset the very sharp rises in some of their costs. During 2022, they spent an average of 2.8% of their revenues on gas and electricity, up from 2.0% in 2021. Their spending on food as a percentage of revenues rose from 3.6% to 3.8%.

Tenants' top line growth also enabled them to give their staff substantial pay increases: staff pay per resident rose by an average of 10% in 2022. The most common problem tenants reported during the year was their greater need for temporary agency staff. This appears to have been caused by many staff being forced to self-isolate during the Omicron wave of the pandemic in early 2022, and staff who had gone on furlough deciding not to return to work. Tenants spent an average of 5.9% of their revenues on agency staff during 2021. This increased to an average of 8.7% in 2022. The Group's tenants are working hard to reduce

Operational highlights

Year ended 31 December	2022	2021	Change
Topped-up net initial yield ("NIY")	6.98%	6.71%	27 bps
Average NIY on acquisitions to date	7.4%	7.4%	(8) bps
Rents containing inflation-linked uplifts	100%	100%	–
Weighted average unexpired lease term ("WAULT") to first break	19.7 years	19.2 years	+0.5 years
Portfolio let	100%	100%	–
Rent cover[4]	1.80	1.91	(5.8)%
Rent collection	100%	100%	–
Properties[5]	135	124	8.9%
Completed beds	6,842	6,141	11.4%
Tenants[6]	14	13	+1

their usage of agency staff, for example by putting in place strategies for overseas recruitment of nurses and senior carers.

We closely monitor the financial and operational performance of each of tenant. If we're not satisfied with a tenant's performance and its attempts to address the problem, we can, if necessary, give notice to the tenant and bring in a replacement to run the homes.

The case study on page 23 provides more information on the financial performance of a typical tenant.

Managing the portfolio

We've carefully constructed the portfolio to give the Group a good balance of core and value-add assets. We classify the assets as follows:

- Core: These are the main contributors to the Group's long-term, stable income. These are good-quality, well-invested homes that are trading well and have sustainable rent cover.
- Value-add: These are candidates for asset management, where we can invest capital to improve the asset and its performance. This can also allow tenants to offer new services, such as dementia care.
- Non-core: These are candidates for sale, for example because they have more value for an alternative use, and it's likely we bought them as part of larger portfolios.

We actively manage the portfolio, disposing of non-core assets and turning value-add assets into core assets through asset management (see below).

Investing for growth

During the year, the Group invested £69.2 million in 12 care homes with 764 beds. At the year end, the Group had a portfolio of 135 properties with 7,416 beds (31 December 2021: 124 properties and 6,720 beds)[1]. These figures include homes the Group owns directly and 12 homes it has invested in through loans to tenants, where the Group has options to buy the assets.

In making these investments, we followed our policy of managing risk by diversifying the portfolio. The homes the Group invested in are spread around the UK, including Scotland, Kent, Nottinghamshire, Devon and Somerset, and we increased the number of homes existing tenants run, helping to diversify their businesses and add to their resilience. We also welcomed the Group's 14th tenant[2], Belmont Healthcare. When the Group buys assets, we ensure they're either already at an EPC B or there's a clear plan to achieve that rating, and we take account of any additional capital needed in the investment decision.

The homes the Group invested in during the year and the rent increases received due to the index-linking in the leases grew the contracted rent roll[3] by 13.6%, from £38.0 million on 31 December 2021 to £43.1 million at the year end. This has since risen to £47.9 million at 27 March 2023, including rent reviews and the portfolio of six care homes invested in since the year end.

1 Based on the ratings across all of the portfolio, using the England & Wales methodology.
2 Including Croftwood and Minster, which are both part of the Minster Care Group.
3 Contracted rent is an annualised number that includes all income from investments in properties, whether generated from rental income or post-tax interest income.
4 Includes the benefit of grant income, which largely ended in March 2022.
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.
6 Including Croftwood and Minster, which are both part of the Minster Care Group.

Value-enhancing asset management

Asset management is an increasingly important part of our strategy, as it benefits many of our stakeholders. In particular:

- shareholders gain because we earn an average return on our investment of 8% through increased rents, and we also increase the value of the buildings;
- we improve the environmental efficiency of the home through increased energy efficiency and, where possible, we will add renewable energy sources such as solar panels or air source heat pumps;
- by extending homes and increasing the number of bedrooms, we increase capacity for the local social care market and make them more efficient for tenants to operate;
- residents benefit from having an even better place to live, in line with our social objectives;
- tenants' staff have a better working environment, with improved facilities such as kitchens, laundries and staff rooms; and
- tenants will benefit from our appraisal process, which tests the business case for the investment and the affordability of the proposed increased rent.

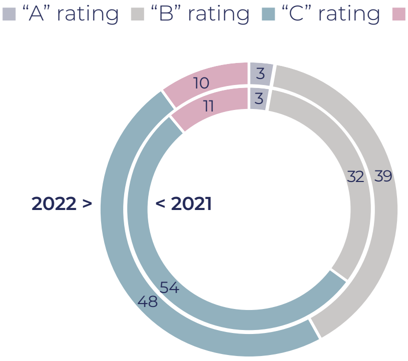
During 2022, the Group deployed £7.8 million to asset management projects that have a projected return of 8%. We work in partnership with tenants to implement these schemes and completed the following notable projects in 2022:

- refurbishments at Belmont House, Harrogate and three homes in Northern Ireland;
- the project at Riverwell Beck, which was previously called Blackwell Vale (see the case study on page 30 for more information); and
- the new link building that connects Fairview House and Fairview Court in Bristol, with phase two now under way, which involves a comprehensive upgrade of Fairview House, adding ensuites to bedrooms, improving the residents' day spaces and increasing energy efficiency, so the new combined building will have an EPC rating of A.

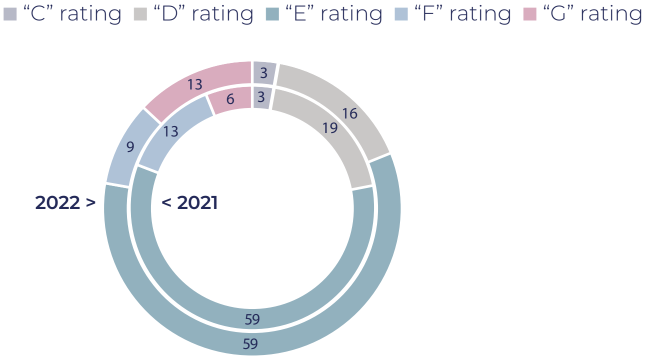
Asset management is an important part of the Group's strategy and we continually review the portfolio and engage with tenants to identify opportunities. We've identified a further pipeline of projects, which we intend to start over the next 12 months. See page 20 for more information.

Improving EPC ratings is an important part of the asset management programme and the Group's

Group's EPCs – England, Northern Ireland and Wales (%)



Group's EPCs – Scotland (%)



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

environmental objectives. From 1 April 2023, under the Minimum Energy Efficiency Standards ("MEES") a lease on a commercial property in England and Wales cannot continue if the EPC rating is below E. No properties in the portfolio will be caught by this. The minimum EPC requirement is expected to increase to C by 2027 and B by 2030. The average rating across the portfolio is C and, in line with the Group's ESG objectives (see page 33), we have a strategy in place to ensure compliance.

Keeping our properties in good repair

Making sure the properties are consistently well-maintained is just as important as investing in major asset management projects. The leases require tenants to keep the buildings in good condition, through ongoing repairs and maintenance. We monitor the amount they spend on this, regularly inspect the assets and hold progress meetings at homes with the tenants.

All the leases also require tenants to ensure the home complies with legislation, including on environmental performance. Since October 2020, new leases ensure tenants provide us with data such as their energy use, so we can track environmental performance and support improvements. The new leases also aim for tenants to use 25% of the maintenance spend on environmental improvements.

Value-enhancing forward-funded development

During 2022, the Group deployed £4.0 million to forward-funded development and Merlin Manor, the care home development the Group funded in Hartlepool, reached practical completion during the first half of 2022. It's now in the occupancy build-up phase and we're pleased that it's attracting residents in line with the tenant's plan. The Group provided £6.1 million to fund the development, achieving a yield on these costs of 7.8%. The completion value of the asset included a £1.9 million increase in value in the period or a 30% profit on cost. See the case study on pages 48-49 for more information.

In Norwich, the Group has committed to fund a new care home development, which we believe will be the best of its type in the area. Planning permission for the project has been delayed while issues relating to nutrient neutrality in the River Wensum basin are resolved. We now expect planning permission to be granted in H1 2023.

Funding new builds remains a small but important part of the Group's strategy. We also recognise the environmental benefits of repurposing and future-proofing existing buildings, and we're actively considering this as we recognise the complexities of achieving net zero.

We require all new development and asset management projects to achieve a minimum EPC B, or an EPC A where possible.

Portfolio valuation

Each quarter, Cushman & Wakefield independently values the portfolio in accordance with the RICS Valuation – Professional Standard (the "Red Book").

As at 31 December 2022, the portfolio was valued at £532.5 million, a 15.9% or £73.0 million increase from the valuation of £459.4 million at 31 December 2021. The increase was made up as follows:

	Contribution to valuation increase £m	%
Acquisitions completed	69.2	15.1
Acquisition costs capitalised	2.6	0.6
Capital improvements	11.8	2.6
Disposals	(2.5)	(0.5)
Less: Like-for-like valuation movement	(8.1)	(1.7)
Total	**73.0**	**15.9**

Interest rates rose sharply in the year, leading to valuation yields shifting upwards in the fourth quarter of 2022, including in healthcare. As a result, the portfolio EPRA "topped up" initial yield increased 27 basis points to 6.98% as at 31 December 2022. Investment activity is continuing in the market, including the Group's investment in a portfolio for £56 million in January 2023, for an equivalent EPRA "topped-up" initial yield of 6.55%. This activity reflects confidence in the market sector and its ability to continue to generate accretive returns to stakeholders in a higher interest rate environment. See pages 9-13 for an overview of market conditions.

In addition to the portfolio above, the Group invested in 12 care homes, in December 2021, by way of a loan for £37.5 million. This loan is subject to an option for the freehold property interests, which are therefore also independently valued by Cushman & Wakefield. The value of this portfolio is £36.4 million with the reduction in value and associated costs reflected in the £1.8 million "Put option" liability.

Strong financial results against a challenging backdrop

Total net rental income for the year increased by 16.1% to £42.2 million (2021: £36.4 million). This reflected growth in the portfolio and the rental uplifts generated by the leases. Under IFRS, the Group is required to recognise some rent as income before it receives it, reflecting the minimum uplifts in rents over the lease terms, on a straight-line basis. The cash rental income for the year increased by 17.8% to £35.9 million (2021: £30.5 million).

Administrative and other expenses totalled £7.0 million (2021: £5.8 million), which led to a total expense ratio of 1.67% for the year (2021: 1.55%). The EPRA cost ratio was 16.6%, up from 15.8% in 2021, as revenue doesn't include income the Group receives on loans to tenants to buy property portfolios, where it has an option to acquire. Including this income in revenue gives an adjusted cost ratio of 15.4%.

Finance costs were £5.4 million (2021: £3.3 million). Interest income was £3.2 million (2021: £0.1 million), reflecting property investments made via a loan to tenants.

The change in the fair value of investment properties, driven by upwards movements in investment yields in the second half as interest rates rose sharply, causing profit before tax to fall to £16.9 million in 2022 from £32.0 million in 2021.

Earnings per share ("EPS") for the year was 4.33 pence (2021: 9.41 pence). The Group's EPRA EPS and Adjusted EPS were both up on the previous year. EPRA EPS was 8.37 pence (2021: 8.05 pence per share). Adjusted EPS, which strips out non-cash and one-off items, was 7.11 pence (2021: 6.68 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 1.635 pence each in respect of 2022, meeting the total dividend target of 6.54 pence per share, up 2.0% on the 6.41 pence paid in respect of 2021. All four dividends were Property Income Distributions.

The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £m
31 Mar 2022	25 Apr 2022	20 May 2022	6.3
30 Jun 2022	16 Aug 2022	9 Sep 2022	6.6
30 Sep 2022	21 Oct 2022	25 Nov 2022	6.6
31 Dec 2022	31 Jan 2023	24 Feb 2023	6.6
Total			**25.7**

The total dividend for 2022 was 128% covered by EPRA EPS and 109% covered by Adjusted EPS.

Strong and prudent balance sheet

During the year, we continued to successfully raise financing to support the Group's growth strategy. On 21 February 2022, the Company completed a placing of 35.1 million new ordinary shares at 114.0 pence per share, which raised gross proceeds of £40.0 million. On 8 July 2022, the Company raised a further £22.3 million by placing 19.0 million new ordinary shares at 117.0 pence per share. After the year end the Company also issued a further 9.6 million new ordinary shares at 116.6 pence per share, as part of the acquisition of six care homes discussed later.

Our approach to using debt to grow the business has always been conservative. At 31 December 2022, the Group had five facilities totalling £241.0 million, of which we'd drawn £142.3 million (31 December 2021: £114.5 million), giving headroom of £98.7 million and a gross LTV of 23.9% (31 December 2021: 22.3%). The Group also had £22.5 million of cash.

In November 2022, we extended the Group's RCF with HSBC by £25 million to £75 million, which allowed us to cancel the £15 million RCF with Metro Bank. This increased the Group's facilities by £10 million, while improving the covenants and reducing the cost of debt, with the HSBC margin being 65 bps lower than on the Metro facility.

In December 2022, we renegotiated the £50 million RCF with Clydesdale Bank, trading as Virgin Money. This increased the facility from the previous £25 million, extended its maturity from March 2024 to December 2029 and reduced the margin over SONIA by 25 bps to 200 bps.

As a result, the Group's facilities at the year end were as follows:

	Expiry	Facility size (£m)	Drawn at 31 Dec 2022 (£m)	Propco interest cover covenant	Propco LTV covenant
Metro Bank					
Term loan	Jun 2023	15.0	15.0	200%	35%
Virgin Money					
RCF	Dec 2029	50.0	17.0	200%	50%
HSBC					
RCF	Apr 2025[4]	75.0	10.0	250%	55%
NatWest					
RCF	Jun 2024[5]	26.0[6]	25.3	250%	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		**241.0**	**142.3**		

4 With the option to extend for one year to April 2026, subject to HSBC's agreement.
5 With the option to extend for up to two years to June 2026, subject to NatWest's agreement.
6 An accordion agreement is in place to increase this to £50 million, subject to NatWest's agreement.

At the year end, the Group had substantial headroom within the covenants on these facilities.

The renegotiated Virgin Money facility increased the weighted average term of the Group's debt facilities to 6.3 years at 31 December 2022, excluding any options to extend. The only facility that matures in 2023 is the £15 million term loan with Metro Bank, which we can repay from the Group's existing facilities.

The Group's policy is to hedge at least 75% of its drawn debt against interest rate increases. At the year end, the Group had fixed or capped 70% of its drawn debt or 41% of its total facilities (31% fixed and 10% from a 1% interest rate cap which expires in June 2023).

Since the end of the year, we have put a further £50 million interest cap in place, which caps SONIA at 3.0% for two years. The cap's cost was £1.5 million. As a result, we'd hedged 80% of the Group's drawn debt at 27 March 2023.

Post-year end activities

On 10 January 2023, the Group announced an investment of £56 million in six care homes (438 beds) in Shropshire and Cheshire. See the case study on page 23 for more information.

Outlook

2023 has started with continued high levels of volatility in financial markets. Fixed income markets started the year with severe whiplash as global bonds followed their best ever January performance with their worst February performance since 1990. These sharp moves in the cost of capital contributed to the second largest bank failure ever in the United States in March, which in turn has led investors to question if Central Banks can increase interest rates as much as was assumed in February, causing the bond markets to rally again.

We expect the uncertainty caused by this volatility to continue for some time. However, what we can be certain about is that care homes are crucial social infrastructure that provide an essential service for vulnerable elderly people. Demand for that service is driven by demography and acuity, and is not directly related to developments in the wider economy or financial markets. This gives care home operators a higher level of in-built resilience than tenants in many other real estate sectors, demonstrated in part by their ability to pass through inflation in the fees they charge for care, as discussed above.

There was a pause in most investment activity after the mini-budget in September 2022. That hiatus ended in late 2022 and there is once again a functioning market of buyers and sellers for care home assets, at price levels that reflect the new, higher cost of capital, which is also reflected in the year-end valuation for the Group's investment portfolio. We expect the relatively high level of resilience and attractive yields available in the sector to attract more investor interest, rather than less, during an uncertain time.

Impact Health Partners LLP
Investment Manager
27 March 2023

Merlin Manor Care Centre, Merlin Way, Hartlepool TS26 0BF

Creating value through funding development

Before

- Development site on a quiet housing estate in Bishop Cuthbert, Hartlepool, with easy access to the town centre, marina and local beach.
- Reviewed our tenant's business plan and undertook detailed due diligence on the demand for additional quality care beds in the area, with the region having been underserved by new supply for several years.

What we did

- Forward funded the development of the care home, with a total investment of £6.1 million.
- Worked closely with our tenant, Prestige, who was undertaking the development and has long-standing relationships with local authorities and hospitals.

Outcomes

- Merlin Manor provides residential, nursing and dementia care and is set to become a cornerstone of local healthcare infrastructure.
- All bedrooms have ensuite wet rooms and the building is light and airy.
- Generous dining and lounge areas are spread around the building and residents can enjoy a cinema room and hairdressing salon.
- Landscaped gardens and terraces offer fresh air and sea views.
- The home will employ up to 100 local staff, who will benefit from the modern kitchen and laundry facilities.
- The building meets all current environmental standards and has an EPC rating of B.

"We are so pleased to open the doors at Merlin Manor and have been pleasantly surprised by the number of residents we have been able to welcome to the home. We look forward to welcoming many more residents and establishing the home as an important part of the community."

Kevin Robinson-Husband, Home Manager

Operator
Prestige

Bedrooms
94

Capex investment
£6.1 million

Works
New build care home, with 94 beds and full ensuite wet rooms

Commencement
Jan 2020

Completion
Sep 2022

Sustainability
High-efficiency gas boiler, LED lighting and lighting controls, high levels of insulation

CQC Rating
Good

Stakeholders

Our key stakeholders are our tenants, their residents, our shareholders and our lenders. The ways we typically engage with them are set out in the table [opposite]. On pages 58-59 we describe how the board considered stakeholders' interests in its decisions.

The Investment Manager is the main point of contact with our stakeholders and is one of our two main service providers, along with the Administrator. The board regularly interacts with the Investment Manager and the Administrator and the Management Engagement Committee ("MEC") meets at least once a year to review their performance and our other key service providers. See pages 90-91 for more information on the MEC's work.

The Group also has other stakeholders, including central and local government, NHS and regulators, who set and oversee the policies and rules that govern the care home sector. However, we don't have direct relationships with local government, the NHS or the regulators, as our tenants manage these relationships as operators of the care homes.

Employees and directors

As an externally managed business, we don't have any employees and therefore don't have any employee-related policies or disclosures.

At the year end, the board comprised six non-executive directors including the Chairman, of which four were male and two were female. Simon Laffin joined as Chairman designate in January 2023; two male directors are stepping down by the Annual General Meeting, meaning the board will be five, of which two are female. More information on the directors can be found on pages 75-77.

Our engagement activities

Stakeholder	Stakeholder interests
Tenants We have a steadily growing tenant base, with a mix of strong national and local operators. We work in long-term partnership with our tenants, to grow our business while managing risk.	Our tenants' interests include: ▪ our ability to support their businesses through acquisitions and asset management; ▪ our financial strength; ▪ our knowledge and understanding of their operations; and ▪ our ability to share best practice with them.
Tenants' residents The quality of care our tenants provide is very important to us. It's central to residents' quality of life and directly influences demand for our tenants' services, which in turn affects their ability to pay rent to us.	Tenants' residents' interests include: ▪ the quality of their care; ▪ the quality of their home and how well it's maintained; ▪ the security and stability of their home and the tenant that runs it; and ▪ our ability to invest in the home, to make it a better place to live and to support additional needs such as dementia.
Shareholders To grow our business, we need well-informed and supportive shareholders. We look to communicate regularly and openly and provide high-quality corporate reporting.	Shareholders' interests include: ▪ the security and growth of our dividend; ▪ our ability to add value through acquisitions and asset management; ▪ our financial and operational performance; ▪ our ESG strategy and performance; ▪ conditions in the care home market; and ▪ the quality of our corporate governance.
Lenders We use an appropriate amount of debt to generate higher returns. We therefore build strong relationships with lenders, who provide the debt facilities we need to grow our business.	Lenders' interests include: ▪ the quality of the security we provide for our loans; ▪ our ability to meet our interest payments; ▪ the resilience of our revenue; and ▪ ESG.

