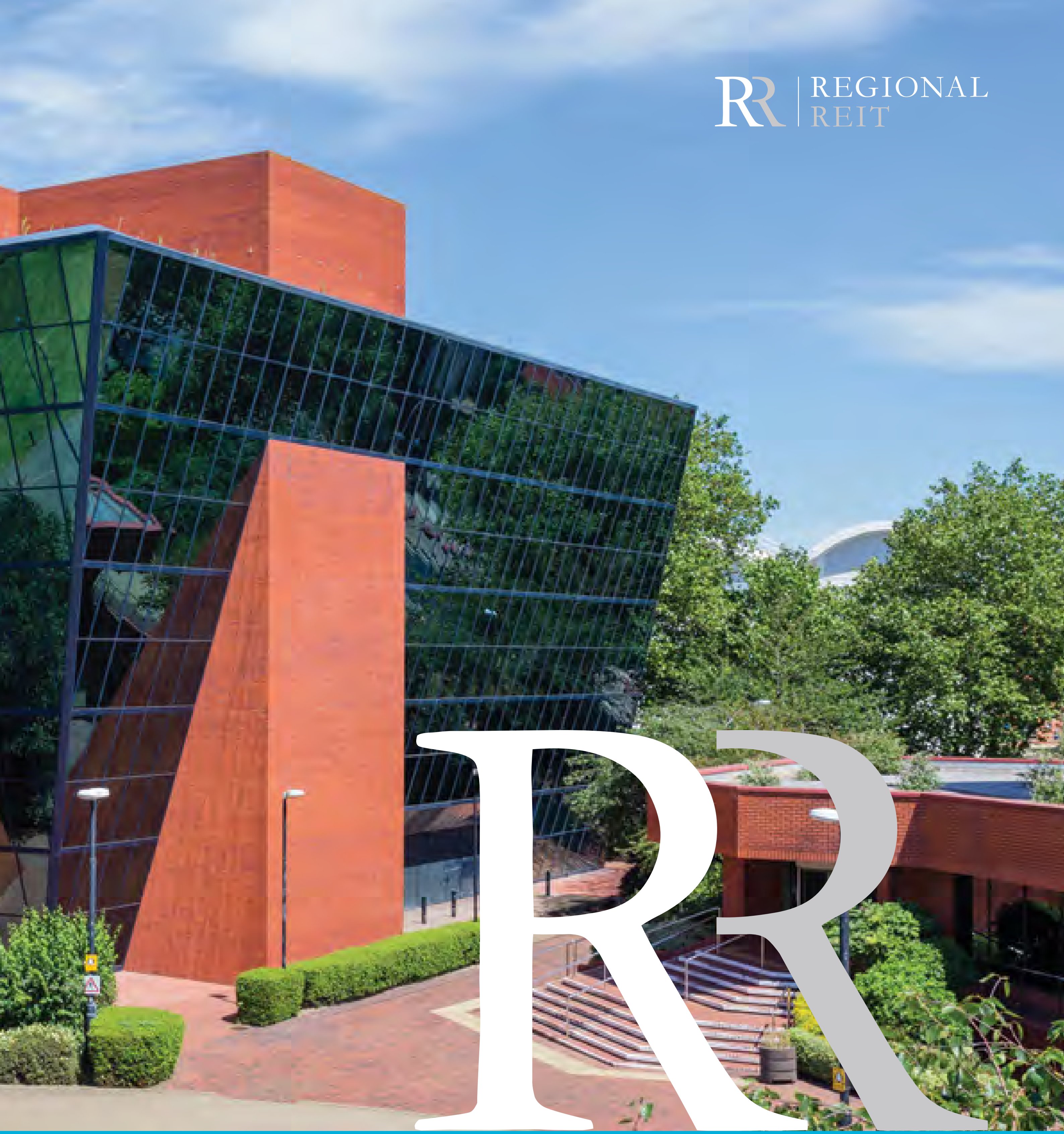


REGIONAL REIT

Annual Report and Accounts

for the year ended 31 December 2016

Contents

Cover photo: Buildings 2 & 3, HBOS Campus, Aylesbury

Who we are

Regional REIT Limited ("Regional REIT", or the "Company") and its subsidiaries[1] (the "Group), is a United Kingdom based real estate investment trust. Regional REIT is managed by London & Scottish Investments, the Asset Manager, and Toscafund Asset Management, the Investment Manager, and was formed from the combination of property funds previously created by the Managers.

Regional REIT's commercial property portfolio is wholly in the UK and comprises, predominantly, quality offices and industrial units located in the regional centres of the UK outside of the M25 motorway. The portfolio is highly diversified, with 123 properties, 941 units and 717 tenants as at 31 December 2016, with a valuation of £502.4m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional property assets. The Group offers investors a differentiated play on the recovery prospects of UK regional property. Regional REIT aims to deliver an attractive total return to its Shareholders, targeting 10-15% per annum, with a strong focus on income and good capital growth prospects.

Office

Tay House, Glasgow

Industrial

Wardpark Industrial Estate, Cumbernauld

Retail/Other

1-4 Llansamlet Retail Park, Swansea

For more information visit the Group's website at www.regionalreit.com

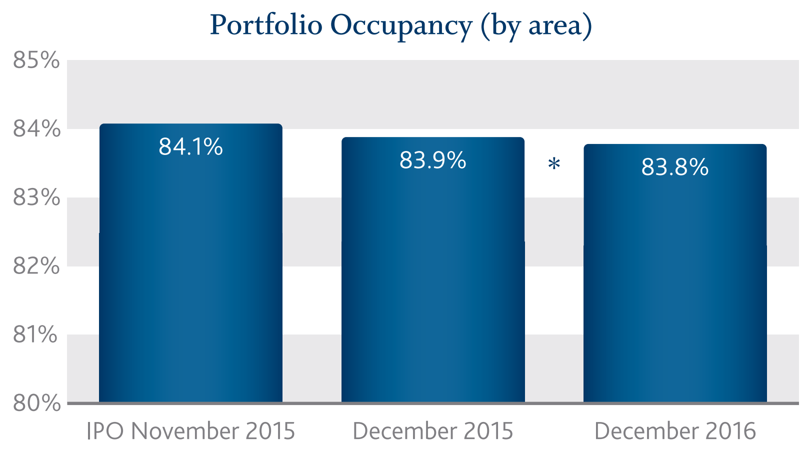
[1] Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of International Financial Reporting Standard ("IFRS") 10, 'Consolidated Financial Statements', as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). Unless otherwise stated, the text of this Annual Report does not distinguish between the activities of the Company and those of its subsidiaries.


Hampshire Corporate Park, Chandler's Ford

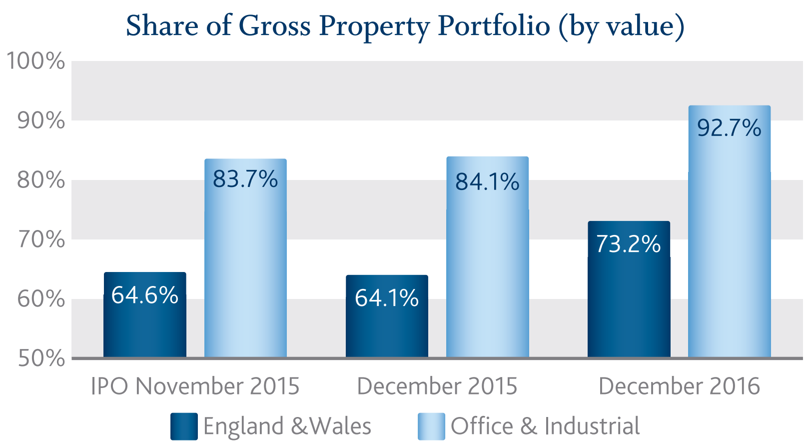
Operational Highlights *(1 January 2016 to 31 December 2016)*

Continued Build of Attractive Regional Commercial Property Portfolio

Property acquisitions	£133.6m, c. 8.6% net initial yield; including two major portfolios of £117.5m
Profitable property disposals	£44.9m net; c. 6.8% net initial yield
Active management building occupancy	83.8% as at 31 December 2016; from 80.9% (31 March 2016) after Wing/Rainbow acquisitions
Diversified portfolio	Office and industrial up to 92.7% (by value); England & Wales up to 73.2%
Share price outperformance	+2.9% vs. -11.6% FTSE EPRA NAREIT UK Index
Entry to the FTSE All Share Index	March 2016
Entry to the FTSE EPRA NAREIT Developed Europe Index	June 2016



* Occupancy of 80.9% (31 March 2016) post the acquisition of the Wing and Rainbow portfolios.



The Genesis Centre, Warrington

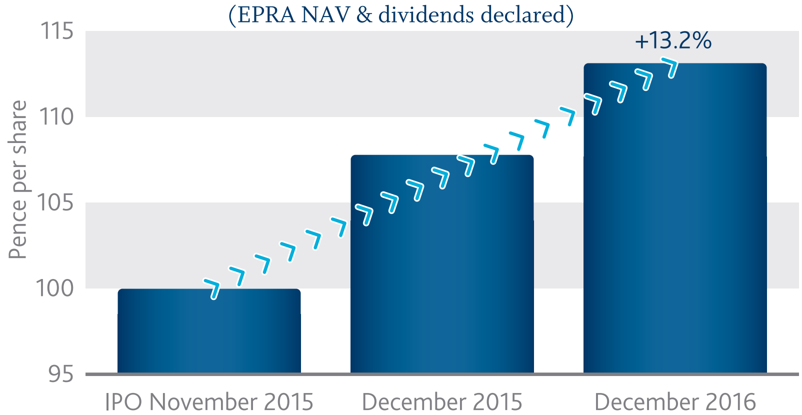
Financial Highlights *(1 January 2016 to 31 December 2016)*

Financial Position Secures Income

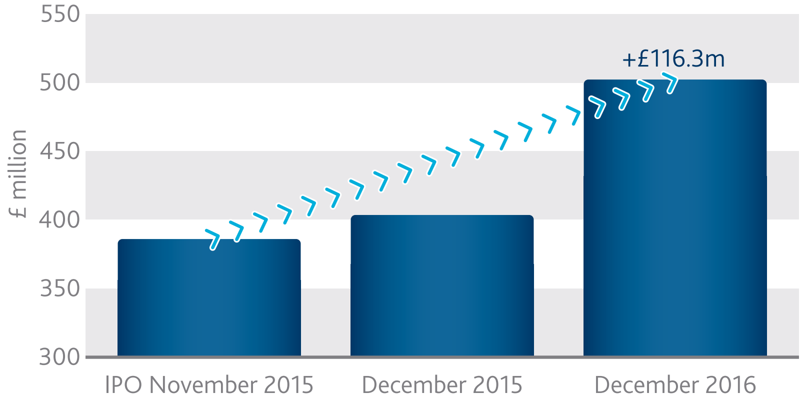
Dividends per share declared for 2016	7.65p
Dividends per share since Admission*	8.65p
EPRA Net Asset Value since Admission* (Admission*: 100p)	+6.9%
EPRA Total Return attributable to Shareholders since Admission*	+13.2%
Operating profit before gains and losses on property assets & other investments	£29.9m
Profit before tax	£13.4m
EPRA Cost Ratio for the year ended 31 December 2016	30.4%
Investment Properties Valuation as at 31 December 2016	£502.4m
Net Loan To Value	40.6%

* Admission: 6 November 2015.

Total Shareholder Return (from IPO)
(EPRA NAV & dividends declared)



Investment Properties Valuation



Group Milestones and History

2013

May
Launch of Tosca Commercial Property Fund I ("Fund I"). Fund managed by LSI and Toscafund

November
Fund I closed, having raised £155m

November
Fund I purchased £88m property debt portfolio

2014

July 2013 to July 2014
Fund I acquired £90.1m property portfolio

Rest of 2014
Fund II acquired £39.4m of property assets

August
Tosca Commercial Property Fund II ("Fund II") raised £106m. Fund managed by LSI and Toscafund. Fund acquired £128m property portfolio

2015

22 June
Company incorporated in Guernsey

30 June
Property assets valued at £386.1m

6 November
Regional REIT Limited, combining the existing Toscafund property funds, admitted to the Official List and to trading on the LSE along with the Placing of 80m existing shares. External management, London & Scottish Investments ("LSI"), the Asset Manager, and Toscafund Asset Management ("Toscafund"), the Investment Manager

December
Announced acquisition of a £37.5m regional office & industrial unit property portfolio (completed March 2016)

End December
123 properties, 712 units & 531 tenants

31 December
Regional REIT market capitalisation of £287.2m. Gross investment properties valued at £403.7m

2016

February
Announced acquisition of a £80m regional office & industrial unit property portfolio (completed March)

21 March
Entry to FTSE All Share Index

End March
Post acquisition, 130 properties, around 970 units & approx. 700 tenants. Gross investment properties of £507m

20 June
Entry to FTSE EPRA NAREIT Developed Europe Index

30 June
Gross property assets valued at £501.3m, 128 properties, 974 units & 719 tenants

20 September
Acquisition of £5.5m office portfolio ("Wallace")

End December
123 properties, 941 units & 717 tenants

31 December
Market capitalisation of £295.5m. Gross investment properties valued at £502.4m

2017

23 February
Announced conditional acquisition of c. £129m regional offices, industrial, retail & leisure property portfolio

Tay House, Glasgow

Chairman's Statement

The Chairman's Statement forms part of the Strategic Report.

"We have delivered to our Shareholders, since our IPO just over a year ago, an attractive total return including a significant dividend income. We have continued to build our investment in, predominantly, regional offices and industrial properties to provide a sustainable and consistent business base. The business environment remains positive for regional commercial property and our strategy remains consistent for the year ahead."

Kevin McGrath,
Chairman and Independent
Non-Executive Director

At the end of the Group's first full year of operations as a listed company it gives me great pleasure to report on our progress in delivering on our strategy and the commitments made at the time of our listing in November 2015. I am confident of the progress made in building our record of delivery: first, of significant acquisitions, asset management initiatives including disposals and reducing the cost of debt financing; and, secondly, in establishing the strength of our regional commercial property proposition and of the recurring income base. By the end of 2016, despite the turbulence in the sector during the year, the gross value of our Investment Properties had increased to £502.4m including like-for-like valuation growth of 2.25%.

In the course of 2016 the Group successfully acquired properties totalling £133.6m, on an average net initial yield of c. 8.6%, disposed of £44.9m (net of costs) at c. 6.8% yield and undertook £9.1m of net capital expenditure in accordance with our commitment to recycle and invest capital. The Asset Manager was particularly focused on further building the portfolio in the first-half of 2016, along with an extensive programme of refinancings and new borrowings. In the second-half the emphasis was to successfully navigate the post EU referendum environment and on active management bedding-in the new property portfolios as well as maintaining progress with the existing assets. In addition, the Managers were heavily engaged in our bid for the multi-asset portfolio of c. £129m that was announced in February 2017 (see below).

It is our belief that Regional REIT offers a distinctive portfolio of UK regional offices and light industrial sites, focusing on acquiring undermanaged or unloved assets. The uniqueness of its asset management is that by doing so much more in-house we ensure the thoroughness of our due diligence, consistently high standards for our assets and tenants and prioritise our own Shareholders' interests. It is the scale and diversity of the portfolio and its tenant base, as well as the experienced active asset management, which secure attractive portfolio fundamentals and mitigate risk. At the same time we avoid the cyclical pressures of speculative development as it detracts from what we believe should be the income focus of the REIT. Both the net initial yield on the portfolio and the dividend yield on the shares are significantly ahead of other asset classes and should underpin the confidence of our Shareholders.

Business Environment

Occupational demand for offices and industrial sites in the UK's regions remained robust over the year. For us this has been evidenced by the steady volume of new lettings and regears, notably since the Brexit vote, and in the progress we achieved with the active asset management of the Wing and Rainbow portfolios, in line with our business plans, since their acquisitions in the first-quarter of 2016.

With the present limited new supply of regional offices and industrial sites, and the prospects for continued economic growth and trends in 'north-shoring', the regions appear well set to continue to grow rentals and narrow the yield differential versus London and of secondary property versus prime. This is further underpinned by property valuations remaining well below replacement cost. Market optimism remains strongest for industrial sites and positive but more nuanced for regional offices, being more focused on specific locations and tempered by some improvements to come in the supply outlook. In our view, both of these sectors continue to offer later-in-cycle benefits, underpinning our enduring strategy and income growth prospects.

Chairman's Statement *(continued)*

In the second-half of 2016 a challenge for us was the comparative quietness of investment property markets, where we had expected more assets to become available. We saw that there were deals to be done in the regional markets and in small to medium-sized lots, but asset prices did not weaken as much as we expected. Consequently transaction volumes are down, as sellers and buyers wait to reconcile to the new equilibrium. The Group's preference remains for off-market transactions where its consistent track record of delivering on deals provides it with an advantage.

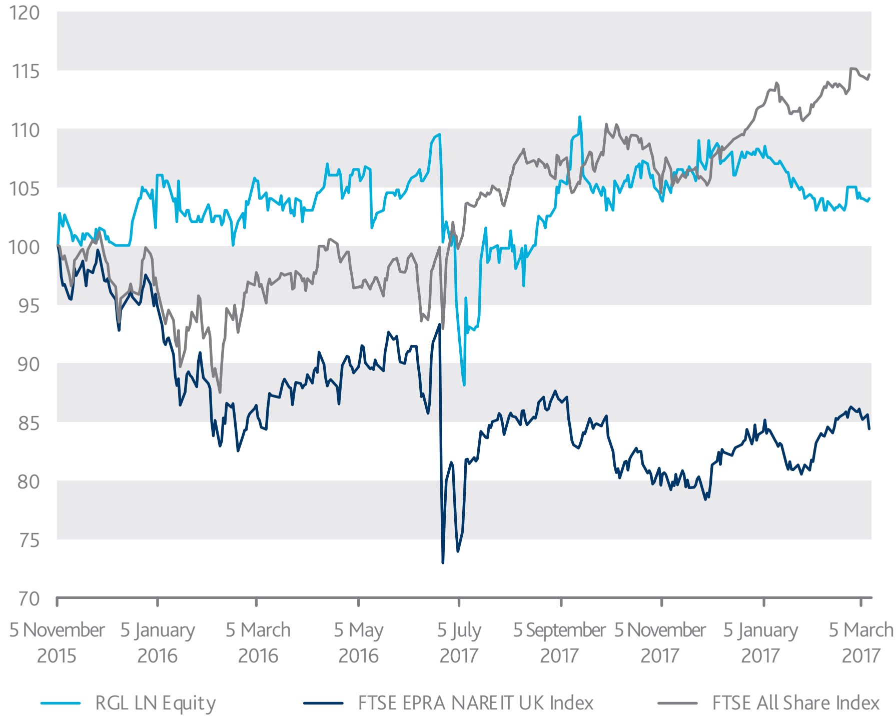
We continue to appraise substantive acquisition opportunities and are confident that there are a number of accretive deals to be done. The Board will consider the Company's options to maintain an appropriate growth strategy.

Shareholders

A major part of the total return to our Shareholders is the dividend. The Company declared total dividends of 7.65pps for 2016, comprising three quarterly dividends of 1.75pps and a fourth quarter dividend of 2.40pps. This distribution is fully covered by earnings per share.

Notwithstanding the Market's volatility, and the pressures on many listed property companies that arose around the EU referendum, we believe that the comparative strengths of our own business have proved attractive to investors. These strengths reflect the fundamentals of our strategy, delivering a sustainable and strong income base with the potential to grow through active asset management as the basis for our dividend. That we have declared dividends for the full year 2016, in line with our stated commitment of 7-8% on the 100p listing price, was important in building the credibility of the Group.

Relative Share Price Performance
(indexed to Opening Price on 6 November 2015 to 22 March 2017)



Source: Bloomberg data

In the course of 2016 the Group's shares were included in the FTSE All Share Index (March) and the FTSE EPRA NAREIT Developed Europe Index (June).

Board and the Asset and Investment Managers

The Board made great progress in the last year to establish its effective working and I am grateful to all of my fellow Directors who have contributed to the rigorous discussions on the development of the business. We have undertaken an internal review of Board effectiveness to gauge our progress and to ensure that the Board evolves appropriately with the development of the Group. I am delighted to confirm that no significant issues were raised and the view of the Board is that the governance structure, together with the Board and its Committees, all continue to operate effectively, with a positive and open culture. Corporate governance has been a key focus of the Board and I am extremely satisfied that we continue to enhance our compliance with the The Association of Investment Companies ("AIC") Code of Corporate Governance. As part of our planned development I am pleased that Bill Eason was willing to assume the role of Senior Independent Non-Executive Director, an additional point of contact for Shareholders.

The Board are also pleased with the work of the external Asset and Investment Managers, whose competencies and experience, along with a proven ability to get the most from our properties, are critical to our success.

The Board determined that given the total returns performance to date, amounting to 13.2% since listing to 31 December 2016, it is now appropriate for the Group to commence accruing the Managers' Performance Fee for the initial Performance Period ending December 2018.

The Point, Glasgow

Chairman's Statement *(continued)*

Subsequent Events

The Group is committed to an opportunistic acquisitive growth strategy and management has continued to explore a number of asset opportunities. I am pleased that we were able to announce in late February 2017 that we had reached agreement with The Conygar Investment Company PLC as to the conditional acquisition of a portfolio of 31 regional office, industrial, retail and leisure properties with a gross investment value of c. £129m.

This is a quality investment portfolio secured 'off market', offering substantial asset management opportunities and income growth potential. The transaction is expected to be earnings accretive to Regional REIT, with significant upside potential. The deal is complementary to the existing asset base of our Company and aligns well with the expertise and experience of the Asset Manager, whilst the spread of properties and tenants further underpins the strength of the Group's income base. Subject to securing all necessary approvals we anticipate the deal closing in late March.

Outlook

For 2017 the Group expects a continuation of the positive occupancy trends in the regional office and light industrial markets in the UK with the potential for rental income to grow. In the UK's regions outside of the M25 motorway the fundamentals of supply and, as yet, occupier demand, have changed little, but we remain alert to the uncertainties that persist. However, we are confident that across our portfolio we can maintain the pace of new lettings and regears to improve occupancy and yield. The performance for the year ahead is expected to combine improved rental income – with occupancy expected to rise to around 90% – and a reduction in the costs ratio from increased scale and lower voids.

Our strategy, notwithstanding Brexit ambiguities, remains unchanged. This is based on the longer term business trends we see underpinning the regions as well as the opportunities of 'the Northern Powerhouse', the 'Midlands Engine', infrastructure spend, elected mayors and the new business rates structure, all of which should benefit the regions. This is reinforced by the prospect of continued UK economic growth.

The Board retains confidence in our selective approach to regional commercial property having regard to the implications of the EU referendum as they emerge. In the current market a key priority for investors is certainty and quality of income. This is central to the Regional REIT proposition.

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Investment Strategy and Business Model

The Group will invest in, actively manage and dispose of offices and industrial properties – or debt portfolios secured on such properties – located predominantly in the regional centres of the UK.

Investment Strategy and Business Model *(continued)*

Investment Strategy

- The Group aims to acquire a portfolio of interests that together offer Shareholders a diversification of investment risk, by investing in a range of geographical areas and sectors across a number of assets and tenants and through letting properties, where possible, to low-risk tenants.
- The Group will use gearing, borrowings and other sources of leverage, to implement its investment strategy and enhance equity returns.

Investment Policy

- The Group will invest in office and industrial properties that are situated in the UK and outside of the M25 motorway.
- The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.
- In the ordinary course of business no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally the Board may consider taking this up to 20%.
- The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.
- No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant.
- Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.

Investment Objective

- The Investment Objective of the Company is to deliver an attractive total return to Shareholders – the Board targets 10-15% per annum – with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway.

Borrowings

- The Group targets a ratio of net borrowings to Gross Investment Properties Value of 35% over the longer term, with a maximum limit of 50%.

Investment Strategy and Business Model *(continued)*

"Our uniqueness is that we have the platform to do everything that all good asset and property managers should do, but by doing so much more in-house we can ensure the thoroughness of our due diligence on the market, individual properties and for occupiers, we can aim for consistently high standards for our assets and tenants and can focus the benefits to the REIT's Shareholders."

Stephen Inglis,
Group Property Director
and Chief Investment Officer of
London & Scottish Investments,
the Asset Manager

Our Business Model

- Yield differential between regional secondary office properties and London at approximately 1.7% (end 2016) remains above the long-term average.
- Total Shareholder Return of 13.2% since IPO and 11.5% annualised in 2016.

- Completed acquisitions in 2016 totalling £133.6m and disposals (net of costs) of £44.9m, with average net initial yields of c. 8.6% and c. 6.8% respectively.
- Refinancings totalling £42.2m, reducing average funding costs (including hedging) by 80 basis points to 3.7% over the year. LTV of 40.6% on £203.9m of net borrowings (including unamortised loan arrangement costs).

- Contracted rental income as at end 2016 of £44.0m (31 December 2015: £35.9m).
- Reversionary yield increased to 9.5% (31 December 2015: 9.0%).
- Declared dividends per share of 7.65p for 2016.

- Net capital expenditure of £9.1m in 2016; much capital expenditure is recovered through dilapidations, service charges or improved property rental income.
- Active and intense asset management to improve occupancy (by area) following the acquisition of the Wing/Rainbow portfolios to 83.8% at end 2016.

- 123 properties, 941 units and 717 tenants, as at 31 December 2016.
- The largest single property is only 6.4% of the Gross Investment Properties value and the largest tenant only 3.7% of gross rental income.
- England & Wales represent 73.2% of the Gross Investment Properties value (31 December 2015: 64.1%); offices and industrial sites are 92.7% (31 December 2015: 84.1%).

- Management grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 down-turn.
- LSI is based in Glasgow and a number of offices around the UK, with the vast majority of the 42 staff employed as at 31 December 2016 working on Regional REIT.

Investment Strategy and Business Model *(continued)*

Our Approach	How we add value
• That the "regions remain strong" in UK commercial real estate, believing that: growing capital inflows into the regions; the UK domestic economy will continue to grow; tenant demand for offices and industrial sites will outweigh available supply; and, secondary property will continue to outperform prime. • The yield differential between the regions and London remains well above its historic average, supporting some yield compression and value growth continuing in the regions.	• The investment policy focuses on a balanced portfolio of offices and light industrial sites located outside of the M25 motorway, broadly based on the regions' economic worth and population mix. • The Group seeks to enhance income growth and capital values through the services of the Asset Manager. • The Asset Manager operates through a number of regional offices, implementing a targeted investment policy and each property's asset management plan.
• A focus on exploiting pricing inefficiencies and mismatches between regional secondary and primary property yields. • From such opportunities the Group will acquire, hold and sell commercial real estate that it believes to be mispriced and have good income and capital growth prospects. • Utilising leverage to build the acquisitions capability of the business.	• An opportunistic approach to UK commercial property and the recycling of capital from the legacy portfolio, aiming to acquire where the Group can add value through its in-house expertise. • Seeking to build the income growth and capital values of properties; taking undermanaged and underinvested properties to being attractive investments to be retained for yield or for disposal. • An established borrower with long-term relationships in place with a number of UK banks. The Group will exploit opportunities to improve total returns utilising leverage. • With debt maturing and opportunities to renegotiate existing facilities, the Group aims to reduce its funding costs.
• The Group has a strict set of investment criteria to invest, predominantly, in income producing assets capable of delivering an attractive total return to our Shareholders.	• Investment decisions will be based on identifying strong underlying fundamentals, inter alia, prospects for future income growth, sector and geographic prospects, lease length, initial and equivalent yields and the potential for active asset management. • Speculative development strictly limited to refurbishment programmes.
• The Group prides itself on maintaining a close relationship with its tenants and in the intensive granular management of its properties, a very hands-on approach. • Our aim is to provide a consistent approach to improving returns, thereby enhancing the quality of the underlying portfolio.	• The Asset Manager undertakes all of the principal property management activities in-house by regular contact and remains close to its tenants, with an immediate understanding of their requirements and a better decision-making capability. • The Managers can respond in the best interests of the Group and its Shareholders. • The Asset Manager utilises a range of approaches to each asset, tailoring the project programme for each property.
• A distinctive large and diverse commercial property portfolio. • An approach that diversifies the investment risk of the portfolio and enables better management of the timing of lease regears and new lettings.	• The portfolio consists of offices and light industrial units, geographically well spread across the regions of the UK outside of the M25 motorway and with a broad mix of tenants.
• The Asset Manager, London & Scottish Investments ("LSI"), has the heritage of a long established property investment management company.	• The capabilities and track record of the management team, including knowledge, expertise and established relationships provide an important competitive advantage for operating in the fragmented UK regional secondary property market. • The senior management team of the Asset Manager collectively have over 150 years of property experience, with a proven record of creating value.

