

Regional REIT Limited
("Regional REIT", the "Group" or the "Company")

2021 Full Year Results

Portfolio growth and dividend drives shareholder value

Regional REIT (LSE: RGL), the regional real estate investment specialist focused on building a geographically diverse portfolio of income producing regional UK core and core plus office assets, today announces its full year results for the year ended 31 December 2021.

Financial highlights:

A strong performance and significant increase in both portfolio valuation and rent roll, providing shareholders with an attractive yield

- Significant portfolio value increase of 23.7% to £906.1m (2020: £732.4m), following the £236m portfolio acquisition August 2021
- Valuation per share remains resilient: IFRS NAV per share of 97.4p (2020: 97.5p); EPRA NTA per share of 97.2p (2020: 98.6p)
- EPRA total return of 41.2% since IPO in November 2015; representing 5.8% annualised returns for shareholders
- Total rent collection or within terms for 2021 was 99.2%* of rent due, improved against the 95.9% of rent collected for the equivalent period in 2020
- Rent roll increased by 12.3% to £72.1m (2020: £64.2m)
- EPRA EPS of 6.6pps (2020: 6.5pps); IFRS EPS 6.3pps (2020: loss 7.2pps)
- Net initial yield was 5.6% (2020: 6.9%)
- 2021 dividend, of 6.50pps (2020: 6.40pps), fully covered by EPRA earnings
- Group's cost of debt remained the same at 3.3% (2020: 3.3%)
- Net LTV of 42.4% (2020: 40.8%)
- Weighted average debt duration remains robust at 5.5 years (2020: 6.4 years)

*As at 18 March 2022, rent collections to 31 December 2021 amounted to 99.2%; actual rent collected 97.9%, monthly rents 0.2% and deals agreed of 1.1%.

Operational highlights:

A growing portfolio of geographically diversified assets - generating attractive income and a substantial yield throughout a challenging year

- Rental income generated from a large spread of tenants and industries across a growing and geographically diversified portfolio of 168 properties (2020: 153), 1,511 units (2020: 1,245) and 1,077 occupiers (2020: 898)
- The Asset Manager continued to deliver on exiting all industrial and retail holdings to focus entirely on the core regional offices which the Asset Manager believes will provide the best return for shareholders over the coming years.

- The Group made disposals amounting to £76.9m (net of costs) during 2021. The proceeds from these disposals were promptly recycled into acquiring higher yielding properties
- A significant acquisition was completed in August 2021, when the Group acquired a £236.0m (before costs) portfolio comprising of predominately office assets, in exchange for the issuance of 84,230,000 of the Company's shares, £76.7m of existing cash resources, and additional borrowings of £76.2m. The acquired portfolio further de-risked the Company's offering increasing diversification by geography, occupier and type of income streams
- At the period end, 89.8% (2020: 83.5%) of the portfolio by market value was offices and 5.1% (2020: 11.1%) was industrial. The balance was made up of retail 3.7% (2020: 4.1%) and other, 1.4% (2020: 1.3%)
- Portfolio valuation split by region was: England 75.7% (2020: 78.3%), Scotland 19.0% (2020: 17.3%) and the balance of 5.3% was in Wales (2020: 4.4%). In England, the largest regions were the South East, Midlands and the North West
- EPRA Occupancy (by ERV) was 81.8% (2020: 89.4%) as expected. EPRA Occupancy has been impacted by the £236.0m (before costs) portfolio acquisition made in Q3 2021. Asset management plans are in place to improve occupancy
- Completed 55 new lettings in 2021, totalling 194,716 sq. ft., which when fully occupied will provide a gross rental income of c. £2.5m

Post period end

- Post 31 December 2021, the Company has disposed of separately: eight non-core properties for a total consideration of £33.5m, at a 1.3% premium to the 31 December 2021 valuation, with a net initial yield of 5.1% (6.3% excluding vacant properties)
- Good momentum through active asset management, securing £0.7m of lettings across nine new lease agreements
- On 24 February 2022, the Company declared the Q4 2021 dividend of 1.70pps, which will be paid to shareholders on 8 April 2022

Stephen Inglis, CEO of London and Scottish Property Investment Management, the Asset Manager, commented:

"We are delighted to report that the Company performed well in 2021, despite the underlying difficulties in the office sector caused by COVID-19 during the reporting period. Our track record of distributing a quarterly dividend to shareholders since IPO remains uninterrupted, achieved through a defensive and geographically diversified portfolio of assets, which is poised to benefit from the UK's return to the office in 2022.

2021 was an active year for us, as we undertook substantial transactional activity in line with our strategy to focus the portfolio exclusively on the regional office sector and exit all other areas of commercial property.

Additionally, the portfolio's valuation has increased considerably during 2021, owing primarily to the significant acquisition made in August, which included 31 high quality assets for £236m.

Our performance has been maintained primarily through the strength of our occupier base and our strong relationships with those tenants, where we have received 99.2% of rents due for the year, and our intensive asset management initiatives, helping us realise additional value in the portfolio.

As we look forward, we are confident in the Company's prospects of maximising shareholder value through the strategic repositioning of the portfolio in high quality regional office assets, while continuing to deliver a significant yield."

Forthcoming Events

25 May 2022	May 2022 Trading Update and Outlook Announcement Q1 2022 Dividend Declaration Announcement Annual General Meeting
15 September 2022	2022 Interim Results Announcements
10 November 2022	Q3 2022 Trading Update

Note: All dates are provisional and subject to change.

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Enquiries:

Regional REIT Limited

Toscafund Asset Management

Investment Manager to the Group

Adam Dickinson, Investor Relations, Regional REIT Limited

Tel: +44 (0) 20 7845 6100

London & Scottish Property Investment Management

Asset Manager to the Group

Stephen Inglis

Tel: +44 (0) 141 248 4155

Buchanan Communications

Financial PR

Charles Ryland, Henry Wilson, George Beale

Tel: +44 (0) 20 7466 5000

regional@buchanan.uk.com

About Regional REIT

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries (the "Group") is a United Kingdom ("UK") based real estate investment trust that launched in November 2015. It is managed by London & Scottish Property Investment Management Limited, the Asset Manager, and Toscafund Asset Management LLP, the Investment Manager.

Regional REIT's commercial property portfolio is comprised wholly of income producing UK assets and comprises, predominantly of offices located in the regional centres outside of the M25 motorway. The portfolio is geographically diversified, with 168 properties, 1,077 occupiers as at 31 December 2021, with a valuation of c.£906.1m.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional core and core plus property assets. It aims to deliver an attractive total return to its Shareholders, targeting greater than 10%

per annum, with a strong focus on income supported by additional capital growth prospects.

The Company's shares were admitted to the Official List of the UK's Financial Conduct Authority and to trading on the London Stock Exchange on 6 November 2015. For more information, please visit the Group's website at www.regionalreit.com.

Cautionary Statement

This document has been prepared solely to provide additional information to Shareholders to assess the Group's performance in relation to its operations and growth potential. The document should not be relied upon by any other party or for any other reason. Any forward looking statements made in this document are done so by the Directors in good faith based on the information available to them up to the time of their approval of this document. However, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

ESMA Legal Entity Identifier ("LEI"): 549300D8G4NKLRIKBX73

Financial Highlights

Year ending 31 December 2021

Income focused – opportunistic buying and strategic selling, coupled with intensive asset management, continues to secure long-term income

Portfolio Valuation	£906.1m (2020: £732.4m)
IFRS NAV per Share	97.4p (2020: 97.5p)
EPRA* NTA per Share	97.2p (2020: 98.6p)
EPRA earnings per Share	6.6p (2020: 6.5p)
Dividend per Share	6.5p (2020: 6.4p)
Net Loan to Value Ratio**	42.4% (2020: 40.8%)
Weighted Average Cost of Debt**	3.3% (2020: 3.3%)
Weighted Average Debt Duration**	5.5 yrs (2020: 6.4yrs)

* The European Public Real Estate Association (EPRA)

** Alternative Performance Measures. Details are provided in the full Annual Report.

The European Public Real Estate Association

The EPRA's mission is to promote, develop and represent the European public real estate sector. As an EPRA member, we fully support the EPRA Best Practices Recommendations. Specific EPRA metrics can be found in the Company's financial and operational highlights, with further disclosures and supporting calculations can be found within the full Annual Report.

Operational Highlights

Year ending 31 December 2021

Deliberately diversified and strengthened portfolio by location and tenant – regions primed for growth

Properties	168
Units	1,511
Occupiers	1,077
Rent Roll	£72.1m
Portfolio by region and sector (by value)	
England & Wales	81.0%
Office	89.8%
Property acquisitions (before costs)	£236.0m
Number of properties	31
Property disposal proceeds (net of costs)	£76.9m
Number of properties	16
EPRA Occupancy by ERV*	81.8%
WAULT to expiry	4.8 yrs
WAULT to first break	3.0 yrs

* Alternative Performance Measures. Details are provided in the full Annual Report.