STAKEHOLDERS

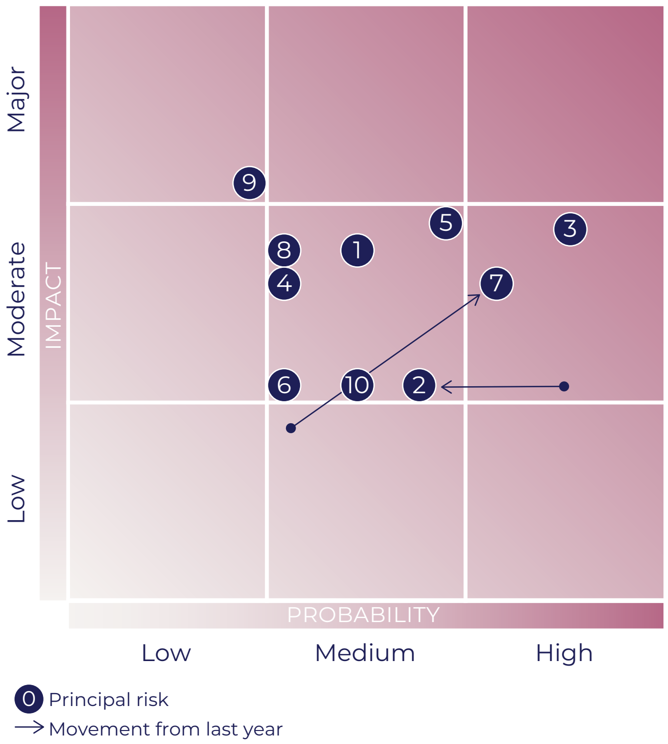
How we engage	Stakeholder engagement in practice
The Investment Manager engages with tenants on a weekly and monthly basis and in more depth each quarter, when it receives reports from them setting out their performance. The Investment Manager holds meetings and visits homes and sites, works with tenants on acquisition and asset management opportunities, and shares best practices. See our business model for more information on pages 14-15. The board looks to meet new tenants within six months of acquisition if not before. During the year, the board held calls with the majority of tenants, to hear their experience of working with the Investment Manager and learn more about their opportunities and challenges (see page 64).	The engagement during the year has continued to help us formulate our asset management plans, which will benefit: ▪ tenants, by adding new beds, making the homes more attractive to potential residents and improving their energy efficiency; and ▪ residents, by making the homes better places to live and able to accommodate more residents. We've currently identified £16 million of further asset management opportunities. For example, we're investing around £2 million in Mavern House in Wiltshire, which will see us add a net seven new bedrooms and create six new ensuites. We're also planning to invest around £4 million in Wombwell Hall, Kent, which will see the home reconfigured to enable an innovative dementia focused care facility, along with upgrades to residents, communal spaces and energy efficiency. The board's direct engagement with tenants has also given the directors first-hand knowledge of our tenants' growth ambitions, the challenges they are facing and the role we can play in supporting them, which will underpin the board's oversight of tenant performance in the coming year. In addition, we engaged with tenants when developing the materiality assessment for our ESG strategy (see pages 28-33).
Our tenants are responsible for looking after residents and we don't directly engage with them, except when we meet them during home visits. The Investment Manager monitors the CQC rating for every home and the outcomes of inspections, and engages with tenants on the findings. It also pays close attention to tenants' repairs and maintenance, to ensure the homes remain good places to live. The board also carefully monitors CQC ratings, to ensure tenants are managing their homes properly.	
The Investment Manager regularly meets institutional investors, analysts and the financial press. We provide timely news flow and also communicate through our interim and annual reports and the Annual General Meeting. The Chairman and Senior Independent Director offer meetings to major shareholders each year. The board receives regular investor relations reports. See relations with shareholders on page 70 for more information.	The Investment Manager engaged with our shareholders on a wide range of topics during the year. In particular, this has continued to highlight the importance of a well-considered and long-term approach to ESG issues, including the impact of climate change and reaching net zero. The Investment Manager specifically engaged with an important institutional shareholder when developing the materiality assessment for our refined ESG strategy (see pages 28-33). In addition, although we're not yet required to report under TCFD, we've voluntarily published our first report against the TCFD framework (see pages 34-40), recognising the importance of this information to shareholders and other stakeholders.
The Investment Manager engages with our lenders through quarterly compliance reporting. The board receives information about debt funding as part of its regular meeting papers and at other times when needed.	Our strong relationships with our lenders enabled us to agree new or extended facilities with HSBC and Virgin Money during the year. See page 46 for more information. The board also welcomed a representative from Virgin Money to its board meeting in August to better understand their view of the market and help the board consider additional risks and opportunities, particularly with Virgin Money's significant experience in development funding.

Principal risks and uncertainties

Our risk assessment

The table below shows the Group's post-mitigation principal risks and uncertainties. Information on our risk management framework can be found on pages 82-85.

1. Changes to government social care policy
2. Infectious diseases
3. General economic conditions
4. Weakening care market
5. Significant tenant default
6. Underinvestment in care homes by tenants
7. Environmental regulation and impact of climate change
8. Ability to meet our debt financing obligations
9. Reliance on the Investment Manager
10. Reputation (new)



Political

1. Changes to government social care policy
Probability: Medium Impact: Moderate
Change in the year:

Our business provides premises in which our tenant operators provide care for vulnerable people. Government has a responsibility to ensure the delivery of affordable care for all that need it. Changes in government legislation and funding affect the market in which we operate, by changing requirements that may affect revenue or costs. This could reduce our tenants' ability to pay their rent and result in changes to valuations of our properties.

The government published a White Paper in December 2021 that set out measures for reforming adult social care, including £5.4 billion of incremental funding between 2022 and 2025. This was followed by a further White Paper in February 2022 outlining how the NHS and local government can come together to deliver care for their communities. However, in November 2022 the government cancelled its planned health and social care levy and announced a two-year delay to funding due to the current economic challenges. Timeframe and funding for implementation of the planned changes continue to be uncertain.

Mitigation

It is not in the interests of any political party to undermine the viability of the care home sector. If operators were to fail and premises be repurposed to other uses, the government and local authorities would have to step in to provide alternatives. Such an outcome would undoubtedly increase public sector funding of the sector.

We have little sway over government policy, although we seek to educate and influence decision-makers to see the need for a successful elderly care sector.

The Investment Manager closely monitors policy developments and engages with representative organisations and care home operators to ensure it is fully informed on proposals and their likely effect.

Opportunity

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

Market conditions

2. Infectious diseases

Probability: Moderate Impact: Moderate
Change in the year: ↓

Significant outbreaks of infectious diseases, in particular pandemics such as COVID-19, can have long-lasting and far-reaching effects across all businesses. Care for older people is a particular area of heightened concern. The risks from an outbreak include: reduced occupancy at care homes and the lack of availability of key workers at the care homes as a result of infection or a requirement to self-isolate. Restoring occupancy to normal levels could take time to achieve with increased availability of beds across the sector and increased price competition, adding to the long-term challenge of financial stability for tenants.

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

While COVID-19 remains a risk to health, vaccinations have reduced the level of hospitalisations and those falling seriously ill from COVID-19 in care homes. There remains a risk of further variants that could result in increased restrictions and health concerns for the residents and carers in our care homes.

Mitigation

The healthcare sector, including care home operators and staff, is experienced in preparing for and implementing procedures to deal with infections as evidenced by their response to other infectious diseases, that were prevalent before COVID-19, which are now returning.

Central government and local authorities provided support to operators to help deal with the infection control measures, staff sick pay and the immediate effects of a potential reduction in occupancy. This was evidenced during the height of the COVID-19 pandemic and would be sought in any future infectious disease outbreaks.

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

3. General economic conditions

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

The economy is in a period of high inflation as a result of several factors including staffing shortages, supply chain issues and heightened gas and electricity prices. Interest rates have risen sharply and are not expected to return to the levels experienced for the past 15 years. This combination of factors is having a continued effect on global economies and supply chains. Higher interest rates have hit property valuations across all sectors in the UK including healthcare. If they continue to rise, they could put further pressure on valuations and bank funding financial covenants.

Local authorities may not have adequate funding, putting pressure on care operator's fee levels. Should this result in weakening tenants' profitability, this would put pressure on rental levels and valuations, possibly leading to tenant default or covenant breaches.

Mitigation

We believe that tenant profitability with long-term affordable rents is key to sustainable profitability and risk management. Our homes are let on leases of at least 20 years, with annual rental increases linked to the Retail Price Index, the majority with floors and caps of between 2% and 4%. We regularly assess and monitor the financial robustness of our tenants and, in particular, the rent cover (see pages 42-43). We generally acquire homes with a proven track record that should ensure rent cover towards 2.0x can be achieved. The caps on our rental increases help protect our tenants particularly in times of high inflation.

Our strategy is to keep average leverage below the cap of 35% adding additional resilience to our financing structure (see the going concern section on pages 60-61).

Opportunity

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

Market conditions (continued)

4. Weakening care market
Probability: Medium Impact: Moderate
Change in the year: ⊖

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

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

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

Mitigation
We monitor every care home that we own to understand its underlying performance, so that we can identify any concerns early and can explore mitigating actions such as additional investment, or discussing with our tenants staffing levels and the acuity of the care provided.

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

Underperformance of assets

5. Significant tenant default
Probability: Medium Impact: Moderate
Change in the year: ⊖

As a result of the tenant diversification, we have clarified this risk to reflect a risk of a significant tenant default which may arise as a result of a default of a single large tenant (typically above 10% of rent roll) or a combination of defaults of our smaller tenants.

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

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

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

The availability of staff continues to be a challenge across the healthcare sector and rising food and utility costs are challenging.

Mitigation
Our tenants have shown themselves to be resilient and have displayed an ability to pass on most inflationary pressure in higher fees and have been helped by our rent caps. Apart from our close monitoring of individual operator and home performance, we also ensure a diversified and high-quality tenant base. In general, our low levels of leverage and fully covered dividend limit the effect on the performance of the Group. We are able to re-tenant homes with a new operator or one of our existing tenants. Recently one tenant has defaulted and we are actively engaging with this tenant while exploring all options (see page 42).

Opportunity
We have the opportunity to explore different service provisions at our homes to ensure they are successful and meeting the demands of the current market.

Underperformance of assets (continued)

6. Underinvestment in care homes by tenants

Probability: Moderate Impact Medium
Change in the year: ⊖

The attractiveness of our portfolio is based on the quality of the operators, measured by their regulatory and financial performance, and our properties' ability to provide effective space from which our tenants can operate. The most important point is to have homes that are well suited to residents' needs and their ability to pay. They do not have to be newly built, but they need to be comfortable, fit for purpose and affordable.

There is a risk that increased investment is required to ensure the homes are compliant with environmental regulations. This includes the expectation that regulation will be put in place for all leased properties to be English EPC C by 2027 and EPC B by 2030.

There is also a risk that insufficient investment is made and homes become unattractive to residents.

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

Failure to comply with the terms of the lease results in a default, enabling us to replace the tenant in extreme circumstances.

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

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

7. Environmental regulation and impact of climate change

Probability: High Impact: Medium
Change in the year[1]: ⊕

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

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

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

We have undertaken a review of our portfolio, analysing its carbon footprint and current and potential EPC ratings to ensure our investment strategy supports carbon reduction and improved EPC ratings across our portfolio and preparedness for future legislation. Our current estimates is that an investment of, on average, £2.4 million per year is required on the current portfolio to deliver this strategy and we will work with our tenants to implement these measures. We have undertaken additional analysis on the further actions required to reduce the carbon footprint of our care homes and we have developed a delivery plan with interim milestones, reaching our net zero target in 2045. This will enable our actions now to help mitigate the longer-term risks to our portfolio and society as a whole.

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

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

1 With the additional work we have undertaken in preparation for a net zero strategy, we have changed our outlook for environmental risks to 25 years.

Financing

8. Ability to meet our debt financing obligations
Probability: Medium Impact: Moderate
Change in the year:

If we are unable to operate within our debt covenants (primarily interest cover and LTV covenants), this could lead to a default and our debt funding being recalled.

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

Mitigation
We seek to ensure appropriate levels of leverage are put in place with mitigating measures that enable us to manage our debt financing in downside scenarios. These measures include but are not limited to leverage and hedging policies and ring fenced security pools with no cross-default provisions. See the going concern section on pages 60-61, where risks and mitigations are reviewed in detail.

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

Corporate risk

9. Reliance on the Investment Manager
Probability: Low Impact: Major
Change in the year:

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

Our performance depends on the Investment Manager's capabilities, the retention of its key staff and its ability to deliver business continuity.

There is a risk of potential conflict of interest with the Investment Manager and its initial tenant for the Seed Portfolio (see related party note on page 134).

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

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

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

Corporate risk (continued)

10. Reputational risk
Probability: Medium Impact: Moderate
Change in the year: NEW

There are a variety of circumstances that could damage our reputation and have a corresponding impact on value for all stakeholders. Some examples include:

Our tenants operate in a challenging market caring for people with significant needs and they need to ensure there is adequate training of their carers to provide high-quality care. There is a risk that the training is not properly administered or adhered to, resulting in a poor quality of care. The care home could be embargoed and its reputation damaged. Our tenant could be fined, and occupancy could fall and may struggle to recover leading to weaker trading, putting at risk the tenant's ability to pay rent and affect the valuation of the property.

Our tenants employ a large workforce of carers and support staff and they need to ensure they are properly supporting these staff and not breaching minimum wage and modern slavery standards. This could result in fines and operational difficulties for the tenants putting at risk the tenant's ability to pay rent.

A combination of the above risks could result in negative publicity for the REIT and reduced investor confidence.

There are related party activities, which we disclose, between the Investment Manager and the Minster Group. If there is a breakdown in trust on related party disclosures this could damage both tenant and the Group's reputation and ability to raise further equity financing or renew its debt facilities.

Mitigation

We monitor and work closely with our tenants to understand when and where standards may have fallen below those expected by their residents, residents' families, staff and the regulators. We support and challenge our tenants where these standards are not upheld.

The board ensures that related party activities are transparently disclosed and decisions taken are in the best interest of stakeholders. Legal advice is sought where necessary to ensure disclosures are properly and promptly disclosed.

Other risks that we monitor closely

Adverse change in investment opportunities

A change in the market conditions and availability of investments may provide opportunities as well as risks.

Taxation risk

We are a UK REIT and subject to rules to maintain that status. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and our ability to provide favourable returns to shareholders.

Cyber security

Inappropriate access to customer or company data may lead to loss of sensitive information and result in a material adverse effect on the Company's financial condition, reputation and investor confidence. The Group has relatively few IT systems as the Investment Manager operates the business trading and the Administrator runs the accounting and banking systems.

Financial management

Budgets and plans may be inaccurate, based on unrealistic assumptions or inappropriately applied, leading to material adverse financial conditions, performance, results and investor concerns. The board review financial results, forecasts and variances on at least a quarterly basis.

Development activity

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

The Company has a robust risk management framework in place to monitor and mitigate all of the above risks. This is set out on pages 82-85.

Section 172(1) statement

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

Taking account of our stakeholder views

Information on our stakeholder engagement, including how the board keeps itself informed about stakeholder views and how we take their views into account in decision-making, can be found on pages 50-51 and 64.

Key board decisions

The board's principal decisions each year typically include approving acquisitions, capital expenditure, raising equity and debt, and dividend payments. The case study on page 59 shows how the board took account of stakeholders' interests in making a key decision. Other key decision in the year included the equity raises and refinancing, see pages 50-51. for how we engage with stakeholders on these.

Matter	Response
a) The likely consequence of any decision in the long term.	The nature of our business means that the directors have to consider the long-term impact of their decisions, given that we expect our tenant relationships to last for at least 20 years. During the year, the board considered and approved our investments in 12 care homes on leases of up to 35 years.
b) The interests of the Company's employees.	This is not applicable, as we do not have any employees.
c) The need to foster the Company's business relationships with suppliers, customers and others.	Our tenants are our customers. Developing long-term relationships with them is central to our business model (see pages 14-15). During the year, all the directors took part in calls with our tenants, to understand their views on a range of issues. See page 64 for more information. The board also reviews reports of tenant performance at each scheduled meetings. Our main suppliers are our service providers, in particular the Investment Manager and Administrator. The board engages frequently with both, including at its regular board meetings. Information on our service provider relationships can be found in the Management Engagement Committee report on pages 90-91.
d) The impact of the Company's operations on the community and environment.	As our tenants operate our care homes, they're responsible for relationships with their local communities and for the environmental impact of running the homes. However, we work closely with our tenants to improve the sustainability of our assets, as described on pages 28-33. The board has a strong focus on ESG matters and considers them at every regular meeting. The board also held a separate sessions on our ESG strategy in August and December 2022 and a further meeting was held in February 2023. The board has developed its ESG strategy and net zero pathway and milestones.
e) The desirability of the Company maintaining a reputation for high standards of business conduct.	The directors understand that tenants will only sign long-term leases with landlords they can trust and want to work with. The Group therefore relies on a reputation for high standards of business conduct. This is reflected in our core values, which include acting openly and transparently with all of our stakeholders, as well as in our ESG strategy (see page 33). The directors continue to directly engage with our stakeholders, such as the tenant call noted above, contributing to open and transparent relationships.
f) The need to act fairly between members of the Company.	As at the date of this report all directors are independent. This ensures that all decisions taken by the board or committees reflect the interests of shareholders as a whole.

Case study: considering our stakeholders' interests

During the year, the board spent time considering a potential investment in six care homes in Shropshire and Cheshire, which we announced shortly after the year end.

Background

We invested £56 million in the homes, funding 80% in cash and the remainder through issuing 9.6 million shares at 116.62 pence per share. The homes have 438 beds, including 400 ensuites. Four homes have EPC B ratings and two have C ratings, and we've developed outline strategies to increase the C ratings to B.

We've initially invested through a loan to Welford Healthcare, an existing tenant who'll operate the homes. This allowed Welford to buy the legal entities that own the assets, so it could immediately take over running the homes. Once the CQC has approved the transfer, we have the option to acquire the homes and Welford has the option to sell them to us to repay the loan. While the loan is in place, we'll receive interest payments at 8.4% per annum and, when either option is exercised, new 35-year leases come into effect, which we've pre-agreed with Welford. These specify initial rent of £3.9 million a year, which is a gross initial yield of 7.0%.

The homes were owned and run by Morris Care Limited, which has a strong reputation and good working relationships with its local authorities and NHS. The homes will continue to trade under the Morris brand for the next three years.

We funded the cash element of the investment by drawing down existing debt facilities. To provide certainty about the cost, we also took out a £50 million interest rate cap, which caps the SONIA rate at 3.0% for two years.

The stakeholder interests we considered

Tenants

One of our objectives is to grow with our tenants, which helps to diversify their businesses and improve their resilience. With this transaction, our relationship with Welford has increased to 18 homes with 1,087 beds. Welford also benefited from Morris Care's operational management transferring across to it, ensuring it has the capacity to successfully take on the increased business.

Residents

By structuring the deal as a "loan to buy" transaction, we avoided a potentially long transition period while waiting for the CQC to approve the homes' transfer to new legal entities. Allowing Welford to take over immediately means it can ensure residents receive a consistently high standard of care.

Shareholders

The transaction benefits shareholders, adding six high-quality assets to the portfolio, generating an attractive income and strengthening an important tenant. Shareholders are also protected while the loan remains in force, as the structure includes security over the care homes and several operational covenants.

Long-term effect of the decision

The new leases we've pre-agreed with Welford run for 35 years, on our standard terms. The transaction will deliver long-term benefits, as the rents in the new leases are index linked, which will grow our revenues over time and help to increase the capital values of the assets.

Going concern and viability

The board regularly monitors both the Company's and the Group's ability to continue as a going concern and its longer-term viability. The going concern assessment covers the 12-month period to 31 March 2024. Summaries of the Group's liquidity position, actual and prospective compliance with loan covenants and the financial strength of its tenants are considered at the scheduled quarterly board meetings and more often as required. As part of the 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 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;
- The risk of a fall in investment property values. This may be because of a multitude of risks (as outlined in the Principal Risks and Uncertainties section). We review the resulting impact on the Group's debt covenants and the remedial action that may be taken, including the extent of the resources available to the Company to cure covenant breaches; and
- The board also considered the expiry of the £15 million Metro facility in June 2023. In the second half of 2022, the Group secured two increases to debt facilities, one on improved terms and with an extended maturity. Following this, there is sufficient headroom available to repay the Metro term loan as it falls due.

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 stopping dividend payments, corresponding reductions in costs as valuations fall and the use of unsecured properties to prevent covenant breaches were also considered. The sensitivity scenarios reviewed by the Audit Committee and the board include:

- non-payment of rent for all medium and high-risk tenants for six months while increasing SONIA and bank base rates to 4.5% 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 Investment Manager and presented to the Audit Committee for its review, challenge and debate. The projections and scenarios considered in connection with the approval of this financial information had particular regard to 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 33% before loan to value covenant breaches would arise with all facilities being fully drawn. Rental income would need to fall by 37% before interest cover covenant breaches would arise with all facilities being fully drawn.

GOING CONCERN AND VIABILITY

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. 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 2028. 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 refinancings during the forecast period, beyond the £15 million Metro facility. 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.
- 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.
- In 2024, the Company's articles of association require the board to propose an ordinary resolution at the Annual General Meeting 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 Annual General Meeting 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 Annual General Meeting approaches.

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 2028.

**Morris Care Centre,
Holyhead Road,
Wellington, Telford.**

Governance

Corporate governance statement – Chairman's introduction

Rupert Barclay,
Chairman

This was another busy year for the board. As directors, we are all highly engaged in supporting, guiding and challenging the Company's strategy, performance and objectives. This reflects our belief that good governance enables performance and is not about achieving compliance for its own sake. We are ably supported by the Investment Manager and our other key service providers, and we maintain a rigorous focus on their performance and support to the board.

The board

One of the important events this year was the recruitment of Simon Laffin as an independent non-executive director and my designated successor as Chairman, following my indication that I was planning to step down from the board after six years in the chair. Rosemary Boot, our Senior Independent Director, led the process and we are delighted that Simon joined the board from 1 January 2023. He will take on the Chairman role when I step down on 31 March 2023, ahead of the next Annual General Meeting. More information on Simon and the appointment process can be found in my statement in the Strategic report on pages 5-6 and in the Nomination Committee report on pages 78-81.