Wardpark Industrial Estate, Cumbernauld


TPS

Asset and Investment Managers' Report

"It has been a very active year for Regional REIT with significant acquisitions, continuing our strategy of non-core disposals, increasing our geographic spread of properties and growing the number and diversity of our tenants. We continue to implement our successful approach to active asset management with our initiatives achieving increased occupancy. We remain optimistic in respect of our strategy and in the strength of our core regional office and light industrial property markets."

Stephen Inglis,
Group Property Director and Chief Investment Officer of London & Scottish Investments, the Asset Manager of Regional REIT Limited

Market Overview

The market in regional commercial real estate remains robust, from both the occupational and investment perspectives. Whilst investment volumes were down in 2016, part of this was already anticipated as a 'hangover' following a record 2015, however, this was then combined with the market's inactivity in the run-up to and then post the EU referendum. The commercial property market only really began to show signs of recovery in the fourth-quarter of 2016.

In the view of the Asset Manager, this undoubtedly held back any hardening of yields. We witnessed a very thin market with little transactional activity and with retail property funds and valuers reactively heavily marking-down values across the board; only for them to change their views as the market held up and vendors and purchasers alike regained their self-confidence. For the Asset Manager, part of the issue in the third-quarter of 2016 was a mismatch in expectations between purchasers – believing that there should be a pricing discount in light of the EU referendum vote – and vendors – who being under no immediate financial pressures were happy to hold on to properties when they could not secure the 'full value'.

Commercial property continues to offer a higher yielding investment class than most equities and other asset classes, with some certainty of income from leases. As such we, and other market commentators, expect to see increased investment activity in 2017-18 which could well result in a resumption in the narrowing of the yield gap between prime and secondary regional properties.

Regional commercial property occupancy remains robust and we expect this to continue, given the continuing beneficial supply-demand dynamics of our core markets, and with elements of our portfolio potentially witnessing headline rental growth for the first time in several years.

Regional REIT has been active and opportunistic throughout 2016. The Group undertook property acquisitions of £133.6m, with an average net initial yield of c. 8.6%; disposals amounted to £44.9m net (£45.9m before costs), at an average net initial yield of c. 6.8%. Occupancy increased to 83.8%, from a low of 80.9% post the acquisition of the Wing and Rainbow portfolios in Q1 2016, mainly as a result of completing 116 new leases in 2016, totalling 728,382 sq. ft.; when fully occupied these will provide approximately c. £5m pa of contracted rental income. In addition, the Group has completed 62 lease renewals, c. 67% of the leases that have come up for renewal in the period. Including these renewals and the acquisition of new replacement tenants, c. 76% of the units with lease renewals remain occupied.

Investment Activity in UK Commercial property

In 2016, the total investment in UK commercial property was £48.9bn, 27% lower than in 2015. Investment slowed in the first-half of 2016 ahead of the EU referendum and then retrenched further in Q3 2016 following the UK's vote to leave, in the face of heightened uncertainty and diminished confidence. CoStar estimates that investment in London property fell by approximately 29%; in comparison the rest of the UK showed more resilience with an average year-on-year decline of c. 12%. Investment activity improved in the final quarter of 2016 (£16bn), buoyed by overseas buyers attracted by the exchange rate advantage and by some recovery in domestic confidence as the occupier market remained steady.

Following a recovery in overseas investment in UK commercial property from 2014-15, overseas investment fell in 2016 by approximately 33% to £19bn. However, overseas investment increased in the UK's regions, such as Scotland (up 50% y-o-y), the Midlands (up 23% y-o-y) and the North West (up 19% y-o-y). In comparison, London experienced its lowest level of overseas investment spend since 2012.

Asset and Investment Managers' Report *(continued)*

Quarterly Investment Volume by Region

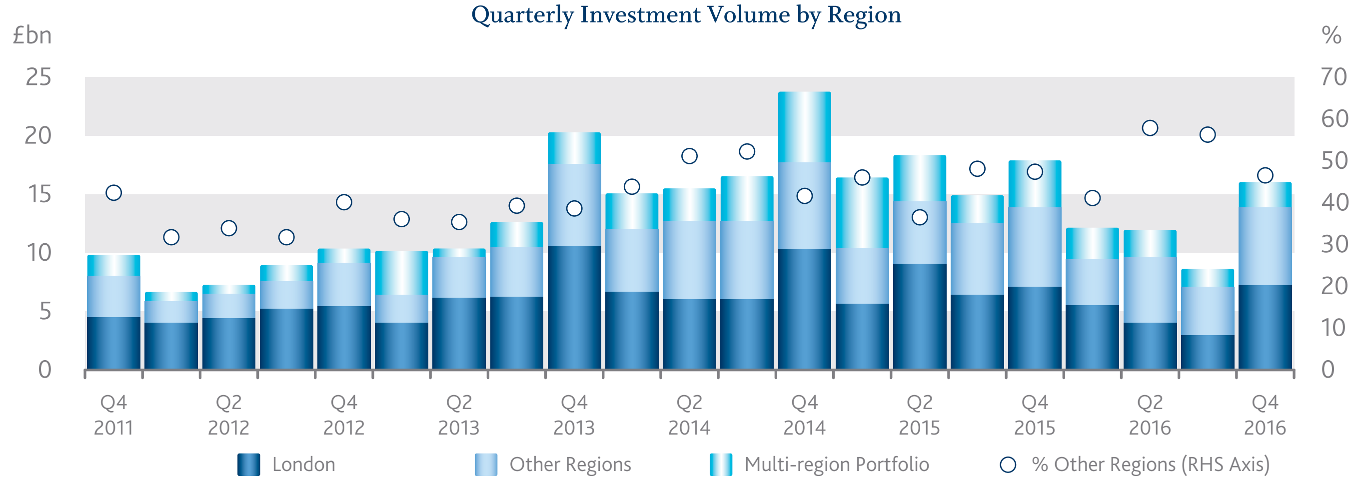


Figure 1: CoStar Research (February 2017)

For the Asset Manager, a key metric is the yield spreads between prime and secondary properties in the UK's regions, which have continued to fall over the last 12 months from the historic highs of 2013-14. The yield spread still remains above its long-term average, by approximately 1.7 percentage points, indicating that there continue to be significant opportunities with secondary properties set to outperform in the short-to medium-term (Figures 2 and 3).

London vs. UK Regions Prime/Secondary Yield Spread (to December 2016)

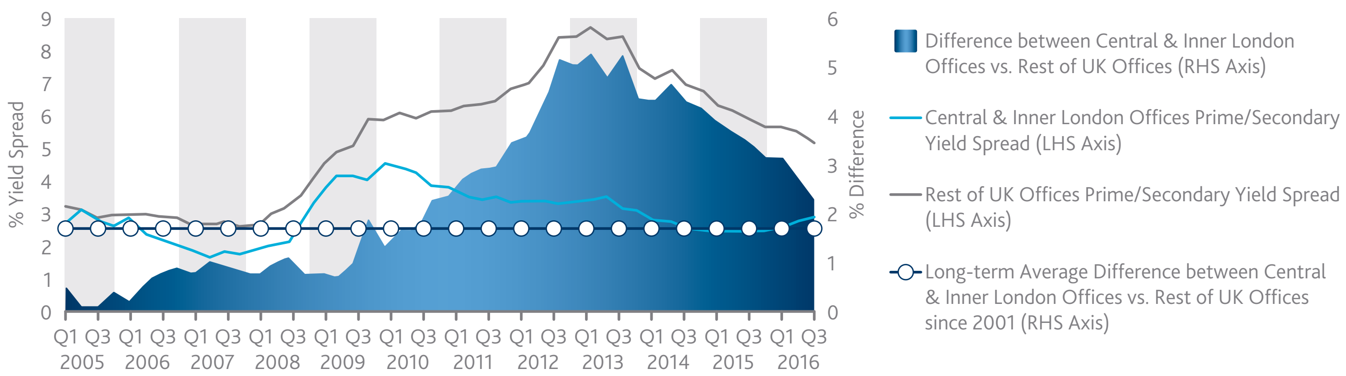


Figure 2: Strong potential for high quality regional secondary properties to achieve stronger returns in the short-to medium-term than prime London properties. Cushman & Wakefield Research, IPD/MSCI (December 2016)

Offices vs. UK Regions Prime/Secondary Yield Spread (to December 2016)

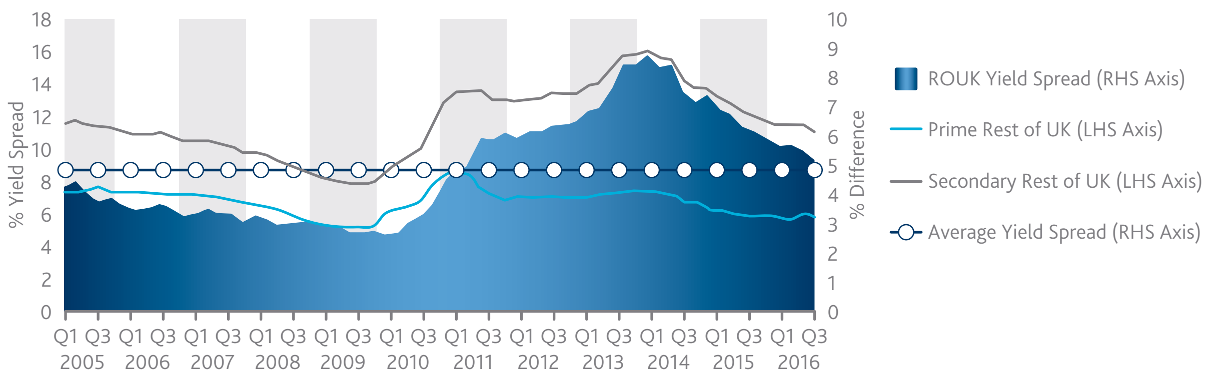


Figure 3: Yield spreads between prime and regional secondary moving back to their long-term average. Cushman & Wakefield Research, IPD/MSCI (December 2016)

Asset and Investment Managers' Report *(continued)*

Occupational Demand in the UK Regional Office Market

The uncertainty surrounding the EU referendum resulted in lower levels of take-up ahead of the referendum which then continued directly after the UK voted to leave. However, an increase in the level of activity in the fourth-quarter of 2016 boosted letting activity in the main regional markets.

Take-up of office space reached 5.1 million sq. ft. in 2016, slightly lower than the 5.6 million sq. ft. recorded in 2015. Occupational demand was particularly robust in Manchester, Cardiff, Bristol and Glasgow, mainly as a result of large pre-lets. Professional services continued to dominate the take-up of office space throughout 2016, although an increasing amount of office space was taken by the public sector, accounting for some 20% in the core regional centres. JLL predicts that the public sector will continue to drive take-up as the year progresses. Knight Frank expects occupational demand for office space in the UK to remain robust throughout 2017.

The supply of offices in the core regional markets remains low, with occupier demand continuing to reduce availability, particularly for grade A offices. This has resulted in an increase in pre-lets signed (developments under construction) in 2016, which in turn has limited the amount of space being released to market. Research from Cushman & Wakefield shows that approximately 43% of new development space was let by completion.

Some activity surveys, such as the recent Deloitte Crane Survey (January 2017), suggest heightened construction activity in certain regional urban centres (Birmingham, Manchester, Leeds and Belfast); a total of approximately 3.7m sq. ft. of office space is currently under construction. Consequently, in the medium-term, we are likely to see some increase in regional office supply. Commentators continue to suggest that a supply-demand imbalance will remain even when office space currently under construction is complete.

Rental Growth in the UK Regional Office Market

According to JLL, prime rental growth across the core 8 regional office markets averaged 3.3% (year-on-year) in 2016. However, increased rent free incentives that were evident in the second-half of 2016 were indicative of weaker sentiment as a result of uncertainty likely due to the EU referendum result.

JLL expects headline rental growth for the core 8 regional office markets to remain well supported throughout 2017, with falling supply levels for prime properties in the UK's cities to result in an uplift in rents as the year progresses.

The Asset Manager anticipates that increased occupier activity in the final quarter of 2016 will continue throughout 2017, with critically a low supply of prime properties resulting in rising demand for high-quality secondary properties. In turn, this will likely put an upward pressure on rents and a downward pressure on rent incentives.

Regional REIT's Office Assets

A like-for-like comparison of the Group's regional offices from December 2015 to December 2016, shows that occupancy (by area) rose to 88.7% (31 December 2015: 83.7%). The like-for-like WAULT to first break was 3.4 years (31 December 2015: 3.0 years).

Occupier Demand Strengthens in the UK Industrial Market

Take-up in the UK industrial market in 2016 totalled 37.9 million sq. ft., a 6.5% increase from 2015. The industrial sector was robust in most of the UK's regions throughout 2016, with particularly strong occupier demand in the Midlands, London and the South East.

Annual Office Take-up By Grade

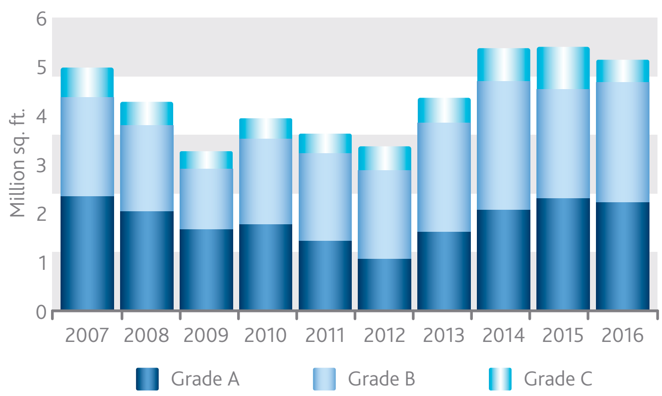


Figure 4: Cushman and Wakefield (February 2017)

Availability of Offices by Grade

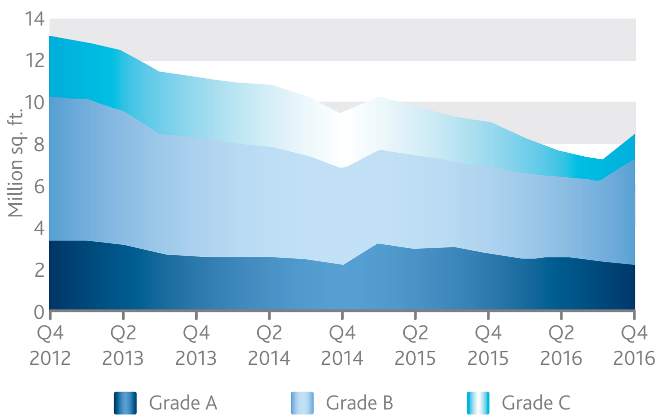


Figure 5: Cushman and Wakefield (February 2017)

Asset and Investment Managers' Report *(continued)*

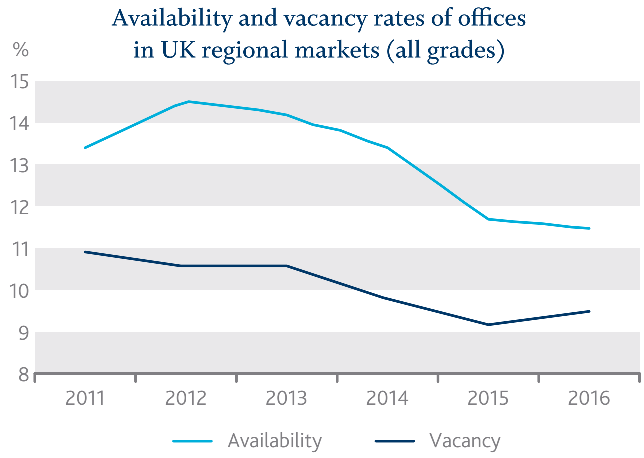


Figure 6: CoStar (February 2017)

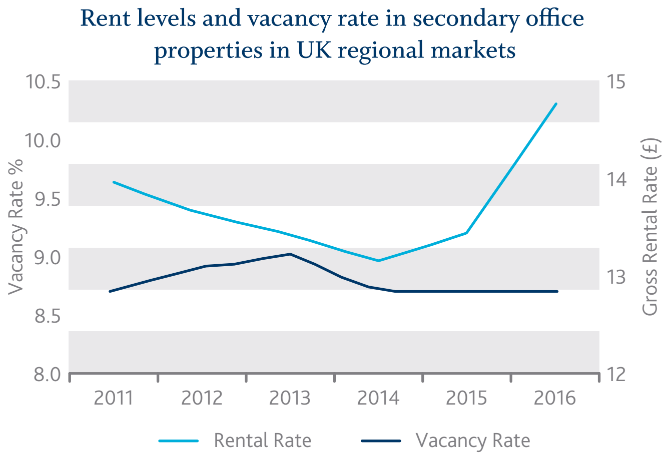


Figure 7: CoStar (3 star office properties in Birmingham, Bristol, Coventry, Edinburgh, Glasgow, Leeds, Leicester, Manchester, Newcastle upon Tyne, and Nottingham) (Feb 2017)

The continued growth in online shopping, which has seen internet sales grow to a 16% market share, resulted in increased demand for both big-box and mid-size industrial/warehouse space in urban areas. Rising demand can also be attributed to variety of other sectors, including: manufacturing, automotive, pharmaceuticals, food and engineering.

Development remained focused on Grade A space, with strong development activity in the South East, the Midlands and the North West, resulting in stable supply levels for Grade A industrial in these regions. However, development outside the North-South trunk roads (namely the M1 and M6 corridor) has increased, with increasing activity along routes such as the M4, M5 and M62.

The Asset Manager anticipates the combination of growing demand and limited supply for multi-sized, multi-let industrial sites, will result in rental growth in 2017.

According to Cushman & Wakefield, some markets may experience an outward pressure on yields in 2017 as a result of investors seeking greater risk premiums due to increased uncertainty.

Industrial Rental Growth Continues

The industrial market, essentially the regions outside London, experienced the highest rental value growth in 2016, showing a c. 4% increase according to IPD. In comparison, all property average annual rental value growth was c.2%. The Investment Property Forum UK Consensus Forecast, February 2017, shows 1.8% and 1.1% average rental growth rates respectively for 2017 and 2018.

Research by Cushman & Wakefield indicates that limited land availability will become a major problem, and subsequently moderate speculative development. Consequently, the supply-demand imbalance will result in an upward pressure in prime industrial rents throughout 2017.

Regional REIT's Industrial Assets

Increased occupier demand for industrial space was reflected in occupancy (by area) for the Group's industrial assets. A like-for-like comparison of the Group's industrial assets from December 2015 to December 2016, shows occupancy of 85.7% (31 December 2015: 85.6%). The like-for-like WAULT to first break was 4.2 years (31 December 2015: 5.6 years).

Rental and Capital Value Growth Forecasts (%) (Whole UK)

	Rental value growth				Capital value growth				Total return			
	2017	2018	2019	2017/21	2017	2018	2019	2017/21	2017	2018	2019	2017/21
Office	-1.3	-1.2	0.3	0.2	-3.2	-2.2	0.1	-0.6	1.5	2.5	4.8	4.1
Industrial	1.8	1.1	1.4	1.5	1.3	0.7	1.0	1.0	6.6	6.1	6.5	6.4
Standard Retail	0.7	0.4	0.9	1.0	-1.1	-0.2	1.1	0.6	3.6	4.6	6.0	5.4
Shopping Centre	0.4	0.2	0.7	0.8	-2.2	-0.9	0.6	0.0	2.8	4.4	6.0	5.2
Retail Warehouse	0.2	0.1	0.6	0.7	-1.8	-0.6	0.5	0.0	3.8	5.2	6.4	5.8
All Property	0.2	0.1	0.8	0.8	-1.6	-0.7	0.8	0.2	3.2	4.3	5.8	5.2

Table 1: Investment Property Forum UK Consensus Forecasts, ipf.org.uk, February 2017

Asset and Investment Managers' Report *(continued)*

Property Portfolio

As at 31 December 2016, the Group's property portfolio was valued at £502.4 million (31 December 2015: £403.7m), with contracted rental income of £44.0m (31 December 2015: £35.9m), and a vacancy rate of 16.2% (31 December 2015: 16.1%). There were 123 properties (31 December 2015: 123) in the portfolio, with 941 units (31 December 2015: 712) and 717 tenants (31 December 2015: 531), following the acquisition of 20 properties in the year.

If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the gross rental income would be £53.1 million per annum as at 31 December 2016 (31 December 2015: £40.4m).

As at 31 December 2016 the net initial yield on the portfolio was 6.7% (31 December 2015: 7.6%), the equivalent yield was 8.6% (31 December 2015: 8.3%), and the reversionary yield was 9.5% (31 December 2015: 9.0%).

Property Portfolio by Sector

												Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy (%)	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Net initial	Equivalent	Reversionary
Office	61	318.2	63.3	2.72	82.2	3.5	28.0	23.4	12.52	34.6	116.95	6.6	8.6	9.7
Industrial	35	147.5	29.4	4.06	85.3	3.5	12.9	10.9	3.72	14.9	36.35	6.9	8.7	9.3
Retail	26	36.4	7.2	0.32	87.5	4.9	3.1	2.3	11.10	3.5	113.05	6.2	8.3	8.7
Other	1	0.4	0.1	0.04	2.7	18.7	0.0	0.0	9.85	0.0	10.30	1.7	9.8	5.1
Total	123	502.4	100.0	7.14	83.8	3.6	44.0	36.7	7.36	53.1	70.37	6.7	8.6	9.5

Property Portfolio by UK Region

												Yield (%)		
	Properties	Valuation £m	% by valuation	Sq. ft. (mil)	Occupancy (%)	WAULT to first break (yrs)	Gross rental income £m	Net rental income £m	Average rent £psf	ERV £m	Capital rate £psf	Net initial	Equivalent	Reversionary
Scotland	40	134.7	26.8	2.41	82.2	3.5	12.7	11.1	6.43	15.5	55.86	7.8	9.7	10.7
South East	18	102.6	20.4	0.95	84.3	3.6	8.9	7.1	11.17	10.1	108.54	6.2	7.4	8.4
North East	19	82.3	16.4	1.36	86.7	2.5	7.0	5.8	6.00	8.3	60.69	6.7	8.5	9.4
Midlands	22	79.1	15.7	0.97	81.5	3.6	6.7	5.9	8.52	7.7	81.58	6.6	8.2	8.5
North West	15	61.6	12.3	1.02	89.9	5.3	5.5	4.9	6.05	6.6	60.41	7.3	9.1	9.7
South West	7	24.6	4.9	0.22	58.4	3.0	1.5	0.7	11.47	3.3	110.83	2.4	8.5	10.8
Wales	2	17.5	3.5	0.21	88.1	4.8	1.5	1.1	8.17	1.7	81.46	6.2	8.4	9.0
Total	123	502.4	100.0	7.14	83.8	3.6	44.0	36.7	7.36	53.1	70.37	6.7	8.6	9.5

Tables may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Investments (market value) as at 31 December 2016

Property	Sector	Anchor tenants	Market value (£m)	% of portfolio	Lettable area (sq. ft.)	Let by area (%)	Annualised gross rent (£m)	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Bank Plc, Glasgow University	32.3	6.4	156,933	87.7	2.2	4.5
Juniper Park, Basildon	Industrial	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd	21.8	4.3	296,100	70.0	1.5	1.2
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Scottish Widows Limited, The Equitable Life Assurance Society	20.3	4.0	146,936	73.9	1.8	5.2
Wardpark Industrial Estate, Cumbernauld	Industrial	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited	19.9	4.0	707,775	90.7	2.4	2.3
Hampshire Corporate Park, Chandler's Ford	Office	Aviva Health UK Limited, Royal Bank of Scotland plc	15.4	3.1	85,422	97.8	1.4	5.0
One & Two Newstead Court, Annesley	Office	E.ON UK plc	15.4	3.1	146,262	100.0	1.4	3.6
Columbus House, Coventry	Office	TUI Northern Europe Limited	14.6	2.9	53,253	100.0	1.1	7.0
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Limited	13.5	2.7	246,209	100.0	0.9	17.7
1-4 Llansamlet Retail Park, Swansea	Retail	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited	12.0	2.4	71,615	100.0	1.0	6.3
Arena Point, Leeds	Office	JD Wetherspoon PlC, Expotel Hotel Reservations Ltd	12.0	2.4	98,856	66.8	0.6	2.2
The Point, Glasgow	Industrial	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited	11.6	2.3	183,690	100.0	0.9	6.2
Portland Street, Manchester	Office	Mott MacDonald Limited, New College Manchester	10.8	2.2	54,959	100.0	0.8	3.1
Oaklands House, Manchester	Office	HSS Hire Service Group Limited, Rentsmart Ltd	10.4	2.1	161,768	80.0	1.1	3.8
CGU House, Leeds	Office	Aviva Insurance Limited	9.1	1.8	50,763	100.0	1.0	0.7
The Genesis Centre, Warrington	Office	Evolution Recruitment Solutions Ltd, Environment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd	9.0	1.8	95,544	64.8	0.9	1.5
Total			228.0	45.4	2,556,085		19.0	

Tables may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

Top 15 Tenants (share of rental income) as at 31 December 2016

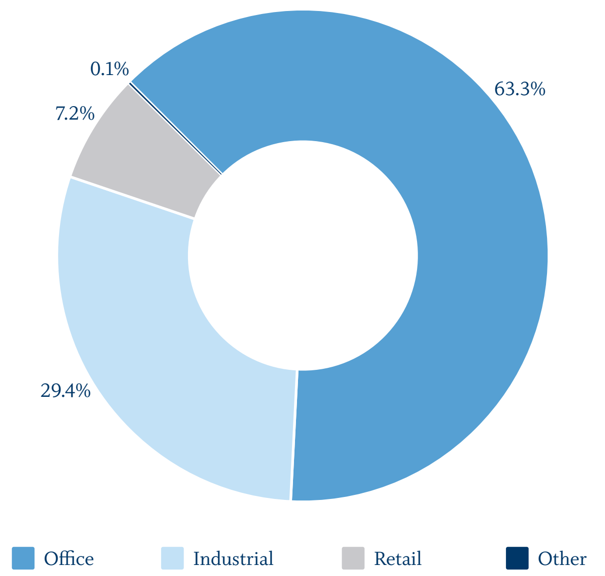
Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq. ft.)	% of Gross rental income
Barclays Bank Plc	Tay House, Glasgow	Financial and insurance activities	4.9	78,044	3.7
E.ON UK Plc	One & Two Newstead Court, Annesley	Electricity, gas, steam and air conditioning supply	3.6	146,262	3.3
Scottish Widows Limited	Buildings 2 & 3, Aylesbury	Financial and insurance activities	4.9	80,103	3.1
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	7.0	53,253	2.5
Aviva Insurance Ltd	CGU House, Leeds	Financial and insurance activities	0.7	50,763	2.3
Sec of State for Communities & Local Govt	Bennett House, Hanley, Sheldon Court, Solihull and Oakland House, Manchester	Public Sector	0.6	74,886	2.1
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	17.7	246,209	2.0
The Secretary of State for Transport	St Brendans Court, Bristol, & Festival Court, Glasgow	Public Sector	3.5	55,586	1.6
Lloyds Bank Plc	Victory House, Meeting House Lane, Chatham	Financial and insurance activities	1.4	48,372	1.5
Aviva Health UK Ltd	Hampshire Corporate Park, Chandler's Ford, Eastleigh	Financial and insurance activities	2.0	42,612	1.5
The Scottish Ministers, c/o Scottish Prison	Calton House, Edinburgh	Public Sector	0.8	51,914	1.4
Europcar Group UK Ltd	James House, Leicester	Administrative and support service activities	4.5	66,436	1.4
Schenker Ltd	Juniper Park, Basildon	Transportation and storage	0.5	86,548	1.3
Office Depot UK Limited	Niceday House, Meridian Park, Andover	Wholesale and retail trade	2.1	34,262	1.3
W S Atkins (Services) Ltd	Century Way, Thorpe Park, Leeds	Professional, scientific and technical activities	1.6	32,647	1.2
Total				1,147,897	30.3

Tables may not sum due to rounding.