Performance Highlights

Year ending 31 December 2021

The high dividend distributions are a major component of the total return

Dividends declared per Share:	Pence
2021	6.50
2020	6.40
2019	8.25
2018	8.05
2017	7.85
2016	7.65
2015	1.00

EPRA

EPRA Total Return attributable to Shareholders since Admission [^]	41.2%
EPRA Annual Total Return attributable to Shareholders	5.8%

[^]Admission: 6 November 2015

Member of FTSE All-Share Index since March 2016
Member of FTSE EPRA NAREIT UK Index since June 2016

Total EPRA Return (from IPO)
(EPRA NTA and dividend declared)

	Pence per share
IPO Nov 2015	100
Dec 2015	107.8
Dec 2016	113.2
Dec 2017	119.9
Dec 2018	137.5
Dec 2019	142.9
Dec 2020	136.3
Dec 2021	141.2

Chairman's Statement

"The Company is in a strong position to create significant long-term value with a high dividend distribution."

Kevin McGrath, Chairman

Overview

Our progress this year reflects the growing maturity and strength of Regional REIT. The transition to being a pure regional office specialist gained substantial momentum in the year with the acquisition of a £236.0million (before costs) portfolio of predominately office assets from Squarestone Growth LLP. Overall, the Company continued to perform well during 2021, despite the challenging environment.

We continued to execute our successful strategy of having a large number of occupiers operating across a range of industries in properties located in the growth regions outside the M25 motorway. Driving this strategy forward has been in no small part due to our strong working relationships and understanding of our occupiers' needs and requirements. This has ensured continued robust rent collections throughout the year. Currently, rent collection for 2021 amounted to 99.2%* (2020: equivalent period 95.9%). In addition, our exceptional network of contacts continues to provide a pipeline of asset acquisition and disposal opportunities to create long-term value.

Whilst 2021 was a challenging year due to the myriad of restrictions and guidance issued by the respective United Kingdom Government bodies, our strong rent collection resulted in EPRA diluted earnings of 6.6 pence per share ("pps") (2020: 6.5pps). IFRS diluted earnings per share were 6.3pps (2020: loss per share of 7.2pps). The dividend was fully covered by EPRA earnings.

During the year, the overall value of the portfolio increased by 23.7% to £906.1 million from £732.4 million as at 31 December 2020, reflecting the acquisition of the Squarestone Growth LLP office portfolio, positioning the REIT for further long term asset growth. The Company made disposals amounting to £76.9 million (net of costs). As usual the proceeds from these disposals have been promptly recycled into acquiring higher yielding properties. The Squarestone Growth LLP acquisition was completed in August, when the Group acquired a £236.0 million (before costs) portfolio comprising of predominately office assets, in exchange for the issuance of 84,230,000 of the Company's shares, £76.7 million of existing cash resources, and additional borrowings of £76.2 million. The acquired portfolio increased diversification of the Company's portfolio by geography, occupier and the standard industrial classification type of income streams, and it aligns well with the expertise, experience and unique strengths of the Asset Manager. While generating an attractive yield, it also offers a multitude of longer-term asset management opportunities.

* As at 18 March 2022, rent collections to 31 December 2021 amounted to 99.2%; actual rent collected 97.9%, monthly rents 0.2% and deals agreed of 1.1%.

** Alternative Performance Measures. Details are provided in the full Annual Report.

During the year, our rolling capital expenditure programme amounted to £6.8 million (2020: £8.8 million). Our priorities throughout the year were to maintain occupancy levels, provide safe and vibrant spaces in which our occupiers could thrive and grow and provide long-term capital value growth for our Shareholders.

Financial Resources

The Company continues to be in a financially strong position with an EPRA NTA of £501.4 million (2020: £425.6 million) and a cash balance of £56.1 million as at 31 December 2021 (2020: £67.4 million), of which £49.9 million is unrestricted (2020: £55.0 million).

One of the Company's key achievements has been its defensive debt positioning. The simple and flexible debt profile with strong lender relationships continued to ensure that the Company was well positioned for any further economic turbulence. These attributes remain evident going forward with no requirement to refinance until 2024.

Following the £236.0 million (before costs) portfolio acquisition in August 2021, the net borrowings as at 31 December 2021 amounted to 42.4%. A programme of asset management initiatives is in train to ensure the net borrowing reverts to our long-term target of c. 40%. Our debt facilities have sufficient headroom against their respective covenants, and the Company is in a robust position to withstand any future economic uncertainty.

Market Environment

Investment in the UK commercial property market reached £57.0 billion in 2021, according to research by Lambert Smith Hampton ("LSH")¹, 6.1% above the five-year average, 40.1% higher than the volume recorded in 2020, and 15.4% above pre-COVID-19 levels in 2019. Investor sentiment remained positive in the final quarter of 2021, despite concerns surrounding Omicron, and the quarterly investment was £17.3 billion, the highest level recorded since Q2 2015.

Savills research highlights that investor sentiment in the regional office market has improved throughout 2021². Regional office investment totalled £7.2 billion in 2021, 34.8% higher than 2020 figures, and marginally above the five-year average³. Investment in office parks in 2021 reached £2.8 billion, the highest level reported since 2017, and 31.6% above the five-year average. Optimism in the regional office market has been supported by strong employment growth. The most recent data from the ONS shows that the UK employment rate rose to 75.5% in the three months to November 2021, up from 74.9% for the same period in 2020⁴.

¹ Lambert Smith Hampton, UKIT Q4 2021

² Savills, UK Regional Investment Market Watch – December 2021

³ Lambert Smith Hampton, UKIT Q4 2021

⁴ ONS, Labour Market Overview, UK – January 2022

More details can be found in the Asset Manager's Report in the full Annual Report.

Strategy Update – Positioned for Growth

As announced on 12 November 2020, the Company has focused its investment on properties in the office sector in the main regional centres of the UK outside of the M25 motorway. The Company continued to exit all other commercial property sector investments. During 2021, non-core disposals amounted to £76.9 million (net of costs) and regional office acquisitions totalled £220.2 million.

The Board remains convinced that the supply and demand imbalance of the regional office sector coupled with the Asset Manager's specialist operating platform and experience will produce an attractive Total Shareholder Return over the long term.

Dividends

The dividend is the major component of Total Shareholder Returns. For the year under review, the Company declared total dividends of 6.50pps for the year (2020: 6.40pps), comprising three

quarterly dividends of 1.60pps each and a fourth dividend of 1.70pps. This represented a yield of 6.9% at a share price of 93.90pps at the close of 31 December 2021. Since inception, the Company has declared dividends amounting to 45.7pps.

Looking ahead, there is a clear aspiration by the Board to maintain its record of uninterrupted quarterly dividend payments. This is predicated on the strength of the Company's balance sheet and the strong rent collections received throughout the year.

Performance

Since listing on 6 November 2015, the Company's EPRA Total Return was 41.2% and the annualised EPRA Total Return was 5.8%. The Total Shareholder Return was 47.6%, compared with the FTSE EPRA NAREIT UK Total Return Index, which has generated a return of 21.9% over the same period.

For the year under review, the Company's Total Shareholder Return was 22.4%, versus the return of 28.9% for the FTSE EPRA NAREIT UK Total Return Index over the same period.

Integrating a More Sustainable Approach

The Company has always been cognisant of its environmental impact, transparent governance structure and its social responsibility. With the Company's commitment to a more focused and formal approach, the Company joined the Real Estate Sustainability Benchmark ("GRESB"), achieving a green star for 2021. The Company has continued with a programme of integrating environmental, social and governance through its decision making. More details are set out in the full Annual Report.

Annual General Meeting

The Company plans to hold its 2022 Annual General Meeting ("AGM") in person on Wednesday, 25 May 2022. The notice for the 2022 AGM will be published on our website and will be circulated to Shareholders in accordance with the requirements of the Company's Articles of Incorporation.

In the absence of any reimposition of restrictions, the Board very much looks forward to meeting with Shareholders at the AGM.

Shareholder and Stakeholder Engagement

Our priority throughout 2021 remained first and foremost to provide vibrant workspaces where collaborative and collegiate environments can be built by our occupiers to face market challenges. We have stood ready to support and guide our occupiers, if required, throughout this challenging period and this remains the case.

I would like to take this opportunity to thank all the asset management teams, from property management, research, legal, corporate finance and finance to credit control, who have continued to support our occupiers through this unprecedented period.

Board and Governance

I am pleased to announce that in 2021 a Nomination Committee was constituted by the Board. The Committee's Terms of Reference can be found on the Company's website. The Committee comprises all of the independent Non-Executive Directors. More details can be found in the full Annual Report.