Succession planning remains an important part of our work, while maintaining the breadth of experience we have within our current board. At the date of this report, we had four directors who joined around the time of the IPO and Simon's recruitment has helped to increase the stagger in board appointment dates. As part of our succession planning, Paul Craig will also be stepping down from the board at the AGM. This means that following the AGM, only two of the directors will have been in place since the IPO, showing our success in refreshing the board's membership in recent years.

We are also very aware of the importance and benefits of diversity, including gender and ethnicity, as well as the increased focus on this area following recent changes to the Listing Rules. When working with external consultants on recruiting new directors, we request a diverse list of candidates and will continue to prioritise diversity in future appointments, while ensuring any appointee is also the best candidate for the role and has a strong fit with the rest of the board and the Investment Manager.

This year's internal evaluation of the board and committees (see page 79) shows that we continue to work well together, which in part results from our ad hoc calls during the year, outside our formal schedule of meetings. Suggestions for improvement included further increasing our focus on strategy and ESG matters, both of which we spent time on during the year. We held our annual strategy day in November (page 70), during which we considered the Company's growth plans, and related topics such as the availability of finance, the level of returns and current market conditions. At our August board meeting, and in a follow up sub-committee in December, we provided input on the developing ESG strategy, in particular focusing on our social impact, environmental issues including our pathway to net zero. More information on this can be found on pages 28-33.

Engaging with and considering our stakeholders

The directors have continued to engage with key stakeholders during the year. We again held calls with the majority of our tenants, to discuss their businesses and growth plans, views of the Company and the Investment Manager. This was followed by a questionnaire to all tenants as part of an independent social impact study of our business. More information on our tenant engagement can be found on page 70.

Rosemary Boot as SID and I also offered calls to our major shareholders, as we do every year, with several taking up the offer. Not surprisingly given the macroeconomic environment in recent months, common themes included the resilience of our business model, our approach to gearing, the cost of debt and the importance of having a covered dividend.

The board has always been aware of its responsibilities under s172. See pages 50-51 for more on stakeholder engagement and pages 58-59 for our s172 statement. The board papers now include summaries of the impact on relevant stakeholder groups when we are asked to make decisions. These impacts are also documented in the meeting minutes.

Internal controls and risk management

Ensuring the effectiveness of our risk management and internal controls is among the board's key responsibilities. With the support of our Audit and Management Engagement Committees, we have continued to ensure that our policies, procedures and internal controls are appropriate and effective, and that our key service providers have effective control systems in place.

Risk management also remains high on our agenda. Achieving the Group's growth plans requires us to accept a controlled level of risk, and we have continued to review and update our risk appetite and monitor compliance against it.

Compliance

During 2022, the Company complied with the principles and provisions of the AIC Code of Corporate Governance ("AIC Code"). The AIC Code addresses the principles and provisions set out in the UK Corporate Governance Code ("the UK Code") and includes additional provisions that are specifically relevant to us. Reporting against the AIC Code therefore provides more relevant information to shareholders than reporting against the UK Code.

The Financial Reporting Council has endorsed the AIC Code, which is available from www.theaic.co.uk. It includes an explanation of how the AIC Code adapts the UK Code's principles and provisions to make them relevant for investment companies.

Looking forward

I am pleased to be passing on the Chairmanship with the Company in a sound position. We have a strong and effective governance framework and the board remains focused on ensuring the business remains well governed and sustainable, for the benefit of all its stakeholders.

Rupert Barclay Chairman
27 March 2023

Application of AIC Code Principles

The table below explains how we applied the AIC Code's main principles during 2022.

Board leadership and company purpose

Principle A – A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	*Strategic report, pages 1-62* *Chairman's introduction, pages 64-65* *Board leadership and company purpose, pages 69-71*
Principle B – The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	*Strategic report, pages 1-62* *Chairman's introduction, pages 64-65* *Board leadership and company purpose, pages 69-71* *Division of responsibilities, pages 72-74*
Principle C – The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	*Responsible investment, pages 28-33* *Stakeholders, pages 50-51* *Principal risks and uncertainties, pages 52-57* *Audit, risk and internal control, pages 82-85* *Audit Committee report, pages 86-89*
Principle D – In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	*Stakeholders, pages 50-51* *Section 172(1) statement, pages 58-59* *Board leadership and company purpose, pages 69-71*

Division of responsibilities

Principle F – The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	*Division of responsibilities, pages 72-74* *Chairman's introduction, pages 64-65* *Board leadership and company purpose, pages 69-71*
Principle G – The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision-making.	*Division of responsibilities, pages 72-74* *Board of directors, pages 75-77* *Nomination Committee report, pages 78-81*
Principle H – Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third-party service providers to account.	*Board leadership and company purpose, pages 69-71* *Division of responsibilities, pages 72-74* *Nomination Committee report, pages 78-81* *Audit Committee report, pages 86-89* *Management Engagement Committee report, pages 90-91*
Principle I – The board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	*Division of responsibilities, pages 72-74* *Audit Committee report, pages 86-89*

APPLICATION OF AIC CODE PRINCIPLES

Composition, succession and evaluation

Principle J – Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	*Nomination Committee report, pages 78-81*
Principle K – The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	*Board of directors, pages 75-77*
Principle L – Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	*Nomination Committee report, pages 78-81*

Audit, risk and internal control

Principle M – The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.	*Audit, risk and internal control, pages 82-85* *Audit Committee report, pages 86-89* *Notes 2 and 3 to the financial statements, pages 114-118*
Principle N – The board should present a fair, balanced and understandable assessment of the company's position and prospects.	*Strategic report, pages 1-62* *Fair, balanced and understandable, page 88* *Audit, risk and internal control, pages 82-85* *Audit Committee report, pages 86-89* *Independent Auditor's report, pages 101-108* *Financial statements, pages 110-144*
Principle O – The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	*Principal risks and uncertainties, pages 52-57* *Viability statement, page 61* *Robust assessment of principal risk, page 68* *Review of risk management and internal control, page 85* *Audit, risk and internal control, pages 82-85* *Audit Committee report, pages 86-89* *Management Engagement Committee report, pages 90-91* *Note 19 to the financial statements, pages 131-132*

Remuneration

Principle P – Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.	*Directors' remuneration report, pages 92-95*
Principle Q – A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome.	*Directors' remuneration report, pages 92-95* *Remuneration Committee, pages 94-95*
Principle R – Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	*Directors' remuneration report, pages 92-95* *Remuneration Committee, pages 94-95*

Other key governance statements

The directors confirm that:

Going concern

The Going concern statement is on page 61.

Long-term viability

The Viability statement is on page 61. Further details of the board's assessment of the Company's viability are set out in Audit, risk and internal control on pages 82-85. The principal risks and uncertainties are set out on pages 52-57.

Robust assessment of principal risks

The board has undertaken a robust assessment of the Group's emerging and principal risks, including those that would threaten its business model, future performance, solvency or liquidity. This annual report describes the procedures to identify these risks. See Audit, risk and internal control on pages 82-85, Principal risks and uncertainties on pages 52-57 and report against the TCFD framework on pages 34-41 for further information on how these risks are identified and managed.

Review of risk management and internal control

We have established a continuing process for identifying, evaluating and managing the risks the Company faces and the Audit Committee has reviewed the effectiveness of the internal control systems. Further details are set out in the Audit, risk and internal control section on pages 82-85.

Continuing appointment of the Investment Manager

The continuing appointment of Impact Health Partners LLP as Investment Manager, on the terms agreed, is in the interests of shareholders as a whole. Further details of the basis for this conclusion, and the terms, are set out in the Management Engagement Committee report on pages 90-91.

Fair, balanced and understandable

The annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. See the Audit Committee report on pages 86-89 for further information on how we reached this conclusion.

Board leadership and Company purpose

Board agenda

The board meets every quarter and has a formal agenda, which typically includes:

- the Investment Manager's report, including acquisitions, investment performance, operator performance, risk, market conditions and financing;
- our financial results against budget and cash flow forecasts;
- the dividends to be declared and forecast liquidity;
- investor communications;
- the corporate governance and Secretary's report, policies and procedures, compliance and an update on legislation and regulations; and
- the board committees' updates and recommendations.

Specific matters the board considered during the year included:

Matter	Relevant stakeholders
Quarterly net asset value and dividend	S
Annual report and financial statements and the interim results announcement	S, L
Five-year strategic plan	S, T, L
Equity raises in February and July 2022	S, L, T
Budget for 2022 and review of performance against budget	S, L
Acquisitions of care homes and discussion of investment pipeline	S, T, R
Debt strategy, extension of revolving credit facility, liquidity, covenant compliance and hedging policy	L, S
Asset management plans and approval of specific projects, where required	S, T, R, L
Operator performance, rent collection, and repairs and maintenance	T, R, S, L
Performance of prior period acquisitions	S
ESG strategy and framework, net zero strategy, targets and delivery plans	S, T, R, L
The health, social care and related real estate market	S
Strategic disposals of assets	S, L, T, R
Appointment of Simon Laffin as non-executive director and Chairman designate	S, L, T
Reappointment of BDO as auditor	S, L
Principal and emerging risks, and risk reporting	S, L
Training options for the non-executive directors	S
Developments in corporate governance	S
Amendments to delegated authorities	S, L

Key to stakeholders:
S – shareholders; T – tenants; R – tenants' residents; L – lenders

Strategic oversight

The board challenges and approves the strategy, ensures it aligns with the Company's purpose and culture (see page 2) and oversees how the Investment Manager implements the strategy. The board routinely discusses strategic topics at its regular quarterly meetings and also holds an annual strategy day, with the latest taking place in November 2022. The main areas covered were:

- an overview of the current strategy;
- the competitive landscape;
- a review of interest rates, property yields and credit spreads;
- a review of asset management; and
- a review of risk management.

Tenant engagement

Tenants are one of our most important stakeholders, so the board has continued to engage directly with most of them, to understand their views. A minimum of two directors attended each tenant call, with every director taking part in the series of calls. The calls covered a range of topics, including their views of the Company as a landlord and of the Investment Manager, their current trading and issues such as staffing and fee levels, the potential for asset management initiatives and their plans for growth. Views of the Company and the Investment Manager were highly positive, with Impact seen as an engaged and supportive landlord. Tenants also valued the Company's ability to fund their asset management and growth plans.

The Investment Manager is the primary contact for all our tenants and meets them regularly. The focus with all tenants is ensuring it is a partnership relationship, with open and constructive conversations on a host of topics including resident welfare, operational performance, regulatory performance and regulator engagement, environmental performance, staff satisfaction, staffing levels and use of agency staff, utility costs and utility cost benchmarking, maintenance plans and asset management opportunities, and new investment opportunities.

Shareholder relations

The board is committed to strong relationships with shareholders. Our investor relations activities aim to:

- increase understanding of our business, strategy and growth opportunities;
- better define our market and how it differs from our peers;
- develop a strong, supportive shareholder base that wants to continue to invest in us;
- build relationships with potential new investors in the Company; and
- ensure the board understands the market's view of the Company.

Mahesh Patel, Andrew Cowley and David Yaldron, from the Investment Manager, are our principal spokesmen with shareholders and other stakeholders. During the year, they met regularly with investors, analysts and the financial press to update them on our progress.

The Investment Manager regularly updates the board on investor relations, including analyst reports and shareholder feedback from meetings and calls. The board also meets formally and informally with our corporate brokers, to better understand major shareholders' views.

Rupert Barclay, Chairman, and Rosemary Boot, Senior Independent Director, continue to make themselves available to shareholders. In 2022, they again held calls with a number of the Company's leading shareholders, to hear their views and answer questions. The calls covered topics including the resilience of our business model, the level and cost of debt and the importance of ensuring the dividend is covered by earnings. The calls did not highlight any significant issues and Rupert and Rosemary provided feedback to the other directors.

BOARD LEADERSHIP AND COMPANY PURPOSE

Engagement with lenders
Our relationships with lenders are primarily the Investment Manager's responsibility. However, the board is also keen to hear lenders' views directly from time to time, to learn more about their interests and conditions in the debt market. A representative from one of our lenders, CYBG, attended the board's August 2022 meeting, to discuss the real estate market in health, social care and related sectors, including an update on the bank's portfolio and the treasury market.

Annual General Meeting
Our 2022 AGM took place on 11 May 2022. With the previous year's AGM having been affected by COVID-related restrictions, we were pleased to be able to return to holding the meeting in person.

Information on arrangements for the 2023 AGM can be found on page 99.

Shareholders who would like to contact the Chairman or the Company before the AGM can email the Company Secretary at Impact.CoSec@jtcgroup.com.

Public communications
We ensure we release any price sensitive information to all shareholders at the same time, in line with regulations. All public information and Company announcements we release through the London Stock Exchange can be found on our website at https://www.impactreit.uk/.

Other stakeholder engagement
Our engagement with our other key stakeholders is discussed in the Responsible investment and Stakeholders sections on pages 28-33 and 50-51, and in our Section 172(1) statement on pages 58-59.

Division of responsibilities

The board and its responsibilities

The directors manage the business in line with the Articles of Association and the Company's investment policy. They are responsible for our activities, including our strategy, investment activities and reviewing the performance of our portfolio.

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

- any decision likely to have a material impact on the Group, including financial, operational, strategic or reputational matters;
- strategic direction, objectives, budgets and forecasts, authority levels for approving expenditure, and any material changes to them;
- starting, materially expanding, diversifying or stopping any of our activities;
- regulatory, financial and material operational policies;
- changes to our capital, corporate management or control structures;
- material capital or operating expenditures, outside predetermined criteria or the delegated authorities;
- any material contract or joint venture and material arrangements with customers or suppliers;
- approving the financial statements and published reports;
- approving equity and debt fundraising;
- overseeing potential conflicts of interest, as the Investment Manager's principals own our largest tenant, Minster Care Group Limited;
- approving new investments over £5 million that are leased to existing tenants, and all new investments leased to new tenants; and
- approving capital improvements over £1 million.

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

The board may delegate some functions to its committees, the Investment Manager, the Administrator, the Company Secretary and the Registrar. In particular, the board has delegated day-to-day management of the portfolio to the Investment Manager, under the board's supervision.

Board composition

There were no changes to board membership during the year. On 7 December 2022, it was announced that Rupert Barclay had decided to step down from the board at the end of the first quarter of 2023, and that Simon Laffin was being appointed as a non-executive director and Chairman designate, from 1 January 2023. More information on the process for Simon's appointment can be found in the Nomination Committee report on pages 78-81.

The board comprised six non-executive directors at the year end and seven from 1 January 2023 until the Chairman steps down at the end of March. Their biographies are on pages 75-77. All the directors are deemed to be independent of the Investment Manager. Paul Craig was not an independent director for the majority of the year, as he was an employee of our largest shareholder. Paul is stepping down from the board at the AGM. The board will then comprise five independent non-executive directors, two of which are female.

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

The Chairman

The Chairman sets the agenda for board meetings, manages the meeting timetable and ensures all the directors can take part in an open and constructive dialogue during meetings.

Rupert Barclay was independent on appointment and Simon Laffin will also be independent on his appointment as Chairman. Neither Rupert nor Simon has any relationships that may create a conflict of interest with shareholders.

Re-election of directors

We assume directors will serve for a minimum three-year term, subject to annual re-election by the shareholders.

DIVISION OF RESPONSIBILITIES

All directors, other than Rupert Barclay and Paul Craig will seek re-election at the AGM, in line with the AIC Code.

Directors' time commitment

During the year, the Nomination Committee reviewed each director's commitments and concluded that their attendance and contribution in 2022 shows they have sufficient time to devote to the Company.

Board committees

The board has four standing committees: the Audit Committee, the Management Engagement Committee, the Nomination Committee and the Remuneration Committee. Details of these committees are set out in their reports, on pages 86-89, 90-91, 78-81 and 94-95, respectively. The committees' terms of reference are available on our website at **https://www.impactreit.uk/about/corporate-governance/**

During 2022, all the independent directors served on each board committee, reflecting the links between the committees' work and ensuring each committee has full knowledge of the other committees' activities. Simon Laffin as Chairman designate and future Chairman has not joined the Audit Committee but will be invited to attend. The committees formally report to the board and present their recommendations for its decision.

The Investment Manager also has a risk committee, which monitors our risk management framework. Amanda Aldridge, our Audit Committee Chair, represents the board on this committee, which also includes representatives of the Investment Manager, the Company Secretary and the Investment Manager's risk advisers, Carne. More details of this committee's activities are set out in Audit, risk and internal control on pages 82-85.

Meetings and attendance

The table below shows each director's attendance at the scheduled board and committee meetings during the year.

JTC attends all scheduled meetings as Secretary (see below). Representatives of the Investment Manager, the external auditor and other advisers are invited as required.

The board also has an annual strategy day (see page 70) and calls ad hoc meetings as needed, for example to approve announcements or transactions. These frequently involve a sub-committee, which the board appoints as necessary. During 2022, the board held 12 ad hoc meetings (2021: 13).

Service and support

We have no employees and the Company is externally managed by the Investment Manager, supported by the Company Secretary and Administrator.

The Management Engagement Committee formally reviews their performance each year and makes recommendations to the board about their reappointment. Further details can be found in the Management Engagement Committee report on pages 90-91.

Director	Quarterly board meetings	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee
Rupert Barclay (Chairman)	4/4	3/3	1/1	4/4	2/2
Rosemary Boot	4/4	3/3	1/1	4/4	2/2
Amanda Aldridge	4/4	3/3	1/1	4/4	2/2
Paul Craig	4/4	N/A	N/A	N/A	N/A
Philip Hall	4/4	3/3	1/1	4/4	2/2
Chris Santer	4/4	3/3	1/1	4/4	2/2

DIVISION OF RESPONSIBILITIES

Administrator and Company Secretary

JTC (UK) Limited ("JTC") is our Administrator and Company Secretary.

As Administrator, JTC is responsible for (on the directors' behalf):

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

As Company Secretary, JTC ensures regulatory compliance and supports the board's corporate governance process and continuing obligations. In addition, JTC liaises with the Company, the Investment Manager and the Registrar in relation to dividend payments, as well as general secretarial functions required by the Companies Act.

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

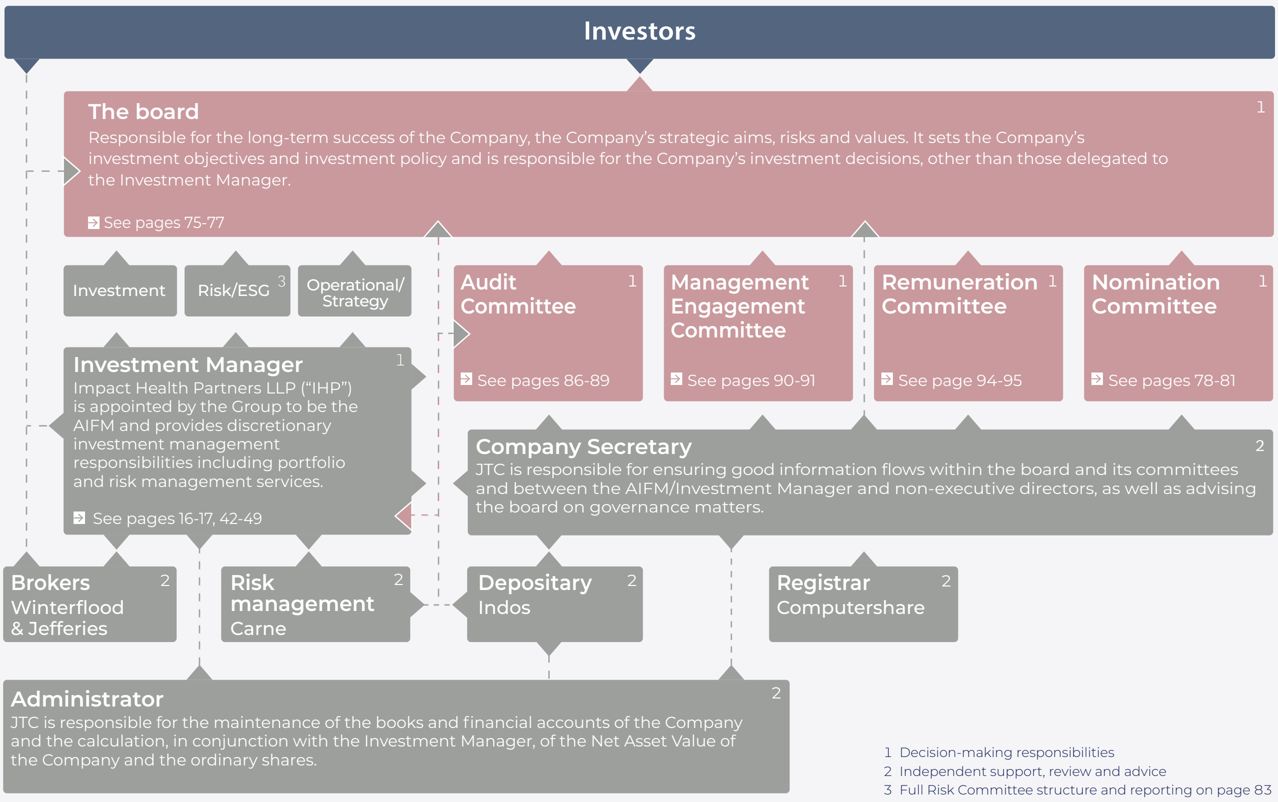
UK Alternative Investment Fund Manager Directive ("UK AIFMD")

The Company is an Alternative Investment Fund for the purposes of the UK AIFMD regulation. The Investment Manager is our AIFM.