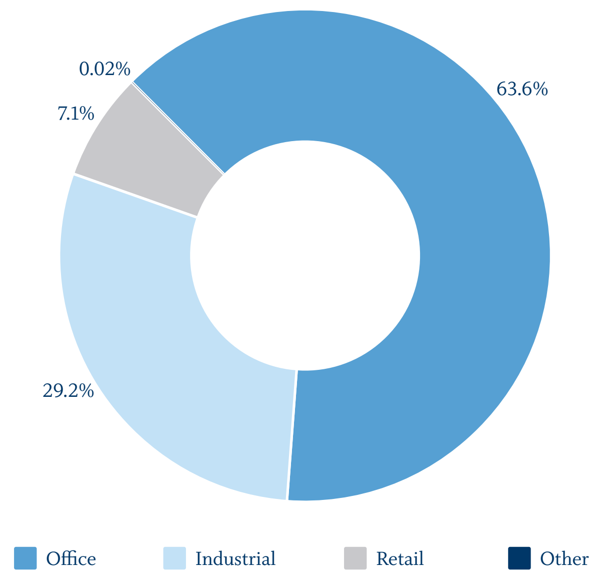
Asset and Investment Managers' Report *(continued)*

Property Portfolio – Sector and Region Splits by Valuation and Income

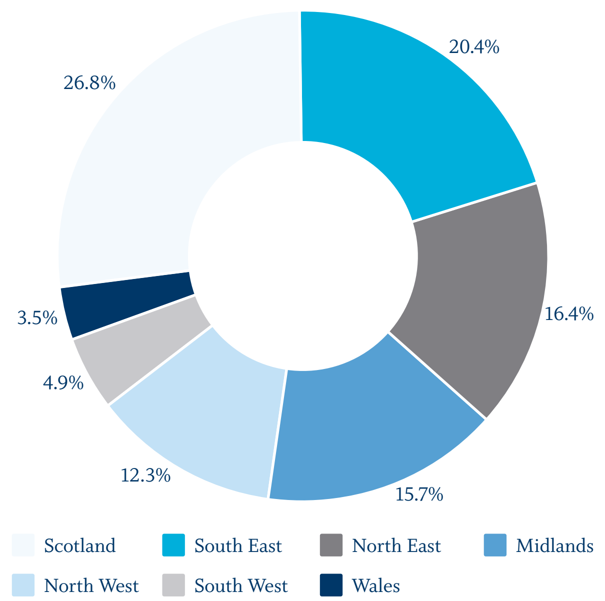
Sector split by valuation 2016



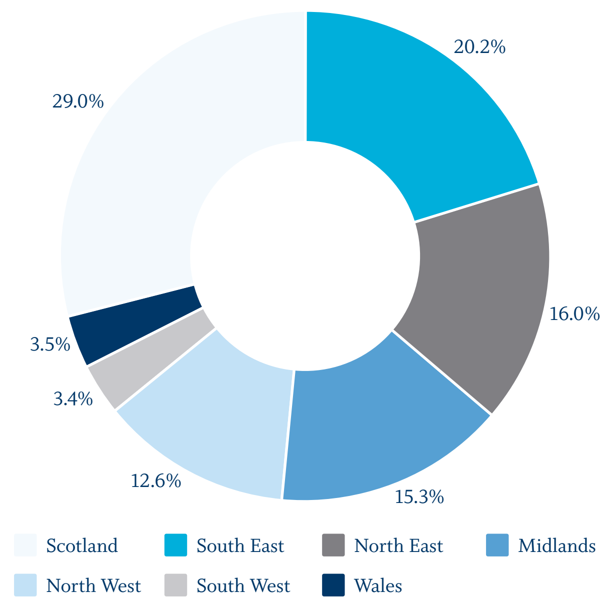
Sector split by income 2016



Regional split by valuation 2016



Regional split by income 2016



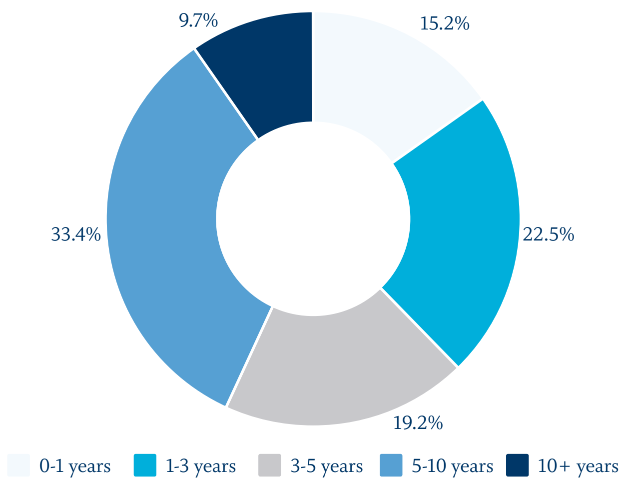
Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

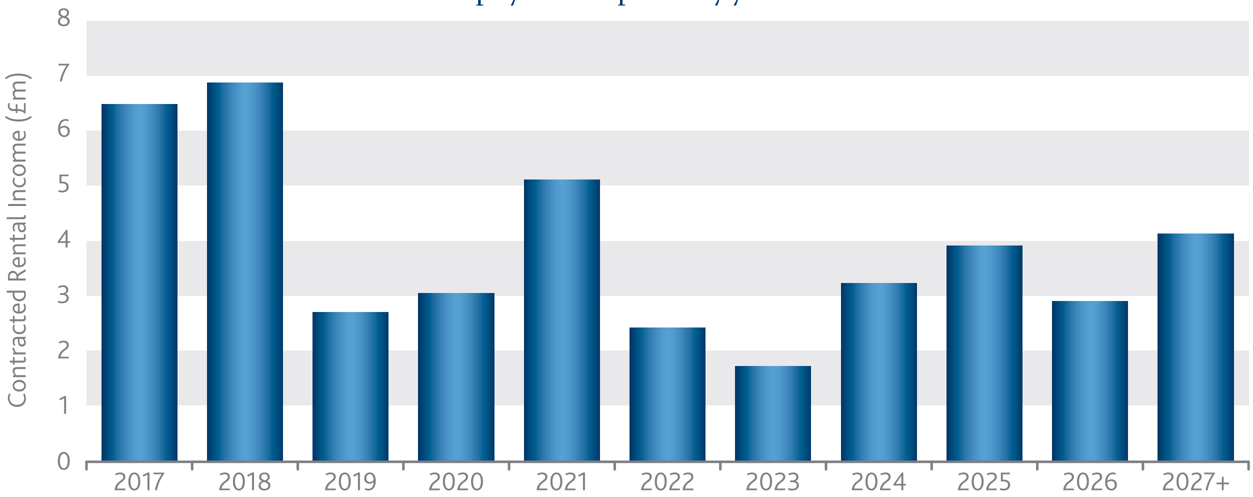
Lease Expiry Profile

The WAULT on the portfolio is 5.2 years (2015: 6.1 years; 5.6 years excluding Blythswood House); WAULT to first break is 3.6 years (2015: 4.4 years; 3.8 years excluding Blythswood House). As at 31 December 2016, 15.2% (2015: 12.8%) of income was leases which will expire within 1 year, 22.5% (2015: 31.1%) between 1 and 3 years, 19.2% (2015: 15.6%) between 3 and 5 years and 43.1% (2015: 40.5%) after 5 years.

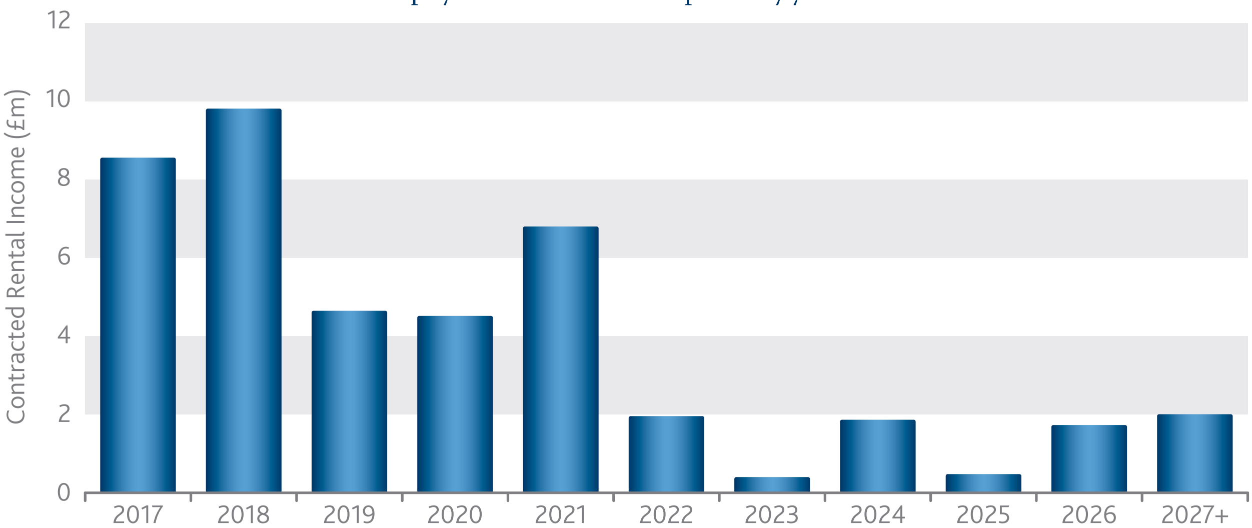
Lease expiry income profile



Lease expiry income profile by year



Lease expiry to first break income profile by year

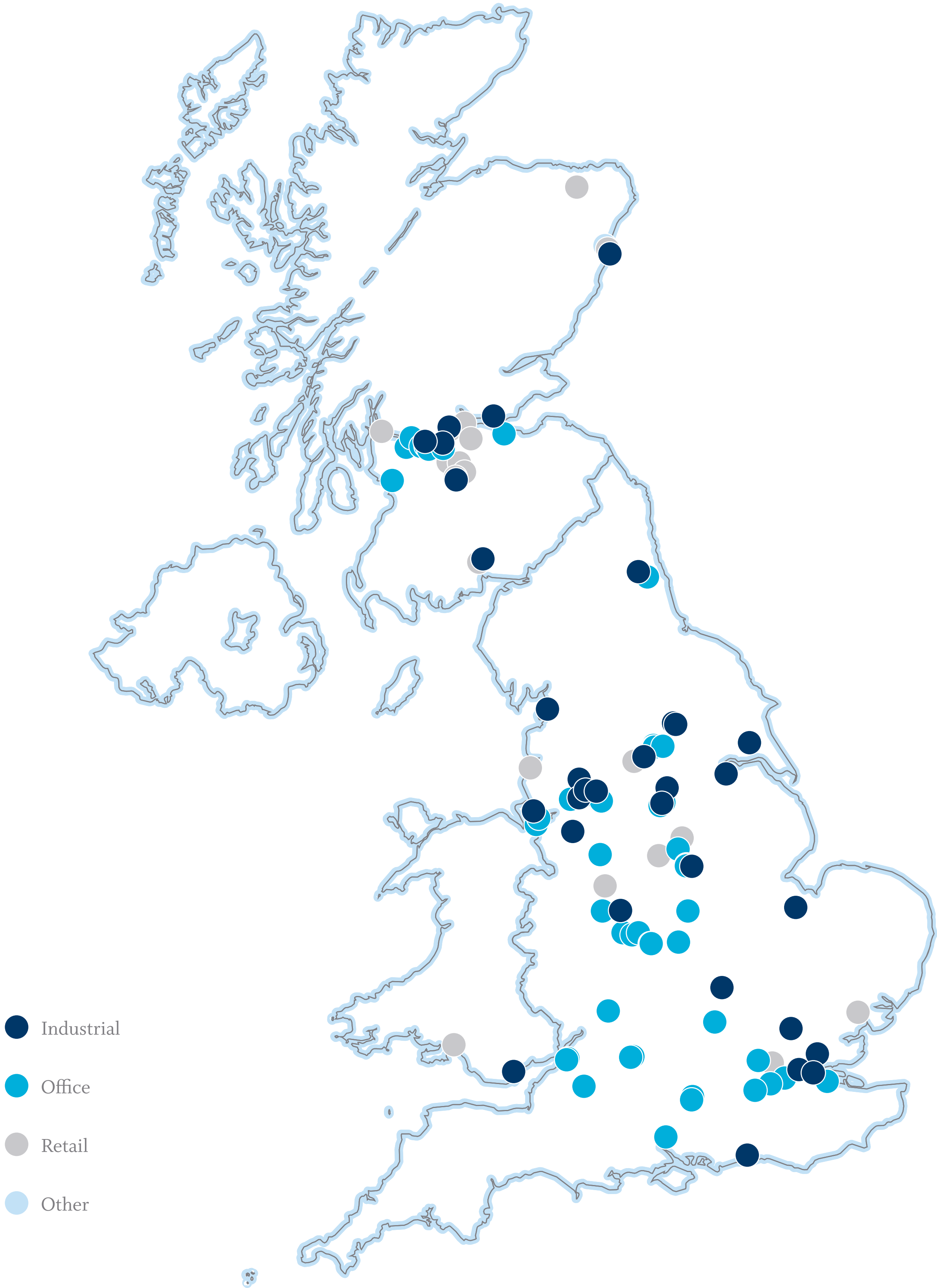


	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027+
Headline rent £m	8.56	9.81	4.65	4.52	6.80	1.96	0.40	1.87	0.48	1.73	2.01

Charts may not sum due to rounding.

Asset and Investment Managers' Report *(continued)*

UK Property Locations as at 31 December 2016



Asset and Investment Managers' Report *(continued)*

Tenants by Standard Industrial Classification

As at 31 December 2016, 13.7% of income was from tenants in the wholesale and retail trade sector, 12.1% Finance and insurance activities (other) (excluding banking) sector, 11.7% from the manufacturing and 11.4% from the professional, scientific and technical activities sector. The remaining exposure is broadly spread.

No tenant represents more than 5% of the Group's contracted rent roll as at 31 December 2016, the largest being 3.7%.

Tenants by SIC Codes
(% of gross rent)

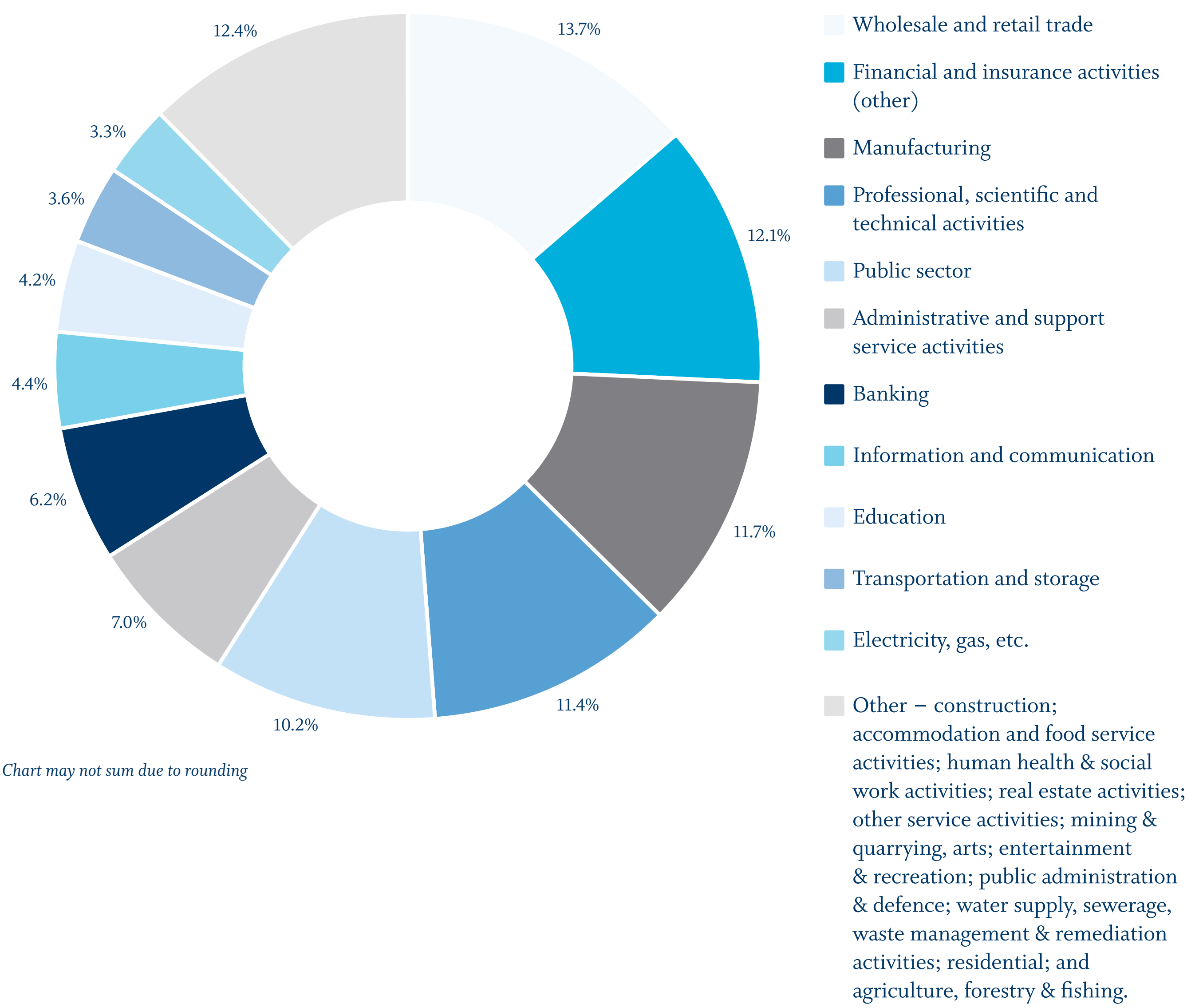


Chart may not sum due to rounding

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector

Tay House, Glasgow

Market value (£m)	32.3
Sector	Office
Annualised gross rental (£m)	2.25
Lettable area (Sq. Ft.)	156,933
Anchor tenants	Barclays Bank Plc, Glasgow University
Let by area (%)	87.7%
WAULT (years) (to first break)	8.3 (4.5)

- Barclays' leases re-geared in December 2015, securing the income until October 2021 at the earliest.
- First and second floors comprehensively refurbished in 2016.
- Second floor (30,000 sq. ft.) now let to Regus, being their first "Spaces" concept launch in UK outside London.
- Eaton Limited did not exercise their February 2017 option to break, maintaining their occupation until February 2022.
- Encouraging occupier demand for large refurbished floorplates within Glasgow City Centre.

Buildings 2 & 3, HBOS Campus, Aylesbury

Market value (£m)	20.3
Sector	Office
Annualised gross rental (£m)	1.77
Lettable area (Sq. Ft.)	146,936
Anchor tenants	Scottish Widows Limited, The Equitable Life Assurance Society
Let by area (%)	73.9%
WAULT (years) (to first break)	6.1 (5.2)

- Acquired March 2016.
- Scottish Widows, as expected, exercised their option to break lease on Building 2 in November 2016.
- New 10-year leases agreed with Equitable Life for first and second floors of Building 2.
- Refurbishment of all floors in Building 2 being advanced.
- Improved dilapidations position secured with Scottish Widows in respect of Building 2, reducing net refurbishment costs.

Hampshire Corporate Park, Eastleigh

Market value (£m)	15.4
Sector	Office
Annualised gross rental (£m)	1.39
Lettable area (Sq. Ft.)	85,422
Anchor tenants	Aviva Health UK Limited, Royal Bank of Scotland plc
Let by area (%)	97.8%
WAULT (years) (to first break)	5.0 (5.0)

- Recently completed external repair and decoration scheme to Hamphsire House (rebranded from NatWest House).
- Remodelling of entrance and foyer to include provision of new shower and locker facilities to Hampshire House.
- Refurbishment of first floor of Hampshire House being advanced, with all refurbished space already under offer at improved headline rent of £19.75/sq. ft.
- RBS did not exercise their December 2016 break option – occupancy secured until December 2021.
- Opportunity to re-gear lease with Aviva at Chilworth House.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

One & Two Newstead Court, Annesley

Market value (£m)	15.4
Sector	Office
Annualised gross rental (£m)	1.44
Lettable area (Sq. Ft.)	146,262
Anchor tenants	E.ON UK plc
Let by area (%)	100.0%
WAULT (years) (to first break)	8.6 (3.6)

- Renegotiated leases of larger Building 2 with E.ON from May 2015 for 10-years, with tenant break at fifth-year.
- E.ON completed £1.2m refurbishment of first floor of Building 1.
- Agreed with E.ON the re-gearing of the lease on Building 1 from March 2016 for 10-years, with tenant break at fifth-year, at a 10% improved rental rate.

Columbus House, Coventry

Market value (£m)	14.6
Sector	Office
Annualised gross rental (£m)	1.12
Lettable area (Sq. Ft.)	53,253
Anchor tenants	TUI Northern Europe Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	7.0 (7.0)

- Let to Tui until 2024 on a geared lease with fixed annual uplifts.
- Tui has now sub-let the entire building to First Utility underpinning the rent.
- Potential to agree lease surrender with Tui Travel, with benefit of existing sublets to First Utility.

Arena Point, Leeds

Market value (£m)	12.0
Sector	Office
Annualised gross rental (£m)	0.59
Lettable area (Sq. Ft.)	98,856
Anchor tenants	JD Wetherspoon Plc, Expotel Hotel Reservations Ltd
Let by area (%)	66.8%
WAULT (years) (to first break)	6.1 (2.2)

- Planning consent secured for high level illuminated signage and installation being progressed to highlight property as a landmark location in cityscape.
- Undertaking refurbishment of the vacant office space and creation of basement shower area and cycle store.
- Office rents expected to see a marked uplift as the remaining vacant floors are refurbished and let.
- Progressing rent review with JD Wetherspoon Plc in 2017.
- Consideration of the sale of the podium area, being a significant development site within Leeds City Centre.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

Portland Street, Manchester

Market value (£m)	10.8
Sector	Office
Annualised gross rental (£m)	0.77
Lettable area (Sq. Ft.)	54,959
Anchor tenants	Mott MacDonald Limited, New College Manchester
Let by area (%)	100.0%
WAULT (years) (to first break)	5.8 (3.1)

- Ground and six upper floors modern offices behind listed retained stone facade extending to 54,959 sq. ft.
- Let to various tenants, including Mott MacDonald Limited and New College Manchester.
- Completed legacy issues from previous developer's refurbishment.
- Final remaining space let to Mott McDonald, who also removed their break options on their existing lease securing income on the fourth floor to May 2025.

Oaklands House, Manchester

Market value (£m)	10.4
Sector	Office
Annualised gross rental (£m)	1.09
Lettable area (Sq. Ft.)	161,768
Anchor tenants	HSS Hire Service Group Limited, Rentsmart Ltd
Let by area (%)	80.0%
WAULT (years) (to first break)	6.1 (3.8)

- Second-phase improvement works underway, including new fire alarm, refurbished water supply system and a large suite of external high-level signage.
- Letting to business centre agreed with respect to the second and third floors.
- Opportunity to capitalise on competing buildings in the locality being converted to residential.
- Marketing literature and branding now update.

CGU House, Leeds

Market value (£m)	9.1
Sector	Office
Annualised gross rental (£m)	1.01
Lettable area (Sq. Ft.)	50,763
Anchor tenants	Aviva Insurance Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	0.7 (0.7)

- Investigation ongoing as regards refurbishment of upper levels following Aviva vacating.
- Refurbishment will also include a new front entrance reception foyer to provide a better presentation to the market.
- Ground floor likely to be for leisure/restaurant/licensed use. Current interest from new pizza chain.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Office Sector *(continued)*

The Genesis Centre, Warrington

Market value (£m)	9.0
Sector	Office
Annualised gross rental (£m)	0.90
Lettable area (Sq. Ft.)	95,544
Anchor tenants	Evolution Recruitment Solutions Ltd, Environment Partnership (TEP) Ltd, Zentek Engineering (UK) Ltd
Let by area (%)	64.8%
WAULT (years) (to first break)	2.4 (1.5)

- Modern multi-let office development with car parking extending to 95,500 sq. ft..
- Management agreement agreed with serviced office operator for an initial 8,000 sq. ft. with option to grow to 22,000 sq. ft, with first letting agreed.
- Refurbishment of reception and some WCs completed.
- Additional space taken by Nodus Solutions, Naue Geosynthetics, Equity Release Supermarket Limited and Servium Limited, all of whom are existing occupiers growing within the building.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Industrial Sector

Juniper Park, Basildon

Market value (£m)	21.8
Sector	Industrial
Annualised gross rental (£m)	1.49
Lettable area (Sq. Ft.)	296,100
Anchor tenants	Schenker Ltd, Vanguard Logistics Services Ltd, Telent Technology Services Ltd, Tigers Global Logistics Ltd
Let by area (%)	70.0%
WAULT (years) (to first break)	1.4 (1.2)

- Industrial, warehouse and office park acquired in March 2016.
- Multi-let to 9 tenants on 13 leases.
- Lease renewal discussions being advanced with Schenker in relation to their office space. Looking to relocate Schenker to adjoining vacant unit to release more marketable office space to market.
- Proposals being advanced for alterations to vacant Unit 1A, being the largest void.

Wardpark Industrial Estate, Cumbernauld

Market value (£m)	19.9
Sector	Industrial
Annualised gross rental (£m)	2.38
Lettable area (Sq. Ft.)	707,775
Anchor tenants	Thomson Pettie Limited, Cummins Limited, Balfour Beatty WorkSmart Limited, Bott Ltd, Bunzl UK Limited
Let by area (%)	90.7%
WAULT (years) (to first break)	3.3 (2.3)

- Decision to retain asset based on outlook for stronger rental growth for industrial site.
- Proximate to the site of the new Scottish film centre, which offers significant growth potential to the area.

Road 4 Winsford Industrial Estate, Winsford

Market value (£m)	13.5
Sector	Industrial
Annualised gross rental (£m)	0.90
Lettable area (Sq. Ft.)	246,209
Anchor tenants	Jiffy Packaging Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	17.7 (17.7)

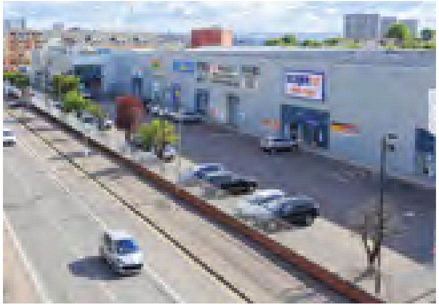
- Let to Jiffy Packaging Limited until 2034.

Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Industrial Sector *(continued)*

The Point, Glasgow

Market value (£m)	11.6
Sector	Industrial
Annualised gross rental (£m)	0.87
Lettable area (Sq. Ft.)	183,690
Anchor tenants	See Woo Foods (Glasgow) Limited, Howden Joinery Properties Limited, Euro Car Parts Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	10.3 (6.2)



- Secured surrender of lease of Unit 4. Refurbished and re-let to more suitable trade counter users at new headline level for estate. Date of entry was mid-August 2016, resulting in the estate being 100% let.
- January 2016 rent review with HSS, Unit 5a, agreed at £7/sq. ft., a 26% increase.
- Rent review of largest unit (88,158 sq. ft.), See Woo Foods, currently being advanced against background of evidence of improved rental growth on the estate.

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Asset and Investment Managers' Report *(continued)*

Top 15 Properties: Retail/Other Sector

1-4 Llansamlet Retail Park, Swansea

Market value (£m)	12.0
Sector	Retail
Annualised gross rental (£m)	0.98
Lettable area (Sq. Ft.)	71,615
Anchor tenants	Steinhoff UK Group Property Limited, Wren Living Limited, Halfords Limited
Let by area (%)	100.0%
WAULT (years) (to first break)	8.8 (6.3)

- Last remaining vacant unit now let to Tapi Carpets.
- Planning consent obtained for drive-thru unit.
- Terms agreed with international fast food operator for drive-thru.
- Decision to retain for an interim period to obtain maximum value on disposal.