Outlook

The outlook for the Company remains positive. With the robust level of rent collections, the geographical and occupier diversification of the portfolio and strong finances, the Company is well positioned to continue to grow and take the opportunities that will inevitably arise in the coming years.

For the remainder of 2022, though we remain mindful of the challenges to be faced, the Company is confident of maintaining high rent collections and accelerating the momentum on the asset management initiatives. The Board believes this will result in the continued de-risking of the portfolio, whilst continuing to deliver income and long-term total returns for our Shareholders.

Kevin McGrath
Chairman

28 March 2022

Asset and Investment Managers' Report

"We are pleased to report that the Company performed well in 2021, despite the underlying challenges caused by COVID-19. Since IPO, we have consistently provided a quarterly dividend to our Shareholders. This has been achieved through a defensive and geographically diversified portfolio of assets, which is poised to benefit from the UK's return to the office in 2022.

2021 was an active year for us, as we undertook substantial transactional activity in line with our strategy to be opportunistic and focus the portfolio on the regional office sector. We continue to progress with a planned exit for all other non-core assets.

In addition, the portfolio's valuation increased considerably during 2021, owing primarily to the significant off-market acquisition made in August, when the Company acquired a predominately multi-let office portfolio for £236 million. This acquisition, one of the largest regional office acquisitions in the UK in 2021, was an excellent fit with our existing portfolio given its complementary spread of quality assets and a differentiated occupier base, and results in 90% of the portfolio being in the office sector. The portfolio presents a major opportunity for Regional REIT to implement its proven asset management strategy to generate additional Shareholder value on a large-scale portfolio over the coming years.

Our good income performance has been maintained primarily through the strength of our occupier base and our strong relationships with these occupiers. We received 99.2% of rents due for the year. We expect to continue to collect the outstanding amounts over the coming months.

Our consistent quarterly dividends throughout the challenging period of the pandemic have further strengthened the Company's well-attested credentials as a reliable source of high income. We believe we are well placed in the current inflationary environment, given our high level of rent collection, regular rent reviews, and asset backed valuations.

As we look forward, we are confident in the Company's prospects of maximising Shareholder value through the strategic repositioning of the portfolio in high quality regional office assets, whilst continuing to deliver a significant dividend yield."

Stephen Inglis, CEO of London & Scottish Property Investment Management, Asset Manager.

Highlights from 2021

- Achieved a high level of rent collection. As at 18 March 2022, rent collection continued to strengthen, with FY 2021 collections increasing to 99.2%, adjusting for monthly rent and agreed collections plans, which is similar to the equivalent date in 2020 when 95.9% had been collected.
- Completed 55 new lettings in 2021, totalling 194,716 sq. ft., which when fully occupied will provide a gross rental income of c. £2.5 million.
- Acquisitions in 2021 totalled £236.0 million (before costs) for 31 assets, reflecting an average net initial yield of 7.8%, and a reversionary yield of 11.0%.
- Disposals during 2021 totalled £76.9 million (net of costs), reflecting an average net initial yield of 6.5% (6.6% excluding vacant properties).
- Average rent by let sq. ft. increased by 22.2% from £10.44 per sq. ft. in December 2020 to £12.75 per sq. ft. in December 2021.
- Capital value per sq. ft. increased by 21.9% from £102.26 per sq. ft. in December 2020 to £124.70 per sq. ft.

Investment Activity in the UK Commercial Property Market

Investment in the UK commercial property market reached £57.0 billion in 2021, according to research by Lambert Smith Hampton (“LSH”)⁵, 6.1% above the five-year average, 40.0% higher than the volume recorded in 2020, and 15.4% above pre-COVID-19 levels in 2019. Investor sentiment remained positive in the final quarter of 2021, despite concerns surrounding the Omicron variant, with a quarterly investment of £17.3 billion – the highest level recorded since Q2 2015. Investment in Q4 2021 marked an improvement of 23.4% on Q3 2021 and was 28.7% above the five-year quarterly average. 2021 proved to be a strong year for investment in portfolio deals, with investment totalling £15.6 billion, 50.9% above 2020 figures and 20.1% above the pre-pandemic level recorded in 2019. The commercial property market is well positioned for a positive 2022. Savills forecast that investment will increase by 10% over the next 12 months, with growth expected to be underpinned by occupational factors such as falling unemployment and companies reporting strong employment intentions⁶.

The strength of the UK regional markets was particularly pronounced in 2021, with annual investment reaching £21.3 billion, 12.0% above the five-year average and 54.2% higher than 2020 investment volumes. Conversely, London volumes were down relative to trend with 2021 volumes falling 6.0% below the five-year average at £20.1 billion. LSH research notes that a rise in investment levels was reflected across the majority of UK regions, with seven of the 11 regions recording a volume above the respective five-year averages. The largest increase in regional investment in 2021 relative to the five-year average occurred in the East, West Midlands, North West, South East and Northern Ireland.

Savills research highlights that investor sentiment in the regional office market improved throughout 2021⁷. Regional office investment totalled £7.2 billion in 2021, 34.8% higher than 2020 figures, and marginally above the five-year average⁸. Investment in office parks in 2021 reached £2.8 billion, the highest level reported since 2017, and 31.6% above the five-year average. Optimism in the regional office market has been supported by strong employment growth. The most recent data from the ONS shows that the UK employment rate rose to 75.5% in the three months to November 2021, up from 74.9% for the same period in 2020⁹. Moreover, a survey by Deloitte shows that 74% of CFOs plan to increase employee numbers over the next 12 months. This is in stark contrast to the same quarter in 2020, in which less than a quarter of CFOs planned to increase headcount and approximately 50% planned to reduce staff numbers¹⁰. Strong employment rates and encouraging levels of recruitment are positive indicators for occupational demand.

The Asset Manager’s strong opinion is that the office will continue to play a vital role in working life regardless of whether hybrid or more traditional working practices are adopted. It is their opinion that many occupiers will require more office accommodation in future due to both employment growth and the improvement in the working environment by employers including de-densification.

⁵ Lambert Smith Hampton, UKIT Q4 2021

⁶ Savills, MIM, UK Commercial – January 2022

⁷ Savills, UK Regional Investment Market Watch – December 2021

⁸ Lambert Smith Hampton, UKIT Q4 2021

⁹ ONS, Labour Market Overview, UK – January 2022

¹⁰ Deloitte, CFO Survey, Q4 2021

Quarterly Investment Volumes (£bn)

	£bn
2014 Q1	12.04
2014 Q2	12.84

2014 Q3	15.97
2014 Q4	20.50
2015 Q1	19.93
2015 Q2	18.30
2015 Q3	12.74
2015 Q4	16.04
2016 Q1	13.24
2016 Q2	10.90
2016 Q3	9.83
2016 Q4	13.13
2017 Q1	12.98
2017 Q2	14.33
2017 Q3	15.77
2017 Q4	16.90
2018 Q1	14.13
2018 Q2	14.07
2018 Q3	17.04
2018 Q4	16.33
2019 Q1	11.26
2019 Q2	8.78
2019 Q3	13.85
2019 Q4	15.45
2020 Q1	13.89
2020 Q2	4.36
2020 Q3	8.09
2020 Q4	14.32
2021 Q1	11.41
2021 Q2	14.28
2021 Q3	13.98
2021 Q4	17.27

Source: Lambert Smith Hampton Research (February 2022)

Overseas investment in the UK property market accounted for just under half (49.3%) of total investment in 2021, according to data from LSH. LSH estimates that total overseas investment for 2021 reached £28.1 billion, 32.0% higher than 2020, and 6.8% above than the five-year average. Overseas investment in Q4 2021 reached £7.5 billion, up 14.1% on Q3's level and 13.4% higher than the five-year quarterly average. North America and the Middle East were net investors in the final quarter of 2021. Conversely, European investors were net sellers in Q4 2021, c. 30% below the Q4 average despite strong demand from German investors.

Research from CBRE¹¹ indicates that regional offices have outperformed in comparison to central London offices, delivering superior income returns of 5.7% in 2021 in comparison to central London office returns of 3.6% – a trend that has been witnessed over the past seven years. With a total return of 7.7% for regional offices, 2021 marked a significant improvement on 2020 performance, in which a total return of 0.6% was reported.

¹¹ CBRE Monthly Index, Q4 2021

Central London & Regional Office Income Returns (12 months to December 2021)

	Income Return						
	2015	2016	2017	2018	2019	2020	2021
Central London Offices	3.2%	3.3%	3.7%	3.8%	3.8%	4.1%	3.6%
Rest of UK Offices	6.4%	6.2%	6.4%	5.9%	5.8%	5.9%	5.7%

Source: CBRE (February 2022)

Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across nine regional office markets¹² totalled 8.1 million sq. ft. in 2021; 41.9% above the level of take-up recorded in 2020, and 5.0% lower than the 10-year average. Take-up in the final quarter of 2021 was 21.9% above the five-year average at 2.7 million sq. ft., marking the highest quarterly take-up figure in over three years. This highlighted a return to 'normal' demand levels in the second half of 2021 with take-up in H2 totalling 5.0 million sq. ft. Avison Young highlights that there is increased demand for greater customer care, space that encourages collaboration, and a focus on health and well-being.