Depositary

Indos Financial Limited is the Company's Depositary.

Reporting structure



Board of directors

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

Rupert Barclay FCA
Independent Chairman, aged 66

Appointed: 16 January 2017

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

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

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

Other current roles

- Swallow Place Associates LLP, 2004-present, Designated Member

Rosemary Boot
Senior Independent Non-executive Director, aged 60

Appointed: 16 January 2017

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

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

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

Other current roles

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

Amanda Aldridge FCA
Independent Non-executive Director, aged 60

Appointed: 1 March 2019

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

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

Board experience includes Headlam Group plc, where she was a non-executive director and chair of the audit committee and Places for People.

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

Other current roles

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

BOARD OF DIRECTORS

Paul Craig
Non-executive Director, aged 54

Appointed: 30 June 2017

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

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

Other current roles

- None

Philip Hall
Independent Non-executive Director, aged 68

Appointed: 16 January 2017

Committees: Audit, Management Engagement, Nomination and Remuneration

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

Other current roles

- None

BOARD OF DIRECTORS

Chris Santer
Independent Non-executive Director, aged 49

Appointed: 13 May 2021

Committees: Audit, Management Engagement, Nomination and Remuneration

Chris has c.25 years of real estate investment and development experience in the UK and Continental Europe, in both listed and private equity funds. He has been responsible for a number of funds making or managing direct and indirect real estate investments totalling over £5 billion, ranging from core, value-add and opportunistic and across sectors including office, retail, warehouse, residential and alternative asset classes, especially healthcare.

Chris is the Portfolio Manager for Schroders Capital Real Estate Impact Fund, an investment vehicle seeking to have positive impact on the communities in which it invests as well as delivering a market rate financial return. Prior to this, Chris was Chief Investment Officer for Primary Health Properties PLC ("PHP"), one of the UK's leading investors in modern primary healthcare facilities in the UK and Ireland, a Director of Portfolio Management at PGIM Real Estate and previously MGPA. Chris's healthcare experience also included joint ventures with Sunrise Senior Living Inc. to develop and operate premium, private pay care homes in the UK.

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

Other current roles

- None

Simon Laffin
Independent Non-executive Director and Chairman designate, aged 63

Appointed: 1 January 2023

Committees: Management Engagement, Nomination and Remuneration

Simon has 30 years of board experience across a number of sectors including real estate, previously serving as Chairman of Assura plc, Flybe Group plc and Hozelock Group. He has also been a non-executive director at Watkin Jones plc, Dentsu Group Inc, Quintain Estates and Development plc, Aegis Group plc, Mitchells & Butlers plc and Northern Rock (as part of the rescue team). He was an adviser to CVC Capital Partners for ten years. Prior to this, he was Group Finance & Property Director of Safeway plc. Simon published his first book, "Behind Closed Doors. The Boardroom: How to Get In, Get On and Make a Difference" last year.

He is a qualified accountant and graduate of Cambridge University.

Other current roles

- None

Nomination Committee report

Rupert Barclay,
Chairman

Introduction from Rupert Barclay

During 2022, the Committee supervised the process of recruiting a new non-executive director and Chairman designate, following my indication that I was planning to step down from the board at the end of the first quarter of 2023. Rosemary Boot led this process, as our Senior Independent Director. We were delighted to recommend Simon Laffin's appointment to the board. More information about this can be found below.

We also continued our regular work on succession planning and reviewing the board's size, structure and composition, as part of which we considered the benefits of adding to the board's diversity.

Committee membership

Rupert Barclay (Chairman)
Amanda Aldridge
Rosemary Boot
Philip Hall
Chris Santer
Simon Laffin (from 1 January 2023)

JTC attends our meetings as Secretary. We also invite representatives of the Investment Manager or other service providers to attend as needed.

Role

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

- ensure we have a formal, rigorous and transparent procedure for appointing new directors;
- lead the process for board appointments and recommend appointments to the board;
- review the board's structure, size and composition (including the directors' skills, experience, independence, knowledge and diversity) and make recommendations to the board about any changes;
- consider succession planning for directors, taking into account the Company's challenges and opportunities, and the skills and expertise the board will need;
- review the time we require from non-executive directors, including the Chairman and SID, and assess whether the non-executive directors are spending enough time to fulfil their duties;
- consider recommendations for annual re-election of each director and the reappointment of directors at the end of their term; and
- assist with the annual board and committee evaluation.

Committee meetings

We meet formally at least once a year and hold additional meetings when required. We had four meetings during the year, as we considered the key steps in the director recruitment process. Committee members' attendance at these meetings is shown on page 73. Set out below are the key matters we considered at each of our meetings:

July 2022

- Board and Chairman succession planning, including the criteria we would look for in a candidate and potential external search consultancies
- Audit Committee composition

August 2022

- Proposals from external search consultancies, as a result of which we agreed to appoint Fidelio Partners

October 2022

- Results of the 2022 board and committee evaluation (see below)
- Shortlisting and interview process for director recruitment
- Board structure, size and composition
- Succession planning
- Board diversity
- Board training
- Reappointment of directors at the next AGM

November 2022

- Decision to recommend to the board the appointment of Simon Laffin, which was approved by the board in December 2022, following discussion of candidates interviewed for the role.

Committee terms of reference

There were no changes to our terms of reference during 2022. The terms of reference of all board committees are available on our website at: **https://www.impactreit.uk/about/corporate-governance/**

Board evaluation

This was the second year of our three-year evaluation cycle and we therefore undertook an internal evaluation of the board and its committees. This involved a questionnaire on board-level topics, reviews specific to each committee, and self-assessments by the directors. I reviewed the results, which we then discussed at the Nomination Committee meeting in October 2022.

The evaluation showed that the board continued to function well, with a "robust but respectful" board dynamic. The areas for further development that we identified were:

- improvements to meeting papers, including the timeliness of their distribution to the board;
- the potential for greater delegation to the Investment Manager;
- a further increase in the board's strategic focus, including implementing strategic KPIs; and
- further increasing our focus on ESG.

We will report on our progress with these topics in the 2023 Annual Report.

At an individual level, the evaluation showed that all the directors were performing well and were making robust contributions to the board and its committees. I discussed individual feedback with the other directors.

Progress with 2021 evaluation recommendations

Last year's board evaluation produced the following recommendations, which we have acted on during the year:

Recommendation	Action
Continue to concentrate on the Company's strategy.	The board has continued to focus on strategy, in particular through the annual strategy day (see page 70), as well as through discussions of strategic topics at regular board meetings.
Increase the length of board meetings, to accommodate an increasing workload.	We have increased meeting lengths, to ensure sufficient time to complete the agenda.
Consider key tenant relationships in greater depth.	The board had continued its programme of holding calls with tenants during the year (see pages 50-51), and monitors tenant performance on a regular basis. The Group adopts tenant-specific strategies where required, for example working with a tenant to grow the number of homes it operates, thereby increasing its resilience, spreading risk and generating economies of scale.
Consider the Company's long-term resilience.	The board has considered the Company's resilience as part of: ■ its ongoing oversight of strategy; ■ Portfolio obsolescence and climate change; ■ the annual budgeting process; ■ its consideration of the Group's financing, including its debt strategy and hedging; and ■ when reviewing and approving transactions, with a focus on growing and further diversifying the portfolio and tenant base.
Allocate more time to reviewing purpose, values and culture.	The board reviewed our culture, purpose and values during the year and asked the Investment Manager to consider how ESG should be more explicitly taken into account in our purpose.

Succession planning

In addition to recruiting my successor as Chairman of the board, the Committee continued to consider the broader issue of succession planning for the directors. Including me, four of the directors joined the board around the time of the IPO and our succession planning over recent years has considered the need to introduce more variability into appointment dates. Simon Laffin's recruitment further increases the stagger of appointment dates, following Chris Santer's appointment to the board in 2021. With Paul Craig stepping down from the board at the AGM as part of our succession planning, following the AGM only two directors will have been in place since the IPO.

Recruitment of new non-executive director and Chairman designate

During the year, I told the board that after six years as Chairman, I was considering stepping down in 2023. Under Rosemary Boot's leadership, the Committee began the search for a new non-executive director, who would be able to take on the role of Chair once I left the board.

The Committee considered the criteria we would like in candidates, including experience in the property industry, mergers and acquisitions and with ESG, and their readiness to assume the role of Chairman, based on a track record of being a senior non-executive director at listed property companies. We determined that diversity was very important but that we would make the appointment based on the candidates' fit with our criteria and their overall merit.

We sought proposals from four suitably qualified external search consultancies. After reviewing their proposals, including their understanding of our brief, experience in the sector, diversity and ESG credentials, indicative candidate profiles, team quality, approach, timescale and fees, we agreed to appoint Fidelio Partners to conduct the search. Fidelio Partners has no other connection with the Company or with any director.

Following our review of the list of candidates, we selected five for interview and three for second interview. After considering their performance at interview and their fit with the rest of the board and with the Investment Manager, we chose to proceed with Simon Laffin's appointment, which was supported by the board with appointment from 1 January 2023.

The Company Secretary has organised Simon's induction. He has been provided with the Company's key constitutional documents, an introduction and briefing session with the Company Secretary, a half-day review of the Company's portfolio, financial management framework and historic performance with the Investment Manager, and a briefing session with me as the outgoing Chairman. Simon also intends to conduct some care home visits during the year, to familiarise himself with the Company's assets and key tenants.

Training and development

To support their continuing professional development, we offer the directors a range of training and development opportunities each year. During 2022, the directors received training in continuing obligations, UK Market Abuse Regulations, inside information and insider dealing and directors' duties. The board also expects to receive training on key developments in the healthcare industry.

Board composition and diversity

We reviewed the board's structure, diversity and balance of skills and experience. This included assessing the board's skills matrix and the board compositions of our peer group. As a result of this work, we concluded that the board's size, skills and experience remained appropriate for achieving our purpose and strategy.

At the same time, we are aware of the benefits of adding to the board's diversity. We recognise that diversity includes, and makes good use of, differences in knowledge and understanding of relevant geographies, peoples and their backgrounds, including race or ethnic origin, sexual orientation, gender, age, disability or religion. During the year, we reviewed our diversity policy, which remained unchanged.

Diversity was an important consideration in our recent recruitment process for a new Chair. The shortlist of three included one female candidate. When making future appointments to the board, we will continue to emphasise the importance of diversity and will be seeking to ensure the board composition complies with the new Listing Rule targets in relation to gender and minority ethnic representation.

At the year end, one third of the directors were female and we had no directors from a minority ethnic background. After the upcoming Annual General Meeting, the board will comprise five members of which two are female, meeting the at least 40% expectation. Our Senior Independent Director is female.

Committee effectiveness

The board and committee evaluation showed that the Nomination Committee continues to function well, with the main recommendations relating to planning and preparation for committee meetings.

Rupert Barclay Committee Chairman
27 March 2023

Audit, risk and internal control

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

Risk profile
Our principal risks and uncertainties are set out on pages 52-57. The directors have performed robust reviews of our principal and emerging risks during the year, with the Investment Manager's support. We also consider our principal risks in the context of the UK AIFMD, which sets out certain categories of risk that the Investment Manager must take into account, in monitoring and managing risk on our behalf.

The risk register details our principal risks and our mitigations to control them. It measures each risk's inherent likelihood and impact, and their residual likelihood and impact assuming our controls operate effectively. The board updates and approves the risk register at least annually.

Having assessed our principal risks, the board has procedures in place to ensure that we monitor and manage risks on an ongoing basis and that it receives adequate assurance that our systems and controls are operating effectively (see Risk processes below).

Risk appetite
Our risk appetite reflects the risks the board is willing to take, in order to successfully implement our strategy and achieve our investment objectives, as set out on pages 24-25. We continued to review and update our risk appetite framework during the year, as well as assessing our current and past compliance with our risk appetite.

Risk processes
Our risk governance structure is summarised below:

Board
Has ultimate responsibility for our risk management and internal control.

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

Management Engagement Committee
Has delegated responsibility from the board for assessing the competence of our service providers and, by extension, their ability to monitor and control risk on our behalf.

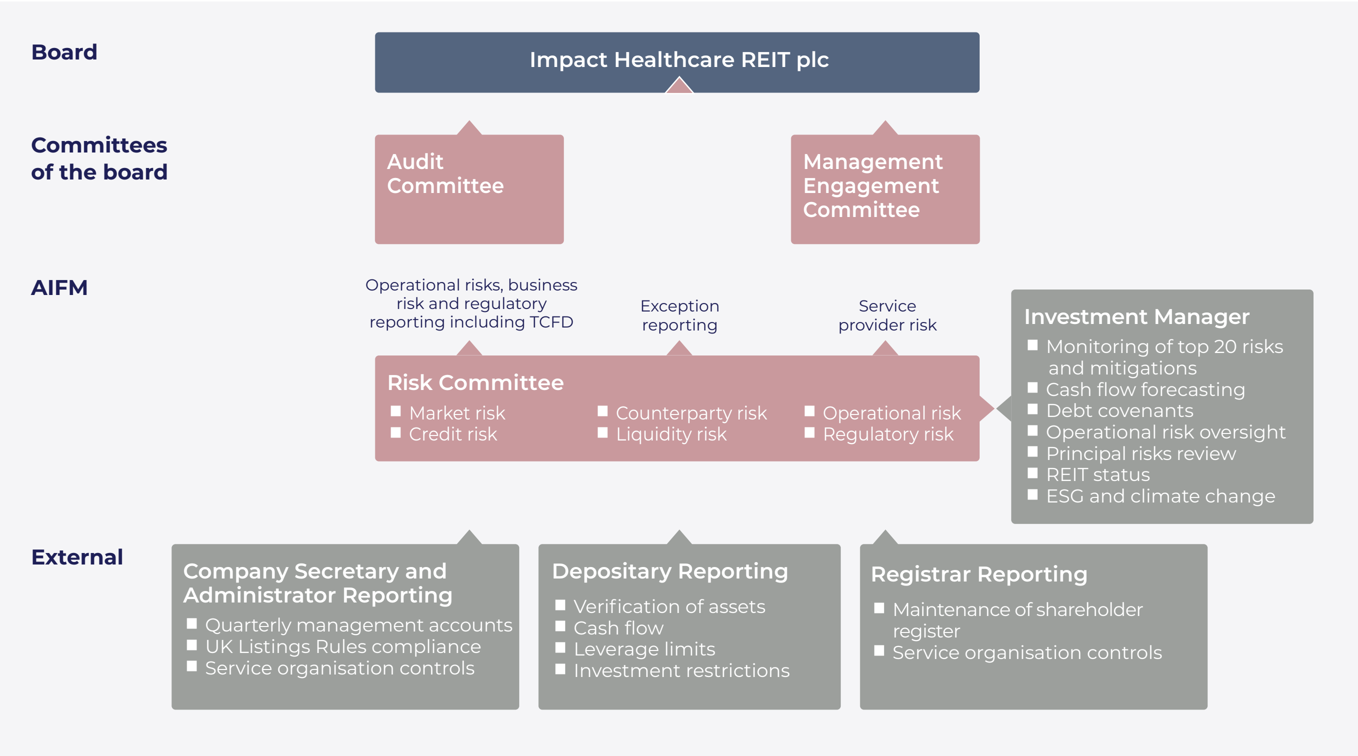
Investment Manager
Performs portfolio and risk management functions on our behalf. This includes monitoring the systems and controls in place to manage risk. The Investment Manager has appointed Carne Global AIFM Solutions (C.I.) Limited to carry out risk management on its behalf.

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

AUDIT, RISK AND INTERNAL CONTROL

Service providers

We expect our service providers to monitor their own internal control systems, to ensure they properly manage risk when performing services for us.



Responsibilities for managing risk

The responsibilities for managing risk are summarised below:

1. Board responsibilities

- Quarterly review of Company liquidity
- Semi-annual assessment of our principal risks and consideration of emerging risks
- Reviewed the climate change related risks and opportunities and the net zero targets and delivery plan
- Assessment and articulation of our risk appetite

2. Audit Committee responsibilities

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

3. Management Engagement Committee responsibilities

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

4. Risk Committee responsibilities

- Identify key and emerging risks facing the business and the controls to mitigate those risks (documented in the risk register)
- Assess the materiality of each risk, according to its likelihood and potential impact (documented in the risk register)
- Assess control effectiveness each quarter, via reporting on key risks by the Investment Manager, Administrator, Registrar and Depositary
- Agree actions for risks that are outside our tolerance, ensure that risk events, errors and breaches are appropriately remedied, and that controls are enhanced to prevent reoccurrence
- Review risks to our business model, future performance, solvency or liquidity, in the context of going concern and long-term viability statements
- Review counterparty credit risk, with reference to our financing arrangements and policies
- Review regulatory risk via the Administrator's compliance monitoring and the Investment Manager's monitoring of the REIT conditions monitoring
- Assess service provider risk via Service Organisation Control reports and due diligence reviews

5. Compliance monitoring responsibilities

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

6. Depositary monitoring responsibilities

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

Internal control processes

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

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

In addition, the board has a Financial Position & Prospects Procedures board memorandum, which the Audit Committee reviews annually and updates when required. This sets out our procedures for identifying the information needed to monitor the business and manage risk, so we can make proper judgements on our financial position and prospects. It also details our procedures to identify, assess and document the risk factors likely to affect our financial position and prospects and any changes, and the preparation and communication to the directors of related information. This was last reviewed at the Audit Committee meeting in November 2022.

The Risk Committee addresses changes to our internal controls, or controls to respond to changing risks, and escalates to the board as required.

The directors, along with the Investment Manager and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of our internal controls. This covers capital expenditure approval and authorisation of capital funding, investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and dividend authorisation, equity and debt approval, and formal communications with investors.

During the year, the Audit Committee received reports from the Investment Manager and the Administrator that summarises their internal controls as applied to managing our Company and overseeing the administration, which primarily relate to segregation of duties, including who provides cover if particular individuals are unavailable. The directors have also received bridging letters from service providers to provide assurance that their controls continued to operate effectively throughout the period under review, where the service providers' own review of their internal controls is not coterminous with our reporting period.

Financial reporting

We have internal control and risk management arrangements relating to our financial reporting processes and preparing our consolidated accounts, with the Investment Manager and Administrator's support. We have established and documented our internal management reporting and external statutory reporting timetables and delivery requirements. The Administrator controls these and communicates them regularly.

The arrangements include the Administrator's procedures to maintain records that accurately and fairly reflect transactions. The Investment Manager reviews and comments on the records, to confirm the appropriate treatment.

Where we are adopting new reporting standards or financial reporting approaches, due to either changing regulation or new contractual arrangements, the Administrator, in collaboration with the Investment Manager, prepares an assessment of this treatment and discusses it with the Audit Committee. Where required, third-party advisers are consulted. This enables us to prepare financial statements in accordance with UK adopted International Financial Reporting Standards (IFRS), or FRS 102, as appropriate, with reasonable assurance. Reported data is reviewed and reconciled by the Administrator, in collaboration with the Investment Manager, with appropriate monitoring internally and by the Audit Committee.

We monitor our ongoing financial performance through the Administrator reporting regularly to the Investment Manager, with performance then reported to the board.

We regulate our capital investment and all revenue expenditure through our budget process and authorisation levels. The Investment Manager prepares a budget, which the board approves annually, and the board receives quarterly reports of performance against budget. The Administrator also tracks expenditure and investment against budget. Payment of Investment Manager fees are presented to an individual director for sign off.

Review of risk management and internal control

The board has a continuing process for identifying, evaluating and managing the risks we face and reviewing the effectiveness of our internal control systems. The formal statement on the annual review is on page 68.

Audit Committee report

Amanda Aldridge,
Committee Chairman

Introduction

I'm delighted to present the Committee's report for the year ended 31 December 2022.

During the year, we continued to play a key role in the Group's governance. Our main activities included monitoring and reviewing the integrity of financial information and the quality and effectiveness of the external audit, as well as challenging and overseeing the Group's risk management processes and internal control framework. We also monitored how higher inflation and rising interest rates affected the Group's principal risks and uncertainties and our assessment of going concern and viability, as well as the continued effects of the global pandemic.

The Risk Committee's role in the risk management framework is described on pages 84-85. During the year I attended this Committee's meetings and this gives me first-hand experience of the detailed assurance that underpins our risk management framework.

My report below summarises the Audit Committee's key activities during the year and gives more detail on each area of our work.

Committee membership

I chaired the Committee throughout the year and Rupert Barclay, Rosemary Boot, Philip Hall and Chris Santer were Committee members throughout the year.

Rupert, Rosemary and I are considered to have recent and relevant financial experience, as we have audit, accountancy and/or chief financial officer experience, as well as experience from our other board directorships. Committee members keep up to date with financial accounting developments by attending technical update courses. Rupert and I are chartered accountants.

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

The Chairman of the board, Rupert Barclay, has been a member of the Committee since the IPO, and the Committee considers this to be appropriate due to his accounting background and knowledge of the business and given the board's size and composition. Following Chris Santer joining the board and the Committee in 2021, which increased the number of Committee members to five, the Nomination Committee decided that we will not replace Rupert as a Committee member when he retires from the board. We will invite Simon Laffin, our Chairman designate, to attend Committee meetings rather than be a Committee member. This reflects best practice under the Code.