Asset and Investment Managers' Report *(continued)*

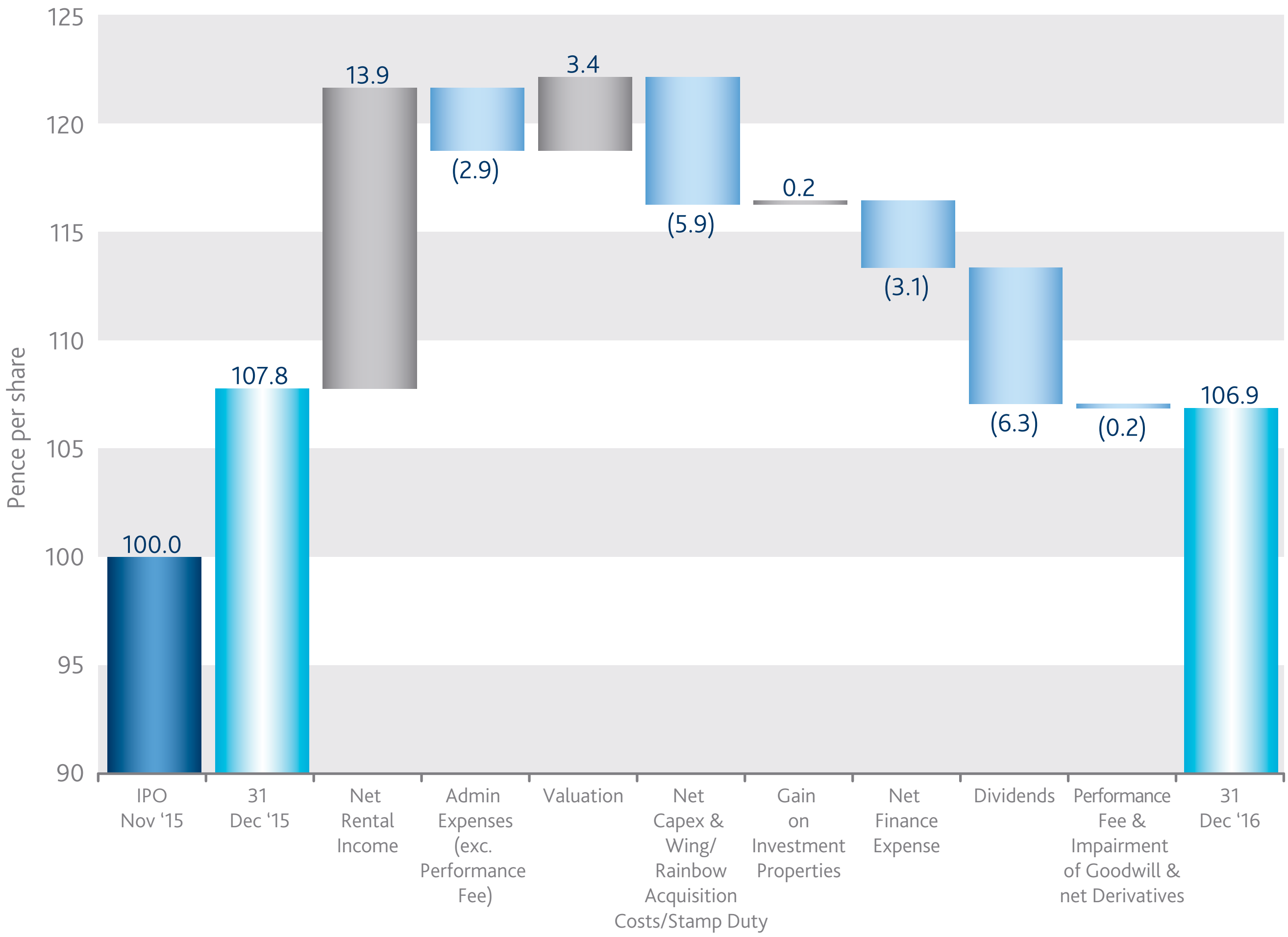
Net Asset Value

In the year to 31 December 2016, the EPRA Net Asset Value ("NAV") of the Group decreased marginally to £293.2m (31 December 2015: £295.7m), equating to a decrease of 0.9p pence per share ("pps") to 106.9pps (31 December 2015: 107.8pps) after the declaration of dividends in 2016 amounting to 6.25pps.

The Investment Property portfolio valuation was £502.4m (2015: £403.7m). In the year to 31 December 2016 the valuation increased on a like-for-like basis 2.25%, whilst for the period 1 July 2016 to 31 December 2016 on a like-for-like basis the valuation grew 0.03%. The property portfolios acquired in the first-quarter of 2016 were revalued higher at the year-end, however, this was more than offset by their associated acquisition costs and the impact of the increase in Stamp Duty on these properties, which together amounted to 2.5pps in the period.

The marginal reduction in the EPRA NAV over the year was predominately derived from the pace of capital expenditure amounting to £9.1m net, which was not fully reflected in the portfolio valuation. In addition, there was the impairment of the goodwill, which resulted in a £0.6m charge and an initial Performance Fee provision of £0.3m as well as dividends declared amounting to £17.1m, all of which had a particular impact in the second-half of 2016. These more than offset gains from the valuation of properties, net rental income and disposal gains.

Net Asset Value Bridge 2016



Asset and Investment Managers' Report *(continued)*

In the year to 31 December 2016 the Group completed property acquisitions of £133.6m (gross, including transaction costs, £140.7m), and disposals of £44.9m (gross, before transaction costs, £45.9m) and capital expenditure of £9.1m net.

The NAV decreased to 106.4pps (31 December 2015: 107.7pps) over the same period. The EPRA NAV is reconciled in the table below.

	2016 Pence per Share	2015 Pence per Share
EPRA NAV as at 1 January 2016 (2015: 6 November 2015)	107.8	100.0
Net rental income	13.9	1.7
Administration and other expenses	(3.0)	(0.5)
Gain on the disposal of investment properties	0.2	0.0
Change in the fair value of investment properties	(2.5)	8.7
Operating profit before exceptional items	116.4	109.9
Exceptional Item (2015: Launch Costs)	0.0	(1.9)
Operating profit after exceptional items	116.4	108.0
Net finance expense	(3.1)	(0.3)
Impairment of Goodwill	(0.2)	0.0
Net movement in fair value of derivative financial instruments	(0.4)	0.0
Operating profit after finance item	112.7	107.7
Income tax	0.0	0.0
Operating profit after taxation	112.7	107.7
Dividends paid	(6.3)	0.0
Net Asset Value	106.4	107.7
Gain/Loss in fair value of derivative financial instruments	0.5	0.1
EPRA NAV per share as at 31 December 2016	106.9	107.8

Income Statement

The 2015 comparative period was 56 days, being 6 November 2015 to 31 December 2015 (inclusive).

Operating profit before exceptional items and gains and losses on property assets and other investments for the year ended 31 December 2016 amounted to £29.9m (2015: 56 days, £3.3m). Profit after finance items and before taxation was £13.4m (2015: 56 days, £21.1m). 2016 included a full rent roll of properties held as at 31 December 2015, plus the partial rent roll for properties acquired during 2016. 2015 included an exceptional item for launch costs, of £5.3m, which were incurred as a result of the Group's Admission to the London Stock Exchange ("LSE"), as well as a £23.8m gain in the fair value of investment properties.

Rental income amounted to £43.0m (2015: 56 days, £5.4m). More than 80% of the rental income is collected within 28 days of the due date and bad debts in the year were minimal (2015: 56 days, minimal).

The EPRA cost ratio was 30.4% (2015: 56 days, 39.3%) which is the result of, as expected, higher void costs, additional expenses arising from property acquisitions, legal and professional fees associated with the refinancings and expenses associated with establishing a listed company. The increased void costs were a consequence of the significant property portfolio acquisitions in the first-quarter of 2016, with higher void rates than the Group's then portfolio. The costs ratio in the second-half of 2016 was lower, largely a consequence of the reduced acquisitions and refinancing activity. It is anticipated that the underlying costs ratio is trending down, with the benefit of the increasing scale of the Group's business and as it matures as a public company. The costs ratio in 2015 included the effects of certain costs incurred in the 56-day accounting period that would have normally been charged for a full year, for example, auditor's fees and some legal and professional fees.

Asset and Investment Managers' Report *(continued)*

Administrative expenses include, for the first time, an initial accrual for the Performance Fee for the period 6 November 2015 to 31 December 2018. As at 31 December 2016 the aggregate accrual was £0.25m, all of which was charged in the year; as noted previously the Group had identified but not accrued £0.1m for the 56 days of 2015. The total return from 6 November 2015 to 31 December 2016 was 13.2%, an annualised rate of 11.5%.

Finance expense increased due to increased debt and costs arising on the significant refinancing activity in the first-half of 2016 when refinancing costs amounted to £1.7m. The Group's percentage cost of debt (interest cost and hedging expense) nonetheless decreased, a combination of the favourable financing environment and its status as a listed Company which improved the Company's access to banking facilities.

Dividend

In relation to the period 1 January 2016 to 31 December 2016, the Company declared dividends totalling 7.65pps (2015: 56 days: 1pps).

Period Covered	Announcement Date	Ex Date	Record Date	Paid Date	Pence per Share
6 November 2015 to 31 December 2015	7 March 2016	17 March 2016	18 March 2016	15 April 2016	1.00
1 January 2016 to 31 March 2016	27 May 2016	9 June 2016	10 June 2016	8 July 2016	1.75
1 April 2016 to 30 June 2016	1 September 2016	8 September 2016	9 September 2016	7 October 2016	1.75
1 July 2016 to 30 September 2016	17 November 2016	24 November 2016	25 November 2016	22 December 2016	1.75
1 October 2016 to 31 December 2016	23 February 2017	2 March 2017	3 March 2017	13 April 2017	2.40

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next 2-to-5 years, with a weighted average maturity of 2.9 years (31 December 2015: 3.4 years).

The Group's borrowing facilities are with Santander UK, Royal Bank of Scotland and ICG Longbow Ltd, and have been fully drawn down. During the period properties have been sold, resulting in debt repayment where debt substitution was not possible. Total bank borrowing at 31 December 2016 amounted to £220.1m (31 December 2015: £128.6m) (before unamortised debt issuance costs).

At 31 December 2016 the Group's cash and cash equivalent balances amounted to £16.2m (31 December 2015: £24.0m).

The Group's net loan-to-value ratio stands at 40.6% (31 December 2015: 25.4%). The Board targets a Group net loan-to-value ratio of 35%, with a maximum limit of 50%.

The table below sets out the borrowings the Group had in place as at 31 December 2016:

Lender	Original Facility £'000	Outstanding Debt* £'000	Maturity Date	Gross LTV (%)†	Annual Interest Rate	Amortisation	Hedging & Swaps: Notional Amounts/Rates‡
Santander UK	£48,300	£45,432	Dec '18	43.0	2.00% over 3 month LIBOR	Mandatory prepayment basis	£6m/1.867% & £18.15m/1.014%
Santander UK	£25,343	£14,340	Dec '18	34.2	2.00% over 3 month LIBOR	Mandatory prepayment basis	£3.40m/2.246% & £9.271m/1.010%
Royal Bank of Scotland	£25,000	£24,450	Jun '19	42.1	2.15% over 3 month LIBOR	None	£12.48m/1.790% & £0.02m/1.110%
ICG Longbow Ltd	£65,000	£65,000	Aug '19	44.3	5.00% pa for term	None	n/a
Santander UK	£30,990	£30,990	Jan '21	48.1	2.15% over 3 month LIBOR	Mandatory prepayment basis	£9.375m/1.086% & £6.920m/1.203% & £5.280m/1.444%
Royal Bank of Scotland	£40,000	£39,848	Mar '21	50.2	2.40% over 3 month LIBOR	Prepayment basis	£19.9m/1.395%
	£234,633	£220,060					

* Including unamortised debt issue costs.
† Based upon Cushman & Wakefield property valuations.
‡ Hedging arrangements: As at 31 December 2016, the swap notional arrangements was £90.8m (31 Dcember 2015: £35.2m). Under the swap agreements, the notional amount redeuces on a quarterly basis.

Asset and Investment Managers' Report *(continued)*

As at 31 December 2016, the Group has substantial headroom against its borrowing covenants. The Group has the capacity to utilise further borrowings, if available, in excess of 20% of its current NAV.

The net gearing ratio, net debt to ordinary shareholders' equity (basic), of the Group was 69.9% as at 31 December 2016 (31 December 2015: 34.8%).

Hedging

The Group applies a hedging strategy that is aligned to the property management strategy. At the year-end borrowings were 106.5% hedged against interest rate risk: of all borrowings 29.5% are at a fixed rate; 41.3% have interest rate swaps to fix the variable LIBOR portion of the interest rate applicable; and 35.7% have interest rate caps which place an upper limit on the variable LIBOR portion of the interest rate applicable.

The over-hedged position of 106.5% was the result of property disposals. Further to a management review, since the year end the position has been addressed with the over-hedged position reduced to 101.6%.

The weighted average effective interest rate on bank borrowings as at 31 December 2016, including the cost of hedging, was 3.7% (31 December 2015: 4.5%).

Tax

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK rental operations became exempt from UK corporation tax from that date. The exemption remains subject to the Group's continuing compliance with the UK REIT rules.

At 31 December 2016 the Group's taxation was a credit of £0.02m, due to a release of a historic accrual (2015: 56 days, nil).

Subsequent Events after the Reporting Period – Acquisitions and Borrowings

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC ("Conygar") to acquire regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares, and the two banks currently providing secured lending to Conygar.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

Juniper Park, Southfield Industrial Estate, Basildon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Principal Risks and Uncertainties

The Board acknowledges that it faces a number of risks which could impact its ability to achieve its strategy. While it is not possible to identify or anticipate every risk due to the changing business environment, the Group has established a risk management process to monitor and mitigate identifiable risks. The Board and the Audit Committee robustly reviews the risk management plan on a bi-annual basis. The below list sets out the current identifiable principal risks in no particular order which the Board is monitoring, but does not purport to be an exhaustive list of all the risks faced by the Group. The Board is aware that material new risks will arise which, to date, are not deemed material nor warrant significant resources to monitor. As and when such risks are identified the Group will put in place controls to monitor and mitigate.

Key to risk trend — «» No change — ⌃ Trend up — ⌄ Trend down

Investment in Commercial Property Assets

Impact	Mitigation	Movement in the period «»
Investment decisions and deviation from the investment strategy could result in lower income and capital returns to Shareholders.	The Board will acquire a portfolio of interests that together offer Shareholders diversification of investment risk by investing in a range of geographical areas and a large number of assets.	The property portfolio remains balanced across a range of geographical areas and large number of investment properties.
	The Board will only invest in office and industrial properties that are situated in the United Kingdom and outside of the M25 motorway. However, the Group may invest in property portfolios in which up to 50% of the properties (by market value) are situated within the M25 motorway.	The Group continues to purchase properties outside the M25 motorway.
	No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties. However, the Board may, in exceptional circumstances, consider a property having a value of up to 20% of the Group's Investment Property value at the time of investment.	Tay House is the highest valued property which equates to 6.4% of the Group's investment properties.
	No more than 20% of the Group's Investment Property value shall be exposed to any single tenant or group undertaking of that tenant.	The Group's largest single tenant exposure is 3.7%.
	Speculative development (ie, properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.	No speculative construction was undertaken in the year.
	The value of the assets is protected by an active property management programme and this is regularly reviewed against the business plan for the acquisition.	The Asset Manager continues to actively manage the investment properties in accordance with market conditions and individual asset programme.

Principal Risks and Uncertainties *(continued)*

Economic and Political Risk		
Impact	Mitigation	Movement in the period
The macro health of the UK economy could impact on borrowing costs, demand by tenants for suitable properties and the quality of the tenants.	The Board receives advice on macro-economic risks from the Investment Manager and other advisors and will act accordingly.	Following the vote to end the UK's membership of the EU on 23 June 2016, there remains a risk that property valuations and the occupancy market may be impacted while this period of uncertainty is negotiated.
Bank reference interest rates may be set to rise accompanying higher inflation.	The Board has instigated a policy of hedging at least 90% of variable interest rate borrowings.	Continued adherence to the hedging policy.
The Bank of England Financial Stability Report, November 2016, notes there is a risk of further adjustment in the commercial real estate market, given the reliance of the sector on inflows of foreign capital, and some incidences of stretched valuations. Further price falls could reduce access to finance.	The Group's borrowings are currently provided by a range of institutions with varying maturities. The Board is constantly reviewing funding options with an emphasis on the lengthening the maturity of borrowings.	The lending institutions continue to lend to established customers within agreed limits.

Tenant Risk		
Impact	Mitigation	Movement in the period
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	Income risk has been diversified by letting properties, where possible, to a large number of low risk tenants across a wide range of different business sectors throughout the United Kingdom.	The tenant mix and their underlying activity business remains diversified, and the number of tenants has risen to 717 as at 31 December 2016.
A high concentration of lease term maturity and/or break options.	The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. With a focus on securing early renewals and increased lease period.	The WAULT to first break as at 31 December 2016 was 3.6 years. The largest tenant is 3.7% of the gross rental income.
	The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents.	The Asset Management team remains vigilant to the health of current tenants and continues to liaise with occupiers and agents.

Financial and Tax Change Risk		
Impact	Mitigation	Movement in the period
Changes to the UK REIT, tax and financial legislation.	The REIT regime, tax and financial legislative changes may have an adverse impact on the Group. The Board receives advice on these changes where appropriate and will act accordingly.	The Group continues to receive advice from a number of corporate advisors and adapts to changes as required.

Principal Risks and Uncertainties *(continued)*

Operational Risk		
Impact	Mitigation	Movement in the period
Business disruption could impinge on the normal operations of the Group.	The Asset Manager and Investment Manager each have contingency plans in place to ensure there are no disruptions to the core infrastructure, including cyber security measures, which would impinge on the normal operations of the Group.	Both the Asset Manager and Investment Manager annually review their Disaster and Business Continuity Plans.
	An annual due diligence exercise is carried out on all principal vendors.	Annual due diligence visits were undertaken with the Company's principal vendors.
	As an externally managed Company, there is a continued reliance on the Asset Manager and Investment Manager.	Both the Asset Manager and Investment Manager are viable long-term concerns.

Accounting, Legal and Regulatory Risk		
Impact	Mitigation	Movement in the period
Changes to the accounting legal and/or regulatory legislation.	The Group has robust processes in place to ensure adherence to accounting, tax, legal and regulatory requirements.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
	All contracts are reviewed by the Group's legal advisors.	The Group continues to receive advice from its corporate advisors and has incorporated changes where required.
	The Group has processes in place to ensure compliance with the applicable Listing Rules for a Premium Listed company. The Administrator, in its capacity as Group Accountant and the Company Secretary attends all Board meetings to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Advisor and Broker.	The Administrator continues to attend all Board meetings and advise on Listing Rules in conjunction with the Financial Advisor and Broker.

Arena Point, Leeds

Board of Directors

Kevin McGrath DL OBE

(Chairman and Independent Non-Executive Director – appointed 16 October 2015)

Kevin McGrath is a chartered surveyor who has worked in the property industry for 30 years. He is a member of the Royal Institute of Chartered Surveyors, the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He is a Founding Trustee of a number of charities.

Kevin is Chairman of M&M Property Asset Management and the Chairman of INTCAS, an independent technology and support service company that assist education institutions from across the world to attract, recruit and manage international students in a safe, compliant and cost efficient way. Kevin was previously Managing Director and Senior Adviser of F&C REIT Asset Management and prior to that, he was a founding equity partner in REIT Asset Management, having previously worked as a Senior Investment Surveyor with Hermes Investment Management.

William Eason

(Senior Independent Non-Executive Director – appointed 16 October 2015)

William ("Bill") Eason was previously Head of Charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a Member of the London Stock Exchange in 1976. Bill was Chief Investment Officer at Laing & Cruickshank Investment Management and is a former Chairman of Henderson High Income Trust plc.

Bill is currently a Director of Henderson International Income Trust plc, The European Investment Trust plc and of Institutional Protection Services Limited. He is an Associate of the Society of Investment Professionals and a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles Bill has acted as a Governor of Henley Management School and is currently a Trustee of Marshall's Charity, The Gordon Foundation, and the John Hampden Fund. He is also a Business Fellow of Gray's Inn.

Board of Directors *(continued)*

Daniel Taylor

(Independent Non-Executive Director – appointed 16 October 2015)

Daniel ("Dan") Taylor is the founder and CEO of Westchester Capital Limited, an investment and advisory firm, specialising in real estate. He currently holds the role as Managing Partner of Bourne Financial Limited, a privately held serviced office business based in London, in which Westchester Capital is a principal investor.

From 2011 to 2015, Dan was Chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, the UK's second largest serviced office provider until the sale of the business to Regus plc.

Over his career Dan has held both executive and non-executive directorships for various private and listed companies and has extensive experience in investment management, corporate finance and corporate governance. He has active registered status with the FCA as an investment manager (CF30) and CF1-Director and has held the following controlled functions at authorised firms: CF10-Compliance Oversight; CF11-Money Laundering Reporting; CF21-Investment Advisor; and CF27-Investment Management.

Stephen Inglis

(Non-Executive Director – appointed 16 October 2015)

Stephen Inglis is the Group Property Director and Chief Investment Officer of the Asset Manager. He has over 25 years' experience in the commercial property market, most of which has been working in the investment and development sectors.

Having worked for several International property consultants in Glasgow and London, Stephen established a specialist property investment consultancy business, with the objective of providing a superior quality of advice and service than he had witnessed being provided by larger consultancies.

In his current role, Stephen has, since June 2013, acquired or sold over 200 assets in deals totalling more than £650 million. He has responsibility for all property functions within the Asset Manager's structure, from investment management to asset and property management. He was instrumental in setting up, equity raising and investing both Tosca Property Fund I and Tosca Property Fund II and the subsequent IPO of Regional REIT.

Martin McKay

(Non-Executive Director – appointed 22 June 2015)

Martin McKay was appointed Chief Financial Officer to the Investment Manager in August 2007, but has been involved with the Toscafund business since its foundation in 2000.

Earlier in his career, Martin was the Chief Accountant at Sterling Brokers Limited, a money broking company. He graduated in Microbiology from Warwick University in 1983 and qualified as a member of the Institute of Chartered Accountants in England and Wales in October 1987.

Report of the Directors

The Directors of Regional REIT Limited present their report and the consolidated audited Financial Statements of the Company and the Group for the year ended 31 December 2016.

Status

The Company was incorporated in Guernsey, Channel Islands under the Companies (Guernsey) Law, 2008, as amended (the "Law") and is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Collective Investment Scheme pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and the Registered Collective Investment Schemes Rules 2015. It is a member of the Association of Investment Companies ("AIC").

Directors

The Directors of the Company were in office during the whole of the year ended 31 December 2016. Their biographies can be found on pages 52 and 53. Currently, all Directors are males and whilst the Board supports the Davies Report's recommendations to promote greater female representation, the Board does not consider that it would be appropriate to set diversity targets, as all appointments will be made on merit. However, the Board recognises the importance and benefits of improving the gender balance of the Board and there is an ongoing commitment to strengthen female representation at Board level.

In accordance with the Company's Articles of Incorporation (the "Articles"), all the Directors will stand for re-election at the forthcoming Annual General Meeting ("AGM") on Thursday, 25 May 2017.

The Directors ensure that they maintain their continuing professional development requirements in accordance with the requirements of their respective professions as well as receiving briefings from the Company Secretary and other advisors on a regular basis.

Directors and Officers Liability Insurance

Directors and Officers Liability insurance is maintained through the Asset Manager's own insurance policy. Save for the indemnity provisions in the Articles, there are no qualifying third party indemnity provisions in force.

Dividends

The Directors maintain a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' view on the outlook for sustainable recurring earnings, subject to compliance with REIT status requirements. The Directors intend to reinvest proceeds from disposals of assets in accordance with the Company's Investment Policy.

During 2016 the Company declared three quarterly dividends, each of 1.75 pence per share, and a dividend of 1.00 pence per share for the period 6 November 2015 to 31 December 2015. A dividend of 2.40 pence per share for the year ended 31 December 2016 was declared on 23 February 2017. This dividend will be payable on 13 April 2017 to shareholders on the register at the close of business on 3 March 2017. The ex-dividend date will be 2 March 2017.

Shareholders are not required to vote on the payment of a dividend under the Law at the Company's AGM on 25 May 2017. Given the requirement to distribute at least 90% of qualifying property rental business income and that the views of major Shareholders were sought before adopting a policy of paying dividends quarterly, it is not thought that this adversely impacts Shareholders' rights.

At the time of the IPO, the Company's stated Investment Objective was to deliver an attractive total return to Shareholders, with a strong focus on income, from investing in UK commercial property, predominantly in the office and industrial sectors in major regional centres and urban areas outside of the M25 motorway. Whilst not forming part of the Company's Investment Objective nor Investment Policy, the Company stated that it would target a dividend yield of between 7 and 8 per cent. per annum at 100 pence per Ordinary Share, being the pro forma EPRA NAV per Ordinary Share as at 30 June 2015 (before costs and expenses of the Transaction), the Placing Price.

- For the purpose of determining the profits available for a dividend distribution the Company will choose to treat all of its net income from the Property Related Business as qualifying property income, notwithstanding that the Company accounts for both property income and interest income.
- The payment and level of dividends will always remain subject to the Company's performance, its financial position, the business outlook and to market conditions.
- It is the Company's intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution requirement.
- The Board will resolve to declare any dividends at an appropriate time after the end of the relevant quarter dates, being 31 March, 30 June, 30 September and 31 December. The dividends will be paid approximately one month after being declared. Pursuant to the Law, Shareholders are not required to approve the payment of any dividend.

Report of the Directors *(continued)*

In order to maintain REIT status, the Company will be required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute at least 90% of the income profits (broadly, calculated using normal tax rules) of the Group to the extent that they are derived from the Property Related Business of the Group (other than any Property Related Business carried on outside the UK by non-UK tax resident members of the Group).

The Company has the ability, by ordinary resolution, to offer shareholders the right to elect to receive further ordinary shares, credited as fully paid, instead of cash in respect of all or any part of any dividend (a scrip dividend). At the current time, and following a consultation with Shareholders, it is not the Directors' intention to offer a scrip dividend option.

Share Capital

As at 31 December 2016, the Company's total issued share capital was 274,217,264 ordinary shares (31 December 2015: 274,217,264). All of the Company's ordinary shares are listed on the premium listing segment of the London Stock Exchange and each ordinary share carries one vote.

There is only one class of ordinary shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2015: none) are currently in issue.

Purchases of own Shares

No shares have been bought back in the year. The latest authority to purchase its own ordinary shares was granted to the Directors at the Company's last AGM on 27 May 2016 and expires on the date of the next AGM. The Directors are proposing that their authority to buy back shares be renewed at the forthcoming AGM on 25 May 2017.

Restrictions on the Transfer of Shares

Subject to the Articles, as well as applicable foreign securities laws, a Shareholder may transfer all or any of his ordinary shares in any manner which is permitted by the Law or in any other manner which is from time to time approved by the Board.

If any Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a "Non-Qualified Holder" (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, (i) the person will be deemed, upon the expiration of such 30 days, to have forfeited his Shares or (ii) if the Board in its absolute discretion so determines, the Company may dispose of the Shares at the best price reasonably obtainable and pay the net proceeds of such a disposal to the former holder.