Occupational demand was driven by the technology, media & telecoms sector, which accounted for the highest proportion of take-up at 21.9% in 2020. Following the technology, media & telecoms sector, the public services, education & health sector and the professional sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 16.9% and 12.7% respectively.

According to Savills, there was a rise in availability for regional office stock across ten regional UK markets¹³, with total availability rising by 11.3% in 2021 to 14.7 million sq. ft. The uptick in availability over the last two years has pushed supply marginally above the 10-year average by 0.6%. This marks the second year that supply of office stock has increased over the last decade, having gradually fallen each year since 2009. The overall vacancy rate for regional offices ticked upwards from 11.4% in 2020 to 12.6% in 2021 but remains 2.2% below the 10-year average¹⁴.

Furthermore, it is estimated that approximately 4.0 million sq. ft. of office space is currently under construction in the Big Nine regional markets, with Glasgow, Bristol and Leeds accounting for 24.7%, 16.2% and 15.6%, respectively. Approximately 48.3% of office buildings currently under construction are already pre-let.

¹² Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle

¹³ Ten regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Manchester and Oxford

¹⁴ Savills: The Regional Office Market Overview, Q4 2021

Regional Supply: Annual Office Supply

Year	Regional Supply (sq. ft.)	10-year Average
2005	13,366,593	14,651,164
2006	13,495,550	14,651,164
2007	15,536,262	14,651,164
2008	17,531,111	14,651,164
2009	20,388,260	14,651,164
2010	19,128,055	14,651,164
2011	18,456,562	14,651,164
2012	18,238,269	14,651,164
2013	16,378,996	14,651,164

2014	16,123,864	14,651,164
2015	15,384,157	14,651,164
2016	14,803,325	14,651,164
2017	14,091,517	14,651,164
2018	12,272,422	14,651,164
2019	11,248,539	14,651,164
2020	13,235,404	14,651,164
2021	14,735,145	14,651,164

Source: Savills (February 2022)

Rental Growth in the UK Regional Office Market

The CBRE Monthly Index shows that rental value growth held up better for the rest of UK office markets in the 12 months ended December 2021 with growth of 1.4%. Conversely, central London offices experienced modest growth of 0.2% during 2021. According to MSCI, average rents in the regional office market (outside of London and the South East) increased by 1.6% in 2021. Demand for quality office space has put an upward pressure on rents, with growth of 2.3% recorded across the Big Nine regional markets in 2021, with average headline rents now sitting at £32.67 per sq. ft., according to research from Avison Young. Colliers International noted that office park rental growth was particularly encouraging, with an annual increase of 2.1% as reported by MSCI¹⁵.

¹⁵ Colliers International, Property Snapshot, December 2021

Regional REIT's Office Assets

EPRA occupancy of the Group's regional offices was 80.8% (2020: 88.6%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, as at 31 December 2021 versus 31 December 2020, shows occupancy of 81.4% (2020: 89.4%). WAULT to first break was 2.6 years (2020: 2.6 years); like-for-like WAULT to first break of 2.8 years (2020: 2.7 years).

Property Portfolio

As at 31 December 2021, the Group's property portfolio was valued at £906.1 million (2020: £732.4 million), with rent roll of £72.1 million (2020: £64.2 million), and an EPRA occupancy of 81.8% (2020: 89.4%). As expected, EPRA Occupancy was impacted by the £236.0m (before costs) portfolio acquisition made in Q3 '2021. Asset management plans are in place to improve occupancy.

On a like-for-like basis, 31 December 2021 versus 31 December 2020, EPRA occupancy was 82.4% (2020: 89.5%).

There were 168 properties (2020: 153) in the portfolio, with 1,511 units (2020: 1,245) and 1,077 tenants (2020: 898). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £94.6 million per annum as at 31 December 2021 (2020: £76.6 million).

As at 31 December 2021, the net initial yield on the portfolio was 5.6% (2020: 6.9%), the equivalent yield was 8.7% (2020: 8.8%) and the reversionary yield was 9.4% (2020: 9.4%).

Property Portfolio by Sector

Sector	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£m)		(m)	(%)	(yrs)	(£m)	(£psf)	(£m)	(£psf)	Net initial	Equivalent	Reversionary
Office	138	813.4	89.8	6.0	80.8	2.6	63.9	14.07	86.3	134.77	5.4	8.8	9.6
Industrial	7	46.4	5.1	0.7	90.7	7.2	3.3	5.10	3.6	66.18	6.1	7.5	7.4
Retail	20	33.9	3.7	0.4	92.6	3.6	3.9	9.99	3.8	78.14	9.3	9.7	9.8
Other	3	12.5	1.4	0.1	92.7	13.0	1.0	12.66	0.9	129.27	6.6	8.0	7.5
Total	168	906.1	100.0	7.3	81.8	3.0	72.1	12.75	94.6	124.70	5.6	8.7	9.4

Property Portfolio by Region

Region	Properties	Valuation	% by valuation	Sq. ft.	Occupancy (EPRA)	WAULT to first break	Gross rental income	Average rent	ERV	Capital rate	Yield (%)		
		(£m)		(m)	(%)	(yrs)	(£m)	(£psf)	(£m)	(£psf)	Net initial	Equivalent	Reversionary
Scotland	44	172.1	19.0	1.7	84.7	3.9	15.5	11.80	19.6	102.62	6.0	9.4	10.2
South East	33	192.9	21.3	1.4	72.9	2.6	12.7	15.08	20.8	140.41	4.2	8.5	9.5
North East	23	121.4	13.4	1.0	83.9	3.0	9.6	11.86	11.8	126.36	6.0	9.2	9.2
Midlands	26	161.8	17.9	1.3	79.1	2.9	13.1	12.60	16.2	124.57	4.9	8.5	9.7
North West	20	125.2	13.8	1.0	80.0	2.7	9.8	12.55	13.3	131.35	6.0	9.2	9.1
South West	15	84.6	9.3	0.5	94.1	2.0	7.0	16.35	8.4	164.45	6.0	8.2	9.1
Wales	7	48.2	5.3	0.5	94.6	4.2	4.4	9.98	4.4	98.57	8.2	8.3	8.5
Total	168	906.1	100.0	7.3	81.8	3.0	72.1	12.75	94.6	124.70	5.6	8.7	9.4

* Table may not sum due to rounding

Top 15 Investments (Market Value) as at 31 December 2021

Property	Sector	Anchor tenants	Market value	% of portfolio	Lettable area	EPRA Occupancy	Annualised gross rent	% of gross rental income	WAULT to first break (years)
			(£m)		(sq ft)	(%)	(£m)		
300 Bath Street, Glasgow	Office	University of Glasgow, Glasgow Tay House Centre Ltd, Eaton Ltd	27.2	3.0	156,853	99.8	1.2	1.7	2.9
Buildings 2 & 3, Bear Brook Office Park, Aylesbury	Office	Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd	22.8	2.5	140,791	90.8	0.9	1.3	3.6
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide	22.7	2.5	98,151	81.3	1.4	1.9	2.2
Capitol Park, Leeds	Office	Hermes European Logistics Ltd, NHS Shared Business Services Ltd	21.5	2.4	98,340	100.0	1.8	2.5	1.7
Eagle Court, Coventry Road, Birmingham	Office	Virgin Media Ltd, Rexel UK Ltd, Coleshill Retail Ltd	21.4	2.4	132,979	77.8	1.8	2.5	1.4
800 Aztec West, Bristol	Office	NNB Generation Company (HPC) Ltd, Edvance SAS	19.0	2.1	73,292	100.0	1.5	2.1	1.6
Manchester Green, Manchester	Office	Chiesi Ltd, Ingredion UK Ltd, Assetz SME Capital Ltd	18.9	2.1	106,133	75.9	1.3	1.8	3.4
Beeston Business Park, Nottingham	Office/ Industrial	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd	18.9	2.1	215,330	100.0	1.8	2.5	5.4
Hampshire Corporate Park, Eastleigh	Office	Aviva Central Services UK Ltd, Utilita Energy Ltd, Digital Wholesale Solutions Ltd	18.7	2.1	85,422	99.8	1.3	1.8	2.1
Norfolk House, Smallbrook Queensway, Birmingham	Office	Accenture (UK) Ltd, Secretary of State for Communities & Local Government	18.0	2.0	114,982	49.0	0.8	1.1	2.3
Portland Street, Manchester	Office	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd	15.2	1.7	55,787	98.7	0.9	1.3	2.7
One & Two Newstead Court, Nottingham	Office	E.ON UK Plc	14.5	1.6	146,262	67.8	0.9	1.3	3.3
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Noah Beers Ltd	13.6	1.5	142,512	90.7	1.2	1.7	4.1
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Hill Rom UK Ltd, Brush Electrical Machines Ltd	13.5	1.5	91,034	92.8	1.1	1.6	3.9
The Lighthouse, Salford Quays, Manchester	Office	Pearson Education Ltd, Engie Regeneration Ltd, Assemble Technology Ltd	13.3	1.5	64,275	56.7	0.7	1.0	2.7
Total			279.1	30.8	1,722,143	84.3	18.8	26.1	2.9