Relevant experience and competence

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

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

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

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

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

Role

The Committee's primary responsibilities are to:

- monitor the integrity of the Company's financial statements and formal announcements relating to the Company's financial performance, and review any significant financial reporting judgements contained in them;
- consider the appropriateness of our accounting policies;
- review the interim and final valuations with the valuers;

- review and then advise the board that the annual report and accounts taken as whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- review and consider the basis of the Going concern statement and Viability statement made by the directors (see page 61);
- review the adequacy and effectiveness of the Group's internal controls and risk management framework;
- consider the need for internal audit;
- review and approve the role of the external auditor in the interim review and associated fees;
- review the external auditor's plan for the audit of the Group's accounts, approve the terms of engagement for the audit, including the audit fee, and review the findings;
- oversee the relationship with the external auditor, including reviewing its independence, objectivity and effectiveness; and
- review the financial position and prospects procedures ("FPPP").

Meetings

We met three times during 2022 and attendance is set out on page 73. Our meetings were the right length to allow us to consider all the important matters and we were satisfied that we received full and timely information, so we could fulfil our obligations.

Representatives of the Investment Manager, the Company Secretary and the auditor (BDO LLP) also attended our meetings.

A sub-committee of the Audit Committee met with our valuer, Cushman & Wakefield (CW), in January 2022, prior to publishing the 31 December 2021 NAV, and in January 2023, prior to publishing the 31 December 2022 NAV, to discuss the respective 31 December valuations in detail. CW also attended the August Committee meeting, to discuss the June valuation.

I had several discussions with the Investment Manager's Finance Director and the external auditor, to ensure they delivered the services we required and were well placed to hold a constructive discussion with the Committee. The Committee also met with the external auditor twice during the year, without other parties present.

Terms of reference

We reviewed the Committee's terms of reference and concluded that we did not need to make any significant changes. The terms of reference are available on our website at **https://www.impactreit.uk/about/corporate-governance/**

Financial reporting and significant judgements

One of our key responsibilities is to consider significant areas of complexity in the financial statements, and the judgements and estimations made in preparing them. We received reports and recommendations from the Investment Manager and the auditor, setting out the significant areas. We discussed the judgements and estimations with the Investment Manager during the year and with the auditor, both when we reviewed and agreed the Group audit plan and when the audit team presented its findings from the year-end audit.

The section below describes how we concluded that the significant judgements and estimates were appropriate.

Valuation of property portfolio

CW valued the property portfolio as at the end of each quarter in 2022. We discussed the half-year valuation with the valuers at the August Audit Committee meeting. Before the Company published its unaudited 31 December 2022 NAV, in January 2023, a sub-committee of the Audit Committee discussed CW's approach to valuing the assets, the assumptions underlying the property valuations and the valuation of individual properties highlighted by the valuer and raised by Committee members. We discussed the number of properties CW inspected and were pleased to hear that it had caught up with the backlog of inspections caused by the pandemic. We also asked CW to confirm that neither the Company nor the Investment Manager had applied undue influence in reaching its conclusion.

We and the auditor discussed its review of the valuation, referred to in the Independent Auditor's report on pages 101-108. The auditor's methodology included meeting the valuer, assessing its independence, assessing the valuation for each property against the auditor's expected range of values (based on its experience and externally available metrics) and agreeing the valuation inputs to source documentation.

The Committee was satisfied that the judgements and estimates underlying the valuation reflected in the accounts were appropriate.

Put and call options
The Committee also discussed with CW its valuation of the properties underlying the put and call options and satisfied itself that the judgements and estimates underlying the valuation were appropriate.

We also considered some other areas of accounting and reporting during the year, specifically: (i) adjusted earnings per share, (ii) accounting for finance income and (iii) TCFD reporting requirements.

(i) Adjusted earnings per share
We considered the implications of reporting adjusted earnings per share that are different to IFRS and EPRA calculations. We reviewed the reported adjusted earnings, to ensure they reflect the Company's underlying sustainable cash earnings, and satisfied ourselves that it was appropriate to disclose the non-statutory earnings per share measure.

(ii) Accounting for finance income
In December 2021, the Group invested in a portfolio of 12 care homes through a loan to the tenant, with an option to acquire the properties once regulatory approvals are received. While the loan is in place, the income the Company receives is properly accounted for as finance income. We received a presentation on and discussed the accounting policy for finance income during the year.

(iii) TCFD disclosures
Although the Group is not required to report under TCFD until 2023, we have chosen to start doing so from this year. The Committee reviewed the relevant disclosures and ensured that they were consistent with information presented to the board by the Investment Manager.

Fair, balanced and understandable statement
Producing and auditing the Company's annual report and accounts is a comprehensive process, with input from a range of contributors including the Investment Manager, external consultants and the board. To reach a conclusion on whether the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board asked the Audit Committee to advise on whether we considered that the annual report fulfilled these requirements. We considered the detailed reviews undertaken at various stages of the production process by the Investment Manager, Administrator, external auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

We then discussed the process for compiling the annual report and accounts with the Investment Manager and Administrator and received a series of drafts of the document, which we thoroughly scrutinised and discussed.

We also sought additional comfort from the Investment Manager and Administrator, by asking them to provide representation letters in relation to the conclusion of the board.

As a result of this work, we have concluded and reported to the board that the annual report and accounts for the year ended 31 December 2022, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The board's conclusions in this respect are set out on page 68.

Review of risk framework and internal control
The board has ultimate responsibility for effectively managing risk for the Group, including determining its risk appetite and identifying key strategic and emerging risks. Pages 52-57 provide an overview of the risk management process and the principal risks and uncertainties identified. The Risk Committee (see pages 84-85) acts as a governance body, overseeing, reviewing and challenging the risk management processes.

Internal audit
The Committee discussed the need for an internal audit function. The Investment Manager and the external auditor provided input for our debate and we considered the assurance received from third parties under the risk management framework. We decided that there was no current need for an internal

audit, as the work of the Risk Committee and the compliance work by the Investment Manager over tenants satisfied us that the internal controls and risk management were adequate and effective.

External auditor

The Company appointed BDO as auditor after a formal tender, as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton. Under current FRC guidance, the next audit tender will be required in respect of the year ending 31 December 2027. Until then, we will continue to monitor the auditor's performance and make any appropriate recommendations. Under current professional standards, the lead audit partner will change every five years and, as I indicated in my report last year, Charles Ellis has taken over as lead audit partner for the 2022 financial year. I am satisfied that Charles has appropriate experience in the REIT sector and understanding of our business.

(i) Audit planning

At our meeting in November we discussed the audit plan with BDO, considering the overall planning materiality and BDO's assessment of the audit risks, including the additional requirements for auditors in relation to ISA 315, Identifying and Assessing the Risks of Material Misstatement. We also discussed BDO's analysis of the valuation, involving its in-house valuation specialists and review of independent market data, and held separate meetings to discuss the valuation with CW.

We considered the audit timetable and our ability to deliver the audit workstreams, to satisfy ourselves that the timetable was appropriate for meeting the reporting requirements for the 2022 annual report and accounts and the external audit.

(ii) External auditor independence and effectiveness

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

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

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

Non-audit services

We authorised £82,000 of non-audit fees in the year, in relation to the agreed procedures for the Company's interim report and reporting accountant role (2021: £14,100).

Total audit fees for the period were £279,600 and non-audit fees were £82,000. Non-audit fees as a percentage of audit fees were 29.3% (2021: 7.0%).

Committee evaluation

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

Amanda Aldridge Committee Chairman
27 March 2023

Management Engagement Committee report

Rupert Barclay,
Committee Chairman

Introduction from Rupert Barclay

This year, the Committee's main focus was on the performance of the Investment Manager and other key service providers, and ensuring the Company received appropriate service and value for money.

Committee membership

Rupert Barclay (Chairman)
Amanda Aldridge
Rosemary Boot
Philip Hall
Chris Santer
Simon Laffin (from 1 January 2023)

All the Committee members are independent of the Investment Manager.

Role

The Committee's most important function is to conduct an annual review of:

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

Committee meetings

We meet formally at least once a year or as required. We held one meeting in 2022. The Committee members' attendance is set out on page 73.

JTC attends our meetings as Secretary and we also invite representatives of the Investment Manager to attend. Neither JTC nor the Investment Manager are present when we are discussing their performance.

Terms of reference

We reviewed our terms of reference during the year and made only minor changes to ensure consistency. The board approves terms of reference for all the board committees and they are available on our website at: **https://www.impactreit.uk/about/corporate-governance/**

Investment Manager

Impact Health Partners LLP is our Investment Manager. Under the terms of the Investment Management Agreement (IMA), it provides advisory and management services to us that include ongoing portfolio monitoring, asset management and sourcing investment opportunities.

The IMA imposes restrictions on the Investment Manager and its associates from acquiring, developing, leasing or operating residential healthcare services without the prior written consent of the Company. This ensures the board can effectively manage any potential conflict of interest, given that one of the Investment Manager's Managing Partners owns Minster Care Group Limited, which is our largest tenant.

The IMA also:

a) grants us pre-emption rights in respect of any investment opportunities within our investment policy, of which the Investment Manager or its associates become aware;

b) grants us the right to terminate the agreement if:

- any tenant in which any principal of the Investment Manager (from time to time) has a beneficial interest, fails to pay rent or any other sums due under the leases in excess of £50,000; or
- any tenant, in which any principal of the Investment Manager or any of its associates (from time to time) has a beneficial interest, is wound up or liquidated;
- the financial report provided to us by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive quarterly financial reports or in any two quarterly financial reports in any 12-month period;

c) grants us the right to seek advice from a third-party property adviser, when the Investment Manager is conflicted; and

d) prohibits the Investment Manager from taking any decision, or making any recommendation to the board relating to enforcement of the Group's rights, on certain covenant breaches by a tenant in which any principal of the Investment Manager or any of its associates (from time to time) has a beneficial interest.

Either party may terminate the IMA on 12 months' notice or immediately in certain circumstances, such as a material breach that is not remedied.

Review of performance

The Committee reviewed the Investment Manager's performance. Our view was that the Investment Manager was performing well, and in particular that it had delivered good financial, debt management and share price performance. We also noted some areas for the Investment Manager to address, including introducing more strategic KPIs to support management of the business, and progressing our asset management and ESG agendas.

As part of our review, we considered the Investment Manager's staffing relative to its workload. We were pleased to note the number of senior appointments at the Investment Manager during the year and its plans to continue to add to its team, to ensure the management had sufficient support as the Company continued to grow.

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

Review of the Investment Manager's remuneration

Under the IMA, the Investment Manager is entitled to a management fee and reimbursement of reasonable expenses.

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

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

We reviewed these fee arrangements, compared them with similar REITs and concluded that they were reasonable.

Administrator and Company Secretary

JTC (UK) Limited ("JTC") is our Administrator and Company Secretary.

Under the Administration and Company Secretarial Services Agreement, JTC is entitled to an annual fee of £140,000 as Administrator.

Either party can terminate the agreement on at least three months' written notice, or immediately in circumstances such as a material breach or the insolvency of a party.

Review of performance

The Committee discussed JTC's performance as both Administrator and as Company Secretary. The Chairman has provided JTC with feedback following the Committee's review. The Committee, supported by the Investment Manager, will continue to monitor the performance of the Administrator and Company Secretary to ensure that service levels are maintained. The Committee concluded that JTC's performance was satisfactory and that its appointment as Administrator and Company Secretary should continue.

Review of other service providers

The Committee reviewed the service level of our other service providers. We concluded that their performance was satisfactory and their appointments should continue.

Committee effectiveness

The board and committee evaluation showed that the Management Engagement Committee continues to function well. The main recommendation was to consider each year whether we should obtain an independent review of the Investment Manager and other service providers.

Rupert Barclay Committee Chairman
27 March 2023

Directors' remuneration report

Rosemary Boot,
Committee Chairman

Annual statement

During the year, we continued to focus on ensuring that our approach to remuneration enables the Company to attract and retain the skilled and experienced board members it needs to successfully implement its strategy and achieve its objectives.

Our Articles of Association and the AIC Code require us to consider whether the level of remuneration reflects our time commitment and responsibilities, particularly for any duties beyond those normally expected. In going through the process of recruiting a new Chair, we identified that our directors' fees would benefit from an independent review for the first time since the IPO in March 2017.

As a result, the Committee commissioned Fidelio Partners to conduct an independent review of the directors' remuneration. Having considered Fidelio Partners' report, the range of fees paid at comparable companies across the market and the time the directors spent on both planned and ad hoc meetings, we concluded that with effect from 1 January 2023, we should increase the Chairman's fee from £48,500 to £60,000 and the fee for the non-executive directors from £35,000 to £40,000, with an extra £6,000 for the Audit Committee Chair. We believe these fees appropriately reflect the directors' responsibilities and workload and support our succession planning for the board, while remaining within the range of comparable peer companies.

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

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

Principles Q and P of the AIC Code 2019 apply to the policy. Principle Q requires us to establish a formal and transparent procedure for developing our remuneration policy and states that no director should be involved in deciding their own remuneration outcome. Principle P requires us to design remuneration policies and practices that support the Company's strategy and promote its long-term sustainable success. As set out in this report, we continued to apply these principles during 2022.

Directors' remuneration policy

Shareholders considered and approved our remuneration policy at the AGM on 12 May 2021. We followed this policy during 2022 and, having reviewed it at our October 2022 meeting, we concluded that it remains appropriate.

Our remuneration policy

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

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

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

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

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

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

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

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

Directors' remuneration

In line with the remuneration policy in force during the year, each director received a fee for 2022 of £35,000. The Chairman was paid a further £13,500 and the Audit Committee Chair was paid a further £6,000.

Since 1 January 2023, each director receives an annual fee of £40,000. The Chairman receives an additional £20,000 and the Audit Committee Chair continues to receive an additional £6,000.

Company-wide considerations

As we have no executive directors or employees, there are no statements to make on consultations, comparisons or pay and employment conditions within the Company.

Recruitment

We apply the same remuneration policy for recruitment purposes.

Statement of consideration of shareholder views

We continue to engage with shareholders on a regular basis, including on the directors' fees and future remuneration policy. During the year, the Chairman of the board and I again held calls with a number of our institutional shareholders, which revealed no concerns about the level of directors' remuneration.

Annual report on remuneration

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

Directors' fees for the year under review (audited)

The directors only receive fees and reasonable expenses for services as non-executive directors. The directors' fees are shown in the table below. The directors' expenses for 2022 totalled £884 (2021: £nil). No other remuneration or taxable benefits were paid or payable during the period to any director.

Director	**2022**	2021
Rupert Barclay (Chairman)	**£48,500**	£46,000
Rosemary Boot	**£35,000**	£33,000
Amanda Aldridge	**£41,000**	£38,000
Paul Craig*	**£35,000**	£33,000
Philip Hall	**£35,000**	£33,000
Chris Santer†	**£35,000**	£20,900

* Paul Craig elected to pay all proceeds received from his directorship with the Company to charity, while he was in full employment with Quilter. He has confirmed that the net proceeds received for 2022 and 2021 were paid in full to charity.
† Appointed on 13 May 2021.

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

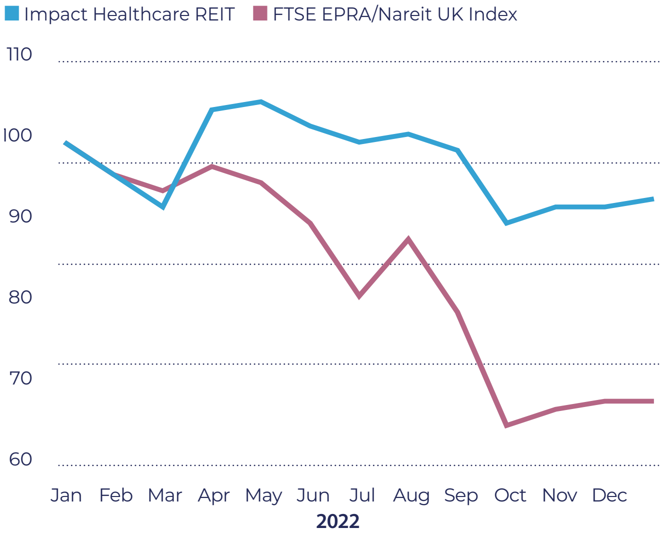
Payments to past directors or for loss of office

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

Total shareholder return

The graph below shows our total shareholder return relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index:

Total shareholder return (p)



Source: FTSE Russel monthly total return index/Investis

Directors' shareholdings (audited)

We do not require the directors to own shares in the Company. At the year end, the directors had the shareholdings listed below:

Director*	Number of shares held	Percentage of share capital held
Rupert Barclay (Chairman)	183,287	0.05%
Rosemary Boot	30,000	0.01%
Amanda Aldridge	–	0.00%
Paul Craig†	66,923,191	16.53%
Philip Hall	30,000	0.01%
Chris Santer	14,137	0.00%

* Includes shareholdings of directors and persons closely associated (as defined by the EU Market Abuse Regulation).
† These shares are held by funds owned by Quilter Investors, of which Paul Craig was Investment Manager.

The shareholdings of the directors, other than Paul Craig, are not significant and do not therefore compromise their independence. Paul Craig was not an independent director for the majority of the year, as he was an employee of our largest shareholder. Paul is stepping down from the board at the Annual General Meeting, meaning that none of the directors will have a significant interest in the Company's shares.

Relative importance of spend on pay

The table below shows the relative importance of the directors' remuneration, when compared with the fee paid to the Investment Manager and distributions to shareholders.

Director*	2022 £m	2021 £m	Change %
Directors' remuneration	0.25	0.22	13.1
Investment management fee	4.58	3.86	18.7
Dividends paid to shareholders	25.7	21.9	17.6

Statement of implementation of remuneration policy for financial year 2022

The Committee adopted the following fees for 2022:

- £48,500 for the Chairman of the board.
- £35,000 for the non-executive directors.
- An additional £6,000 for the Audit Committee Chair.

Committee membership

Rosemary Boot (Chair)
Amanda Aldridge
Rupert Barclay
Philip Hall
Chris Santer
Simon Laffin (from 1 January 2023)

I have experience of serving on remuneration committees and currently serve on one other. We benefit from the Remuneration and Nomination Committees having the same membership, giving us full visibility of succession planning.

Role

The Committee's main responsibilities are to:

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

No director is involved in setting their own pay.

Committee meetings

The Remuneration Committee meets formally once a year and otherwise when needed. We had two meetings in 2022. Attendance is set out on page 73.

JTC attends our meetings as Secretary and we invite representatives of the Investment Manager to attend as required.

Terms of reference

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

Committee evaluation

The Committee was evaluated as part of the overall board evaluation, which is described on pages 79. The evaluation showed that the Committee functions effectively and there were no significant suggestions for improvement.

External advisers

The Committee received external advice from Fidelio Partners during the year, as described in the annual statement above. Fidelio Partners was appointed following a resolution of the Committee at its meeting in October 2022. The fee paid to Fidelio Partners for its remuneration advice service was £7,500 on top of its fee for search services discussed in the Nomination Committee report. Fidelio Partners has no other connections to the Company and the Committee is satisfied that its advice is independent.

Statement of voting at the 2022 Annual General Meeting

The directors' remuneration report was subject to an advisory vote at the AGM on 11 May 2022. The voting outcome is shown in the table below:

	Resolution to approve directors' remuneration report
Votes for*	251,323,630
%	99.92
Votes against	209,371
%	0.08
Total votes validly cast	251,533,001
Total votes cast as % of issued share capital	65.21
Votes withheld†	106,974

The directors' remuneration policy was subject to shareholder approval at the AGM in 2021. The voting outcome is shown in the table below:

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

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

Rosemary Boot Committee Chairman
27 March 2023

Directors' report

Introduction

The directors are pleased to present the annual report, including the Company's audited financial statements as at, and for the year ended, 31 December 2022.

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

Statutory information contained elsewhere in the annual report

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

- *Financial results and dividends, page 1*
- *Future developments, pages 4-49*
- *Engagement with suppliers, customers and others with business relationships with the Company, pages 50-51 and 70*
- *Corporate governance statement, pages 64-91*
- *Manager and service providers, pages 73-74*
- *Directors' names and Board of directors, pages 75-77*
- *Directors' and officers' liability insurance, page 93*
- *Directors' interests in shares, page 94*
- *Related-party transactions, note 22, page 134*
- *Financial instruments, note 19, pages 131-132*
- *Share capital, note 21, page 133*
- *Events subsequent to the year-end date, note 28, page 137*

Substantial shareholdings

As at 27 March 2023, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Quilter Investors Limited	65,816,438	15.88%
Schroder & Co Limited	24,543,190	5.92%
Brooks Macdonald Asset Management Limited	21,173,702	5.11%
Gravis Advisory Ltd	20,447,854	4.93%
Royal London Asset Management Limited	19,918,153	4.81%
Premier Fund Managers Limited	18,326,384	4.42%
Newton Investment Management Limited	14,356,006	3.46%
Integrated Financial Arrangements Ltd	13,899,383	3.35%
Hargreaves Lansdown Stockbrokers	12,458,683	3.01%

Based on 414,368,169 ordinary shares in issue as at 27 March 2023.

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

The Company only has one class of share.

Restrictions on transfer of securities in the Company

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

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

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

Securities carrying special rights

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

Change of control

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion, or a single shareholder acquires a substantial stake in the Company, a liability in the subsidiary companies could arise. This is equal to approximately 1.2% of the aggregate value of the properties and is estimated at £6.6 million on the net purchase price of assets acquired since IPO.