A Non-Qualifying Holder is defined as any person whose ownership of Ordinary Shares, or the transfer of Ordinary Shares to such person, may:

- cause the Company's assets to be deemed "plan assets" for the purposes of the US Internal Revenue Code of 1986 (as amended), or US Employee Retirement Income Security Act of 1974 (as amended);
- cause the Company to be required to register as an "investment company" under the US Investment Company Act 1940;
- cause the Company or any of its securities to be required under the US Exchange Act, the US Securities Act or any similar legislation;
- cause the Company not being considered a "Foreign Private Issuer", as such term is defined in rule 3b-4(c) under the US Exchange Act;
- cause the Investment Manager to be required to register as a municipal advisor under the US Exchange Act;
- result in the Company being disqualified from issuing securities pursuant to Rule 506 of Regulation D under the US Securities Act;
- cause a loss of partnership status for US federal income tax purposes or a termination of the US partnership under US Internal Revenue Code of 1986 (as amended), Section 708;
- result in a person holding ordinary shares in violation of the transfer restrictions put forth in any prospectus published by the Company from time to time; or
- cause the Company to be a "controlled foreign corporation" for the purposes of Section 957 of the US Internal Revenue Code of 1986, (as amended), or may cause the Company to suffer any pecuniary or tax disadvantage or any person who is deemed to be a Non-Qualified Holder by virtue of their refusal to provide the Company within formation that it requires in order to comply with its obligations under exchange of information agreements.

Report of the Directors *(continued)*

Directors

The beneficial interests of the Directors of the Company are set out in the below table.

	At 31 December 2016		At 22 March 2017	
Director	Number of Ordinary Shares	% Interest in share capital	**Number of Ordinary Shares**	**% Interest in share capital**
Kevin McGrath	–	–	–	–
William Eason	100,000	0.04	**100,000**	**0.04**
Daniel Taylor	150,000	0.05	**150,000**	**0.05**
Stephen Inglis	752,549	0.27	**752,549**	**0.27**
Martin McKay	–	–	–	–

Substantial Shareholdings

The table below shows the holdings of major shareholders, directly or indirectly interested in 5% or more of the issued Ordinary Shares of the Company that have been notified to the Directors.

	At 31 December 2016		At 22 March 2017	
Shareholder	Number of Ordinary shares notified	% Interest in share capital	**Number of Ordinary shares notified**	**% Interest in share capital**
Toscafund Investments Limited	27,154,198	9.90	**27,154,198**	**9.90**
Toscafund Limited	19,556,508	7.13	**19,556,508**	**7.13**
Old Mutual Plc	15,781,198	5.76	**15,781,198**	**5.76**
Torreal SA	14,800,721	5.40	–	–
Johnson Tosc LLC	14,692,745	5.36	**14,692,745**	**5.36**

Financial Risk Management

The principal risks and uncertainties faced by the Company and the Company's policies for managing these risks are set out on pages 46 to 48.

The principal financial risks relating to financial instruments and details of the risk mitigation factors relating to financial instruments are set out in note 26.

Asset Manager

London & Scottish Investments Limited were appointed as the Asset Manager to provide property management services to the Company (and Regional Commercial Midco Limited ("Midco") and the Jersey limited companies which hold the properties directly) with effect from the Company's shares being admitted to trading on the London Stock Exchange on 6 November 2015.

Under the Asset Management Agreement, the Asset Manager is responsible for the day to day management of the Property Portfolio, subject to the Investment Objective of the Company and its Investment Policy (as set out on page 17) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the real estate assets of the Company.

Notice of termination of the Asset Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5 years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If a notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Asset Management Agreement may also be terminated earlier with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager or by the Investment Manager.

The Company or Midco may terminate the Asset Management Agreement with immediate effect by giving written notice to the Asset Manager in the event of the liquidation or insolvency (or analogous event) of the Asset Manager.

Report of the Directors *(continued)*

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board, the Asset Manager and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

Investment Manager and Alternative Investment Fund Manager

The Company appointed Toscafund Asset Management LLP as the Company's Investment Manager (and to provide certain related services to Midco and the Jersey limited companies which hold property directly). The Investment Manager is responsible for the day to day management of the Company's investments, subject to the investment objective and the investment policy of the Company. The Investment Manager is an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

Notice of termination of the Investment Management Agreement may be issued at any time on or before the expiry of an Initial Period (being the period of 5-years from the date of the Admission of the Company's Shares to trading), in which case the agreement will terminate one year after the expiry of the Initial Period. If notice to terminate is not given, the agreement shall continue for recurring three year periods ("Subsequent Periods"). Notice to terminate may be given no later than one year prior to the end of a Subsequent Period, in which case the agreement will terminate at the end of the Subsequent Period.

Notwithstanding the initial term, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under FSMA to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

Management and Performance Fees

In addition the Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of Total Shareholder Returns in excess of the annual Hurdle Rate of 8% for the relevant Performance Period. Total Shareholder Returns for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per ordinary share and the total dividends per ordinary share declared in the Performance Period. The initial Performance Period runs from 6 November 2015 to 31 December 2018. Subsequent Performance Periods will be annual, from 1 January to 31 December.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark, which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially for the period ending 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-185 of the IPO Prospectus, published on 3 November 2015.

Continuing Appointment of Asset Manager and Investment Manager

The Management Engagement and Remuneration Committee ("MERC") recommended to the Board that the continued appointment of the Managers' on the terms of their respective agreements be approved and the Directors have agreed with this recommendation. Further details can be found in the MERC Report on page 74.

Administrator

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining Company's records and statutory registers, and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Capita Sinclair Henderson Limited as Sub-Administrator. An annual fee of £127,000 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

The Administration Agreement is for an initial term of one year, following which it will automatically renew for 12 month periods unless notice of termination is served by either party at least 90 days prior to the end of each period.

Corporate Governance 52 - 79

Report of the Directors *(continued)*

Going Concern

The Board confirm that it has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the portfolio and the Company's ability to meet obligations as they fall due for a period of at least 12 months from the date that these Financial Statements were approved.

Accordingly, the Board of Directors considers that it is appropriate to prepare the Financial Statements on a going concern basis.

Viability Statement

The Board has assessed the viability for the Company over a four-year period, taking account of the Company's position and the risks as set out in the Strategic Report.

The Board confirms that is has a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the next four years, taking account of the risks as set out in the Chairman's Statement and the Principal Risks and Uncertainties Report.

During 2016, the Board in conjunction with the Audit Committee, carried out a robust assessment of the Principal Risks and Uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the four-year period. The risk review process from the internal control testing provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believe that the Group is well placed to manage its Principle Risks and Uncertainties successfully, taking into account the current and economic and political environment.

The Board conducted the review for a four-year period to reflect the Group's weighted average debt profile of approximately three years, and the Group's WAULT of 3.6 years to first-break, which allows the forecast to include the re-letting and rent reversions arising from tenancy reviews.

The Board's expectation is further underpinned by the regular briefings provided by the Asset Manager and Investment Manager. These reviews consider market conditions and opportunities and the associated risks, principally the ability to raise third-party funds and invest the capital, given current political and economic uncertainties, and changes in the taxation. These risks continue to be closely monitored by the Board.

The Directors have carefully reviewed areas of potential financial risk. No material uncertainties have been detected which would influence the Group's or the Company's ability to continue as going concerns for the next four years. The Directors have satisfied themselves that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future.

Corporate Governance Statement

The Corporate Governance Statement on pages 62 to 71 forms part of the Report of the Directors.

The Directors are committed to establishing and maintaining high standards of corporate governance, in line with best practice. The Board works closely with the Company Secretary in this regard. The Board is accountable to shareholders for the governance of the Group's affairs.

The Directors have prepared a statement on how the principles and recommendations of the AIC Corporate Governance Code have been applied. This statement may be found on pages 63 to 68.

Corporate, Social and Environmental Responsibility

Corporate responsibility covers many different aspects of business. The Company has no direct social or community responsibilites but the environmental impact of our properties is important to the Group. Although the Company is not required by statute to provide reporting on its environmental impact and, as a REIT with no employees, the Company's own direct environmental impact is minimal, the Board considers the environmental impact of the Group to be an important issue to be monitored by the Asset Manager, who is responsible for the management of the properties on behalf of the Company.

Report of the Directors *(continued)*

Environmental Impact

The Asset Manager currently has five main aspects in its management of the environmental impact of the portfolio:

- An independent environmental report is required for all potential acquisitions which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination.
- The process of development and refurbishment projects considers the choice of materials used to avoid health hazards or damage to the environment.
- An ongoing examination of the business activities of current and incoming tenants is carried out to identify and prevent pollution. All tenants are monitored to identify potential risks.
- All sites are visited at least annually with material environmental issues reported to the Board.
- All new leases seek to commit occupiers to environmental regulations.

Energy Performance Certificate ("EPC") Ratings

The Energy Act 2011 in England and Wales introduced a number of provisions to improve energy efficiency, including the proposed minimum energy standard effective from April 2018.

The Asset Manager has initiated a full review of all property units. From this there will be a unit-by-unit action plan to either improve EPC ratings rated "E and below" or sell these properties. The number of units identified as F and G is, on initial assessment by the Asset Manager, not considered significant. Additionally, some 10% of the units have no EPC at present, but this is expected to be resolved in the next few months.

Scotland is covered by different and already implemented legislation from England and Wales. Scotland represents approximately 300 units. There is no blanket ban on lettings with poor EPC ratings. Scottish legislation focuses on units of over 1,000 square metres, of which there are only a small proportion of the portfolio. The number of units that are likely to require extensive improvement works is, on initial assessment by the Asset Manager, not considered material.

During the year ended 31 December 2016, the Asset Manager improved the EPC ratings for several properties in the portfolio as part of its refurbishment of vacant units. The Group will consider property disposals and refurbishment to resolve the EPC status and limit any material impact.

The Asset Manager will continue to manage EPC risk through the implementation of ongoing improvement plans at all higher risk properties, in particular "E" rated assets in England and Wales, to ensure this does not adversely impact on its business activities post 2018.

Improving Resource Management at our Properties

In order to reduce energy consumption both in landlords' areas and the tenants' demise, the Asset Manager needs to work closely with tenants. The Asset Manager engages with tenants on resource consumption issues where the Asset Manager has responsibility for the payment of the supply. It has also engaged an energy consultant to advise on energy efficiencies.

Developments and Refurbishments

Development and refurbishments projects are subcontracted. The Asset Manager monitors the works, directly and with project managers on larger projects, to ensure they are in accord with relevant guidelines and laws. All subcontractors are assessed to ensure that they have sufficient resources to meet legal requirements.

Donations

No political contributions were made during the year (2015: nil).

Creditor Payment Policy

It is the policy of the Company to settle invoices of suppliers which are invoiced in accordance with their stated terms.

Anti-Bribery Policy

The Board notes the implementation of the Bribery Act 2010 in the United Kingdom, which came into force on 1 July 2011. The Company continues to be committed to carrying out its business fairly, honestly and openly. It has adopted an anti-bribery policy which aims to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Report of the Directors *(continued)*

Auditor

RSM UK Audit LLP were appointed as auditor to the Company on listing on 6 November 2015. RSM UK Audit LLP ("RSM") has expressed its willingness to continue in office as Auditor to the Company and resolutions for its re-appointment and for the Directors to determine its remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Listing Rules Disclosures

Listing Rule 9.8.4R requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4 with the exception of the details of any contract of significance in which a Director is or was materially interested. The details of the Agreements with the Asset Manager and Investment Manager are set out on pages 56 and 57.

Status for Taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails the Company to pay an annual fee of £1,200.

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax. In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

Subsequent Events

Details of significant subsequent events are set out on page 120.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on Thursday, 25 May 2017, at the offices of the Company's solicitors, MacFarlanes LLP, 20 Cursitor Street, London EC4A 1LT.

A copy of the notice of AGM, with each separate issue presented as a separate resolution, is available to view on the Company's website (www.regionalreit.com) and has been posted to Shareholders, together with an explanation of the resolutions proposed.

The Board has noted that at the Company's previous Annual General Meeting held on 27 May 2016, 27.8% of Shareholders voted against the ordinary resolution 10 (authority to issue shares for cash at a discount to NAV) and that Shareholders did not approve the extraordinary resolution 11 which sought approval to dis-apply pre-emption rights.

In accordance with the 'Corporate Governance Policy and Voting Guidelines 2017' of the Pensions and Lifetime Savings Association ("PLSA") ("the PLSA Guidelines") and ahead of the Company's AGM to be held on 25 May 2017. The Company has responded to Shareholders' concerns and the Directors have decided not to again seek the authority to issue shares for cash at discount to NAV at the next AGM.

For the forthcoming AGM, the Board will ensure that the wording of the resolutions 10 and 11, which will seek authority to disapply pre-emption rights, adheres to the provisions of the Pre-Emption Group's Statement of Principles and complies strictly with the wording recommended by the Pre-Emption Group.

In addition, the Board will seek to engage with Shareholders and voting recommendation services ahead of the forthcoming AGM.

The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole.

For and on behalf of the Board

Kevin McGrath
Chairman and Independent
Non-Executive Director

22 March 2017

Statement of Directors Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements in accordance with applicable law and regulations.

The Law requires the Directors to prepare group and company financial statements for each financial year in accordance with generally accepted accounting principles. The Directors are required under the Listing Rules of the Financial Conduct Authority ("FCA") to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under the Law to prepare the Company's Financial Statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law to give a true and fair view of the state of the Group's and the Company's affairs at the end of the financial period and of the profit or loss of the Group and the Company for that period and are required by IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company.

In preparing the Group and the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the 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 accounting records which are sufficient to show and explain the Group's and the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and the company and enable them to ensure that the Financial Statements comply with the requirements of the Law and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

Each of the Directors, whose names and functions are listed on pages 52 and 53 confirm that to the best of each person's knowledge:

- The Financial Statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, 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 taken as a whole;
- The Asset and Investment Managers' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties they face; and
- 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 and Group's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent Non-Executive Director
22 March 2017

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

The Company is committed to maintaining high standards of corporate governance, which meet the statutory and regulatory requirements for companies listed in the UK. The Board is accountable to the Shareholders for the governance of the Group's affairs. This section of the Annual Report sets out the principles of corporate governance that the Board has adopted and their compliance with the codes of corporate governance that they have chosen to adopt.

The Listing Rules and the Disclosure Guidance and Transparency Rules ("Disclosure Rules") of the UK Listing Authority require listed companies to disclosure how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject.

As a member of the Association of Investment Companies ("AIC"), the Board has agreed to comply with the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") published by the AIC in February 2015, except as set out below. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the UK Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules. Details of the Company's compliance with the AIC Code is set out within this statement.

The Guernsey Financial Services Commission's ("GFSC") "Finance Sector Code of Corporate Governance" (the "GFSC Code"), updated and published in February 2016, applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website at www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk. A copy of the GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

The Directors recognise the value of the AIC Code and believes that reporting against the principles and recommendations of the AIC Code, and by reference the AIC Guide will provide shareholders with better information. Accordingly, the Company has taken appropriate measures to ensure that the Company complies with the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive Directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company's position, being an externally managed investment company. In particular, all of the Company's day-to-day functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported on these provisions.

Corporate Governance Statement *(continued)*

The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections, covering:

1. The Board;
2. Board Meetings and the relationship with the Investment Manager; and
3. Shareholder Communications.

The Board

AIC Code	Principle	Compliance Statement
1	The Chairman should be independent.	The Chairman, Kevin McGrath, was independent of the Asset Manager and Investment Manager at the time of his appointment and remains so. The Chairman has not been employed by either of the Managers in the five-years prior to his appointment, nor did he act as advisor to either Manager in that period and he does not hold any other directorship of an investment company managed by the Asset Manager or the Investment Manager. There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third party service providers. The AIC Code recommends that the Board should appoint one of the Independent Non-Executive Directors as Senior Independent Director. The Senior Independent Director is available to shareholders for communication as well as providing a sounding board for the Chairman and review the performance of the Chairman. The Board recognises the importance of strong corporate governance and shareholder relations. William Eason was appointed as Senior Independent Non-Executive Director with effect from 1 December 2016.
2	A majority of the Board should be independent of the Managers.	The Board consists of five Non-Executive Directors; three Independent Non-Executive Directors (Kevin McGrath, William Eason and Daniel Taylor) who are each independent of the Asset Manager and Investment Manager; and two Non-Independent Directors (Stephen Inglis and Martin McKay) who sit on the Board and report on the activities of the Asset Manager and Investment Manager respectively. The independence of the Directors is important to the Company in maintaining good governance. The independence of each Director is assessed as part of the annual evaluation process. Having assessed the performance and independence of each Director, the Board is satisfied that Stephen Inglis and Martin McKay remain independent in judgement and character.
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance.	All Directors submit themselves for annual re-election by shareholders at the AGM of the Company. The individual performance of each Director is evaluated annually by the Chairman. The Senior Independent Director evaluated the performance of the Chairman. The recommendations made to shareholders to vote in favour of the re-election of all Directors at the AGM are based on the outcome of the Board evaluation process. Following this year's evaluation, the Chairman concluded that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time and therefore recommends the re-election of all the Directors at the forthcoming AGM.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
4	The Board should have a policy on tenure, which is disclosable in the annual report.	The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, there is no limit on the overall length of service of any of the Directors. The Board does not believe that length of service on a wholly non-executive board has a bearing on independence. An individual Director's experience and continuity of Board membership can significantly enhance the effectiveness of the Board as a whole.
5	There should be full disclosure of information about the Board.	The biographical details for each Director are set out on pages 52 and 53 of this Report and demonstrate the wide range of skills, knowledge and experience they bring to the Board. Details of the Board's Committees and composition are set out in the Terms of Reference which are available on the Company's website at: http://www.regionalreit.com/~/media/Files/R/Regional-Reit/documents/audit-committee.pdf http://www.regionalreit.com/about-us/board-committees/management-engagement-and-remuneration-committee The Audit Committee report is set out on pages 72 and 73 of this Report. The Audit Committee membership comprises all the Independent Non-Executive Directors. The Chairman is a member of the Audit Committee but does not chair it. The Management Engagement and Remuneration Committee ("MERC") report is set out on page 74 of this Report. The MERC membership comprises all the Independent Non-Executive Directors. Whilst not in compliance with the AIC's recommendation, due to the size and nature of the Company, the Board feels that it is appropriate for the Chairman of the Board to also Chair the MERC, with the caveat that the Chairman's own remuneration is set by the other Independent Non-Executive Directors. The Board will monitor the committee structure and will carry out a regular review as part of the annual Board evaluation process. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and he is responsible for ensuring that all Directors receive accurate, timely and clear information. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic matters.
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	The Board considers that, as it is comprised of Non-Executive Directors and given the size of the Company, currently it is not appropriate to establish a Nomination Committee. The experience, skills and knowledge of the Directors is detailed in the biographies of the Directors, set out on pages 52 and 53 of this Report. The Board believes that diversity of experience and approach amongst board members is of great importance.
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.	It is the Board's policy to evaluate the performance of the Board, committees and individual Directors through an assessment process, led by the Chairman. The independence of each Director is also considered as part of this process. The performance of the Chairman is evaluated by the other Directors under the leadership of the Senior Independent Non-Executive Director. Details of the evaluation for 2016 are shown on page 70.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	Details on the Directors' remuneration is contained in the Director's Remuneration Report on page 75 of this Report. The Board's MERC annually reviews the fees paid to the Directors (and will compare these with its peer group and the REIT industry generally), taking into account the level of commitment and responsibility of each Board member. As all of the Directors are non-executive, the Board considers that it is acceptable for the Chairman of the Company to chair MERC meetings when discussing Directors' fees but he is excluded from setting his own remuneration.
9	The independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	The Company does not utilise a separate Nomination Committee as this is not thought appropriate given the size of the Board. The Independent Non-Executive Directors would be expected to lead the process of the appointment of any new Director to the Board.
10	Directors should be offered relevant training and induction.	New Directors will receive a full induction pack containing key information and governance documents from the Company Secretary when they are appointed. They will also be given key information on the Company's regulatory and statutory requirements as they arise. In addition they will be offered a tailored induction programme with the Asset Manager and Investment Manager which covers the investment portfolio and the Managers' approach to investment. All Directors will continue to receive periodic other relevant training and updates as necessary from the Company Secretary, legal advisors and other service providers as relevant to enhance and refresh their knowledge. The annual board evaluation process provides Directors with an opportunity to identify ongoing training requirements. The Directors have access to the advice and services of the Company Secretary through its appointed representative.
11	The Chairman (and the Board) should be brought into the process of structuring a new launch as soon at an early stage.	Principle 11 applies to the launch of new investment companies and is, therefore, no longer applicable to the Company.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
12	Boards and managers should operate in a supportive, co-operative and open environment.	Formal Board meetings provide important forums for the Directors and key members of the Managers' teams to interact and for Directors to receive reports and provide challenge to both the Asset Manager and Investment Manager. Representatives of the Asset Manager and Investment Manager are appointed to the Board, which facilitates communication between them and the Board and supplements the regular reporting to the Directors at Board meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants. Interaction between the Board and the Asset Manager and Investment Manager is not restricted to Board meetings. Between meetings the Asset Manager and Investment Manager update the Board on developments and respond to queries and requests by Directors as they arise. In additional, informal meetings take place regularly between the Directors and the Asset Manager and Investment Manager. Senior members of the Asset Manager's and Investment Manager's teams are also invited to the Board's annual strategy meeting.
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/ investor relations, peer group information and industry issues.	At each meeting, the Board receives a report on the performance of the Company and an investor relations report. The Board is responsible for establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments and the level of permitted gearing and borrowings. The Investment Management Agreement with the Investment Manager sets out restrictions on the activities of the Investment Manager without Board approval. The Board, at its regular meetings, undertakes reviews of key investment and financial data, analyses of asset allocation, peer group information, the economy generally, transactions and performance comparisons, share price and net asset value performance. It also receives an update from the Asset Manager on property market conditions and trends, movements compared to previous quarters, yields on properties within the portfolio, lease lengths and letting activity, including estimated rental values and vacant properties. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information and through the Company Secretary ensures that each service provider reports to the Board as required.
14	Boards should give sufficient attention to overall strategy.	The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis. The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager.	The MERC meet at least once annually to review the overall performance of the Asset Manager and Investment Manager and considers both the appropriateness of the Asset Manager's and Investment Manager's appointments and the contractual arrangements (including the structure and level of remuneration) with the Asset Manager and Investment Manager, as well as other contractual arrangements. The Audit Committee reviews the Asset Manager's and Investment Manager's compliance and control systems in operation insofar as they relate to the affairs of the Company. The Audit Committee further reviews the arrangements with, and the services provided by the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.

Corporate Governance 52 - 79

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
16	The Board should agree policies with the manager covering key operational issues.	Representatives of the Asset Manager and Investment Manager attend each meeting of the Board to address questions on operational issues and discuss specific matters.
17	Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Company's share price is monitored continually and considered at each Board meeting.
18	The Board should monitor and evaluate other service providers.	On the Company's behalf, the Investment Manager monitors the performance and systems and controls employed by the service providers. The MERC reviews the performance and cost of the Company's third party service providers. The Audit Committee also receives third party service provider controls and the Board considers if a provider should be replaced.
19	The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's view to Shareholders.	The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. A detailed analysis of the substantial shareholders of the Company is provided to the Directors at each Board meeting. The Board receives feedback on the views of shareholders from its corporate broker and the investor relations representative at the Investment Manager. Through this process the Board seeks to monitor the views of shareholders and to ensure an effective communication programme. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office address. The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Meeting sets out the business of the meeting. The Asset Manager will make a presentation to shareholders covering the investment performance and strategy of the Company at the forthcoming AGM. The Directors welcome the view of all shareholders.
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues if the Asset Manager or Investment Manager is asked to act as spokesperson.	All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the Asset Manager and Investment Manager and, as appropriate, the Auditor, legal advisers, the broker and Company Secretary. Formal Board approval of any substantive communication is required.

Corporate Governance *(continued)*

AIC Code	Principle	Compliance Statement
21	The Board should ensure that Shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the Shares.	The Board believes that sufficient information is available to Shareholders to understand the risk: reward balance to which they are exposed by holding Shares in the Company. Details of the Principal Risks and their management are set out on pages 46 to 48 and note 26. The Investment Objective and Policy is set out on page 17. The performance of the Company and that of the Asset Manager and Investment Manager is discussed in the Chairman's Statement and the Asset and Investment Managers' Report on pages 12 to 15 and 22 to 43. The performance of the Asset Manager and Investment Manager is considered on an annual basis by the MERC. Details of the MERC's review of the performance by the Asset Manager and Investment Manager are set out on page 74. Details of the Performance Fees payable to the Asset Manager and Investment Manager are set out on page 57. The going concern and viability statements of the Group are set out on page 58. The full list of the property portfolio of the Group is available on the Company's website. The Top 15 properties are shown on pages 27 and 28. There is a formal set of matters reserved for decision by the Board which, together with the terms of the Asset Management Agreement and Investment Management Agreement, limits the decision making of the Asset Manager and the Investment Manager. Details of the Group's borrowings are set out on pages 42 and 43 and in the notes to the accounts.

Corporate Governance *(continued)*

Annual General Meeting

Notice of the Company's AGM and an explanation of the resolutions contained in the notice will be circulated separately.

Details of proxy votes received in respect of each resolution will be published on the Company's website.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's shareholders as a whole. The Board recommends unanimously to shareholders that they vote in favour of each of the resolutions.

The Board of Directors

The Board consists entirely of Non-Executive Directors and has no employees. Biographical details of the Directors of the Company who held office during the period are shown on pages 52 to 53.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision-making. The Directors possess a wide range of business expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs.

None of the Directors have a service contract, but letters of appointment setting out the terms of their appointment are in place. Directors are not entitled to any compensation for loss of office. Copies of the letters of appointment are available for inspection at the Company's registered office address and will be made available for up to 15 minutes prior of the start of the AGM.

Chairman and Senior Independent Director

The Chairman, Mr Kevin McGrath, is deemed by his fellow Board members to be independent and have no conflicting relationships. He considers himself to have sufficient time to commit to the Company's affairs.

Mr William Eason has been appointed by the Board as the Senior Independent Non-Executive Director. He provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman.

Board Diversity

The Board acknowledges the benefits of greater diversity, including gender and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

The Board does not feel that it would be appropriate to set diversity targets as all appointments must be made on merit. However, gender and diversity generally will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each Board vacancy. The Board has established the following measurable objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective.
- Long lists of potential Non-Executive Directors will always include diverse candidates of appropriate merit.
- Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

Directors' Tenure

The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Directors, including the Chairman, has been imposed.

Directors' Re-Election

Subject to the Articles, at each AGM of the Company all Directors will retire from office and each Director may offer himself for election or re-election by the Shareholders. If he is elected or re-elected he is treated as continuing in office throughout. If he is not elected or re-elected, he shall remain in office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to elect or re-elect the Director is put to the meeting and lost.

Corporate Governance *(continued)*

Board Operation

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 December 2016, the number of scheduled Board meetings attended by each Director were as follows:

Director	Board	
	Number entitled to attend	Number attended
Kevin McGrath	6	6
William Eason	6	6
Daniel Taylor	6	6
Stephen Inglis	6	6
Martin McKay	6	6

Additional Board meetings were also held as required during the year and were attended by those Directors available at the time.

Conflicts of Interest

The Company's Articles permit a Director to act in a situation where a Director has disclosed the nature and extent of an interest that conflicts, or may possibly conflict, with the interests of the Group in accordance with the Law.

The Board has established a formal process whereby actual and potential condlicts of interests are considered by the Directors who have no interest in the matter, who then decide whether to authorise the conflict and any conditions to be attached to such authorisations.

The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances. A register of potential conflicts is maintained by the Company Secretary and is reviewed at each Board meeting to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

Board Evaluation

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. Given the relatively short history of the Company and to allow sufficient time for the individual Directors to develop and settle into their roles, the Board agreed that the use of an external evaluation service provider was not necessary at this stage.

During the year, the Board conducted an evaluation of its own performance and that of its committees. The individual performance of the Non-Executive Directors was also evaluated through one-to-one interviews with the Chairman.

This evaluation covered a number of key areas including: strategy; internal control and risk; performance management; shareholder communication; Board culture and dynamics; Board composition, including consideration of the balance of skills, experience, independence and knowledge of the Group on the Board, and its diversity (including gender); and the Board and Committee calendar, agendas and support.

Following these individual meetings, the Chairman presented his conclusions regarding performance and areas for improvement to the Board as part of the Board meeting in March 2017.