* Table may not sum due to rounding

Top 15 Tenants (Share of Rental Income) as at 31 December 2021

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (sq ft)	Annualised gross rent (£m)	% of gross rental income
Virgin Media Ltd	Eagle Court, Coventry Road, Birmingham	Information and communication	1.8	112,147	1.8	2.5
	Genesis Business Park, Woking					
NHS	Southgate Park, Peterborough	Public sector	1.9	103,240	1.7	2.3
	Aspect House, Bennerley Road, Nottingham					
	Capitol Park, Leeds					
	Lightyear - Glasgow Airport, Glasgow					
	Park House, Bristol					
	St James Court, Bristol					
TUI Northern Europe Ltd	Wren House, Chelmsford	Professional, scientific and technical activities	2.0	53,253	1.4	1.9
	Columbus House, Coventry					
Secretary of State for Communities & Local Government	1 Burgage Square, Merchant Square, Wakefield	Public sector	2.7	128,335	1.3	1.8
	Albert Edward House, Preston					
	Bennett House, Stoke-On-Trent					
	Norfolk House, Birmingham					
	Oakland House, Manchester					
	Waterside Business Park, Swansea					
The Scottish Ministers	Calton House, Edinburgh	Public sector	1.7	106,511	1.3	1.8
	Quadrant House, Dundee					
Bank of Scotland Plc	Templeton On The Green, Glasgow	Banking	0.8	83,060	1.3	1.7
	Dundas House, Rosyth					
	High Street/Bank Street, Dumfries					
EDF Energy Ltd	Endeavour House, Sunderland	Electricity, gas, steam and air conditioning supply	1.7	77,565	1.0	1.4
E.ON UK Plc	Two Newstead Court, Nottingham	Electricity, gas, steam and air conditioning supply	3.3	99,142	0.9	1.3
John Menzies Plc	2 Lochside Avenue, Edinburgh	Professional, scientific and technical activities	1.6	43,780	0.9	1.2
NNB Generation Company (HPC) Ltd	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	1.6	41,743	0.9	1.2
James Howden & Company Ltd	Howden Site, Renfrew	Manufacturing	9.9	204,414	0.8	1.1
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	3.8	58,167	0.8	1.1
Hermes European Logistics Ltd	Capitol Park, Leeds	Transportation and storage	2.0	37,372	0.8	1.1
Aviva Central Services UK Ltd	Hampshire Corporate Park, Eastleigh	Other service activities	2.9	42,612	0.8	1.1
Matalan Retail Ltd	Loreny Industrial Estate, Kilmarnock	Wholesale and retail trade	6.9	75,038	0.8	1.1
	Newport Retail Park, Newport					
Total			2.7	1,266,379	16.4	22.7

*Table may not sum due to rounding.

Property Portfolio Sector and Region Splits by Valuation and Income

By Valuation

As at 31 December 2021, 89.8% (2020: 83.5%) of the portfolio by market value was offices and 5.1% (2020: 11.1%) was industrial. The balance was made up of retail, 3.7% (2020: 4.1%) and other, 1.4% (2020: 1.3%). By UK region, as at 31 December 2021, Scotland represented 19.0% (2020: 17.3%) of the portfolio and England 75.7% (2020: 78.3%); the balance of 5.3% (2020: 4.4%) was in Wales. In England, the largest regions were the South East, the Midlands and the North West.

By Income

As at 31 December 2021, 88.6% (2020: 82.3%) of the portfolio by income was offices and 4.5% (2020: 10.3%) was industrial. The balance was made up of retail, 5.4% (2020: 6.0%), and other, 1.4% (2020: 1.3%). By UK region, as at 31 December 2021, Scotland represented 21.6% (2020: 20.4%) of the portfolio and England 72.4% (2020: 74.6%); the balance of 6.0% was in Wales (2020: 5.0%). In England, the largest regions were the Midlands, the South East and the North West.

Lease Expiry Profile

The WAULT on the portfolio is 4.8 years (2020: 5.1 years); WAULT to first break is 3.0 years (2020: 3.2 years). As at 31 December 2021, 11.5% (2020: 14.2%) of income was from leases, which will expire within one year; 13.8% (2020: 9.1%) between one and two years; 31.9% (2020: 35.8%) between two and five years; and 42.8% (2020: 40.9%) after five years.

Lease Expiry Income Profile	% of rent
0-1 years	11.5%
1-2 years	13.8%
2-5 years	31.9%
5+ years	42.8%
Total	100.0%

Source: LSPIM

Lease Expiry Income Profile by year	£m
2022	8,110,328
2023	9,742,865
2024	8,676,128
2025	7,509,207
2026	6,372,007
2027	5,608,480
2028	5,686,320
2029	6,890,525
2030+	12,013,130
Total	70,608,989

Source: LSPIM

Lease expiry to first break income profile by year	£m
2022	14,077,145
2023	16,915,418
2024	14,704,786
2025	8,219,482

2026	6,568,996
2027	2,028,779
2028	1,064,912
2029	1,764,160
2030+	5,265,312
Total	70,608,989

Source: LSPIM

Tenants by Standard Industrial Classification as at 31 December 2021

As at 31 December 2021, 14.5% of income was from tenants in the professional, scientific and technical activities sector (2020: 13.5%); 11.4% from the information and communication sector (2020: 8.3%); 9.6% from the wholesale & retail trade sector (2020: 7.3%); 9.5% from the administrative and support service activities sector (2020: 12.9%); 7.9% from the financial and insurance activities (other) sector (2020: 8.4%); and 7.8% from the public sector (2020: 8.8%). The remaining exposure is broadly spread.

No tenant represents more than 3% of the Group's rent roll as at 31 December 2021, the largest being 2.5% (2020: 3.5%).

Top 15 Properties

300 Bath Street, Glasgow	Market value (£m)	27.2
	Sector	Office
	Annualised gross rent (£m)	1.2
	Lettable area (sq. ft.)	156,853
	Anchor tenants	University of Glasgow, Glasgow Tay House Centre Ltd, Eaton Ltd
	EPRA Occupancy (%)	99.8%
	WAULT (years) (to first break)	6.0 (2.9)
Buildings 2 & 3, Bear Brook Office Park, Aylesbury	Market value (£m)	22.8
	Sector	Office
	Annualised gross rent (£m)	0.9
	Lettable area (sq. ft.)	140,791
	Anchor tenants	Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd
	EPRA Occupancy (%)	90.8%
	WAULT (years) (to first break)	5.7 (3.6)
Genesis Business Park, Woking	Market value (£m)	22.7
	Sector	Office
	Annualised gross rent (£m)	1.4
	Lettable area (sq. ft.)	98,151
	Anchor tenants	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide
	EPRA Occupancy (%)	81.3%
	WAULT (years) (to first break)	5.4 (2.2)
Capitol Park, Leeds	Market value (£m)	21.5
	Sector	Office

	Annualised gross rent (£m)	1.8
	Lettable area (sq. ft.)	98,340
	Anchor tenants	Hermes European Logistics Ltd, NHS Shared Business Services Ltd
	EPRA Occupancy (%)	100.0%
	WAULT (years) (to first break)	1.7 (1.7)
Eagle Court, Coventry Road, Birmingham	Market value (£m)	21.4
	Sector	Office
	Annualised gross rent (£m)	1.8
	Lettable area (sq. ft.)	132,979
	Anchor tenants	Virgin Media Ltd, Rexel UK Ltd, Coleshill Retail Ltd
	EPRA Occupancy (%)	77.8%
	WAULT (years) (to first break)	2.3 (1.4)
800 Aztec West, Bristol	Market value (£m)	19.0
	Sector	Office
	Annualised gross rent (£m)	1.5
	Lettable area (sq. ft.)	73,292
	Anchor tenants	NNB Generation Company (HPC) Ltd, Edvance SAS
	EPRA Occupancy (%)	100.0%
	WAULT (years) (to first break)	6.8 (1.6)
Manchester Green, Manchester	Market value (£m)	18.9
	Sector	Office
	Annualised gross rent (£m)	1.3
	Lettable area (sq. ft.)	106,133
	Anchor tenants	Chiesi Ltd, Ingredion UK Ltd, Assetz SME Capital Ltd
	EPRA Occupancy (%)	75.9%
	WAULT (years) (to first break)	5.2 (3.4)
Beeston Business Park, Nottingham	Market value (£m)	18.9
	Sector	Office/ Industrial
	Annualised gross rent (£m)	1.8
	Lettable area (sq. ft.)	215,330
	Anchor tenants	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd
	EPRA Occupancy (%)	100.0%
	WAULT (years) (to first break)	8.2 (5.4)
Hampshire Corporate Park, Eastleigh	Market value (£m)	18.7