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

Directors' share dealings

The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board is responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

Greenhouse gas emissions reporting

The board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. The Group is a low energy user and therefore exempt from the Streamlined Energy and Carbon Reporting regulation.

During the year ended 31 December 2022, the Group had no directly reportable emissions, as:

- any emissions from the Group's properties are the tenants' responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions produced from the Company's registered office or from offices used to provide administrative support are deemed to be the Investment Manager's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As discussed in the Responsible investment section on pages 28-33, the Group does have the scope to enhance the energy efficiency of its portfolio and thereby reduce the emissions incurred by its tenants, see GHG emission data on page 39. This year, we have voluntarily reported against the TCFD framework on pages 34-41 and set net zero targets for our tenants' emissions, see page 31. In addition we continued to report information on tenant emissions in the Group's annual EPRA sustainability reporting (retaining its EPRA sBPR gold award for its 2021 submission) which is available on our website at **https://www.impactreit.uk/about/sustainability/**.

Political donations
The Group made no political donations during the year.

Employees
The Group has no employees and therefore no employee share scheme or policies for the employment of disabled persons or employee engagement.

Articles of Association
These are available on our website at **http://www.impactreit.uk/documents** or by application to the Company Secretary. Any amendment to the Company's Articles of Association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK
The Company does not have any branches outside the UK.

Powers of the directors
The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

Powers in relation to the Company issuing its shares
Subject to Company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

Non-pre-emptive share issuance
Over the past three financial years, the Company's non-pre-emptive share issuance increased the issued share capital by 15.9%.

In April 2021, 31,690,327 new ordinary shares were admitted at a placing price of 111.5 pence per share, a discount of 2.5% at the placement proposal date. The £35 million proceeds (£34.6 million net of share issue costs) were used to repay amounts drawn under revolving credit facilities and to fund new investments.

In July 2022, 19,032,420 new ordinary shares were admitted at a placing price of 117.0 pence per share, a discount of 4.6% at the placement proposal date. The proceeds of £22.3 million (£21.4 million net of share issue costs) were used to repay amounts drawn under revolving credit facilities and to fund new investments.

Pre-emptive share issuance
In February 2022, a further 35,087,720 new ordinary shares were admitted at a placing price of 114.0 pence per share, a discount of 2.7% at the placement proposal date. The £40 million of gross proceeds were used to repay revolving credit facilities and pursue near-term pipeline opportunities.

Appointment and replacement of directors
A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

Independent auditor
BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2023.

Disclosure of information to the auditor
The directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Additional information

There are no disclosures required in accordance with LR 9.8.4 R.

Annual General Meeting

The Company's AGM is scheduled to be held at 11:00am on 17 May 2023.

Signed on behalf of the board by

Rupert Barclay Chairman
27 March 2023

Statements of responsibilities

Directors' statement of responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with UK adopted international accounting standards. The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that year.

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a strategic report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations. These can be found on pages 96-99, 1-62, 92-95 and 64-91, respectively.

Website publication

The directors are responsible for ensuring the annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at **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:

Rupert Barclay Chairman
27 March 2023

Independent Auditor's report

to the members of Impact Healthcare REIT plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Impact Healthcare REIT plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to consolidated the financial statements, the company statement of financial position, the company statement of changes in equity, notes to the company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Directors in September 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ended 31 December 2017 to 31 December 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the appropriateness and accuracy of the Directors' cash flow forecasts by reference to current cash reserves, available finance, contractual rental income, debt service cost obligations and other committed or expected cash flows.
- evaluation of the Directors' assessment as to the ability of each material tenant to satisfy its future contractual rent obligations based on historic and current occupancy and profitability levels.
- evaluation of the sensitivity analyses and reverse stress tests performed in relation to the Group's liquidity and loan covenant compliance.

assessment of the identified options that would be available to mitigate the impact of any future substantial non-payment of rent on the Group and Parent Company's liquidity and the Group's ability to continue to operate within its loan covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2021: 100%) of Group profit before tax		
	100% (2021:100%) of Group revenue		
	100% (2021: 100%) of Group total assets		
Key audit matters		2022	2021
	Valuation of investment properties	✓	✓
Materiality	Group financial statements as a whole		
	£6.0 million (2021: £5.14 million) based on 1% (2021: 1%) of Group total assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates in one segment, investment property, structured through a number of subsidiary entities and therefore we treated the Group as one significant component. The Group audit engagement team performed all the work necessary to issue the Group and Parent Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified in the key audit matters section below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matters was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of investment properties As detailed in note 13 to the consolidated financial statements, the Group owns a portfolio of investment properties which are carried at their fair value. The Group's accounting policy for these properties is described in note 3 to the consolidated financial statements. The key judgements and estimates in arriving at the fair values are set out in notes 2.2 and 13 to the consolidated financial statements.	The Group owns care home investment properties that are leased to tenant operators under long-term rental agreements. The properties are independently, externally valued using the income capitalisation method in accordance with RICS methodology and IFRS 13 *Fair Value Measurement.* The valuation of investment property requires significant judgement and estimates by the Directors and their independent valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. Any input inaccuracies or unreasonable bases used in the valuation (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Group financial statements. There is also a risk that the Directors may influence the judgements and estimates in respect of property valuations in order to achieve property valuations and other performance targets to meet market expectations. The valuation of investment properties was therefore considered to be a key audit matter.	Our audit procedures included, but was not restricted to, the following: **Experience of the valuer and relevance of its work** We assessed the valuer's competence and capabilities and read their terms of engagement with the Group, to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them. With the assistance of our real estate experts, we read the valuation reports and assessed whether the valuations had been prepared in accordance with applicable valuation guidelines and IFRS 13 and they were appropriate for determining the carrying value in the Group's financial statements **Data provided to the valuer** We inspected that the data provided to the valuer by the Investment Manager was consistent with the information provided to, and tested by, us. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements. **Assumptions and estimates used by the valuer** We developed yield expectations for each property using available independent industry data, reports and details of relevant comparable transactions in the market around the year end date. We compared the key valuation assumptions against our independently formed market expectations and challenged the external valuers where significant variances from these expectations were identified. We corroborated their responses to supporting documentation where appropriate. The key valuation assumptions were the equivalent yields, which we evaluated by reference to market data based on the location and specifics of each property. Alongside our real estate experts, we met with the Group's external valuers to discuss and challenge the valuation methodology and key assumptions and considered if there were any indicators of undue Directors' influence on the valuations. **Key observations:** Based on the procedures performed, we did not identify any indicators to suggest that the valuation of the Group's investment properties is inappropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	6.0	5.14	4.3	3.84
Basis for determining materiality	1% of total assets			
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group and the Parent Company.			
Performance materiality	4.5	3.85	3.29	2.88
Basis for determining performance materiality	Overall performance materiality for the Group and Parent Company has been set at 75% of materiality. This was on the basis of our risk assessment, together with our assessment of the Group's and Parent Company's overall control environment and our past experience of the audit which has indicated a low number of corrected and uncorrected misstatements in the prior period and Management's willingness to investigate and correct these.			

Specific materiality

We also determined that for any items that could affect the calculation of Group's European Public Real Estate ("EPRA") earnings, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. We consider EPRA earnings to be a key performance measure of the Group. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, profit on disposal of investment properties and changes in the fair value of interest rate derivatives. As a result, we determined materiality for these items based on 5% of EPRA earnings amounting to £1.63 million (2021 £1.37million) for the Group. We further applied a performance materiality level of 75% (2021: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £300,000 (2021: £256,800) for the financial statements as a whole, and in excess of £81,500 (2021: £68,350) for specific items. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 61; and The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 61.
Other Code provisions	Directors' statement on fair, balanced and understandable set out on page 68; Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 68; The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 68; and The section describing the work of the Audit Committee set out on pages 86-89.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors

As explained more fully in the Directors' Statement of responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Through our knowledge of the Group and its sector we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.
- We considered the Group's compliance with laws and regulations that have a direct impact on the financial statements including UK company law, the applicable accounting framework, tax legislation (including the UK REIT regime requirements) and the relevant listing Rules, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.
- We designed audit procedures to identify instances of non-compliance with such laws and regulations. Our procedures included reviewing the financial statement disclosures and accounting policies to identify instances of management bias, and agreeing to underlying supporting documentation where necessary. We reviewed minutes of Board meetings held during and subsequent to the year for any indicators of non-compliance and made enquiries of management and of the Directors as to the risks of non-compliance and any instances thereof.
- We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be investment property valuations, and management override of controls. Our responses to the valuation of investment properties risk are set out in the key audit matters section above.
- We addressed the risk of management override of internal controls by testing a sample of journal entries processed during the year, agreeing to supporting documentation and evaluating whether there was evidence of bias by management or the Directors that represented a risk of material misstatement due to fraud.
- We tested a sample of capital additions to invoice and approved budgets to address the risk of inappropriate or fraudulent capital improvements or fictitious acquisition costs.
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The engagement partner has assessed and confirmed that the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor, London, UK

27 March 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	31 December 2022 Total £'000	31 December 2021 Total £'000
Gross rental income	5	42,242	36,398
Insurance/service charge income	5	704	496
Insurance/service charge expense	5	(704)	(496)
Net rental income		**42,242**	**36,398**
Administrative and other expenses	6	(7,009)	(5,766)
Profit on disposal of investment properties	13	130	308
Operating profit before changes in fair value		35,363	30,940
Changes in fair value of put option	16	(1,811)	–
Changes in fair value of investment properties	13	(14,456)	4,220
Operating profit		**19,096**	**35,160**
Finance income	8	3,200	72
Finance expense	9	(5,408)	(3,264)
Profit before tax		**16,888**	**31,968**
Tax charge on profit for the year	10	–	–
Profit and total comprehensive income (attributable to shareholders)		**16,888**	**31,968**
Earnings per share – basic and diluted (pence)	11	**4.33p**	**9.41p**

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

The accompanying notes to the Consolidated statement of comprehensive income can be found on pages 114-137.

Consolidated statement of financial position

As at 31 December 2022

	Notes	31 December 2022 £'000	31 December 2021 £'000
Non-current assets			
Investment property	13	504,318	437,635
Interest rate derivatives	18, 25	–	94
Trade and other receivables	14	68,131	61,948
Total non-current assets		**572,449**	**499,677**
Current assets			
Trade and other receivables	14	1,181	1,557
Interest rate derivatives	18, 25	363	–
Cash and cash equivalents	15	22,531	13,261
Total current assets		**24,075**	**14,818**
Total assets		**596,524**	**514,495**
Current liabilities			
Borrowings	17, 25	(14,814)	–
Trade and other payables	16	(9,126)	(6,703)
Total current liabilities		**(23,940)**	**(6,703)**
Non-current liabilities			
Borrowings	17, 25	(122,382)	(110,907)
Put option	16	(1,811)	–
Trade and other payables	16	(2,471)	(2,641)
Total non-current liabilities		**(126,664)**	**(113,548)**
Total liabilities		**(150,604)**	**(120,251)**
Total net assets		**445,920**	**394,244**
Equity			
Share capital	21	4,048	3,506
Share premium reserve	21	365,642	305,672
Capital reduction reserve	21	24,077	24,077
Retained earnings		52,153	60,989
Total equity		**445,920**	**394,244**
Net Asset Value per ordinary share (pence)	23	**110.17p**	**112.43p**

The accompanying notes to the Consolidated statement of financial position can be found on pages 114-137.

The consolidated financial statements for Impact Healthcare REIT plc (registered number: 10464966) were approved and authorised for issue by the board of directors on 27 March 2022 and are signed on its behalf by:

Rupert Barclay Chairman

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	31 December 2022 £'000	31 December 2021 £'000
Cash flows from operating activities			
Profit for the year (attributable to equity shareholders)		16,888	31,968
Finance income	8	(3,200)	(72)
Finance expense	9	5,408	3,264
Profit on disposal of investment properties	13	(130)	(308)
Changes in fair value of put option	16	1,811	–
Changes in fair value of investment properties	13	14,456	(4,220)
Net cash flow before working capital changes		35,233	30,632
Working capital changes			
Increase in trade and other receivables		(5,952)	(9,183)
Increase in trade and other payables		207	2,133
Net cash flow generated from operating activities		**29,488**	**23,582**
Investing activities			
Purchase of investment properties	13	(69,217)	(26,900)
Proceeds on sale of investment property		2,625	1,676
Acquisition costs capitalised		(2,661)	(1,230)
Capital improvements		(11,195)	(1,050)
Loan advanced to operator for portfolio acquisition		–	(37,500)
Loan associated costs		(478)	(93)
Interest received		3,270	2
Net cash flow used in investing activities		**(77,656)**	**(65,095)**
Financing activities			
Proceeds from issue of shares	21	62,269	35,334
Issue costs of ordinary share capital	21	(1,757)	(707)
Borrowings drawn	17, 25	85,074	92,685
Borrowings repaid	17, 25	(57,362)	(54,507)
Loan arrangement fees paid	25	(1,265)	(1,844)
Loan commitment fees paid		(628)	(430)
Interest payments received on interest rate derivatives	25	112	–
Interest paid on bank borrowings		(3,281)	(1,864)
Dividends paid to equity holders	12	(25,724)	(21,872)
Net cash flow generated from financing activities		**57,438**	**46,795**
Net (decrease)/increase in cash and cash equivalents for the year		9,270	5,282
Cash and cash equivalents at the start of the year		13,261	7,979
Cash and cash equivalents at the end of the year		**22,531**	**13,261**

The accompanying notes to the Consolidated statement of cash flows can be found on pages 114-137.

Consolidated statement of changes in equity

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**

For the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2021		**3,189**	**271,362**	**24,077**	**50,893**	**349,521**
Total comprehensive income		**–**	**–**	–	**31,968**	**31,968**
Transactions with owners						
Dividends paid	12	–	–	–	(21,872)	(21,872)
Share issue	21	317	35,017	–	–	35,334
Share issue costs	21	–	(707)	–	–	(707)
31 December 2021		**3,506**	**305,672**	**24,077**	**60,989**	**394,244**

The accompanying notes to the Consolidated statement of changes in equity can be found on pages 114-137.

Notes to the consolidated financial statements

For the year ended 31 December 2022

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2022 are prepared in accordance with UK adopted international accounting standards.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, the put option and the interest rate derivative, which have been measured at fair value.

The Group has chosen to adopt EPRA best practices recommendations guidelines for calculating key metrics such as earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's ordinary shares are listed on the Premium Listing Segment of the Official List and trade on the premium segment of the main market of the London Stock Exchange. The registered address of the Company is disclosed in the corporate information.

Convention

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

Going concern

The Strategic report describes the Group's financial position, cash flows and liquidity position. The principal risks are set out on pages 52-57 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 inflationary environment and rising interest rates have been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of increasing interest rates and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, see Going concern and viability for further detail.

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

2. Significant accounting judgements, estimates and assumptions

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below:

2.1 Judgements

Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases, when signed, are for between 20 and 30 years with a tenant-only option to extend for one or two periods of ten years. At the inception of the lease, management do not judge any extension of the leases to be reasonably certain and, as such, do not factor any lease extensions into their considerations of lease incentives and their treatment.

2. Significant accounting judgements, estimates and assumptions (continued)

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.

Put and call options
The fair value of the assets underlying the put and call options, being the property portfolio to which they relate, are measured in line with investment property, the fair value movement is shown on the Consolidated statement of comprehensive income as Changes in fair value of put/call option, and on the Consolidated statement of financial position as put/call option. Further detail of these options is outlined in note 16.

3. Summary of significant accounting policies

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

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2022. 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.

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.

3. Summary of significant accounting policies (continued)

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

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

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

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

Finance income
Finance income is accounted for on an accruals basis.

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

Trade and other receivables

Trade receivables comprise mainly lease income receivable.

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

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

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

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

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

Stage one

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

Stage two

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

Stage three

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

The key estimation techniques including key inputs and assumptions regarding the Group's ECL provision for trade and other receivables are included as part of the Group's assessment of credit risk as set out in note 19.

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.

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.

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.

3. Summary of significant accounting policies (continued)

Dividends
Dividends are recognised when they become legally payable.

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

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

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

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

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

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

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

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

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

4. New standards issued

4.1 New standards issued with effect from 1 January 2022
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 2022 £'000	Year ended 31 December 2021 £'000
Rental income cash received in the year	**35,889**	**30,472**
Rent received in advance of recognition[1]	170	143
Rent recognised in advance of receipt[2]	6,324	5,873
Rental lease incentive amortisation[3]	(141)	(90)
Gross rental income	**42,242**	**36,398**
Insurance/service charge income	704	496
Insurance/service charge expense	(704)	(496)
Net rental income	**42,242**	**36,398**

1 This relates to movement in rent premiums received in prior periods as well as any rent premiums received during the year, deemed to be a premium over the term of the lease.
2 Relates to movement in both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum uplift in rents over the term of the lease on a straight-line basis.
3 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

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

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

Minster Care Management Limited and Croftwood Care UK Limited are both part of the Minster Care Group Limited and together represent 44.7% of Gross rental income; Holmes Care Group Limited also represents more than 10% of the Gross rental income:

	2022	2021
Minster Care Management Ltd	29.3%	31.1%
Croftwood Care UK Ltd	15.4%	17.3%
Holmes Care	10.3%	11.6%
Others	45.0%	40.0%

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6. Administrative and other expenses

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Investment Manager fees (see note 22)	4,581	3,858
Directors' remuneration (see note 7)	250	221
Auditor's fees		
– Statutory audit of the Company and Group (including subsidiaries)	280	203
– Agreed upon procedures for the Company's interim report	16	14
Total auditor's fees[1]	296	217
Administration fees	497	472
Regulatory fees	18	20
Legal and professional	630	509
Recruitment services and Remuneration Committee advice	70	12
Other administrative costs	667	457
	7,009	**5,766**

1 In 2022, the Auditor also received fees of £66,000 (2021: £nil) 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 2022 £'000	Year ended 31 December 2021 £'000
Rupert Barclay (Chairman)	49	46
Rosemary Boot	35	33
Philip Hall	35	33
Paul Craig	35	33
Amanda Aldridge	41	38
Chris Santer	35	21
	230	**204**
Employer's National Insurance	20	17
	250	**221**

Directors' remuneration payable at 31 December 2022 amounted to £10,242 (2021: £8,860).

8. Finance income

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Bank interest		8	2
Loan interest		3,192	70
		3,200	**72**

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.

9. Finance expenses

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Interest payable on bank borrowings		3,985	1,874
Commitment fee payable on borrowings		599	517
Amortisation of loan arrangement fee		1,205	960
Changes in fair value of interest rate derivatives	18	(381)	(87)
		5,408	**3,264**

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on borrowings, which was £142.3 million at 31 December 2022 (2021: £114.5 million). Amortisation on loan arrangement fees relates to capitalised fees being amortised over the term of the facility, in the year ended 31 December 2022 £2,628,000 was capitalised (2021: £2,444,000).

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 2022 and the year ended 31 December 2021, 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 2022 £'000	Year ended 31 December 2021 £'000
UK corporation tax	–	–

Reconciliation of the corporation tax charge:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Profit before tax	**16,888**	**31,968**
Theoretical tax at UK corporation tax rate (19%)	3,209	6,074
Effects of:		
REIT exempt income	(5,905)	(5,256)
Non-taxable items	2,696	(818)
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.

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 2022 £'000	Year ended 31 December 2021 £'000
Total comprehensive income (attributable to shareholders)	**16,888**	**31,968**
Adjusted for:		
– Revaluation movement	8,103	(12,896)
– Rental lease incentive	(141)	2,660
– Rental income arising from recognising rental premiums and future guaranteed rent uplifts	6,494	6,016
Change in fair value of investment properties	14,456	(4,220)
Change in fair value of put option	1,811	–
Profit on disposal of investment property	(130)	(308)
Change in fair value of interest rate derivative	(381)	(87)
EPRA earnings	**32,644**	**27,353**
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(6,494)	(6,016)
Amortisation of lease incentives	141	90
Interest received on interest rate cap	112	–
Amortisation of loan arrangement fees	1,205	960
Profit on disposal of investment property	130	308
Adjusted earnings	**27,738**	**22,695**
Average number of ordinary shares	390,058,661	339,705,743
Earnings per share (pence)[1]	**4.33p**	**9.41p**
EPRA basic and diluted earnings per share (pence)[1]	**8.37p**	**8.05p**
Adjusted basic and diluted earnings per share (pence)[1]	**7.11p**	**6.68p**

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

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

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

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12. Dividends

	Dividend rate (pence per share)	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Fourth interim dividend for the period ended 31 December 2020 (ex-dividend – 11 February 2021)	1.5725p	–	5,015
First interim dividend for the period ended 31 December 2021 (ex-dividend – 27 May 2021)	1.6025p	–	5,619
Second interim dividend for the period ended 31 December 2021 (ex-dividend – 5 August 2021)	1.6025p	–	5,619
Third interim dividend for the period ended 31 December 2021 (ex-dividend – 28 October 2021)	1.6025p	–	5,619
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	–
Total dividends paid		**25,724**	**21,872**
Total dividends paid in respect of the year		4.9050p	4.8075p
Total dividends unpaid but declared in respect of the year		1.6350p	1.6025p
Total dividends declared in respect of the year – per share		**6.54p**	**6.41p**

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

On 25 April 2022, the Company declared an interim dividend of 1.6350 pence per ordinary share for the period from 1 January 2022 to 31 March 2022 and was paid on 20 May 2022.