Overall the results were positive and the Chairman concluded that the performance of the Board, its Committees and individual Directors was effective and that the Board has the necessary balance of skills, expertise, independence and knowledge required to direct the Company at this time.

The Senior Independent Non-Executive Director led the appraisal of the Chairman. It comprised a number of questions that were answered by each Director and each Director had the opportunity to meet with the Senior Independent Non-Executive Director to discuss the performance of the Chairman.

The Senior Independent Non-Executive Director concluded that the Chairman's performance was satisfactory. In particular, it was noted that he provides strong leadership, promotes and leads Board discussion and facilitates debate in an open yet respectfully constructive environment.

Following the Board evaluation and appraisal process, the Board recommends the re-appointment of each Director at the forthcoming AGM on 25 May 2017.

Board Committees

The Board has two Committees in operation and has delegated certain responsibilities to its Audit Committee and its Management Engagement and Remuneration Committee. Given the size of the Company, it is not felt appropriate for the Company to have a separate Nomination Committee or Remuneration Committee.

The Board has established formal terms of reference for each of the Committees which are available on the Company's website.

Audit Committee

The Audit Committee comprises the three Independent Non-Executive Directors and is chaired by Mr William Eason, whom the Board considers to have the required competence and experience. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman.

All members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates.

Corporate Governance 52 - 79

Corporate Governance *(continued)*

No individual who is not a member of the Audit Committee is entitled to attend or to vote at its meetings, but the Audit Committee may invite anyone to attend the meetings and representatives of the external auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 72 and 73.

Management Engagement and Remuneration Committee ("MERC")

The MERC comprises the three Independent Non-Executive Directors and is chaired by Kevin McGrath who is also the Chairman of the Company.

Although no individual who is not a member of the MERC is entitled to attend and vote on matters at its meetings, the committee may invite anyone to attend at its discretion. A Management Engagement and Remuneration Committee Report is set out on pages 74 and 75.

Internal Control Review and Management of Risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness, ensuring that risk management and control processes are embedded in day-to-day operations.

The Board has established an ongoing process for identifying, evaluating and managing significant risks with the aim of helping to safeguard the Company's assets. The Board exercises its oversight of financial, reporting, compliance, operational and overall risks by relying on regular reporting on performance and other management information from the Asset Manager and Investment Manager. These procedures are designed to manage rather than eliminate risk. The Board manages risks as set out below:

- The Board, through the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Company's third-party service providers;
- The responsibilities for the investment management, asset management, accountancy and depository functions are segregated and the procedures of the third-party service providers are designed to safeguard the Company's assets;
- The Board is kept regularly updated by the Asset Manager and Investment Manager outside of scheduled board meetings and provides reports at each meeting of the Board; and
- Under the terms of the Investment Management Agreement between the Company and the Investment Manager, Board level approval is required for purchases of property exceeding £15m in value and for disposals exceeding £5m in value.

Regular risk assessments and reviews of internal controls are undertaken in the context of the Company's overall investment objective by the Board, through the Audit Committee.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk register is reviewed at each meeting of the Audit Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 46 to 48.

The Board reviews financial information produced by the Investment Manager and Capita Sinclair Henderson Limited on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third-party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the third parties is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit Chairman on behalf of the Committee.

Taking into account the principal risks detailed on pages 46 to 48 and the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of Board, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Group; and have reviewed the effectiveness of the risk management and internal control systems and no significant failings were identified; and
- have reviewed the effectiveness of the risk management and internal controls systems and no significant failings were identified.

By order of the Board

Kevin McGrath
Chairman and Independent Non-Executive Director

22 March 2017

Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 December 2016.

Role of the Audit Committee

The principal duties of the Audit Committee are:

- to monitor the integrity of the financial statements of the Company;
- to report to the Board on any significant financial reporting issue and judgments having regard to any matters communicated to it by the auditor;
- as requested by the Board, to review the contents of the Annual Report and Accounts and advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides shareholders with sufficient information to assess the Company's performance, business model and strategy;
- to keep under review the adequacy of the Company's internal financial controls and risk management functions;
- to manage the relationship with the Company's external auditor, including reviewing the auditors remuneration, independence and performance and making recommendations to the Board as appropriate;
- to review the Company's procedures for detecting fraud and for the managers to raise concerns (in confidence) about potential financial wrongdoing; and
- to regularly review the need for an internal audit function.

The Audit Committee is to meet at least twice annually and its quorum is two members. It reports and makes recommendations to the Board, after each meeting.

Matters considered by the Audit Committee in the year

The Audit Committee met on three occasions during the year under review and once post the year end.

Member	Audit Committee	
	Number of meetings entitled to attend	Number attended
William Eason (Chairman)	3	3
Kevin McGrath	3	3
Daniel Taylor	3	3

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- reviewed financial results;
- agreed the audit plan with the Auditors, including the principal areas of focus, and agreed the audit fee;
- received and discussed with the Auditors their report on the results of the audit; and
- reviewed the Group's Financial Statements and advised the Board accordingly.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix.

Audit Committee Report *(continued)*

Significant Matters considered by the Audit Committee in the year

The Audit Committee has discussed and considered the impairment review of goodwill conducted by the Investment Manager. It was concluded that an impairment would be charged in 2016, which was agreed by the Board.

Property Portfolio Valuation

The Audit Committee recognises that the valuation of the properties within the Company's portfolio is central to the Company's business and that errors could have a material impact on the Company's net asset value. Properties are independently valued by a specialist third party service provider, DTZ Debenham Tie Leung Limited (trading as Cushman & Wakefield).

The valuation was prepared in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance-Applications and United Kingdom Valuation Standards contained within the RICS Valuation-Professional Standards 2014. The valuation was compliant with International Valuation Standards.

The Asset Manager has held open discussions with the valuers during the year on the valuation process and the external auditor has direct access to them as part of the audit process.

Since the year end, the Audit Committee has reviewed the valuation report and has discussed this report with the Asset Manager and Investment Manager. The Audit Committee were satisfied with the report.

External Audit Process

The Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, undertakes a detailed review of the audit plan and the audit results report and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year just ended.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report, 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.

Audit fees and Non-audit Services

An audit fee of £63,250 has been agreed in respect of the audit for the year ended 31 December 2016.

In order to help safeguard the external auditor's independence and objectivity, the Audit Committee has a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance and such approval will not be granted in circumstances where it's considered that the nature or cost of the work could interfere with the external auditor's independence.

The cost of non-audit services provided by the Auditor for the financial year ended 31 December 2016 was £112,325. These services related to work undertaken in respect of legacy taxation matters pre IPO. RSM had been engaged to provide these services prior to IPO of the Company. The total fee in respect of audit work for the period ended 31 December 2015 was £105,000. Deloitte LLP have been engaged to advise on all ongoing taxation matters.

Independence and Objectivity of the Auditor

RSM UK Audit LLP ("RSM") has been auditor to the Company since listing on 6 November 2015, during which time Mr Euan Banks, Partner at RSM, has been the audit partner on the audit. No tender for the audit of the Company has been undertaken. In evaluating RSM's performance, the Audit Committee considered the effectiveness of the audit process, quality of delivery, staff expertise, audit fees and the auditor's independence, along with matters raised during the audit.

In accordance with new requirements relating to the appointment of auditors, the Company would need to conduct an audit tender no later than for the accounting period beginning 1 January 2026.

Having considered the auditor's independence in respect of the year ended 31 December 2016, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

Review of Auditor Appointment

Following consideration of the performance of the Auditor, the service provided during the year and a review of their independence and objectivity, the Audit Committee has recommended to the Board the continued appointment of RSM UK Audit LLP as the Company's external independent auditor.

Internal audit

The Audit Committee has determined that there is no need for an internal audit function given the limited size and complexity of the Company and its business.

William Eason
Audit Committee Chairman
22 March 2017

Management Engagement and Remuneration Committee Report

I am pleased to present the Management Engagement and Remuneration Committee ("MERC") Report for the year ended 31 December 2016.

Role of the Management Engagement and Remuneration Committee

The principal duties of the MERC are:

- to have responsibility for setting the remuneration policy for all Directors and the Company Chairman;
- to monitor the level and structure of remuneration of the Directors, Asset Manager and Investment Manager of the Company;
- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager of the Company; and
- within the terms of the agreed policy and in consultation with the Chairman, to determine the total individual remuneration package of each Director and external Manager, including bonuses, incentive payments and share options or other share awards.

No individual is to be involved in discussions about his own remuneration.

The MERC reports, and makes recommendations, to the Board after each meeting. The MERC is to meet at least once annually and its quorum is two members.

Activities during the year

The MERC met once during the year to consider the continued appointment and remuneration of the Investment Manager and Asset Manager and the continued appointment of all of the Company's corporate advisers and principal services providers. The MERC also considered the remuneration of the independent non-executive Directors.

Member	MERC	
	Number entitled to attend	Number attended
Kevin McGrath (Chairman)	1	1
William Eason	1	1
Daniel Taylor	1	1

Having assessed the performance, quality of service and additional added value given by the Managers' and the Company's service providers, the MERC was satisified with their performance and recommended to the Board, the continuing appointment of both the Asset Manager and Investment Manager and their remuneration, details of which are set out on page 57. The MERC recommended that all service providers should be retained.

On the basis of the assessment under taken by the MERC, the Board was satisified with the performance of the Asset Manager and Investment Manager and their ability to deliver performance to support the Company's Investment Objective, and agreed that the continued appointment of both the Asset Manager and Investment Manager, on the terms agreed, was in the best interests of the Company and its shareholders as a whole. The Board was satisfied that the Company was benefiting from added value in respect of the services it procures and also agreed that all service providers should be retained.

Further details of the Directors' remuneration can be found in the Remuneration Report on the next page.

Remuneration Report

Directors' Remuneration

All Directors act in a non-executive capacity and the level of remuneration has been set to reflect the experience of the Board as a whole, determined with reference to comparable organisations and appointments. The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine).

The fees per annum of each of the Directors are as follows:

Director	Position	Annual Fee
Kevin McGrath	Chairman and Chairman of the Management Engagement & Remuneration Committee	£70,000
William Eason	Independent Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee	£50,000
Daniel Taylor	Independent Non-Executive Director	£50,000
Stephen Inglis	Non-Executive Director	–
Martin McKay	Non-Executive Director	–

Kevin McGrath receives no additional remuneration for his role as Chairman of the Management Engagement & Remuneration Committee.

William Eason receives no additional remuneration for his role as Chairman of the Audit Committee or as Senior Independent Non-Executive Director.

Stephen Inglis received no remuneration from the Company due to his position as Chief Investment Officer and Group Property Director of the Asset Manager.

Martin McKay received no remuneration from the Company due to his position as Chief Financial Officer of the Investment Manager.

The Directors may be paid all reasonable travel, hotel and other out-of-pocket expenses properly incurred by them in attending Board or committee meetings or general meetings, and all reasonable expenses properly incurred by them seeking independent professional advice on any matter that concerns them in the furtherance of their duties as a Director.

In respect of Directors' remuneration, the MERC considered the level of activity of the Company, market rates generally and took into account the time commitment and responsibilities of each Director.

Additional Remuneration

There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. The Directors do not receive pension benefits, long-term incentive schemes or share options or any other non-statutory benefits.

No element of the Directors' remuneration is related to performance.

Payment for Loss of Office

No payment has been made to any former Director for loss of office.

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The Board will consider the engagement of remuneration consultants in the future if it is thought appropriate or desirable to do so.

Total Director Remuneration

The following amounts were paid to the Directors as fees for their services during the year:

Director	Fees paid to 31 December 2016
Kevin McGrath	£70,000
William Eason	£50,000
Daniel Taylor	£50,000
Stephen Inglis	–
Martin McKay	–
Aggregate:	£170,000

No additional remuneration was paid to the Directors during the year

Remuneration of the Asset Manager and Investment Manager

The fees payable to the Asset Manager and the Investment Manager are detailed in note 32 to the Accounts. Details of the contractual relationship between the Company and both Managers are set out in the Report of the Directors.

By order of the Board

Kevin McGrath
Chairman and Management Engagement and Remuneration Committee Chairman

22 March 2017

Relations with Shareholders

The Board considers that maintaining good and regular communications and of strong relationships with shareholders is of critical importance to the Group and that this will be a key factor in supporting the successful development of the business. To this end the Investment Manager appointed a dedicated investor relations officer at the beginning of 2016, whose role supports the investor engagement undertaken by the Asset Manager, the Investment Manager and the Board. The investor relations officer's responsibilities include: regulatory disclosure, buy-side investor and sell-side analyst engagement, private shareholder support and the Group's website, as well as media coverage. In addition communications activity is supported by the Group's broker and the appointed public relations advisor.

The Group has a comprehensive investor relations programme. It has a regular schedule of announcements and then additional announcements as required. In addition the Asset Manager and the investor relations officer meet regularly throughout the year with institutional shareholders, including private client brokers and wealth managers, and with sell-side equity analysts to present the Group's financial and operational results and to discuss the strategy and business model as well as the UK regional commercial property market. The Group also encourages investors and analysts to utilise its on-line facilities and communications and has developed a comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

The Board receives regular reports on the investor relations programme, together with sell-side analysts' research. The Board also receives feedback from its broker on shareholder issues.

Shareholders are encouraged to attend and vote at the Company's AGM with the opportunity to discuss governance and strategy, which also provides an opportunity for the Board to understand shareholder issues. The Board makes itself available at AGM to answer any shareholder questions. The Chairman, and as necessary all other members of the Board, is available to meet with Shareholders throughout the year. In late 2016 the Chairman was available for a planned programme of meetings with major institutional shareholders to discuss governance and strategy and to gauge investors' views on the Group.

The Group ensures that all material and price sensitive information is released to the Market and to shareholders in accordance with regulatory requirements, in a timely manner and with simultaneous access. The Group's Annual Report and Accounts is despatched to shareholders by post and it, the Interim Results and all other announcements by the Group, are made available on the Group's website. In addition shareholders, and any other interested parties, can register for email alerts of the Group's announcements.

The Group will consider a number ways of building on its engagement with shareholders, sell-side analysts and potential investors in the course of 2017.

Whilst it is difficult to quantify the success of the shareholder engagement programme the Board notes the progress made with increasing the number of shareholders, with the extensive programme of meetings undertaken by the Asset Manager and the Chairman, the increased research coverage of the stock over the year and the relative performance of the Company's shares.

Milburn House, Newcaste-Upon-Tyne

Independent Auditor's Report to the Shareholders of Regional REIT Limited

Opinion on Financial Statements

We have audited the Group and parent Company Financial Statements ("the Financial Statements") on pages 80 to 120. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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 2016 and of the Group's and the parent Company's profit for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of the Companies (Guernsey) Law, 2008, as amended and, as regards the group Financial Statements, Article 4 of the IAS Regulations.

Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- the director's explanation in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our assessment of risks of material misstatement

The risks set out below should be read in conjunction with the significant risk issues considered by the Audit Committee on page 73 and the significant accounting policies disclosed in note 4 to the Financial Statements. These matters were 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 those matters.

In arriving at our audit opinion on the Financial Statements as set out above, the risks of material misstatements that had the greatest impact on our audit were as follows:

Valuation of investment properties held by the group

Risk of material misstatement – The accounting policy in respect of investment properties is to hold them at fair value in the Financial Statements, and to recognise the movement in the value in the accounting period in the Income Statement. The Directors' assessment of the value of the investment properties at the period end date, is considered a significant audit risk due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity of the valuation process.

Audit approach adopted – We reviewed the independent valuation of investment properties to ensure they had been prepared on a consistent basis for all properties and are considered to be appropriate and correctly recorded in the Financial Statements in line with Accounting Standards.

We tested the inputs provided by the asset manager to the valuer and ensured these reflected the correct inputs for each property.

We considered market data for a sample of properties and ensured this was consistent with the valuation report.

We discussed significant movements with the property manager and the valuer and challenged where appropriate.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the Financial Statements as a whole.

At the audit planning stage the level at which an uncorrected misstatement would be material for the Financial Statements as a whole (FSM) was calculated as £4.1 million, which was not changed during the course of the audit. The figure was calculated by taking an average of a set percentage of the total for gross assets; total turnover; the results before tax, and the smallest disclosable item.

We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £75,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Shareholders of Regional REIT Limited *(continued)*

An overview of the scope of our audit

Our audit scope covered 100% of group revenue, group profit and total group assets, and was performed to the materiality levels set out above.

Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the International Standards on Auditing (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Guernsey) Law, 2008, as amended, we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent Company; or
- the parent Company Financial Statements are not in agreement with the accounting records and returns; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 58, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages 63 to 68 relating to the company's compliance with the provisions of the AIC Code specified for our review.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 61, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We read the other financial and non-financial information contained in the Annual Report and consider the implications for our report if we become aware of any material inconsistency with the Financial Statements or with knowledge acquired by us in the course of performing the audit, or any material misstatement of fact within the other information. We also read the information in the directors' report and consider the implications for our report if we become aware of any material inconsistency with the Financial Statements.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Law. Our audit work has been undertaken so that we might state to the 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 the Companies (Guernsey) Law, 2008, as amended, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP, Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

22 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Continuing Operations			
Revenue			
Rental income	5a	42,994	5,361
Non-recoverable property costs	6	(4,866)	(753)
Net rental income		38,128	4,608
Administrative and other expenses	7	(8,217)	(1,353)
Operating profit before gains and losses on property assets and other investments		29,911	3,255
Gain on the disposal of investment properties	15	518	86
Change in fair value of investment properties	15	(6,751)	23,784
Operating profit before exceptional items		23,678	27,125
Exceptional items	9	–	(5,296)
Operating profit after exceptional items		23,678	21,829
Finance income	10	193	177
Finance expense	11	(8,822)	(997)
Impairment of goodwill	17	(557)	–
Net movement in fair value of derivative financial instruments	25	(1,097)	115
Profit before tax		13,395	21,124
Taxation	12	23	–
Profit for the year after tax (attributable to owners of the parent)		13,418	21,124
Other comprehensive income		–	–
Total comprehensive income for the year		13,418	21,124
Attributable to:			
– Owners of the parent		13,418	21,124
– Non-controlling interests		–	–
		13,418	21,124

The total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	4.9p	7.7p
Earnings per share attributable to owners of the parent – diluted	13	4.9p	7.7p
EPRA earnings/(losses) per share attributable to owners of the parent – basic	13	7.7p	(1.1)p
EPRA earnings/(losses) per share attributable to owners of the parent – diluted	13	7.7p	(1.1)p

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Investment properties	15	502,425	403,702
Goodwill	17	2,229	2,786
Non-current receivables on lease surrender	18a	206	1,004
Non-current receivables on tenant loan	18b	1,541	–
		506,401	407,492
Current assets			
Trade and other receivables	19	11,375	11,848
Cash and cash equivalents	20	16,199	23,955
		27,574	35,803
Total assets		533,975	443,295
Liabilities			
Current liabilities			
Trade and other payables	21	(14,601)	(12,576)
Deferred income	22	(8,022)	(5,906)
Taxation	23	(662)	(2,387)
Bank and loan borrowings	24	–	(200)
		(23,285)	(21,069)
Non-current liabilities			
Bank and loan borrowings	24	(217,442)	(126,469)
Derivative financial instruments	25	(1,513)	(416)
		(218,955)	(126,885)
Total liabilities		(242,240)	(147,954)
Net assets		291,735	295,341
Equity			
Stated capital	28	274,217	274,217
Retained earnings		17,518	21,124
Total equity attributable to owners of the parent		291,735	295,341

Net assets per share – basic	29	106.4p	107.7p
Net assets per share – diluted	29	106.3p	107.7p
EPRA net assets per share – basic	29	106.9p	107.8p
EPRA net assets per share – diluted	29	106.9p	107.8p

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent
Non-Executive Director
22 March 2017

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Stated capital £'000	Retained Earnings £'000	Total £'000
		Attributable to owners of the parent		
Balance at 1 January 2016		274,217	21,124	295,341
Total comprehensive income		–	13,418	13,418
Share based payments	32	–	115	115
Dividends paid	14	–	(17,139)	(17,139)
Total transactions with owners, recognised directly in equity		–	(17,024)	(17,024)
Balance at 31 December 2016		274,217	17,518	291,735

For the period 22 June 2015 to 31 December 2015

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	Stated capital £'000	Retained Earnings £'000	Total £'000
		Attributable to owners of the parent		
Balance at 22 June 2015		–	–	–
Total comprehensive income		–	21,124	21,124
Issue of Shares at no par value	28	274,217	–	274,217
Total transactions with owners, recognised directly in equity		274,217	–	274,217
Balance at 31 December 2015		274,217	21,124	295,341

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit for the year after taxation	13,418	21,124
– Change in fair value of investment properties	6,751	(23,784)
– Change in fair value of financial derivative instruments	1,097	(115)
– Gain on disposal of investment properties	(518)	(86)
Impairment of goodwill	557	–
Finance income	(193)	(177)
Finance expense	8,822	997
Share based payments	115	–
Taxation	(23)	–
Increase in trade and other receivables	(716)	(5,358)
Increase in trade and other payables and deferred income	2,124	5,167
Cash generated from/(used in) operations	31,434	(2,232)
Financial income	988	247
Finance costs	(7,614)	(671)
Taxation paid	(1,715)	–
Net cash flow generated from/(used in) operating activities	23,093	(2,656)
Investing activities		
Purchase of investment properties	(144,143)	(4,190)
Sale of investment properties	44,857	5,347
Interest received	60	12
Acquisition of subsidiaries, net of cash acquired	(5,573)	26,659
Net cash flow (used in)/generated from investing activities	(104,799)	27,828
Financing activities		
Dividends paid	(15,723)	–
Bank borrowings advanced	107,762	–
Bank borrowings repaid	(16,345)	(1,217)
Bank borrowing costs paid	(1,744)	–
Net cash flow generated from/(used in) financing activities	73,950	(1,217)
Net (decrease)/increase in cash and cash equivalents for the year	(7,756)	23,955
Cash and cash equivalents at the start of the year	23,955	–
Cash and cash equivalents at the end of the year	16,199	23,955

The notes on pages 88 to 120 are an integral part of these consolidated financial statements.

Company Statement of Comprehensive Income

For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Revenue			
Amounts charged to group entities	5b	837	–
Administrative and other expenses	7	(3,343)	(700)
Operating loss before exceptional items		(2,506)	(700)
Exceptional items	9	–	(5,296)
Operating loss after exceptional items		(2,506)	(5,996)
Finance income	10	19,061	5,150
Profit/(loss) before tax		16,555	(846)
Taxation	12	–	–
Profit/(loss) for the year after tax (attributable to equity shareholders)		16,555	(846)
Other comprehensive income		–	–
Total comprehensive income/(loss) for the year		16,555	(846)
Attributable to:			
Equity shareholders		16,555	(846)
		16,555	(846)

Total comprehensive income arises from continuing operations.

Earnings per share attributable to owners of the parent – basic	13	6.0p	(0.3)p
Earnings per share attributable to owners of the parent – diluted	13	6.0p	(0.3)p

The notes on pages 88 to 120 are an integral part of these financial statements.

Company Statement of Financial Position

As at 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Investment in subsidiaries	16	274,286	274,217
		274,286	274,217
Current assets			
Trade and other receivables	19	870	3
Cash and cash equivalents	20	65	19
		935	22
Total assets		275,221	274,239
Liabilities			
Current liabilities			
Trade and other payables	21	(2,319)	(868)
Total liabilities		(2,319)	(868)
Net assets		272,902	273,371
Equity			
Stated capital	28	274,217	274,217
Accumulated losses		(1,315)	(846)
Total equity		272,902	273,371

Net assets per share – basic	29	99.5p	99.7p
Net assets per share – diluted	29	99.5p	99.7p

The notes on pages 88 to 120 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 22 March 2017 and signed on its behalf by:

Kevin McGrath
Chairman and Independent
Non-Executive Director
22 March 2017

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2016		274,217	(846)	273,371
Total comprehensive income		–	16,555	16,555
Share based payments	32	–	115	115
Dividends paid	14	–	(17,139)	(17,139)
Total transactions with owners, recognised directly in equity		–	(17,024)	(17,024)
Balance at 31 December 2016		274,217	(1,315)	(272,902)

For the period 22 June 2015 to 31 December 2015

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Notes	Stated capital £'000	Accumulated losses £'000	Total £'000
Balance at 22 June 2015		–	–	–
Total comprehensive loss		–	(846)	(846)
Issue of Shares at no par value	28	274,217	–	274,217
Total transactions with owners, recognised directly in equity		274,217	–	274,217
Balance at 31 December 2015		274,217	(846)	273,371

The notes on pages 88 to 120 are an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2016

The comparative period starts from 22 June 2015 the date of incorporation; however trading did not commence until 6 November 2015.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Cash flows from operating activities		
Profit/(loss) for the year after taxation	16,555	(846)
Share based payments	46	–
Increase in trade and other receivables	(867)	(3)
Increase in trade and other payables and deferred income	35	868
Cash generated from operations	15,769	19
Financial income	–	–
Net cash flow generated from operating activities	15,769	19
Investing activities		
Acquisition of subsidiaries	–	–
Net cash flow used in investing activities	–	–
Financing activities		
Dividends paid	(15,723)	–
Net cash flow used in financing activities	(15,723)	–
Net increase in cash and cash equivalents for the year	46	19
Cash and cash equivalents at the start of the year	19	–
Cash and cash equivalents at the end of the year	65	19

The notes on pages 88 to 120 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. Corporate Information

The Group's consolidated financial statements for the year ended 31 December 2016 comprise the results of the Company and its subsidiaries (together constituting "the Group") and, together with the Company's financial statements, were approved by the Board and authorised for issue on 22 March 2017.

Regional REIT Limited ("the Company") is a company limited by shares incorporated in Guernsey under The Companies (Guernsey) Law, 2008, as amended (the "Law"). The Company's Ordinary Shares are admitted to the Official List of the UK Listing Authority ("UKLA"), a division of the Financial Conduct Authority ("FCA"), and traded on the London Stock Exchange ("LSE").

The Company was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Schemes Rules 2015.

The Company did not begin trading until 6 November 2015 when the shares were admitted to trading on the LSE.

The nature of the Group's operations and its principal activities are set out in the Chairman's Statement.

The address of the registered office is: Mont Crevelt House, Bulwer Avenue, St. Sampson, Guernsey, GY2 4LH.

2. Basis of preparation

The Group's Consolidated and Company financial statements (together constituting "the financial statements") have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA (previously the Financial Services Authority ("FSA")) and with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB and as adopted by the European Union ("EU"), in accordance with Article 4 of the IAS Regulations and the Law.

The Group's consolidated financial statements have been prepared on a historical cost basis, as modified for the Group's investment properties and certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Company's financial statements have been prepared on a historical cost basis.

2.1. Comparative period

The comparative period reported in these financial statements is not a full year as the Group was not in existence for that period, but represents the period disclosed in the preceding financial statements from 22 June 2015 to 31 December 2015, however, trading did not commence until 6 November 2015.

2.2. Functional and presentation currency

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

2.3. Going concern

The assessments of going concern are prepared in accordance with the FRC Guidance issued September 2014.

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts. No material uncertainties have been detected which would influence the Group or the Company's ability to continue as a going concern for a period of not less than 12 months. The Directors have satisfied themselves that the Group and the Company has adequate financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Board of Directors continue to adopt the going concern basis in preparing the financial statements.

2.4. Business combinations

The Group may acquire subsidiaries that own investment properties. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. For an acquisition of a business where an integrated set of activities are acquired in addition to the property the Group accounts for the acquisition as a business combination under IFRS 3.

Where such acquisitions are not judged to be the acquisition of a business they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

2. Basis of preparation *(continued)*

2.5. New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2016 have not had a significant impact on the preparation of these financial statements.

2.6. New standards, amendments and interpretations effective for future accounting periods

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2017, and have not been applied in preparing these financial statements. These are:

Amendments to IAS 7 'Statement of Cash Flows', is effective for annual period beginning on or after a January 2017. The amendments require the disclosure of cash and non-cash changes in liabilities arising from financing activities.

IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Other changes include changes to the model for impairments from "expected loss" to "incurred loss".