	Sector	Office
	Annualised gross rent (£m)	1.3
	Lettable area (sq. ft.)	85,422
	Anchor tenants	Aviva Central Services UK Ltd, Utilita Energy Ltd, Digital Wholesale Solutions Ltd
	EPRA Occupancy (%)	99.8%
	WAULT (years) (to first break)	6.8 (2.1)
Norfolk House, Smallbrook Queensway, Birmingham	Market value (£m)	18.0
	Sector	Office
	Annualised gross rent (£m)	0.8
	Lettable area (sq. ft.)	114,982
	Anchor tenants	Accenture (UK) Ltd, Secretary of State for Communities & Local Government
	EPRA Occupancy (%)	49.0%
Portland Street, Manchester	WAULT (years) (to first break)	2.8 (2.3)
	Market value (£m)	15.2
	Sector	Office
	Annualised gross rent (£m)	0.9
	Lettable area (sq. ft.)	55,787
	Anchor tenants	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd
One & Two Newstead Court, Nottingham	EPRA Occupancy (%)	98.7%
	WAULT (years) (to first break)	4.5 (2.7)
	Market value (£m)	14.5
	Sector	Office
	Annualised gross rent (£m)	0.9
	Lettable area (sq. ft.)	146,262
Templeton On The Green, Glasgow	Anchor tenants	E.ON UK Plc
	EPRA Occupancy (%)	67.8%
	WAULT (years) (to first break)	3.3 (3.3)
	Market value (£m)	13.6
	Sector	Office
	Annualised gross rent (£m)	1.2
Ashby Park, Ashby De La Zouch	Lettable area (sq. ft.)	142,512
	Anchor tenants	The Scottish Ministers, The Scottish Sports Council, Noah Beers Ltd
	EPRA Occupancy (%)	90.7%
	WAULT (years) (to first break)	6.2 (4.1)
	Market value (£m)	13.5
	Sector	Office

The Lighthouse, Salford Quays, Manchester	Annualised gross rent (£m)	1.1
	Lettable area (sq. ft.)	91,034
	Anchor tenants	Ceva Logistics Ltd, Hill Rom UK Ltd, Brush Electrical Machines Ltd
	EPRA Occupancy (%)	92.8%
	WAULT (years) (to first break)	4.0 (3.9)
	Market value (£m)	13.3
	Sector	Office
	Annualised gross rent (£m)	0.7
	Lettable area (sq. ft.)	64,275
	Anchor tenants	Pearson Education Ltd, Engie Regeneration Ltd, Assemble Technology Ltd
	EPRA Occupancy (%)	56.7%
	WAULT (years) (to first break)	4.1 (2.7)

Financial Review

Net Asset Value

In the year ended 31 December 2021, the EPRA NTA* of the Group increased to £501.4 million (IFRS NAV: £502.4 million) from £425.6 million (IFRS NAV: £420.6 million) as at 31 December 2020, equating to a decrease in the diluted EPRA NTA of 1.4pps to 97.2pps (IFRS: 97.4pps). This is after the dividends declared in the year amounting to 6.30pps.

The EPRA NTA increase of £75.8 million since 31 December 2020 was predominately from the issuance of a tranche of new equity, equivalent to £83.1 million; offset broadly by an £8.3million decrease in the revaluation of the property portfolio held as at 31 December 2021, and a £0.7million realised gain on the disposal of properties.

On 31 August 2021, a £236.0 million portfolio (before costs) comprising: 27 office assets, 2 industrial units, a residential asset and a Tim Horton's Drive-Thru restaurant was acquired. In consideration of the purchase, 84,230,000 new ordinary shares were issued at 98.6 pence per share (being the Group's EPRA NTA per share as at 31 December 2020), equivalent to £83.1 million, £76.7 million from existing cash resources, and additional borrowings of £76.2 million.

The investment property portfolio valuation as at 31 December 2021 amounted to £906.1 million (2020: £732.4 million). The increase of £173.7 million since the December 2020 year-end is a reflection of property acquisitions and subsequent expenditure of £258.2 million and gains on the disposal of properties of £0.7 million, offset by £76.9 million of net property disposals and £8.3 million of property revaluation. Overall, on a like-for-like basis, the portfolio value increased by 1.1% during the year.

The table below sets out the acquisitions, disposals and capital expenditure for the respective periods:

	Year ended 31 December 2021 (£m)	Year ended 31 December 2020 (£m)
Acquisitions		
Net (after costs)	251.4	45.0
Gross (before costs)	236.0	42.4
Disposals		
Net (after costs)	76.9	53.4
Gross (before costs)	79.6	56.4
Capital Expenditure		
Net (after dilapidations)	6.8	8.8
Gross (before dilapidations)	7.2	13.1

* The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure. Further detail on the new EPRA performance measures can be found in the full Annual Report.

EPRA Net Tangible Asset – Bridge 31 December 2021

31 Dec 2020 EPRA NTA	98.6
Equity issuance costs	0.0

EPRA NTA (incl. costs)	98.6
Net rental and property income	10.8
Admin expenses	(2.1)
Valuation (excl. net capital expenditure)	(0.3)
Net capital expenditure	(1.3)
Gain on disposal of investment properties	0.1
Net finance expense	(2.9)
Dividends	(5.8)
31 Dec 2021 EPRA NTA	97.2

The diluted EPRA NTA per share decreased to 97.2pps (2020: 98.6pps). The EPRA NTA is reconciled in the table below:

	£m	Pence per Share
Opening EPRA NTA (31 December 2020)	425.6	98.6
Equity issuance (net of expenses)*	82.9	(0.0)
Opening EPRA NAV (Incl. net capital raise)	508.6	98.6
Net rental and property income	55.8	10.8
Administration and other expenses	(10.6)	(2.1)
Gain on the disposal of investment properties	0.7	0.1
Change in the fair value of investment properties	(8.3)	(1.6)
Change in value of right of use	(0.0)	(0.0)
EPRA NTA after operating profit	546.1	105.9
Net finance expense	(14.9)	(2.9)
Taxation	(0.0)	(0.0)
EPRA NTA before dividends paid	531.3	103.0
Dividends paid**	(29.9)	(5.8)
Closing EPRA NTA (31 December 2021)	501.4	97.2

Table may not sum due to rounding

*As at 31 December 2020, there were 431,506,583 Shares in issue. On 1 September 2021, the Company issued 84,230,000 Shares and increased the total number of Shares in issue to 515,736,583.

** The new issuance of Shares qualified for the Q2 dividend of 1.50 pence per Share paid on 15 October 2021 and Q3 dividend of 1.50 pence per Share declared on 11 November 2021.

Income Statement

Operating profit before gains and losses on property assets and other investments for the year ended 31 December 2021 amounted to £45.2 million (2020: £42.0 million). Profit after finance and before taxation of £28.8 million (2020: loss £31.2 million). 2021 included the rent roll for properties held from the 31 December 2020, plus the partial rent roll for properties disposed or acquired during the year.

Rental and property income amounted to £65.8 million, excluding recoverable service charge income and other similar items (2020: £62.1 million). The increase was primarily the result of the increase in the rent roll being held over the year to 31 December 2021.

Currently more than 80% of the rental income is collected within 30 days of the due date and bad

debts in the year were £0.6million (2020: £1.1 million).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £9.9 million (2020: £8.8 million), and the rent roll increased to £72.1 million (2020: £64.2 million).

Realised gain on the disposal of investment properties amounted to £0.7 million (2020: loss £1.1 million). The change in the fair value of investment properties amounted to a loss of £8.3 million (2020: loss of £54.8 million). Net capital expenditure amounted to £6.8 million (2020: £8.8 million). The gain on the disposal of the right of use asset amounted to £0.2 million (2020: nil). The change in value of right of use asset amounted to a charge of £0.2 million (2020: charge £0.2 million).

Finance expenses amount to £14.9 million (2020: £14.1 million). The increase is due to additional borrowings in the period. On 27 August 2021, the Group drew down £76.2 million from the Royal Bank of Scotland, Bank of Scotland, and Barclays to finance the enlarged portfolio.

The EPRA* cost ratio, including direct vacancy costs, was 31.2% (2020: 32.4%). The EPRA cost ratio, excluding direct vacancy costs was 16.8% (2020: 19.6%). The ongoing charges for the year ending 31 December 2021 were 4.6% (2020: 4.6%).