On 16 August 2022, the Company declared an interim dividend of 1.6350 pence per share for the period from 1 April 2022 to 30 June 2022 and was paid on 9 September 2022.

On 21 October 2022, The Company declared an interim dividend of 1.6350 pence per share for the period 1 July 2022 to 30 September 2022 and was paid on 24 November 2022.

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 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 2022 £'000	As at 31 December 2021 £'000
Opening value	459,442	418,788
Property additions	69,217	26,900
Property disposals[1]	(2,495)	(1,368)
Acquisition costs capitalised	2,591	1,311
Capital improvements	11,826	915
Revaluation movement	(8,102)	12,896
Closing value per independent valuation report	**532,479**	**459,442**
Guaranteed rent reviews debtor	(28,112)	(21,788)
Lease incentive debtor	(2,519)	(2,660)
Rent premium creditor	2,470	2,641
Closing fair value per Consolidation statement of financial position	**504,318**	**437,635**

1 In 2022 the carrying value of disposals was £2,495,000 (2021: £1,368,000), this combined with the profit on disposal of £130,000 (2021: £308,000) makes up the total net proceeds shown in the Consolidated statement of cash flows.

During the year, the Group acquired an additional 12 assets. During the year the Group disposed of one property.

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

Change in fair value of investment properties

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Revaluation movement	(8,102)	12,896
Rental lease incentive[1]	141	(2,660)
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(6,495)	(6,016)
Change in fair value of investment properties	**(14,456)**	**4,220**

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.

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13. Investment property (continued)

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

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Rent received in advance of recognition[1]	5	170	143
Rent recognised in advance of receipt[2]	5	6,324	5,873
Rental income arising from recognising rental premium and future guaranteed rent uplifts		**6,494**	**6,016**

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

Initial yields range from 3.75% to 12.50% across the portfolio, the EPRA "topped-up" net initial yield for the portfolio was 6.98% as at 31 December 2022. ERVs range from £73k to £1,238k across the portfolio.

A 0.25% movement of the valuation yield would have approximately a £18.2 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £5.3 million impact on the investment property valuation.

Fair value hierarchy

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

- Level 1 – unadjusted quoted prices in active markets;
- Level 2 – observable inputs other than quoted prices included within level 1; and
- Level 3 – unobservable inputs.

13. Investment property (continued)

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 2022	504,318	–	–	504,318
Investment properties	31 December 2021	437,635	–	–	437,635

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

14. Trade and other receivables

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current		
Rent recognised in advance of receipt	28,112	21,788
Rental lease incentive	2,519	2,660
Loan receivable[1]	37,500	37,500
	68,131	**61,948**
Current		
Loan interest receivable[1]	–	70
Loan associated costs	671	748
Prepayments	510	739
	1,181	**1,557**
	69,312	**63,505**

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).

No impairment losses have been recognised during the year (refer to note 19).

15. Cash and cash equivalents

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Cash and cash equivalents	**22,531**	**13,261**

Included as part of cash and cash equivalents is restricted cash of £14.7m (2021: nil). 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.

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16. Trade and other payables

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current		
Rent received in advance of recognition	2,471	2,641
Put option	1,811	–
Current		
Trade and other payables	3,420	2,859
Interest payable	1,149	474
Withholding tax payable – (PID Dividends)	609	505
Rental received in advance	1,949	1,427
Rental deposits	443	443
Capital improvements payable	1,556	995
	9,126	6,703
	13,408	**9,344**

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 bears 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, gives 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 becomes 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 is considered to be a substantive condition to be met before the options will be exercisable and therefore management do not consider there is any present ownership interest in the property company which may be acquired at a future date. The fair value of the option reflects the underlying investment properties, offset by loan and interest due at the balance sheet date. The investment properties have been valued on the same basis as the Group's investment property (see note 3 for further detail).

17. Borrowings

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
At the beginning of the year	114,548	76,370
Borrowings drawn in the year	85,074	92,685
Borrowings repaid in the year	(57,362)	(54,507)
Total bank borrowings drawn[1]	**142,260**	**114,548**

1 Total bank borrowings drawn are equal to its fair value

As at 31 December 2022, the Group had £241 million (2021: £168 million) of available facilities of which £98.7 million was undrawn (2021: £53.4 million).

17. Borrowings (continued)

The Group signed a £50 million five-year loan facility with Metro Bank PLC (the "Metro Facility") on 15 June 2018; this facility terminates on 15 June 2023. The Metro Facility initially had two elements: a term loan of £25 million (the "Term Loan") and a revolving credit facility of £25 million (the "RCF"). During 2022, the Group cancelled its RCF. As at 31 December 2022, the balance of the Term Loan was £15 million (31 December 2021: £15 million) and the cancelled RCF £nil (31 December 2021: £7.3 million).

The Metro Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five-year Term Loan can be repaid without penalty. The loan is secured against a portfolio of 16 care homes (2021: 38) held in wholly owned Group companies (Impact Property 1 Limited (IP1) and Impact Property 2 Limited (IP2)). These assets had a closing value per the independent valuation report of £53.9 million as at 31 December 2022 (2021: £109.4 million). The change in value from 2021 to 2022 is primarily driven by the removal of assets from the security pool upon the cancellation of the RCF portion of the loan facility. The lender also holds charges over the shares of the subsidiaries and intermediate holding companies.

On 23 December 2022, the Group agreed a seven-year revolving credit facility of £50 million (the "Clydesdale Facility") with Clydesdale Bank PLC ("Clydesdale"), replacing the £25 million revolving credit facility previously secured with Clydesdale which was due to expire in 2024; this facility terminates on 23 December 2029. In 2022, the Group drew down £12 million (2021: £5 million) from the Clydesdale Facility and repaid £5 million (2021: £5 million). As at 31 December 2022, the Group had drawn £17 million (2021: £10 million) from the Clydesdale Facility.

The Clydesdale Facility has a margin of 200 basis points over SONIA and is secured against a portfolio of 23 properties (2021: 15), 20 of which are held in a wholly owned Group company (Impact Property 3 Limited (IP3)). These assets had a closing value per the independent valuation report of £110.9 million as at 31 December 2022 (2021: £68.7 million).

On 6 April 2020, the Group secured a three-year revolving credit facility of £50 million (the "HSBC Facility") with HSBC UK Bank Plc ("HSBC") with two one-year extension options, subject to HSBC approval. On 31 October 2022, the HSBC Facility was amended and restated to £75 million with a maturity in 2025 and a one-year extension option. The Group drew down £35 million (2021: £15 million) from the HSBC Facility and repaid £45 million (2021: £16 million) in 2022. As at 31 December 2022, the Group had drawn £10 million (2021: £20 million) from the HSBC Facility.

The HSBC Facility has a margin of 200 or 205 basis points over SONIA, depending on the loan to value ratio of the 34 properties (2021: 22) over which the Group has granted security to HSBC as security for the loan held in a wholly owned Group company (Impact Property 4 Limited (IP4)). These assets had a closing value per the independent valuation report of £146.8 million as at 31 December 2022 (2021: £114.1 million).

On 25 June 2021, the Group agreed a revolving credit facility of £26 million (the "NatWest Facility") with National Westminster Bank Plc ("NatWest"). The Group did not draw down (2021: £25 million) from the NatWest Facility and made no repayments (2021: £nil) in 2022. As at 31 December 2022, the Group had drawn £25.3 million (2021: £25.3 million) from the NatWest Facility.

The three-year NatWest Facility has a margin of 190 basis points per annum over SONIA and is secured against a portfolio of 16 properties (2021: 16) which are held in a wholly owned Group company (Impact Property 7 Limited (IP7)). These assets had a closing value per the independent valuation report of £64.7 million as at 31 December 2022 (2021: £61.2 million).

On 21 December 2021, the Group agreed a long-term debt financing in the form of senior secured notes of £75 million with two large institutional investors. The Group issued £75 million of senior secured notes ("Notes"), comprising two tranches with a weighted average coupon of 2.967%, and a weighted average maturity of 14 years. The first tranche comprises of £37 million of Notes at a fixed coupon of 2.932% which were issued on 21 December 2021 and mature in December 2035. The second tranche comprises of £38 million of Notes at a fixed coupon of 3.002% which were issued on 20 June 2022 and mature in June 2035. The debt is secured over a portfolio of 21 care homes (2021: 14) held in a wholly owned Group company (Impact Property 8 Limited (IP8)). These assets had a closing value per the independent valuation report of £128.9 million as at 31 December 2022 (2021: £82.5 million). The debt has been guaranteed by Impact Healthcare REIT plc.

17. Borrowings (continued)

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

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

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

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Borrowings drawn	**142,260**	**114,548**
Arrangement fees – brought forward	(3,641)	(2,157)
Arrangement fees incurred during the year	(2,628)	(2,444)
Amortisation of loan arrangement fees	1,205	960
Borrowings at amortised cost	**137,196**	**110,907**
Borrowings at amortised cost due within one year	*14,814*	–
Borrowings at amortised cost due after one year	*122,382*	*110,907*

Maturity analysis of borrowings:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Repayable within one year	15,000	–
Repayable between one and two years	25,260	22,286
Repayable between two and five years	10,000	55,262
Repayable in over five years	92,000	37,000
Total	**142,260**	**114,548**

The weighted average term of the Group's committed facilities is 6.3 years (2021: 4.7 years).

18. Interest rate derivatives

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
At the beginning of the year	94	7
Change in fair value of interest rate derivatives	381	87
Payments received on interest rate derivative	(112)	–
	363	**94**

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

At 31 December 2022, the Group had loans of £67.3 million (2021: £77.5 million) which were exposed to interest rate risk.

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 2022 £'000	As at 31 December 2021 £'000
Financial assets at amortised cost:		
Loan receivable	37,500	37,570
Cash and cash equivalents	22,531	13,261
Financial assets at fair value:		
Interest rate derivative	363	94
Financial liabilities at amortised cost:		
Borrowings	137,196	110,907
Trade and other payables	6,568	4,711
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* £'000	Level 2* £'000	Level 3* £'000
Assets measured at fair value:					
Interest rate derivative	31 December 2022	–	–	363	–
Interest rate derivative	31 December 2021	–	–	94	–
Financial liabilities at fair value:					
Put option	31 December 2022	–	–	–	1,811
Put option	31 December 2021	–	–	–	–

* 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 an increase of £112,660 (2021: £66,310) or a decrease of £112,660 (2021: £66,310) in interest receivable for the year.

19. Financial instruments and financial risk management (continued)

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group has entered into an interest rate derivative to reduce its exposure to interest rate risk on its Metro floating-rate term 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 an increase of £211,300 (2021: £447,740) or a decrease of £211,300 (2021: £447,740) 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 2022.

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

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

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

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

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

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 6.54 pence per share for the year ended 31 December 2022 and its target aggregate dividend of 6.41 pence per share for the year ended 31 December 2021.

As at 31 December 2022, 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 £98.7 million RCF facilities available from which it can draw.

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

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 2020	**318,953,861**	**3,189**	**271,362**	**24,077**	**298,628**
Share issue	31,690,327	317	35,017	–	35,334
Share issue costs	–	–	(707)	–	(707)
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**

The Company had 404,764,328 shares of nominal value of 1 pence each in issue at the end of the year (2021: 350,644,188).

On 21 February 2022, the Company issued 35,087,720 ordinary shares at a price of 1.14 pence per ordinary share raising gross proceeds of £40,000,000.

On 8 July 2022, the Company issued a further 19,032,420 ordinary shares at a price of 1.17 pence per ordinary share raising gross proceeds of £22,267,931.

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 2022 £'000	Year ended 31 December 2021 £'000
Amounts payable to Impact Health Partners LLP		
Net fee	4,581	3,858
Gross fee	**4,581**	**3,858**

For the year ended 31 December 2022, 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. A trade receivable of £nil was outstanding at the year end (2021: £nil).

During the year the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £723,130 (2021: £701,160); Andrew Cowley £91,871 (2021: £74,140) and David Yaldron £7,975 (2021: £5,319).

Directors' interests
Paul Craig is a director of the Company. He was also the portfolio manager at Quilter Investors, which has an interest in 66,923,191 ordinary shares of the Company through funds under management. The remaining directors who are shareholders in the Company do not hold significant interest in the ordinary share capital of the Company.

During the year the directors, who are considered key management personnel, received the following dividends from the Company: Rupert Barclay £11,927 (2021: £11,694); Rosemary Boot £1,952 (2021: £1,914); Chris Santer £920 (2021: £201) and Philip Hall £1,952 (2021: £1,914). In addition, funds which were managed by Paul Craig received dividends from the Company of £4,089,458 (2021: £3,582,078).

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 2022, the Group leased 59 properties to MCGL (2021: 60), all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In 2022, the Group entered into no new leases with MGCL (2021: one new lease at a rent of £414,000) and disposed of one property let to MCGL to a third party, the lease, which was subject to annual rent of £278,661, was cancelled with 15 years remaining (2021: disposed of no properties). In 2021, the Group paid a performance-related deferred payment on one property of £2.0 million in return for a £160,000 increase in rent. In 2022, the Group spent £0.8 million on approved capital expenditure, which was rentalised at 8% (2021: £0.2 million). These transactions were fully compliant with the Company's related party policy.

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 2022 £'000	As at 31 December 2021 £'000
Net assets per Consolidated statement of financial position	445,920	394,244
Fair value of derivatives	(363)	(94)
EPRA NTA	445,557	394,150
Issued share capital (number)	404,764,328	350,644,188
Basic NAV per share	**110.17p**	**112.43p**
EPRA NTA per share	**110.08p**	**112.41p**

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 2022 £'000	As at 31 December 2021 £'000
Year one	40,477	33,281
Year two	41,125	33,904
Year three	41,901	34,538
Year four	42,509	35,034
Year five	43,270	35,693
Onwards	762,841	612,974
Total	**972,123**	**785,424**

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022

25. Reconciliation of liabilities to cash flows from financing activities

	Notes	Borrowings £'000	Interest rate derivative £'000	Interest payable £'000	Total £'000
As at 1 January 2021		**74,213**	**(7)**	**377**	**74,583**
Cash flows from financing activities:					
Borrowings drawn	17	92,685	–	–	92,685
Borrowings repaid	17	(54,507)	–	–	(54,507)
Loan arrangement fees paid	17	(1,844)	–	–	(1,844)
Interest and commitment fees paid		–	–	(2,294)	(2,294)
Non-cash movements:					
Amortisation of loan arrangement fees	17	960	–	–	960
Fair value movement	18	–	(87)	–	(87)
Loan arrangement fees accrued		(600)	–	–	(600)
Interest and commitment charge	9	–	–	2,391	2,391
As at 31 December 2021		**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	17	(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	9	–	–	4,584	4,584
As at 31 December 2022		**137,196**	**(363)**	**1,149**	**137,982**

26. Capital commitments

At 31 December 2022, 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 £9.2 million (2021: £19.8 million).

The Group has committed to deferred payment agreements on two acquisitions in return for increased rent based on trading performance. As at 31 December 2022, the total capital commitment for these deferred payments is estimated at £4.6 million (2021: £6.5 million).

27. Controlling parties

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

28. Subsequent events

In January 2023, the Group invested in six care homes in Shropshire and Cheshire, for consideration of £56.0 million. 80% (£44.8 million) of the consideration was paid in cash with the remainder paid in shares issued at 116.62 pence per share, which was the last reported NAV. This investment has been made via a loan to the operator to acquire the portfolio, where the Group has an option to acquire for £1 consideration. These properties will be leased to an existing tenant, Welford, for an initial annual rent of £3.9 million.

In January 2023, the Group purchased an interest rate option for £1.5 million, which caps SONIA at 3.0% for two years on £50 million.

In February 2023, the Group exchanged contracts to sell a non-core care home for £1.25 million, in line with the latest valuation as at 31 December 2022. As part of the sale the Group entered into a lease surrender with the incumbent tenant, Minster.

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

(i) on 3 March 2023, in relation to six assets let to Silverline;

(ii) on 7 March 2023, in relation to a portfolio of 57 assets let to Minster and Croftwood;

(iii) on 10 March 2023, in relation to three assets let to MMCG;

(iv) on 21 January 2023 and 16 March 2023, in relation to two assets let to Prestige;

(v) on 18 March 2023, in relation to two assets let to the NHS; and

(vi) on 7 February 2023, in relation to two assets let to Electus.

Rent reviews were linked to the annual RPI over the 12 months up to the rent review date, with a floor of 2% and a cap of 4% for Minster, Croftwood, Prestige, Silverline, MMCG and Electus. The two properties let to the NHS had an annual consumer price index-linked rent review. These rent reviews have contributed £0.8 million to annual contracted rent.

The Group has paid £0.3 million of capital expenditure in relation to £9.2 million of committed capital expenditure outstanding as at 31 December 2022.

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

Company statement of financial position

As at 31 December 2022

Company Registration Number: 10464966

	Notes	31 December 2022 £'000	31 December 2021 £'000
Non-current assets			
Investment in subsidiaries	6	430,079	392,486
Total non-current assets		**430,079**	**392,486**
Current assets			
Trade and other receivables	7	18,862	7,828
Cash and cash equivalents	8	283	10,336
Total current assets		**19,145**	**18,164**
Total assets		**449,224**	**410,650**
Current liabilities			
Trade and other payables	9	(11,720)	(25,490)
Total liabilities		**(11,720)**	**(25,490)**
Total net assets		**437,504**	**385,160**
Equity			
Share capital	10	4,048	3,506
Share premium reserve	10	365,642	305,672
Capital reduction reserve	10	24,077	24,077
Retained earnings		43,737	51,905
Total equity		**437,504**	**385,160**

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 2022 amounted to £17,556,000 (2021: profit of £36,504,000).

The financial statements were approved and authorised for issue by the board of directors on 27 March 2023 and are signed on its behalf by:

Rupert Barclay Chairman

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

Company statement of changes in equity

For the year ended 31 December 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**

For the year ended 31 December 2021

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

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

Notes to the Company financial statements
For the year ended 31 December 2022

1. Basis of preparation

General information
The financial statements for the year ended 31 December 2022, 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 2021.

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

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

- A reconciliation of the number of shares outstanding at the beginning and end of the period has not been presented as the reconciliations of the Group and the parent company would be identical;
- No statement of cash flows has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- The requirement to present related party disclosures between the Company and fellow subsidiaries where ownership is all 100%; and
- No disclosures have been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

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

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2022

2. Significant accounting judgements, estimates and assumptions

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

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

3. Summary of significant accounting policies

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

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

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

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

Dividends
Dividends are recognised when they become legally payable.

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

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

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

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

4. Taxation

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

Tax charge included in total comprehensive income:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
UK corporation tax	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2022

5. Dividends

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

6. Investment in subsidiaries

	31 December 2022 £'000	31 December 2021 £'000
At the beginning of the year	392,486	369,371
Additions	93,425	210,135
Impairment	(55,832)	(187,020)
At the end of the year	**430,079**	**392,486**

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ("Propco 1")*	Real Estate Investment	England and Wales	100
Impact Property 2 Limited ("Propco 2")*	Real Estate Investment	England and Wales	100
Impact Property 3 Limited ("Propco 3")*	Real Estate Investment	England and Wales	100
Impact Property 4 Limited ("Propco 4")*	Real Estate Investment	England and Wales	100
Impact Property 5 Limited ("Propco 5")*	Real Estate Investment	England and Wales	100
Impact Property 6 Limited ("Propco 6")*	Real Estate Investment	England and Wales	100
Impact Property 7 Limited ("Propco 7")*	Real Estate Investment	England and Wales	100
Impact Property 8 Limited ("Propco 8")*	Real Estate Investment	England and Wales	100
Impact Property 9 Limited ("Propco 9")*	Real Estate Investment	England and Wales	100
Impact Finance 1 Limited ("Finance 1")*	Financing company	England and Wales	100
Impact Finance 2 Limited ("Finance 2")*	Financing company	England and Wales	100
Impact Finance 3 Limited ("Finance 3")*	Financing company	England and Wales	100
Impact Finance 4 Limited ("Finance 4")*	Financing company	England and Wales	100
Impact Finance 5 Limited ("Finance 5")*	Financing company	England and Wales	100
Impact Finance 6 Limited ("Finance 6")*	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*#	Property holding company	England and Wales	100
Sandbanks Property Redcar Limited*#	Property holding company	England and Wales	100
Cardinal Healthcare (UK) Ltd*#	Property holding company	England and Wales	100
Cholwell Care (Nailsea) Limited*#	Property holding company	England and Wales	100
Barham Care Centre Limited*#	Property holding company	England and Wales	100
Baylham Care Centre Limited*#	Property holding company	England and Wales	100
Butterfly Cumbria Properties Limited*	Property holding company	England and Wales	100
The Holmes Care Holdings Limited*#	Property holding company	England and Wales	100
Hollyblue Healthcare (Countrywide) Limited*#	Property holding company	England and Wales	100
Hollyblue Healthcare (Ulster) Limited*#	Property holding company	England and Wales	100
Tower Bridge Homes Care Limited*#	Property holding company	England and Wales	100
The Holmes Care Group GB Limited*#	Property holding company	England and Wales	100
Beeley (Holdings) Limited*#	Property holding company	England and Wales	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2022

6. Investment in subsidiaries (continued)

	Principal activity	Country of incorporation	Ownership %
Hillcrest House Limited*	Property holding company	England and Wales	100
Springhill Properties (No.1) Limited*#	Property holding company	England and Wales	100
Carlton Hall (Lowestoft) Limited*	Property holding company	England and Wales	100
Abingdon Manor Care Centre Limited*	Property holding company	Northern Ireland	100
Larne Care Centre Limited*	Property holding company	Northern Ireland	100
Larne C C Limited*	Property holding company	Northern Ireland	100
Eastleigh Care Group Limited*	Property holding company	England and Wales	100
Woodleigh Christian Care Home Limited*	Property holding company	England and Wales	100
Welford Bidco 2 Midco Limited*	Investment holding company	England and Wales	100
Welford Bidco 4 Midco Limited*	Investment holding company	England and Wales	100

* As at 31 December 2022 these entities were held indirectly by the Company.
\# As at 31 December 2022 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

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

7. Trade and other receivables

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Loan to Group companies	18,658	7,766
Prepayments	204	62
	18,862	**7,828**

As at 31 December 2022, there were no trade receivables past due or impaired (2021: none). Loans to subsidiaries are interest free, repayable on demand and management expect them to be settled within the next 12 months.