The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers', is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has yet to assess IFRS 15's full impact and intends to adopt IFRS 15 no later than the accounting period beginning on or after 1 January 2018.

Amendment to IFRS 2, 'Classification and measurement of share-based payment transactions', is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 2 are intended to eliminate diversity in practice in three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The Group has yet to assess the full impact of the amendments to IFRS 2 and intends to adopt them no later than the accounting period beginning on or after 1 January 2018.

IFRS 16, 'Leases', is effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, most leased assets are capitalised as "right-to-use-assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments. This is a significant change for the lessee, however IFRS 16 substantially carries forward existing lessor accounting from IAS 17.

The Group has yet to assess the full impact of IFRS 16 and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2019.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

3. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

3.1. Critical accounting estimates and assumptions

The principal estimates that may be material to the carrying amount of assets and liabilities are as follows:

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £502,425,000 (31 December 2015: £403,702,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in note 15.

3.1.2. Fair valuation of interest rate derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £1,513,000 (31 December 2015: £416,000). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying value of the goodwill at the reporting date was £2,229,000 (31 December 2015: £2,786,000).

3.2. Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

3.2.1. 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 of the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

3.2.2. Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of Shareholder Returns in excess of the Hurdle Rate of 8% for the relevant Performance Period. Shareholder Returns for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the Performance Period.

A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fees are given on pages 183-85 of the IPO Prospectus.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

3. Significant accounting judgements, estimates and assumptions *(continued)*

3.2. Critical judgements in applying the Group's accounting policies *(continued)*

3.2.2. Performance Fee (continued)

In the period from incorporation to date, the Group has met the criteria of the Performance Fee, however, future circumstances may dictate that no Performance Fee is ultimately due. Management have modelled a number of scenarios for the Performance Fee calculation and has concluded that it is appropriate for a liability to be accrued in the consolidated financial statements. Further details are disclosed in note 32.

3.3. Consolidation of entities in which the Group holds less than 50%

Management considers the Group has de facto control of Credential Investment Holdings Limited, and its 27 subsidiaries (the "Credential Sub Group") by virtue of the Amended and restated Call Option Agreement dated 3 November 2015. Under this option the Group may acquire any of the properties held by the Credential Group for a nominal consideration. Despite having no equity holding the Group controls the Credential Group as the option agreement which means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control. The Credential Sub Group has a deficiency of shareholders' funds and for this reason the non-controlling interest in the Group's results for the year and in the net assets of the Group are nil. There is no recourse to the non-controlling interest. Further details are disclosed in note 16.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the period ended 31 December 2015 and have been consistently applied for the year ended 31 December 2016. There are no significant changes to the financial statements arising from accounting standards effective for the first time.

4.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as at the date of the Statement of Financial Position.

4.2. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For acquisitions of subsidiaries not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

The excess of the consideration transferred, and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill.

At Company level, the investments in subsidiary companies are included in the Statement of Financial Position at cost less impairment.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.2.1. Disposal of subsidiaries

When the Group ceases to have control over an entity any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

4.3. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Board of Directors.

After a review of the information provided for management purposes, it was determined that the Group has one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

4.4. Investment property

Investment property comprises freehold or leasehold properties that are held to earn rentals or for capital appreciation, or both rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is recognised, usually, on legal completion, when the risks and rewards of ownership have been transferred and is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of being utilised in the manner intended. Subsequent to initial recognition investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Group's Consolidated Statement of Comprehensive Income in the period in which they arise under IAS 40, 'Investment Property'.

Additions to investment property include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits, which are expected to accrue to the Group. All other property expenditure is charged in the Group's Consolidated Statement of Comprehensive Income as incurred.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset (being the fair value at the start of the financial year) would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Group's Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

4.5. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree plus the fair value of the non-controlling interest of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the subsidiaries, or groups of subsidiaries, that is expected to benefit from the synergies of the combination. Each subsidiary or group of subsidiaries, to which the goodwill is allocated, represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.6. Derivative financial instruments

Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at fair value at acquisition and are subsequently measured at fair value being the estimated amount that the Group would receive or pay to sell or transfer the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the lender and its counterparties. The gain or loss at each fair value remeasurement date is recognised in the Group's Consolidated Statement of Comprehensive Income. Premiums payable under such arrangements are initially capitalised into the Group's Consolidated Statement of Financial Position, subsequently they are remeasured and held at their fair values.

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

4.7. Financial assets

The Group classifies its financial assets at initial recognition either as at fair value through profit or loss or loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinate payments that are not quoted in an active market. They are included in current assets, except for maturities of greater than twelve months from the end of the reporting period.

The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value, being carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. A provision for impairment is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written-off when identified. Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

4.9. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at banks with original maturities of three months or less. Cash also includes amounts held in restricted accounts that are unavailable for everyday use.

4.10. Trade payables

Trade payables are initially recognised at their fair value; being at their invoiced value inclusive of any VAT that may be applicable. Payables are subsequently measured at amortised cost using the effective interest method.

4.11. Bank and other borrowings

All bank and other borrowings are initially recognised at cost net of attributable transaction costs. Any attributable transaction costs relating to the issue of the bank borrowings are amortised through the Group's Statement of Comprehensive Income over the life of the debt instrument on a straight-line basis. After initial recognition, all bank and other borrowings are measured at amortised cost, using the effective interest method.

4.12. Dividends payable to Shareholders

Equity dividends are recognised when paid.

4.13. Rental income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in gross rental income in the Group's Consolidated Statement of Comprehensive Income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the lease asset and are recognised as an expense over the lease term on the same basis as the lease income.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.13. Rental income *(continued)*

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight-line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. 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 where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Surrender premiums received from tenants to terminate leases or surrender premises are recognised in the Group's Statement of Comprehensive Income when the right to receive them arises.

When the Group is acting as an agent, the commission, rather than gross income, is recorded as revenue.

4.14. Non-recoverable property costs - service and management charges

Service and management charges are recognised in the accounting period in which the services are rendered.

4.15. Exceptional items

Exceptional items are those items of an income or expense of a non-recurring nature which are shown separately in the Group's Consolidated Statement of Comprehensive Income by virtue of their nature, size or incidence.

4.16. Interest income

Interest income is recognised as interest accrues on cash balances held by the Group. Interest charged to a tenant on any overdue rental income is also recognised within interest income.

4.17. Dividend income

Dividend income is recognised when the right to receive payment is established.

4.18. Finance costs

Finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs, such as arrangement fees, that an entity incurs in connection with bank and other borrowings.

4.19. Taxation

As the Company is managed and controlled in the UK, it is considered to be tax resident in the UK.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from UK Corporation Tax. Gains on UK properties are also exempt from tax, provided that they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to UK Corporation Tax.

4.20. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) enacted or subsequently enacted at the date of the Statement of Financial Position. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available for offset.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

4. Summary of significant accounting policies *(continued)*

4.20. Deferred tax *(continued)*

The current rate of UK Corporation Tax is 20%. Reductions in UK Corporation Tax have been enacted, reducing the rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. It has been enacted that the rate will be further reduced to 17% from 1 April 2020.

4.21. Stated capital

Stated capital (previously described as share premium) represents the consideration received by the Company for the issue of Ordinary shares. Ordinary shares are classed as equity.

4.22. Share based payments

The Group has entered into Performance Fee arrangements with the Asset Manager and Investment Managers which depend on the growth in the net asset value of the Group exceeding a Hurdle Rate of return over a Performance Period. The fee will be partly settled in cash and partly in equity, and the equity portion is therefore a share-based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in shares is credited to Equity reserves.

Where the Company has an obligation to issue shares under the Performance Fee arrangements and the Performance Fee cost is recognised in a subsidiary company, the Company should recognise an increase in the investment of the subsidiary and the obligation to settle shares, where this arises, should be credited to equity.

5. Revenue

5a. Rental income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Rental Income – freehold property	36,233	4,500
Rental Income – long term leasehold property	6,761	861
Total	42,994	5,361

5b. Amounts charged to group entities

Amounts charged to group entities of £837,000 (2015: £nil) represent investment management fees and Performance Fees which have been recharged from Regional REIT Limited down to its subsidiary companies.

6. Non-recoverable property costs

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Property insurance expense	–	37
Other property expenses and irrecoverable costs	4,866	716
Total	4,866	753

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

7. Administrative and other expenses

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Investment management fees	1,914	264
Property management fees	1,698	203
Performance fees	249	–
Asset management fees	1,675	232
Directors' remuneration (see note 8)	186	48
Administration fees	543	118
Legal and professional fees	1,671	390
Marketing and promotion	73	15
Other administrative costs	184	82
Bank charges	24	1
Total	8,217	1,353
Company		
Investment management fees	1,584	218
Performance fees	110	–
Directors' remuneration (see note 8)	186	48
Administration fees	222	34
Legal and professional fees	1,009	289
Marketing and promotion	73	15
Other administrative costs	159	96
Total	3,343	700

The number of persons employed by the Group and Company in the year was 5, being the Directors, whose remuneration is set out in note 8.

Services provided by the Company's auditor and its associates

The Group has obtained the following services from the Company's auditor and its associates:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Audit of the annual financial statements	63	87
Review of the half year financial statements	25	–
Audit of the subsidiaries for their respective periods of account	131	105
Corporate finance services in connection with the flotation	–	250
Tax compliance services provided to the subsidiaries	112	69
Total	331	511

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

8. Directors' remuneration

Key management comprises the Directors of the Company. A summary of the Directors' emoluments is set out in the Directors' Remuneration Report.

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group & Company		
Directors' fees	170	42
Employers National Insurance contributions	16	6
Total	186	48

9. Exceptional items

There were no exceptional items recognised in the year ended 31 December 2016. Exceptional items of £5,296,000 recognised in the period 22 June 2015 to 31 December 2015 comprise the professional fees and regulatory costs associated with the acquisition and the listing of the shares on the London Stock Exchange.

10. Finance income

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest income	60	13
Other finance income	(99)	99
Unwinding of the discount on financial assets	232	65
Total	193	177
Company		
Group dividend income	19,061	5,150
Total	19,061	5,150

11. Finance expense

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Interest payable on bank borrowings	7,821	910
Amortisation of loan arrangement fees	1,001	87
Total	8,822	997

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

12. Taxation

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Income tax credit	(36)	–
Increase in deferred tax creditor	13	–
Total	(23)	–

The current tax charge/(credit) is reduced by the UK REIT tax exemptions. The Tax credit is due to the release of a historic accrual. The tax charge/(credit) for the year can be reconciled to the profit/(loss) in the Statement of Comprehensive Income as follows:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group		
Profit before taxation	13,395	21,124
UK Corporation tax rate	20%	20%
Theoretical tax at UK Corporation tax rate	2,679	4,225
Effects of:		
Revaluation loss/(gain) on investment properties	1,350	(4,757)
Profits from tax exempt business	–	(359)
Permanent differences	(3,601)	1,023
Utilisation of losses brought forward	14	(132)
Taxation losses and other timing differences	(343)	–
Prior year adjustment	(122)	–
Total	(23)	–

Permanent differences are the differences between an entity's taxable profits and its results as stated in the financial statements. These arise because certain types of income and expenditure are non-taxable or disallowable, or because certain tax charges or allowances have no corresponding amount in the financial statements.

Company		
Profit/(loss) before taxation	16,555	(846)
UK Corporation tax rate	20%	20%
Theoretical tax at UK Corporation tax rate	3,311	(169)
Effects of:		
Permanent differences	(3,311)	169
Total	–	–

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

13. Earnings per share

Earnings per share ("EPS") amounts are calculated by dividing profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year. As there are dilutive instruments outstanding both basic and diluted earnings per share are disclosed below.

Dilutive instruments relate to the partial settlement of the Performance Fee by the issue of Ordinary shares. As detailed in note 32, an estimate of Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

Group

The calculation of basic and diluted earnings per share is based on the following:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit attributable to Ordinary Shareholders	13,418	21,124
Adjustments to remove:		
Changes in value of investment properties	6,751	(23,784)
Changes in fair value of interest rate derivatives and financial assets	865	(180)
Gain on disposal of investment property	(518)	(86)
Impairment of goodwill	557	–
EPRA Net profit/(loss) attributable to Ordinary Shareholders	21,073	(2,926)
Add back exceptional items	–	5,296
Adjusted Net profit before exceptional items attributable to Ordinary Shareholders	21,073	2,370
Weighted average number of Ordinary Shares	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted weighted average number of Ordinary Shares	274,324,993	274,217,264
Earnings per share – basic	4.9p	7.7p
Earnings per share – diluted	4.9p	7.7p
EPRA Earnings/(loss) per share – basic	7.7p	(1.1)p
EPRA Earnings/(loss) per share – diluted	7.7p	(1.1)p
Adjusted Earnings per share before exceptional items – basic	7.7p	0.9p
Adjusted Earnings per share before exceptional items – diluted	7.7p	0.9p

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

13. Earnings per share *(continued)*

Company

The calculation of basic and diluted earnings per share is based on the following:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Calculation of Earnings per share		
Net profit/(loss) attributable to Ordinary Shareholders	16,555	(846)
Add back exceptional items	–	5,296
Net profit attributable to Ordinary Shareholders before exceptional items	16,555	4,450
Weighted average number of Ordinary Shares	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted weighted average number of Ordinary Shares	274,324,993	274,217,264
Earnings/(loss) per share – basic	6.0p	(0.3)p
Earnings/(loss) per share – diluted	6.0p	(0.3)p
Earnings per share before exceptional items – basic	6.0p	1.6p
Earnings per share before exceptional items – diluted	6.0p	1.6p

14. Dividends

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Group and Company		
Dividend of 1.00 pence per Ordinary share (for the period 6 Nov 2015-31 Dec 2015)	2,742	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Jan 2016-31 Mar 2016)	4,799	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Apr 2016-30 Jun 2016)	4,799	–
Dividend of 1.75 pence per Ordinary share (for the period 1 Oct 2016-30 Sep 2016)	4,799	–
Total	17,139	–

On 7 March 2016 the Company announced a dividend of 1.00 pence per share in respect of the period 6 November 2015 to 31 December 2015. The dividend payment was made on 15 April 2016 to shareholders on the register as at 18 March 2016.

On 27 May 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 January 2016 to 31 March 2016. The dividend payment was made on 8 July 2016 to shareholders on the register as at 10 June 2016.

On 1 September 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 April 2016 to 30 June 2016. The dividend payment was made on 7 October 2016 to shareholders on the register as at 9 September 2016.

On 17 November 2016 the Company announced a dividend of 1.75 pence per share in respect of the period 1 July 2016 to 30 September 2016. The dividend payment was made on 22 December 2016 to shareholders on the register as at 25 November 2016.

On 23 February 2017 the Company announced a dividend of 2.40 pence per share in respect of the period 1 October 2016 to 31 December 2016. The dividend will be paid on 13 April 2017 to shareholders on the register as at 3 March 2017. The financial statements do not reflect this dividend.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

15. Investment properties

In accordance with International Accounting Standard, IAS 40, 'Investment Property', investment property has been independently valued at fair value by Cushman & Wakefield, Chartered Surveyors, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (January 2014) ("the Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

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 properties purchased rather than business combinations.

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2016			
Valuation at 1 January 2016	332,052	71,650	403,702
Property additions – acquisitions	132,827	7,883	140,710
Property additions – subsequent expenditure	5,848	3,255	9,103
Property disposals	(41,907)	(2,950)	(44,857)
Gain/(loss) on the disposal of investment properties	538	(20)	518
Change in fair value during the year	(5,048)	(1,703)	(6,751)
Valuation at 31 December 2016	424,310	78,115	502,425
Movement in investment properties for the period 22 June 2015 to 31 December 2015			
Upon acquisition of subsidiaries	319,541	61,448	380,989
Property additions	1,020	3,170	4,190
Property disposals	(5,347)	–	(5,347)
Gain on the disposal of investment properties	86	–	86
Change in fair value during the period	16,752	7,032	23,784
Valuation at 31 December 2015	332,052	71,650	403,702

The historic cost of the properties is £488,104,000 (31 December 2015: £379,918,000).

A reconciliation of the valuation carried out by the external valuers to the carrying amount in the Group's Consolidated Statement of Financial Position is as follows:

	31 December 2016 £'000	31 December 2015 £'000
As set out in Cushman & Wakefield's valuation report	502,425	405,422
Adjustment in respect of Blythswood House disposal after period end	–	(1,720)
As shown in the Consolidated Statement of Financial Position	502,425	403,702

The adjustment reflects a value determined in a sales transaction shortly after the comparative period end.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

15. Investment properties *(continued)*

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

Date of valuation	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2016	502,425	–	502,425	–
31 December 2015	403,702	–	403,702	–

The hierarchy levels are defined in note 25.

There have been no transfers between levels during the year.

The determination of Fair Value of the investment properties requires the analysis of current and future cash flows from assets (taking into account current income, void holding costs, comparable evidence, tenant covenant strength and potential capital expenditure) and the appropriate capitalisation rates for those assets.

Future revenue streams comprise contracted rent (passing rent), estimated rental value ("ERV") and Market Rental value. In calculating ERV and Market Rent, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. In arriving at their estimates of market values as at 31 December 2016, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparables. In these circumstances, there was a greater degree of uncertainty in estimating the market values of investments than would exist in a more active market.

Techniques used for valuing investment properties

The following descriptions and definitions relate to valuation techniques and key observable inputs made in determining the fair values:-

Valuation technique: market comparable method

Under the market comparable method (or market approach), a property fair value is estimated based on comparable transactions in the market.

Observable Input: Market Rental

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £3,100-£3,119,381 per annum (2015: £1-£1,350,000 per annum).

Observable Input: Rental growth

The estimated average increase in rent is based on both market estimations and contractual agreements.

Observable Input: net initial yield

The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase (range: 0.28%-29.23%) (2015: 1.84%-23.05%).

As set out within the significant accounting estimates and judgements above, the Group's property portfolio valuation is open to judgement and is inherently subjective by nature, and actual values can only be determined in a sales transaction.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cost at start of year	274,217	–
Acquisitions of subsidiaries during the year	69	274,217
Cost at end of year	274,286	274,217

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

In the opinion of the Directors the value of the subsidiary undertakings is not less than the book amount.

List of subsidiaries which are 100% owned and controlled by the Group

	Country of incorporation	Ownership %
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%
RR Rainbow (Aylesbury) Limited	Jersey	100%
RR Rainbow (North) Limited	Jersey	100%
RR Rainbow (South) Limited	Jersey	100%
RR Wing Portfolio Limited	Jersey	100%
Tay Properties Limited	Jersey	100%
TCP Arbos Limited	Jersey	100%
TCP Channel Limited	Jersey	100%
Tosca Chandlers Ford Limited	Jersey	100%
Tosca Churchill Way Limited	Jersey	100%
Tosca Faraday Close Limited	Jersey	100%
Tosca Garnet Limited	Jersey	100%
Tosca Glasgow II Limited	United Kingdom	100%
Tosca Midlands Limited	Jersey	100%
Tosca North East Limited	Jersey	100%
Tosca North West Limited	Jersey	100%
Tosca Rosalind Ltd	Jersey	100%
Tosca Scotland Limited	Jersey	100%
Tosca South East Limited	Jersey	100%
Tosca South West Limited	Jersey	100%
Tosca Swansea Limited	Jersey	100%
Tosca Thorpe Park Limited	Jersey	100%
Tosca UK CP II Limited	Jersey	100%
Tosca UK CP Limited	Jersey	100%
Tosca Victory House Limited	Jersey	100%
Tosca Winsford Limited	Jersey	100%
Toscafund Bennett House Limited	Jersey	100%

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries *(continued)*

List of subsidiaries which are 100% owned and controlled by the Group *(continued)*

	Country of incorporation	Ownership %
Toscafund Bishopgate Street Limited	Jersey	100%
Toscafund Blythswood Limited	Jersey	100%
Toscafund Brand Street Limited	Jersey	100%
Toscafund Chancellor Court Limited	Jersey	100%
Toscafund Crompton Way Limited	Jersey	100%
Toscafund Espedair Limited	Jersey	100%
Toscafund Fairfax House Limited	Jersey	100%
Toscafund Glasgow Limited	Jersey	100%
Toscafund Milburn House Limited	Jersey	100%
Toscafund Minton Place Limited	Jersey	100%
Toscafund North Esplanade Limited	Jersey	100%
Toscafund Sheldon Court Limited	Jersey	100%
Toscafund St Georges House Limited	Jersey	100%
Toscafund St James Court Limited	Jersey	100%
Toscafund Strathclyde BP Limited	Jersey	100%
Toscafund Wallington Limited	Jersey	100%
Toscafund Welton Road Limited	Jersey	100%
Toscafund Westminster House Limited	Jersey	100%
Blythswood House LLP	United Kingdom	100%
Regional Commercial MIDCO Limited	Jersey	100%
RR Aspect Court Limited	Jersey	100%
RR Hounds Gate Limited	Jersey	100%

All of the above entities have been included in the Group's consolidated financial statements.

By virtue of the Amended and Restated Call Option Agreement, dated 3 November 2015, the Directors consider that the Group has control of Credential Investment Holdings Limited and its 27 subsidiaries ("the Credential Group").

Under this option, the Group may acquire any of the properties held by the Credential Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice is obliged to convey its title within one month after receipt of the option notice. The option may be exercised in whole by serving one option notice in respect of all the remaining relevant assets or on any number of occasions by servicing any number of separate option notices.

Despite having no equity holding, the Group controls the Credential Group as the option agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the Credential Group through its power to control.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

16. Investment in subsidiaries *(continued)*

The companies which make up the Credential Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	Ownership %
Castlestream Limited	United Kingdom	100%
Caststop Limited	United Kingdom	100%
Credential (Baillieston) Limited	United Kingdom	100%
Credential (Greenock) Limited	United Kingdom	100%
Credential (Peterborough) Limited	United Kingdom	100%
Credential (Wardpark North) Limited	United Kingdom	100%
Credential (Wardpark South) Limited	United Kingdom	100%
Credential Bath Street Limited	United Kingdom	100%
Credential Charring Cross Limited	United Kingdom	100%
Credential Estates Limited	United Kingdom	100%
Credential Investment Holdings Limited	United Kingdom	100%
Credential Muirhouse Limited	United Kingdom	100%
Credential Residential Finance Limited	United Kingdom	100%
Credential SHOP Limited	United Kingdom	100%
Credential Tay House Limited	United Kingdom	100%
Douglas Shelf Seven Limited	United Kingdom	100%
Dumbarton Road Limited	United Kingdom	100%
Hamiltonhill Estates Limited	United Kingdom	100%
Lilybank Church Limited	United Kingdom	100%
Lilybank Terrace Limited	United Kingdom	100%
London & Scottish Property Management Limited	United Kingdom	100%
Old Mill Studios Limited	United Kingdom	100%
Old Rutherglen Road Limited	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Limited	United Kingdom	100%
Squeeze Newco 2 Limited	United Kingdom	100%
Stock Residential Lettings Limited	United Kingdom	100%
The Legal Services Centre Limited	United Kingdom	100%

All of the above entities have been included in the Group's consolidated financial statements.

Business Combinations

There have been no new business combinations entered into in the financial year.

During the year there was only one subsidiary company acquisition. The acquisition of Toscafund Strathclyde BP Limited took place in order for the Group to acquire the investment property owned by that company. This acquisition has not been treated as a business combination. For further details please refer to the Group's basis of preparation note 2.4.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

17. Goodwill

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	2,786	–
Goodwill arising on acquisition of subsidiaries	–	2,786
Impairment	(557)	–
At end of year	2,229	2,786

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Group's Statement of Comprehensive Income.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. The impairment review is based on group pre-tax-tax cash flow projections of cost savings of the Group as a whole as a single cash generating unit, using a discount factor of 2.3%, which is based on the borrowing margins currently available. If a reasonable change occurs in a key assumption the recoverable amount of goodwill would still be expected to be equal to the carrying value. The impairment review was conducted over a five-year period, which is predominately derived from the borrowings facility terms, and will result in a nil terminal value.

18. Non-current receivables

18a. Non-current receivables on lease surrender premium

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	1,760	–
Arising on acquisition of subsidiaries	–	1,942
Movement in year	(988)	(247)
Unwinding of discount	232	65
At end of year	1,004	1,760
Asset due within 1 year	798	756
Asset due after 1 year	206	1,004
	1,004	1,760

In May 2014, the tenant of one of the subsidiaries (Blythswood House) surrendered their lease resulting in a lease surrender premium to be paid by the tenant in equal instalments over 4-years with the final instalment to be paid in the quarter ending 31 March 2018. The amount due was recognised initially at fair value and subsequently recorded at amortised cost using the effective interest method. The unwinding of the discount is included in finance income.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

18. Non-current receivables *(continued)*

18b. Non-current receivables on tenant loans

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	–	–
Amounts loaned in the year	1,926	–
At end of year	1.926	–
Asset due within 1 year	385	–
Asset due after 1 year	1,541	–
	1,926	–

During 2016 the Group entered into a loan agreement with a tenant for £1,926,000. The loan is subject to interest of 4% above the base rate of the Bank of Scotland and is repayable in instalments over 10-years.

19. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Gross amount receivable from tenants	4,384	3,246
Less provision for impairment	(258)	(228)
Net amount receivable from tenants	4,126	3,018
Current receivables – surrender premium (note 18a)	798	756
Current receivables – tenant loans (note 18b)	385	–
Other receivables	2,487	5,257
Prepayments	3,579	2,817
	11,375	11,848

	31 December 2016 £'000	31 December 2015 £'000
Company		
Other debtors	837	–
Prepayments	33	3
	870	3

The maximum exposure to credit risk at the reporting date is the carrying value of the amounts disclosed above. The Group does not hold any collateral as security.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

19. Trade and other receivables *(continued)*

The aged analysis of trade receivables that are past due but not impaired was as follows:

	31 December 2016 £'000	31 December 2015 £'000
Current	1,176	1,485
< 30 days	1,692	571
30-60 days	806	550
> 60 days	710	640
	4,384	3,246
Less provision for impairment	(258)	(228)
	4,126	3,018

The Directors consider the fair value of receivables equals their carrying amount.

The table above shows the aged analysis of trade receivables included in the table above which are past due but not impaired. These relate to tenants for whom there is no recent history of default.

Provision for impairment of trade receivables movement as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
At start of year	228	–
Arising on acquisition of subsidiaries	–	228
Provision for impairment in the year	184	–
Receivables written off as uncollectable	(7)	–
Unused provision reversed	(147)	–
At end of year	258	228

Other categories within trade and other receivables do not include impaired assets.

20. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Group		
Cash held at bank	10,850	15,155
Restricted cash held at bank	5,349	8,800
At end of year	16,199	23,955

	31 December 2016 £'000	31 December 2015 £'000
Company		
Cash held at bank	65	19
Restricted cash held at bank	–	–
At end of year	65	19

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

20. Cash and cash equivalents *(continued)*

Restricted cash balances of the Group comprise:

- £2,000 (2015: £6,349,000) of funds held in blocked bank accounts which are controlled by one of the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £4,025,000 (2015: £2,171,000) of funds which represent service charge income received from tenants for settlement of future service charge expenditure.
- £1,322,000 (2015: £280,000) of funds which represent tenants' rental deposits.

All restricted cash balances will be available before 31 March 2017.

21. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Group		
Withholding tax due on dividends paid	1,416	–
Trade payables	3,381	2,513
Other payables	5,164	5,095
Value added tax	1,136	1,092
Accruals	3,504	3,876
At end of year	14,601	12,576

	31 December 2016 £'000	31 December 2015 £'000
Company		
Withholding tax due on dividends paid	1,416	–
Accruals	903	868
At end of year	2,319	868

22. Deferred income

Deferred rental income represents rent received in advance from tenants.