The EPRA Total Return from Listing to 31 December 2021 was 41.2% (2020: 36.3%), with an annualised rate of 5.8% pa (2020: 6.2% pa).

Dividend

In relation to the year from 1 January 2021 to 31 December 2021, the Company declared dividends totalling 6.50pps (2020: 6.40pps). Since the end of the year, the Company has declared a dividend for the fourth quarter of 2021 of 1.70pps. A schedule of dividends can be found in the full Annual Report.

Debt Financing and Gearing

Borrowings comprise third-party bank debt and the retail eligible bond. The bank debt is secured over properties owned by the Group and repayable over the next four and a half to eight years. The weighted average maturity of the bank debt and retail eligible bond is 5.5 years (2020: 6.4 years).

The Group's borrowing facilities are with the Santander UK, Scottish Widows Limited, Scottish Widows Limited & Aviva Investors Real Estate Finance, Royal Bank of Scotland, Bank of Scotland and Barclays. The total bank borrowing facilities at 31 December 2021 amounted to £389.9 million (2020: £316.2 million) (before unamortised debt issuance costs), with £4.9 million available to be drawn. In addition to the bank borrowings, the Group has a £50 million 4.5% retail eligible bond, which is due for repayment in August 2024. In aggregate, the total debt available at 31 December 2021 amounted to £444 million (2020: £371.9 million).

During the period, the Company increased its borrowings to part fund the £236.0 million (before costs) portfolio acquisition on 27 August 2021. The majority of the increase was funded by a new club facility provided by the Royal Bank of Scotland, Bank of Scotland, and Barclays.

At 31 December 2021, the Group's cash and cash equivalent balances amounted to £56.1 million (2020: £67.4 million), of which £49.9 million (2020: £55.0 million) was unrestricted cash.

The Group's net loan to value ("LTV") ratio stands at 42.4% (2020: 40.8%) before unamortised costs. The Board continues to target a net LTV ratio of 40%, with a maximum limit of 50%.

Debt Profile and LTV Ratios as at 31 December 2021

Lender	Original facility	Outstanding debt*	Maturity date	Gross loan to value**	Annual interest rate	
	£'000	£'000		%	%	
Royal Bank of Scotland, Bank of Scotland & Barclays	128,000	127,220	Aug-26	43.4	2.40	over 3mth £ SONIA
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	46.4	3.28	Fixed
Scottish Widows Ltd.	36,000	36,000	Dec-28	38.7	3.37	Fixed
Santander UK	65,870	61,717	Jun-29	39.0	2.20	over 3mth £ LIBOR moving to SONIA 1/1/22
	394,870	389,937				
Retail eligible bond	50,000	50,000	Aug-24	NA	4.50	Fixed
	444,870	439,937				

* Before unamortised debt issue costs

** Based on Cushman and Wakefield property valuations

Table may not sum due to rounding

The Managers continue to monitor the borrowing requirements of the Group. As at 31 December 2021, the Group had sufficient headroom against its borrowing covenants.

The net gearing ratio (net debt to Ordinary Shareholders' equity (diluted)) of the Group was 76.4% as at 31 December 2021 (2020: 71.0%).

Interest cover, excluding amortised costs, stands at 3.5 times (2020: 3.4 times) and including amortised costs, stands at 3.0 times (2020: 3.0 times).

Hedging

The Group applies an interest hedging strategy that is aligned to the property management strategy and aims to mitigate interest rate volatility on at least 90% of the debt exposure.

	31 December 2021	31 December 2020
	%	%
Borrowings interest rate hedged	101.3	101.6
Thereof:		
Fixed	57.1	68.6

Swap	24.1	16.5
Cap	20.0	16.5
WACD ¹	3.3	3.3

Table may not sum due to rounding

¹ WACD – Weighted Average Effective Interest Rate including the cost of hedging

The over-hedged position has arisen due to the entire Royal Bank of Scotland, Bank of Scotland & Barclays and Santander UK facilities, including any undrawn balances, being hedged by interest rate cap derivatives which have no ongoing cost to the Group.

Tax

The Group entered the UK REIT regime on 7 November 2015 and all of the Group's UK property 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.

On 9 January 2018, the Company registered for VAT purposes in England.

During 2021, the Group recognised a tax charge of £0.02 million (2020: tax credit of £0.2 million), which comprised tax provisions for the year offset by releases of tax previously provided for in prior years which are now concluded and not payable.

Principal Risks and Uncertainties

Effective risk management underpins the execution of Regional REIT's strategy, the positioning of the business for growth and maintaining the regular income over a long-term sustainable horizon.

Risk Framework and Approach

The overall responsibility for the Company's system of risk management and internal controls rests with the Board. The Board recognises the importance of identifying and actively monitoring its risks, which include, but are not limited to: strategic, valuation, COVID-19, funding, tenant, financial and tax charges, operational, regulatory, and environmental risks. Over the long term, the business will face other challenges and emerging threats for which it remains vigilant.

The Board is supported by the Audit Committee in the management of risk. The Audit Committee is responsible for determining the principal risks facing the business and reviewing, at least annually, the effectiveness of the Company's financial control, risk management and internal control processes.

However, the Board also views the potential risks as opportunities which, when handled appropriately, can drive performance. Thus, having an effective risk management process is key to support the delivery of the Group's strategy.

Approach to Managing Risk – Identification, Evaluation and Mitigation

The risk management process is designed to identify, evaluate, manage and mitigate (rather than eliminate) risks faced. The Company maintains a detailed and formal matrix of current principal risks, which uses risk scoring to evaluate risks consistently. This allows the risks to be monitored and mitigated as part of a risk management process with the Audit Committee undertaking, at a minimum on a six-monthly basis or more frequently if required, a robust evaluation of these risks facing the Group.

Risks are identified and weighted according to their potential impact on the Company and to their likelihood of occurrence. The Audit Committee uses the risk matrix to prioritise individual risks, allocating scores to each risk for both the likelihood of its occurrence and the severity of its impact. Those with the highest gross rating in terms of impact are highlighted as top risks within the matrix and are defined as principal risks.

While the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

Risk Appetite

Risk appetite is integral to the Board's approach to risk management, business planning and decision making. The level and type of risk that the Company is willing to bear will vary over time.

The Board, in conjunction with the Asset Manager and Investment Manager, regularly reviews the risk appetite of the Company in association with the latest information available and the Company is able to assess and respond quickly to new and emerging risks.

Emerging Risks

The Board is cognisant of emerging risks defined as potential trends, sudden events or changing risks, which are characterised by a high degree of uncertainty in terms of probability of occurrence and possible effects on the Company. Once emerging risks become sufficiently clear, they may be classed as a principal risk and added to the risk matrix.

On 24 February 2022, Russia initiated a military invasion of Ukraine, which the Board is currently identifying as an emerging risk, as it is likely to have global economic effects.

Increasing inflation in the UK has also been identified as an emerging risk, as this will have wide

reaching effects to the economy, which will, in turn, impact the Company. The Board, through the Audit Committee, continue to monitor inflation levels.

To help manage emerging risks and discuss other wider matters affecting property, the Board has an annual strategy meeting. The Board considers having a clear strategy is the key to managing and mitigating emerging risk.

COVID-19

During 2021, the principal risks and uncertainties faced by the Company continued to be impacted by the respective devolved Government's reactions. Throughout this period, the Board worked closely with the Asset Manager, Investment Manager and its third-party suppliers to ensure it was as well positioned as possible to identify, evaluate, manage and mitigate as required.

The primary aim being to preserve and enhance the Company's net income and capital values, meeting all regulatory and stakeholder obligations, whilst looking to the longer term to identify strategic opportunities.

This threat has an ongoing effect on many of our principal risks and the Board meets regularly with the Asset and Investment Managers to assess these risks and how they can be managed.

The below list, in no particular order, sets out the current identifiable principal and emerging risks, including their impact and the actions taken by the Company to mitigate them. It does not purport to be an exhaustive list of all the risks faced by the Group.

Principal Risk Summary

Principal Risk	Evolution of the trend during the year
1. Strategic	↔
2. Valuation	↔
3. COVID-19	↔
4. Economic and political	↔
5. Funding	↔
6. Tenant	↔
7. Financial and tax changes	↔
8. Operational	↔
9. Accounting, legal and regulatory	↗
10. Environmental and energy efficiency standards	↗

1. Strategic

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
An inappropriate investment strategy, and/or failure to implement the strategy could result in lower income and capital returns to Shareholders.	<ul style="list-style-type: none"> A clearly defined investment strategy, which is reviewed annually. A defined and rigorous investment appraisal process. Acquire portfolios, which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties. Supply and demand market information is reviewed continuously to assist in acquisitions and disposals. All the above steps are monitored to ensure the strategy is implemented. 	<ul style="list-style-type: none"> The property portfolio remains balanced across a range of geographical areas and large number of investment properties.