8. Cash and cash equivalents

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Cash and cash equivalents	**283**	**10,336**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2022

9. Trade and other payables

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Loan from Group companies	9,977	23,954
Trade and other payables	1,743	1,536
	11,720	**25,490**

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

10. Share capital, share premium and capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and are included in note 21 to the consolidated financial statements.

11. Transactions with related parties

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

See note 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 (2021: nil).

13. Contingent liabilities

On 21 December 2021, the Company guaranteed a long-term loan note issue made by its wholly owned subsidiary. The loan notes total £75 million 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.

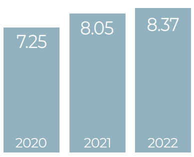
Additional information

EPRA performance measures (unaudited)

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

1. EPRA earnings per share

£32.6m
8.37p **per share**
for the year to 31 December 2022
(for the year to 31 December 2021: £27.4m/8.05p)

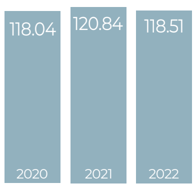


Definition
Earnings from operational activities. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives, but includes rent smoothing.

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

2.1 EPRA net reinstatement value ("NRV")

£479.7m
118.51p **per share**
for the year to 31 December 2022
(for the year to 31 December 2021: £423.7m/120.84p per share)

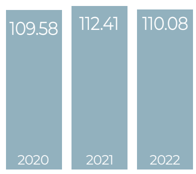


Definition
Net asset value adjusted for fair value of derivatives and transaction costs under the assumption they will not crystallise if the company never sells assets.

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

2.2 EPRA net tangible assets ("NTA")

£445.6m
110.08p **per share**
for the year to 31 December 2022
(for the year to 31 December 2021: £394.2m/112.41p per share)



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

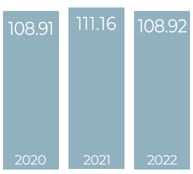
Purpose
This represents the value of the company assuming assets are bought and sold.

EPRA PERFORMANCE MEASURES (UNAUDITED)

2.3 EPRA net disposal value ("NDV")

£440.9m
108.92p **per share**

for the year to 31 December 2022 (for the year to 31 December 2021: £398.8m/111.16p per share)



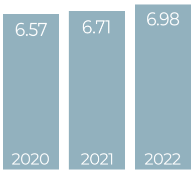
Definition
Net asset value adjusted to align borrowings to their drawn amount. If the company was in an immediate disposal scenario certain assets and liabilities are adjusted to show the full value if not held to maturity.

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

3.1 EPRA Net Initial Yield ("NIY")

6.98%

for the year 31 December 2022 (for the year to 31 December 2021: 6.71%)



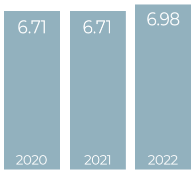
Definition
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.

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

6.98%

for the year to 31 December 2022 (for the year to 31 December 2021: 6.71%)



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

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

EPRA PERFORMANCE MEASURES (UNAUDITED)

4. EPRA vacancy rate

0.00%

for the year to 31 December 2022 (for the year to 31 December 2021: 0.00%)

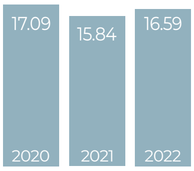
Definition
Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.

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

5. EPRA cost ratio

16.59%

for the year to 31 December 2022 (for the year to 31 December 2021: 15.84%)



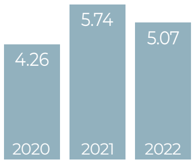
Definition
Administrative and operating costs (including, and excluding, direct vacancy costs) divided by gross rental income.

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 15.4%.

6. Like-for-like rental growth

5.07%

for the year to 31 December 2022 (for the year to 31 December 2021: 5.74%)



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.

Notes to the EPRA performance measures (unaudited)

For the year ended 31 December 2022

1. EPRA earnings per share

	31 December 2022 £'000	31 December 2021 £'000
Total comprehensive income (attributable to shareholders)	**16,888**	**31,968**
Adjusted for:		
Profit on disposal of investment property	(130)	(308)
Change in fair value of put option	1,811	–
Change in fair value of investment properties	8,103	(12,896)
Rental lease incentives	(141)	2,660
Rental income arising from recognising guaranteed rent uplifts and rental premiums	6,494	6,016
	16,137	(4,528)
Change in fair value of interest rate derivatives	(381)	(87)
Profits to calculate EPRA earnings per share	**32,644**	**27,353**
Weighted average number of ordinary shares (basic and diluted)	390,058,661	339,761,521
EPRA earnings per share – basic and diluted	**8.37p**	**8.05p**

2. EPRA NAV measures

The updated EPRA best practice recommendations, released in October 2020, give three new NAV metrics: EPRA net reinstatement value ("NRV"), EPRA net tangible assets ("NTA") and EPRA net disposal value ("NDV") to replace the previously reported EPRA NAV and EPRA NNNAV. NRV aims to show the value of assets on a long-term basis, adjusting for items that would not be expected to crystallise under normal circumstances, NTA is calculated on the basis that assets are bought and sold whilst NDV intends to show shareholders the value of assets and liabilities in the event they cannot be held until maturity. The Group has adopted NTA as its primary EPRA NAV measure as it most closely aligns with the Group's business practices.

As at 31 December 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 NAV 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 NAV measure)	**118.51p**	**110.08p**	**108.92p**

NOTES TO THE EPRA PERFORMANCE MEASURES (UNAUDITED)
For the year ended 31 December 2022

2. EPRA NAV measures (continued)

As at 31 December 2021:

	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
Net assets at end of year	**394,244**	**394,244**	**394,244**
Exclude:			
Fair value of derivatives	(94)	(94)	–
Include:			
Fair value of debt[1]	–	–	(4,471)
Transaction costs[2]	29,581	–	–
Net assets (per EPRA NAV measure)	**423,731**	**394,150**	**389,773**
Shares in issue at 31 December (basic and diluted)	350,644,188	350,644,188	350,644,188
Net assets per share (per EPRA NAV measure)	**120.84p**	**112.41p**	**111.16p**

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 2022 £'000	31 December 2021 £'000
Investment property – wholly owned	**532,478**	**459,442**
Less capital improvements under construction	(7,535)	(5,614)
Completed property portfolio	**524,943**	**453,828**
Allowance for estimated purchasers' cost[1]	33,071	28,591
Gross up completed property portfolio valuation (B)	**558,014**	**482,419**
Annualised cash passing rental income	38,932	32,353
Property outgoings (non-recoverable insurance)	–	–
Annualised net rents (A)	**38,932**	**32,353**
Add:		
Contractual uplifts on rent-free periods of funded capital improvements	–	–
Topped-up net annualised rent (C)	**38,932**	**32,353**
EPRA net initial yield (A/B)	**6.98%**	**6.71%**
EPRA topped-up net initial yield (C/B)	**6.98%**	**6.71%**

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

NOTES TO THE EPRA PERFORMANCE MEASURES (UNAUDITED)
For the year ended 31 December 2022

4. EPRA vacancy rate

	31 December 2022 £'000	31 December 2021 £'000
Estimated rental value of vacant space	–	–
Estimated rental value of the whole portfolio	39,476	30,277
EPRA vacancy rate	**0.00%**	**0.00%**

5. EPRA cost ratio

	31 December 2022 £'000	31 December 2021 £'000
Administrative and other expenses	7,008	5,766
Net service charge cost	–	–
Total costs including and excluding vacant property costs	7,008	5,766
Gross rental income	42,243	36,398
Total EPRA cost ratio (including, and excluding, direct vacancy costs)	**16.59%**	**15.84%**

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 2020.

	Rent £'000	Market value £'000
Property portfolio as at 31 December 2020	28,713	413,338
Inflation-linked rental uplifts	740	
Rental uplifts in return for capital improvements or deferred payments	932	
Increase/(decrease) due to vacancy rate	–	
Property portfolio as at 31 December 2021	**30,385**	**426,867**
Inflation-linked rental uplifts	1,273	
Rental uplifts in return for capital improvements or deferred payments	269	
Increase/(decrease) due to vacancy rate	–	
Property portfolio as at 31 December 2022	**31,926**	**428,104**

All properties operate within the same sector, UK healthcare.

Alternative performance measures

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

1. Total expense ratio ("TER")

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening NAV	394,244	349,521
Closing NAV	445,919	394,244
Average NAV for the year	420,082	371,883
Administrative expenses	7,008	5,766
One-off costs	–	–
Recurring expenses	7,008	5,766
TER	**1.67%**	**1.55%**

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 2022	Year ended 31 December 2021
Opening NAV per share (pence)	112.43	109.58
Closing NAV per share (pence)	110.17	112.43
NAV growth for the year (pence)	(2.26)	2.85
Dividends per share paid in the year (pence)	6.51	6.38
Total return (pence)	4.25	9.23
Total accounting return	**3.78%**	**8.42%**

ALTERNATIVE PERFORMANCE MEASURES

3. Gross loan to value ("LTV")

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

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Gross debt	142,260	114,548
Gross assets	596,524	514,495
LTV	**23.85%**	**22.26%**

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 2022 £'000	As at 31 December 2021 £'000
Portfolio valuation	532,478	459,442
Investments in properties via loans to operators	36,360	37,500
Property Investments	**568,838**	**496,942**

Our portfolio

At 31 December 2022, 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 2022: £13.6m				
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	75	
Old Prebendal House and Court	South East	Jun 2019	39	
Riverwell Beck	North West	Dec 2020	60	+6
Sovereign Court and Lodge[4]	North East	Aug 2018	60	
The Grove	North East	Sep 2018	57	
Value at 31 December 2022: £33.2m				
Carlton Hall				
Carlton Hall	East of England	Sep 2021	86	
Oasis Development Site	East of England	Sep 2021	–	+80
Value at 31 December 2022: £13.4m				
Croftwood Care*				
Ancliffe	North West		40	
Astbury Lodge	North West		41	
Croftwood	North West		47	
Crossways	North West		39	
Elm House	North West		40	
Florence Grogan	North West		40	
Garswood	North West		53	
Gleavewood	North West		32	
Golborne House	North West		40	
Greenacres	North West		40	
Hourigan	North West		40	
Ingersley Court	North West		46	
Lakelands	North West		40	
Leycester House	North West		40	
Loxley Hall	North West		40	+5
Lyndhurst	North West		40	
New Milton House	North West		39	
Parklands	North West		40	
The Cedars	North West		27	
The Elms	North West		41	
The Hawthorns	North West		39	
The Laurels	North West		40	
Thorley House	North West		40	
Turnpike Court	North West		53	
Wealstone	North West		42	
Westhaven	North West		52	
Whetstone Hey	North West		42	
Value at 31 December 2022: £69.3m				

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
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 2022: £22.0m				
Holmes Care Group				
Alexander House[5]	Scotland	Dec 2021	44	
Almond Court	Scotland	Aug 2020	42	
Almond View	Scotland	Aug 2020	78	
Bankview (&BVDC)	Scotland	Aug 2020	65	
Barrogil House[5]	Scotland	Dec 2021	40	
Beechwood	Scotland	Aug 2020	90	
Camilla[5]	Scotland	Dec 2021	42	
Craigie House[5]	Scotland	Dec 2021	30	
Cragielea	Scotland	Aug 2020	85	
Fernlea House[5]	Scotland	Dec 2021	38	
Finavon Court[5]	Scotland	Dec 2021	24	
Grandholm	Scotland	Aug 2020	79	
Heatherfield	Scotland	Aug 2020	60	
Larkfield	Scotland	Aug 2020	90	
Lomond View[5]	Scotland	Dec 2021	50	
Methven House[5]	Scotland	Dec 2021	62	
Preston House[5]	Scotland	Dec 2021	64	
Roselea House[5]	Scotland	Dec 2021	20	
Three Towns	Scotland	Aug 2020	60	
Walton House[5]	Scotland	Dec 2021	40	
Willow House[5]	Scotland	Dec 2021	40	
Value at 31 December 2022: £89.3m				
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 2022: £34.4m				

1 May 2017 unless stated
2 Number of registered beds
3 Capital improvement bed additions under development
4 Treated as two properties
5 These assets were invested in via a loan
* Croftwood Care and Minster Care are both part of Minster Care Group

OUR PORTFOLIO

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
Minster Care*				
Abbeywell	West Midlands		45	
Amberley	South West		30	
Ashgrove	Yorkshire & The Humber		56	
Broadgate	East Midlands		40	
Carnbroe	Scotland	May 2018	74	
Craigend	Scotland		48	
Diamond House	East Midlands		74	
Duncote Hall	East Midlands		40	
Duncote, The Lakes	East Midlands		47	
Emmanuel	Yorkshire & The Humber		44	
Eryl Fryn	Wales		31	
Falcon House	East Midlands		46	
Freeland House	South East		111	
Gray's Court	East of England		87	
Grenville	East of England	May 2018	64	
Hamshaw Court	Yorkshire & The Humber		45	
Hillcrest	South West	Nov 2021	88	
Ideal	West Midlands		50	
Karam Court	West Midlands		47	
Littleport Grange	East of England		80	
Meadows & Haywain	East of England		65	
Mowbray	West Midlands		39	
Mulberry Manor	Yorkshire & The Humber		49	
Red Hill	West Midlands	Jan 2020	90	
Rydal	North East		60	
Saffron	East Midlands	Jun 2017	48	
Sovereign House	West Midlands		60	
Stansty House	Wales		74	
Three Elms	North West		60	
Waterside	West Midlands		47	
Woodlands Court	North West		40	
Wordsley	West Midlands		44	
Value at 31 December 2022: £134.4m				
NCUH NHS Trust				
Reiver House	North West	Jun 2019	–	
Surgical Unit	North West	Jun 2019	–	
Value at 31 December 2022: £4.1m				
Optima				
Barham	East of England	Aug 2019	44	
Baylham	East of England	Aug 2019	55	
Value at 31 December 2022: £15.0m				

Tenant and home	Region	Acquisition date[1]	Beds[2]	Capital projects[3]
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	
Value at 31 December 2022: £33.4m				
Renaissance Care				
Croftbank	Scotland	Nov 2018	68	
Rosepark	Scotland	Nov 2018	60	
Value at 31 December 2022: £12.9m				
Silverline				
Baillieston	Scotland	Aug 2022	60	
Cardonald	Scotland	Aug 2022	35	
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 2022: £18.5m				
Welford				
Argentum Lodge	South West	Sep 2019	56	
Baily House	East Midland	Jun 2022	66	
Birchlands	Yorkshire & The Humber	Jun 2019	54	
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	61	
Fairview Court and House[4]	South West	Mar 2018	73	+11
Mavern House	South West	Jan 2021	51	+8
St Peter's House	East of England	Dec 2020	66	
Vale View Heights Care Home	South West	Jun 2019	55	
Woodleigh Christian Care Home	East Midlands	Jun 2022	44	
Value at 31 December 2022: £75.3m				

1 May 2017 unless stated
2 Number of registered beds
3 Capital improvement bed additions under development
4 Treated as two properties
5 These assets were invested in via a loan
* Croftwood Care and Minster Care are both part of Minster Care Group

AIFM statement (unaudited)

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

Quantitative remuneration disclosure for the AIFM

Information in relation to the remuneration paid by the AIFM is available 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 2022.

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 82-85 of the annual report.

Please refer to page 60 for the board's assessment of the principal risks and uncertainties facing the Company. The AIFM has assessed the current risk profile of the Company to be low.

Leverage

The Group's maximum and actual leverage levels at 31 December 2022 are shown below:

Leverage exposure	Gross method	Commitment
Maximum limit	200.0%	200.0%
Actual	126.7%	131.8%

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 2022 was 23.85%.

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.	✓
No single customer paying for care provided in assets owned by the Group will account for more than 15% of the aggregate revenues of the tenants to whom the Group's assets are leased from time to time, measured at the time of acquisition.	✓
The annual contracted rent from any single tenant is not expected to exceed 40% of the total annual contracted rent of the Group, measured at the time of investment.	✓
The portfolio will be diversified by location across the UK with focus on areas where there is a good balance of supply and demand for the provision of care and assets are available at attractive valuations.	✓
Within these locations, the Group will acquire existing modern buildings or those that are currently considered fit for purpose by occupiers, but in respect of which the Investment Manager has developed a plan to add value to, and improve the environmental sustainability of, the asset through targeted capital expenditure.	✓
Leases granted by the Group will be linked to inflation, have long duration (with an unexpired lease term of at least 20 years) and will not be subject to break clauses. The Group will seek to amend any future leases acquired by the Group to obtain similar terms.	✓
The Group will not undertake speculative development (that is, development of property which has not been leased or preleased), subject to the limitation in the final bullet below, so as to reposition a home in its local market and thus to increase the rent due.	✓
The Group may invest in forward-funding agreements or forward commitments to pre-let developments, or as part of a structured acquisition of an asset, subject to the limitation in the final bullet below, where the Group will own the asset on the completion of the work, or has the ability to acquire the asset upon agreed conditions being satisfied.	✓
The gross budgeted development costs of any refurbishment, extension or replacement of existing holdings and/or forward funding and forward commitments, is limited to 25% of the Company's gross assets at the time of commitment.	✓

INVESTMENT POLICY

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

(i) 10% of its gross assets, at the time of investment, in non-residential Healthcare Real Estate Assets, such as properties which accommodate GP or dental practices and other healthcare-related services including occupational health and physiotherapy practices, pharmacies and hospitals or in non-healthcare-related residential assets attached to residential Healthcare Real Estate Assets;

(ii) 25% of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Company; and

(iii) 15% of its gross assets, at the time of investment, in other closed-ended investment funds listed on the Official List. The directors have no current intention to acquire non-residential Healthcare Real Estate Assets or indirect property investment funds.

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

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

(i) result in a breach of the conditions applying to the Company to hold real estate investment trust ("REIT") status or

(ii) result in any investment by the Group in assets located outside of the UK.

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

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

Glossary

Adjusted EPS: Adjusted Earnings per Share

Administrator: JTC (UK) Limited

AIC: Association of Investment Companies

AIFM: Alternative Investment Fund Manager

BDO: BDO LLP

BREEAM: Building Research Establishment Environmental Assessment Method

Capex: Capital Expenditure

CMA: Competitions and Markets Authority

Contracted rent: The annualised rent adjusting for rent due following rent-free periods and including post-tax income from interest received from property investments made via loans to operators for the acquisition of property portfolios

Contracted yield: Contracted rent divided by the independent market value of the portfolio

CQC: Care Quality Commission

CRREM: Carbon Risk Real Estate Monitor

EBITDARM: Earnings Before Interest Tax Depreciation Amortisation Rent and Management charges

EPC: Energy Performance Certificate

EPRA: European Public Real Estate Association

EPS: Earnings per Share

ESG: Environmental, Social and Governance

FCA: Financial Conduct Authority

GHG: Greenhouse gas

ICSA: The Chartered Governance Institute

Investment Manager: Impact Health Partners LLP

IBOR: InterBank Offered Rates

IPO: Initial Public Offering

LED: Light-Emitting Diode

LTV: Gross Loan to Value

Management Report: As defined by the FCA handbook and governed by DTR 4.1.8, incorporated within the Strategic report and Governance section of this annual report

MMCG: Maria Mallaband and Countrywide Group

NAV: Net Asset Value

NIY: Net Initial Yield

Premium Listing/Premium List: The transfer of our shares to the premium listing segment of the London Stock Exchange's main market and admitted to the premium listing segment of the FCA's Official List

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

RCF: Revolving Credit Facility

REIT: Real Estate Investment Trust

Rent cover: Total annual rent divided by EBITDARM for the year

RICS "Red Book": RICS Valuation – Current edition of the global and UK standards as at the valuation date

RPI: Retail Price Index

Seed Portfolio: Initial portfolio of 56 assets (including two option assets) acquired in May 2017

SONIA: Sterling OverNight Index Average

SPV: Special Purpose Vehicle

Total accounting return: The growth in NAV per share plus dividends paid expressed as a percentage of NAV per share at the beginning of the period

WAULT: Weighted Average Unexpired Lease Term

Corporate information

Directors

Amanda Aldridge Non-executive Director

Rupert Barclay Non-executive Chairman

Rosemary Boot Senior Independent Non-executive Director

Paul Craig Non-executive Director

Philip Hall Non-executive Director

Simon Laffin Non-executive Director and Chairman Designate *(from 1 January 2023)*

Chris Santer Non-executive Director

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Communications Adviser

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Company Registration Number

10464966

Website

www.impactreit.uk

Financial calendar

Announcement of full year results	28 March 2023
Annual General Meeting	17 May 2023
Half year end	30 June 2023
Announcement of half year results	August 2023
Full year end	31 December 2023

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