23. Taxation liabilities

	31 December 2016 £'000	31 December 2015 £'000
Group		
Income tax	36	1,775
Deferred tax	626	612
	662	2,387

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

24. Bank and loan borrowings

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. Any associated fees in arranging the bank borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Bank borrowings drawn at start of year	128,643	–
Bank borrowings drawn	107,762	128,643
Bank borrowings repaid	(16,345)	–
Bank borrowings drawn at end of year	220,060	128,643
Less: unamortised costs	(874)	(1,875)
Less: loan issue costs incurred in the period	(1,744)	–
Less: adjustment through finance income	–	(99)
At end of year	217,442	126,669
Maturity of bank borrowings		
Repayable within 1 year	–	200
Repayable between 1 to 2 years	58,960	200
Repayable between 2 to 5 years	158,482	126,269
	217,442	126,669

During the year, largely to fund property acquisitions, the Group increased its borrowings and refinanced existing facilities. The total outstanding debt drawn is less than the total of the original facility due to the repayment of debt following the sale of one of the assets on which borrowings were secured. At 31 December 2016 the amount of undrawn debt was £nil (31 December 2015: £nil). The weighted average term to maturity of the Group's debt at the year end was 2.9 years (31 December 2015: 3.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the year end was 3.3% (31 December 2015: 4.1%).

Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Gross LTV (%)	Interest cost per annum	Amortisation
Santander UK	48,300	45,432	Dec '18	43.0	2.00% over 3 month LIBOR	Mandatory prepayment
Santander UK	25,343	14,340	Dec '18	34.2	2.00% over 3 month LIBOR	Mandatory prepayment
Royal Bank of Scotland	25,000	24,450	Jun '19	42.1	2.15% over 3 month LIBOR	None
ICG Longbow Ltd	65,000	65,000	Aug '19	44.3	5.00% pa for term	None
Royal Bank of Scotland	40,000	39,848	Mar '21	50.2	2.40% over 3 month LIBOR	Mandatory prepayment
Santander UK	30,990	30,990	Jan '21	48.1	2.15% over 3 month LIBOR	Mandatory prepayment
	234,633	220,060				

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

As shown in note 25, the Group uses a combination of interest rate swaps and fixed rate bearing loans to hedge against interest rate risks. The Group's exposure to interest rate volatility is minimal.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

25. Derivative financial instruments

Interest rate caps and swaps are in place to mitigate the interest rate risk that arises as a result of entering into variable rate borrowings.

	31 December 2016 £'000	31 December 2015 £'000
Group		
Fair value at start of year	(416)	–
Fair value of derivative financial instruments arising on the acquisition of subsidiaries	–	(531)
Fair value (loss)/gain	(1,097)	115
Fair value at end of year	(1,513)	(416)

The calculation of fair value of interest rate caps and swaps is based on the following calculation: the notional amount multiplied by the difference between the swap rate and the current market rate and then multiplied by the number of years remaining on the contract.

The fair value of derivative financial instruments has decreased in the year due to the Group entering into a number of interest rate caps and swaps in the year as detailed below:

	Loan Details				Swap Details	
Lender	Original Facility £'000	Outstanding Debt £'000	Maturity Date	Interest cost per annum	Notional Amount £'000	Rate %
Santander UK	48,300	45,432	Dec '18	2.00% over 3 month LIBOR	6,000 18,150	1.867 1.014
Santander UK	25,343	14,340	Dec '18	2.00% over 3 month LIBOR	3,400 9,271	2.246 1.010
Royal Bank of Scotland	25,000	24,450	Jun '19	2.15% over 3 month LIBOR	12,480 20	1.790 1.110
ICG Longbow Ltd	65,000	65,000	Aug '19	5.00% pa for term	n/a	n/a
Royal Bank of Scotland	40,000	39,848	Mar '21	2.40% over 3 month LIBOR	19,900	1.395
Santander UK	30,990	30,990	Jan '21	2.15% over 3 month LIBOR	9,375 6,920 5,280	1.086 1.203 1.444
	234,633	220,060			90,796	

The weighted average cap and swap rate for the Group as at the year end was 3.5% (31 December 2015: 4.4%), with a Group weighted average effective interest rate of 3.7% (31 December 2015: 4.5%) inclusive of hedging costs.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liabilities.

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end the total proportion of hedged debt equated to 106.5% (31 December 2015: 90.1%), as shown below. The over-hedge at 31 December 2016 is the result of a property disposal and the hedging position was under review, subsequent to the year end the over hedged position has been reduced to 101.6%.

	31 December 2016 £'000	31 December 2015 £'000
Total bank borrowings	220,060	128,643
Notional value of interest rate caps and swaps	169,441	50,825
Value of fixed rate debts	65,000	65,000
	234,441	115,825
Proportion of hedged debt	106.5%	90.1%

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

25. Derivative financial instruments *(continued)*

Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives.

The different levels are defined as follows.

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Interest rate derivatives	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2016	(1,513)	–	(1,513)	–
31 December 2015	(416)	–	(416)	–

The fair value of these contracts are recorded in the Consolidated Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the year end.

There have been no transfers between levels during the year.

The Group has not adopted hedge accounting.

26. Financial risk management

26.1. Financial instruments

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 and cash equivalents. The Group's other principal financial liabilities are bank and other loan borrowings and interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	31 December 2016 Book value £'000	31 December 2016 Fair value £'000	31 December 2015 Book value £'000	31 December 2015 Fair value £'000
Group				
Financial assets – measured at amortised cost				
Trade and other receivables	9,543	9,543	10,035	10,035
Cash and short-term deposits	16,199	16,199	23,954	23,954
Financial liabilities – measured at amortised cost				
Trade and other payables	(15,263)	(15,263)	(14,963)	(14,963)
Bank and loan borrowings	(217,442)	(217,442)	(126,669)	(126,669)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(1,513)	(1,513)	(416)	(416)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.1. Financial instruments *(continued)*

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements:

	31 December 2016		31 December 2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Company				
Financial assets – measured at amortised cost				
Trade and other receivables	837	837	–	–
Cash and short-term deposits	65	65	19	19
Financial liabilities – measured at amortised cost				
Trade and other payables	(2,319)	(2,319)	(868)	(868)

26.2. Risk management

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

26.3. Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with a number of interest rate swaps entered into to mitigate interest rate risk.

The Group's interest rate risk arises from long term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaptions. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

If interest rates were to increase by the following rates, this would increase the annual interest charge to the Group and thus reduce profits and net assets as follows:

Interest rate increase (%)	Increase to the annual interest charge £'000
0.00	–
0.25	186
0.50	372
0.75	529
1.00	592

26.4. 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 risk from both its leasing activities and financing activities, including deposits with banks and financial institutions. The Company is exposed to credit risk from its deposits with banks. Credit risk is mitigated by tenants being required to pay rentals in advance under their lease obligations. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

Outstanding trade receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.5. Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the Group's Statement of Financial Position net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. Any trade receivables past due as at the year end were received shortly after the year end.

26.6. Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances are limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

The list of bankers for the Group, with their latest Fitch credit ratings, was as follows:

Bankers	Fitch Ratings
Barclays	A
Royal Bank of Scotland	BBB+
Santander UK	A

26.7. Liquidity risk

Liquidity risk arises from the Group's management of working capital and, going forward, the finance charges and principal repayments on its borrowings. 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 investment properties 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 continuous monitoring of forecast and actual cash flows by management.

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

Group at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(15,263)	–	–	(15,263)
Bank borrowings	(7,177)	(66,093)	(164,942)	(238,212)
Interest rate derivatives	(884)	(874)	(528)	(2,286)
	(23,324)	(66,967)	(165,470)	(255,761)

Group at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(14,963)	–	–	(14,963)
Bank borrowings	(5,275)	(5,275)	(135,410)	(145,960)
Interest rate derivatives	(464)	(464)	(495)	(1,423)
	(20,702)	(5,739)	(135,905)	(162,346)

Derivative instrument interest rate swaps and caps with a negative fair value are included within the less than one year category.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

26. Financial risk management *(continued)*

26.7. Liquidity risk *(continued)*

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

Company at 31 December 2016	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(2,319)	–	–	(2,319)

Company at 31 December 2015	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	Total £'000
Trade and other payables	(868)	–	–	(868)

27. Capital management

The primary objective of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Group's capital is represented by reserves and bank borrowings. The Board, with the assistance of the Investment Manager, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for Shareholders.

The Group's policy on borrowings is as follows: the level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, while maintaining flexibility in the underlying security requirements, and the structure of both the portfolio and of Regional REIT.

Based on current market conditions, the Board will target Group net borrowings of 35% of Investment Property Values at any time. However, the Board may modify the Company's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50 per cent. of the Investment Property Values at any time without the prior approval of Ordinary shareholders in a General Meeting.

Debt will be secured at the asset level subject to the assessment of the optimal financing structure for the Group and having consideration to key metrics including lender diversity, debt type and maturity profile.

28. Stated capital

Stated capital (previously described as share premium) represents the consideration received by the Company for the issue of Ordinary shares.

	31 December 2016 £'000	31 December 2015 £'000
Issued and fully paid shares at £1 per share	274,217	274,217
Number of shares in issue		
At start of the year	274,217,264	–
Initial issued share capital	–	1
Shares issued	–	274,217,263
At end of the year	274,217,264	274,217,264

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

28. Stated capital *(continued)*

The Company was incorporated on 22 June 2015 and issued one ordinary share of no par value at a price of 100 pence to the sole subscriber.

On 16 October 2015 a further 3 ordinary shares of no par value were issued at a price of 100 pence each. The shares issued have the same rights as the subscriber share.

On 6 November 2016 the Company issued 274,217,260 ordinary shares of no par value to the general partners of four Limited Partnership Funds (Tosca Commercial Property Fund LP, Tosca Commercial II, Tosca UK Commercial Property II LP and TUKCLP Jersey LP) in consideration for their shares in Regional Commercial MIDCO Limited. The fair value of the shares issued amounted to £274,217,260 and the shares issued have the same rights as the other shares in issue.

On 6 November 2015, the Group announced that its entire share capital of 274,217,264 Ordinary Shares had been admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange.

29. Net asset value per share (NAV)

Basic NAV per share is calculated by dividing net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year. As there are dilutive instruments outstanding, basic and diluted NAV per share are disclosed below.

Dilutive instruments to future the partial settlement of the Performance Fee by the future issue of Ordinary shares. As detailed in note 32, an estimate Performance Fee for the period from commencement of trading to 31 December 2016 has been recognised in the financial statements. An estimate has been made of the number of shares that would be issued based on the EPRA NAV at 31 December 2016. It should be noted that the first Performance Fee charge runs for the period from 6 November 2015 to 31 December 2018 and the number of shares to be issued to settle the charge will be based on the diluted EPRA NAV as at 31 December 2018.

Net asset values have been calculated as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	291,735	295,341
Adjustment for calculating EPRA net assets:		
Derivative financial instruments	1,513	416
EPRA net assets	293,248	295,757
Number of Ordinary Shares in issue	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted number of Ordinary Shares	274,324,993	274,217,264
Net asset value per share – basic	106.4p	107.7p
Net asset value per share – diluted	106.3p	107.7p
EPRA net asset value per share – basic	106.9p	107.8p
EPRA net asset value per share – diluted	106.9p	107.8p

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

29. Net asset value per share (NAV) *(continued)*

	31 December 2016 £'000	31 December 2015 £'000
Company		
Net asset value per Company Statement of Financial Position	272,902	273,371
Number of Ordinary Shares in issue	274,217,264	274,217,264
Dilutive instruments	107,729	–
Adjusted number of Ordinary Shares	274,324,993	274,217,264
Net asset value per share – basic	99.5p	99.7p
Net asset value per share – diluted	99.5p	99.7p

30. Operating leases

The future minimum lease payments receivable under non-cancellable operating leases in respect of the Group's property portfolio are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Receivable within 1 year	37,950	3,842
Receivable between 1 to 2 years	–	–
Receivable between 2 to 5 years	100,292	55,958
Receivable after 5 years	88,243	87,374
	226,485	147,174

The Group has in excess of 684 operating leases. The number of years remaining on these operating leases varies between 1 and 61 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point a surrender premium will be charged to cover the shortfall in rental income received.

31. Segmental information

After a review of the information provided for management purposes during the current year, it was determined that the Group had one operating segment and therefore segmental information is not disclosed in these consolidated financial statements.

Segmental reporting information was disclosed in the previous annual report and financial statements for the period ending 31 December 2015. This was a short period of trading and at the time of reporting it was unclear on whether the business would be split into segments for the purpose of reporting.

32. Transactions with related parties

Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited

Stephen Inglis is a Non-Executive Director of Regional REIT Limited, as well as being the Group Property Director and Chief Investment Officer of LSI and a director of London & Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

In consideration for the provision of services provided, the Asset Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value (NAV), reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears. On any date upon which payment of the management fee is due.

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Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

32. Transactions with related parties *(continued)*

In respect of each portfolio property the Asset Manager has procured and shall, with the Company in future, procure that London & Scottish Property Asset Management Limited is appointed as the Property Manager. A property management fee of 4% per annum is charged by the Property Manager on a quarterly basis: 31 March, 30 June, 30 September, and 31 December, based upon the gross rental yield. Gross rental yield means the rents due under the property's lease for the peaceful enjoyment of the property, including any value paid in respect of rental renunciations but excluding any sums paid in connection with service charges or insurance costs.

Transactions with the Asset Manager, London & Scottish Investments Limited and the Property Manager, London & Scottish Property Asset Management Limited (continued)

The Asset Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below.

The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Asset management fees charged*	1,675	232
Property management fees charged*	1,698	165
Performance fees charged	115	–
Total	3,488	397

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding**	563	397

* Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

On 20 September 2016 Regional REIT's wholly-owned subsidiary, Regional Commercial Midco Limited agreed to acquire from London & Scottish Investments Limited ("LSI"), the Asset Manager, the entire issued share capital of Toscafund Strathclyde BP Limited (a company incorporated in Jersey).

Toscafund Strathclyde BP Limited owns a portfolio of 6 office pavilions at Strathclyde Business Park, Bellshill, Scotland. The buildings cover 0.09m sq. ft. and provide a net income of £762,000 per annum with a net initial yield of 12.0% after deductions of costs. The consideration for the acquisition was £5,500,000 in cash, which represents the fair value of the portfolio as determined by Knight Frank, an independent valuer. The Group also paid £132,000 to LSI, representing 38.5% of the total costs incurred by the Asset Manager in the original purchase of the properties.

Transactions with the Investment Manager, Toscafund Asset Management LLP

Martin McKay is a Non-Executive Director of Regional REIT Limited and is the Chief Financial Officer of Toscafund Asset Management LLP. The LLP is also the discretionary Investment Manager of Tosca Opportunity, Tosca Mid Cap and The Pegasus Fund Limited, all of which previously owned shares in Regional REIT Limited. Toscafund Asset Management LLP has been contracted as the Investment Manager of the Group.

In consideration for the provision of services provided, the Investment Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value (NAV), reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

32. Transactions with related parties *(continued)*

Transactions with the Investment Manager, Toscafund Asset Management LLP (continued)

The Investment Manager is also entitled to a Performance Fee. Details of the Performance Fee are given below.

The following tables show the fees charged in the year and the amount outstanding at the end of the year:

	Year ended 31 December 2016 £'000	22 June 2015 to 31 December 2015 £'000
Investment management fees charged*	1,914	264
Performance fees charged	115	–
Irrecoverable VAT on performance fees charged	19	–
Total	2,048	264

	31 December 2016 £'000	31 December 2015 £'000
Total fees outstanding**	609	264

* Including irrecoverable VAT charged where appropriate
** Including amounts to be settled by the issue of Ordinary shares

Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a Performance Fee. The fee is calculated at a rate of 15% of Shareholder Returns in excess of the Hurdle Rate of 8% for the relevant Performance Period. Shareholder Returns for any Performance Period consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the Performance Period. A Performance Fee is only payable in respect of a Performance Period where the EPRA NAV per Ordinary Share exceeds the High-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous Performance Period or the Placing price (100p per Ordinary Share). The Performance Fee is to be calculated initially on 31 December 2018, and annually thereafter. Full details of the Managers' Performance Fee are given on pages 183-185 of the IPO Prospectus.

The Performance Fee for the first period 6 November 2015 to 31 December 2018 is payable 50% in cash, and 50% in Ordinary Shares. The shares are to be issued at the prevailing price per Ordinary Share at the date of issue, and are to be locked-in for 1 year.

The Performance Fees for subsequent periods are payable 34% in cash and 66% in Ordinary Shares, again at the prevailing price per share, with 50% of the shares locked-in for 1 year and 50% of the shares are locked-in for 2 years.

Based on the EPRA Net Asset Value of the Group as at 31 December 2016 and assuming the Hurdle annual rate of return is exceeded on average over the remainder of the period to 31 December 2018 the Performance Fee liability, including irrecoverable VAT, for the period from commencement of trading to 31 December 2016 was estimated at £249,000 (31 December 2015: £95,000). This fee has been accrued in the consolidated financial statements for the year ended 31 December 2016 but none in the comparative period. To reflect the nature of the future payment of the performance fee charge, 50% of the fee along with the irrecoverable VAT thereon of £19,000 has been accrued as a liability of £134,000 and the 50% of the fee which is payable by the issue of Ordinary shares has been reflected as a share based payment in the Consolidated Statement of Changes in Equity.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2016

33. Operating lease commitments

Total commitments on operating leases in respect of land and buildings are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Group		
Payable within 1 year	485	261
Payable between 1 to 2 years	485	261
Payable between 2 to 5 years	1,456	783
Payable after 5 years	37,794	18,240
	40,220	19,545

34. Subsequent events

On 23 February 2017, the Group announced that it had reached an agreement with The Conygar Investment Company PLC ("Conygar") to acquire an investment portfolio of 31 regional office, industrial, retail and leisure properties. The 31 properties will be acquired by way of the Special Purpose Vehicles that own the assets, which are geographically spread across England and Wales. As at 30 September 2016, the mixed-use portfolio had a gross investment value of c. £129m totalled 1,280,980 sq. ft., serviced 115 tenants, and had a contracted rent roll of £9.7m per annum with a net initial yield of 7%.

The consideration of c. £28m will be satisfied by the issuance of approximately 26.3m Regional REIT Limited. Ordinary shares, at an agreed adjusted EPRA NAV of 106.347 pence per share, the assumption of £69.5m of bank borrowings, and the acquisition of Conygar ZDP PLC, whose obligations on zero dividend preference shares total c. £35.7m at the expected completion date of the acquisition in late March 2017.

The proposed acquisition is conditional upon the approval of Conygar ordinary shareholders, the holders of the Conygar ZDP PLC preference shares and the two banks currently providing secured lending to Conygar. Once the transaction completes, the Group will consider if it is to be treated as a business combination under IFRS 3 or an asset acquisition.

On 28 February 2017, the Group increased its borrowings from Santander UK by £10.0m, taking advantage of the competitive borrowing environment.

Glossary of Terms

AIF – Alternative Investment Fund.

AIFM – Alternative Investment Fund Manager.

Break Option – A clause in a lease which provides the landlord or tenant with an ability to terminate the lease before its contractual expiry date.

Capex – Capital expenditure relates to spend used by the organisation to maintain or upgrade physical assets.

Company – Regional REIT Limited.

Contracted Rent – Annualised rent, adjusting for the inclusion of rent free periods. See also Passing Rent.

EPC – Energy Performance Certificate.

EPRA Cost Ratio – Ratio of overheads and operating expenses against gross rental income. Net overheads and operating expenses relate to all administrative and operating expenses including the share of joint ventures' overheads and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA – European Public Real Estate Association, a real estate industry body, which has issued Best Practice Recommendations to provide consistency and transparency in real estate financial reporting across Europe.

EPRA Earnings – Profit after taxation excluding investments and development property revaluations and gains/losses on disposals, changes in the fair value of financial instruments and associated close-out costs and their related taxation.

EPRA Net Asset Value (EPRA NAV) – IFRS assets excluding the mark-to-market on effective cash flow hedges and related debt instruments and deferred taxation revaluations.

Equivalent Yield – Weighted average of the initial yield and reversionary yield, representing the return that a property will produce based on the occupancy data of the tenant leases.

Estimated Rental Value (ERV) or Market Rent (MR) – External valuers' opinion as to what the open market rental value of the property is on the valuation date and which could reasonably be expected to be the rent obtainable on a new letting of that property on the valuation date.

External Valuer – Independent external valuer of a property. The Company's External Valuer is Cushman & Wakefield.

Fair Value Adjustment – Accounting adjustment to change the book value of an asset or liability to its market value.

Gross Property Assets – Investment properties encompassing the entire property portfolio of freehold and leasehold assets.

Gross Rental Income – Accounting based rental income under IFRS. When the Group provides lease incentives to its tenants the lease incentives are recognised over the lease term on a straight-line basis in accordance with IFRS. Gross rental income is the cash Passing Rent as adjusted for the spreading of these incentives.

Group – Regional REIT Limited and its subsidiaries.

IPO – Initial Public Offering. The Company's Admission to London Stock Exchange was 6 November 2015.

Lease – Legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the lease length.

Lease Incentive – Payment used to encourage a tenant to take on a new lease, for example a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.

Lease Re-gear – Renegotiation of a lease during the term and often linked to another lease event, for example a Break Option or Rent Review.

Lease Renewal – Renegotiation of a lease with the existing tenant at its contractual expiry.

Lease Surrender – Agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a Break Option. This will frequently involve the negotiation of a surrender premium by one party to the other.

Gross Loan-to-Value (LTV) Ratio – (Borrowings) / (Investment Properties Value), expressed as percentage.

Mark-to-Market (MTM) – Difference between the book value of an asset or liability and its market value.

Manager – The Company's external Asset and Property Manager is London & Scottish Investments Limited. Its external Investment Manager is Toscafund Asset Management LLP.

Net Asset Value (NAV) (or Shareholder' Funds) – The value of the investments and other assets of an investment company, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an investment company at a point in time.

Net Gearing – (Borrowings – cash and cash equivalents) / (Total Issued Shares + Retained Earnings).

Glossary of Terms *(continued)*

Net Initial Yield – (Annualised current passing rent less non-recoverable property expenses, such as empty rates) / (Investment Properties Value). This phrase is regularly used for Triple Net Initial Yield (NNNIY).

Net Loan-to-Value (LTV) Ratio – (Borrowings – less cash) / (Investment Properties Value) expressed as percentage.

Passing Rent – The rent that is payable at any particular time, allowing for lease incentives. This phrase is often used for Contracted Rent.

Occupancy Percentage – Percentage of the total area of all properties and units currently let to tenants.

Over Rented – When the Contracted Rent is higher than the ERV.

Property Income Distributions (PIDs) – Profits from property related business distributed to shareholders which are subject to tax in the hands of the shareholders as property income. PIDs are normally paid net of withholding tax, currently at 20%, which the REIT pays to the tax authorities on behalf of the shareholder. Certain types of shareholder (ie, pension funds) are tax exempt and receive PIDs without withholding tax. Property companies also pay out normal dividends, called non-PIDs, which are treated as not subject to withholding tax.

REIT – A qualifying entity which has elected to be treated as Real Estate Investment Trust for tax purposes. In the UK such entities must be listed on a recognised stock exchange, must be predominantly engaged in property investments activities and must meet certain ongoing qualifications as set out under section 705 E of the Finance Act 2013.

Rent Review – Periodic review of rent during the term of a lease, as provided for within a lease agreement.

Reversion – Expected increase in rent estimated by the Company's External Valuer, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

Reversionary Yield – Anticipated yield, excluding lease expiry, to which the Net Initial Yield will rise (or fall) once the rent reaches the Estimated Rental Value. ERV / Investment Properties Value expressed as a percentage.

Triple Net Initial Yield (NNNIY) – (Annualised current passing rent net of property related taxes, building insurance, and maintenance costs (the three "nets") / (Investment Properties Value).

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees). The calculation excludes residential leases and development properties where relevant.

Weighted Average Debt Maturity – Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted Average Effective Interest Rate – The Group's loan interest and hedging derivative costs per annum divided by total Group debt in issue at the period end.

Yield Compression – Occurs when the net equivalent yield of a property decreases, measured in basis points.

AIFMD Disclosure

The Alternative Investment Fund Managers' Directive ("AIFMD"), requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within the Initial Public Offering ("IPO") Prospectus, which can be found on the Group's website at: www.regionalreit.com. There have been no material changes to the disclosures contained within the IPO document since its publication on 3 November 2015.

Management Agreement

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited ("LSI") as Asset Manager and Toscafund Asset Management LLP ("Toscafund" or the "AIFM") as Investment Manager. LSI and Toscafund each receive half of an annual management fee on a scaled rate of 1.1 % of the European Public Real Estate Association ("EPRA") net asset value (NAV) up to £500 million and 0.9% above £500 million. A Performance Fee will also be paid to LSI and Toscafund.

The investment management agreement between the Company and Toscafund (the "Management Agreement") may be terminated by either party giving 12 months' written notice. No additional compensation is payable to the AIFM on the termination of this agreement other than the fees payable during the notice period.

Toscafund was authorised as an Alternative Investment Fund Manager ("AIFM"), by the UK's Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy ("the Policy"), which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Regional REIT Limited during the period 1 January 2016 to 31 December 2016 was £2,338,044.

Continuing appointment of the AIFM

The Board continually reviews the performance of the AIFM and LSI. The Board, through its Audit Committee and Management Engagement and Remuneration Committee (the "Committees"), has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. This is because of the good performance of the Group and because the remuneration of the AIFM is fair both in absolute terms and compared to that of managers of similar investment companies. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

Risk management by the AIFM

The AIFM has established and maintains a permanent and independent risk management function to ensure that there is a comprehensive and effective risk management policy in place and to monitor compliance with risk limits. The risk policy applicable to the Group covers the risks associated with the management of the investment portfolio and the AIFM reviews and approves the adequacy and effectiveness of the policy on at least an annual basis, including the risk management processes and controls and limits for each risk area. The AIFM sets risk limits that take into account the risk profile of the Group's investment portfolio, as well as its investment objectives and strategy. The AIFM monitors the risk limits, including leverage, and periodically assesses the portfolio's sensitivity to key risks. The AIFM reviews risk limit reports at regular meetings of its Risk Committee.

Principal risks and uncertainties

The Board considers that the following are the principal risks associated with investing in the Group: investment risk, market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 26 on pages 112 to 115 of the Financial Statements.

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AIFMD Disclosure *(continued)*

Leverage

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. The Group has entered into five separate banking facilities during the period, drawing on £220.1 million of secured debt. All available debt facilities have been fully drawn.

Leverage has been measured in terms of the Group's exposure, and is expressed as a ratio of net asset value. The AIFMD requires this ratio to be calculated in accordance with both the Gross Method and the Commitment Method. Details of these methods of calculation can be found by referring to the AIFMD. In summary, these methods express leverage as a ratio of the exposure of debt, non-sterling currency, equity or currency hedging and derivatives exposure against the net asset value. The principal difference between the two methods is that the Commitment Method enables derivative instruments to be netted off to reflect hedging arrangements and the exposure is effectively reduced, while the Gross Method aggregates the exposure.

The AIFMD introduced a requirement for the AIFM to set maximum levels of leverage for the Group. The Company's AIFM has set a maximum limit of 400 for both the Gross and Commitment Methods of calculating leverage.

At 31 December 2016 this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	230	235

In accordance with the AIFMD, any changes to the maximum level of leverage set by the Group will be communicated via the Group's website to the Shareholders.

Company Information

Directors

Kevin McGrath (Chairman, Chairman of Management Engagement and Remuneration Committee and Independent Non-Executive Director)

William Eason (Senior Independent Non-Executive Director and Audit Committee Chairman)

Daniel Taylor (Independent Non-Executive Director)

Stephen Inglis (Non-Executive Director)

Martin McKay (Non-Executive Director)

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Calls outside the UK will be charged at applicable international rate. Lines are open between 09:00 and 17:30 Monday to Friday (excluding public holidays in England and Wales).

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Regional REIT Limited
ISIN:
GB00BYV2ZQ34

SEDOL:
BYV2ZQ3

ESMA Legal Entity Identifier:
549300D8G4NKLRIKBX73

Company Website
www.regionalreit.com

Forthcoming Events

Q1 2017 Trading Update, AGM Statement and Dividend Announcement	25 May 2017
2016 Annual General Meeting	25 May 2017
Q2 2017 Dividend Announcement	31 August 2017
2017 Interims Results Announcement	14 September 2017
Q3 2017 Trading Update and Dividend Announcement	16 November 2017

Note: all future dates are provisional and subject to change.

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