	<ul style="list-style-type: none"> Predominately, acquiring office properties in the UK 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. 	<ul style="list-style-type: none"> The Group continues to purchase properties in the UK outside the M25 motorway.
	<ul style="list-style-type: none"> No single property, in the ordinary course of business, is expected to exceed 10% of the Group's aggregate Investment Properties valuation. 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. 	<ul style="list-style-type: none"> 300 Bath Street (2020: 300 Bath Street) is the highest valued property, which equates to 3.0% (2020: 3.8%) of the Group's investment properties.
	<ul style="list-style-type: none"> No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant. 	<ul style="list-style-type: none"> The Group's largest single tenant exposure is 2.5% (2020: 3.5%) of gross rental income, being Virgin Media Ltd (2020: Barclays Execution Services Ltd.).
	<ul style="list-style-type: none"> Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. 	<ul style="list-style-type: none"> No speculative construction was undertaken during the year under review.
	<ul style="list-style-type: none"> The value of the properties is protected as far as possible by an active asset management programme, which is regularly reviewed against the business plan for each property. 	<ul style="list-style-type: none"> The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.

2. Valuation

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
The valuation of the Group's portfolio affects its profitability and net assets.	<ul style="list-style-type: none"> The Company's external valuer, Cushman & Wakefield, provide independent valuations for all properties on a six-monthly basis in accordance with the RICS Red Book. The Audit Committee has the opportunity to discuss the basis of the valuations with the external valuer. The Audit Committee membership includes an experienced chartered surveyor. The Asset Manager's experience and extensive knowledge of the property market. The Asset Manager is able to challenge the external valuers' findings. The Company's Auditor engages an independent third party to evaluate the Cushman & Wakefield valuation. 	<ul style="list-style-type: none"> Cushman & Wakefield independently provides the valuation for the entire portfolio, valuing each individual asset.

3. COVID-19

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↔
The economic disruption resulting from the COVID-19 virus could continue to impact rental income; the ability of Valuers to discern valuations; the ability to access funding at competitive rates, adherence to banking covenants, maintain a	<ul style="list-style-type: none"> The Asset Manager continues to adapt and, as required, to support tenants. The Asset Manager continues to adhere to the respective devolved Government COVID-19 guidelines. The property portfolio has been deliberately constituted to ensure a diverse range of tenants by standard industrial classification comprised of 47.0% of government designated essential services. Close relationships with lenders ensuring continued dialogue around covenants and ability to access funding as required at competitive rates. 	<ul style="list-style-type: none"> The Group has continued to scrutinise all current risk mitigation approaches employed and to work closely with all parties through this disruptive period.

progressive dividend policy, and adhere to the HMRC REIT regime requirements.	<ul style="list-style-type: none"> Initial vetting of all third-party providers with annual due diligence reviews, including the review of business continuity capabilities to minimise when remote working has been necessitated. 	
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4. Economic and Political

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇔
Significant political events could impact the health of the UK economy, resulting in borrowing constraints, changes in demand by tenants for suitable properties, the quality of the tenants, and ultimately the property portfolio value.	<ul style="list-style-type: none"> The Group operates with a sole focus on the UK regions, with no foreign currency exchange exposure. It remains well positioned with a deliberately diverse standard industry classification of tenants generating 1,077 (2020: 898) income streams which are located in areas of expected economic growth. The Board receives advice on macro-economic risks, including Brexit, from the Investment Manager and other advisers and acts accordingly. 	<ul style="list-style-type: none"> There remains a risk that property valuations and the occupancy market may be impacted by change in the political landscape..

5. Funding

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇔
The Group may not be able to secure further debt or on acceptable terms, which may impinge upon investment opportunities and the ability to grow the Group.	<ul style="list-style-type: none"> The Asset Manager has a Corporate Finance team dedicated to optimising the Group's funding requirements. Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity. Borrowings are currently provided by a range of institutions with targeted staggered maturities. Strong relationships with key long-term lenders. Continual monitoring of LTV. 	<ul style="list-style-type: none"> Weighted average debt term decreased to 5.5 years from 6.4 years in 2020. Weighted average cost of capital, including hedging costs was 3.3% (2020: 3.3%). LTV increased to 42.4% from 40.8% as at 31 December 2020.
Bank reference interest rates may be set to rise accompanying higher inflation.	<ul style="list-style-type: none"> Policy of hedging at least 90% of variable interest rate borrowings. Borrowings are currently provided by a range of institutions with targeted staggered maturities. 	<ul style="list-style-type: none"> Continued adherence to the hedging policy.
Breach of covenants within the Group's funding structure could lead to a cancellation of debt funding if the Company is unable to service the debt.	<ul style="list-style-type: none"> The Asset Manager's Corporate Finance team reviews the applicable covenants on a regular basis and these are considered in future operational decisions. Compliance certificates and requested reports are prepared as scheduled. 	<ul style="list-style-type: none"> The Group continues to have sufficient headroom against the applicable borrowing covenants.

6. Tenant

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.	<ul style="list-style-type: none"> An active asset management programme with a focus on the Asset Manager working with individual tenants to assess any occupational issues and to manage any potential bad debts. Diversified portfolio of properties let, where possible, to a large number of low-risk tenants across a wide range of standard industrial classifications throughout the UK. Potential acquisitions are reviewed for tenant overlap and potential disposals are similarly reviewed for tenant standard industrial classification concentration. 	<ul style="list-style-type: none"> This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio. The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 1,077 at the year-end (2020: 898).
A high concentration of lease term maturity and/or break options could result in a more volatile contracted rent roll.	<ul style="list-style-type: none"> The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration. There is a focus on securing early renewals and increased lease periods. 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. 	<ul style="list-style-type: none"> The WAULT to first break as at 31 December 2021 was 3.0 years (2020: 3.2 years) The largest tenant is 2.5% (2020: 3.5%) of the gross rental income, being Virgin Media Limited. The Asset Management team remains vigilant to the financial well-being of our current tenants and continues to liaise with occupiers and agents.

7. Financial and Tax Changes

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
Changes to the UK REIT and non-REIT regimes tax and financial legislation.	<ul style="list-style-type: none"> The Board receives advice on these changes where appropriate and will act accordingly. 	<ul style="list-style-type: none"> Advice is received from several corporate advisers, including tax adviser Grant Thornton UK LLP and the Group adapts to changes as required.

8. Operational

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ⇄
Business disruption could impinge on the normal operations of the Group.	<ul style="list-style-type: none"> The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure which would impinge on the normal operations of the Group. These plans have been implemented in adherence to COVID-19 Government guidelines, with limited disruption to operations. 	<ul style="list-style-type: none"> Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.
	<ul style="list-style-type: none"> An annual due diligence exercise is carried out on all principal third-party service providers. 	<ul style="list-style-type: none"> The annual due diligence visits were curtailed due to government restrictions. However, assurances were received as required from third-party service providers. No concerns were identified.

	<ul style="list-style-type: none"> As an externally managed investment company, there is a continued reliance on the Asset and Investment Managers and other third-party service providers. 	<ul style="list-style-type: none"> Both the Asset and Investment Manager are viable going concerns.
	<ul style="list-style-type: none"> All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk. The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive building, loss of rent and service charge plus terrorism insurance with the exception of a small number of “self-insure” arrangements covered under leases. 	<ul style="list-style-type: none"> The Asset Manager continues to monitor changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures. The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.
Information security and cyber threat resulting in data loss, or negative regulatory, reputational, operational (including GDPR), or financial impact.	<ul style="list-style-type: none"> The Asset and Investment Manager each has a dedicated Information Technology team which monitors information security, privacy risk and cyber threats ensuring their respective operations are not interrupted. As required the building management systems are reviewed for cyber security risk. 	<ul style="list-style-type: none"> The Managers review the respective Information Technology policies and the material third party service suppliers on as required basis to ensure they reflect current and possible future threats.

9. Accounting, Legal, and Regulatory

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
Changes to accounting, legal and/or regulatory legislation, including sanctions could result in changes to current operating processes.	<ul style="list-style-type: none"> Robust processes are in place to ensure adherence to accounting, legal and regulatory requirements, including sanctions and Listing Rules. All contracts are reviewed by the Group’s legal advisers. The Administrator, in its capacity as Group Accountant, and the Company Secretary attend all Board meetings in order to be aware of all announcements that need to be made. All compliance issues are raised with the Financial Adviser. 	<ul style="list-style-type: none"> The Group continues to receive advice from its corporate advisers and has incorporated changes where required. The Administrator and Company Secretary continue to attend all Board meetings and advise on Listing Rule requirements in conjunction with the Corporate Broker and Financial Adviser.
Loss of REIT status	<ul style="list-style-type: none"> The HMRC REIT regime requirements are monitored by the Asset and Investment Manager, and external advisors including the Company’s tax adviser Grant Thornton UK LLP and its sub-administrator Link Alternative Fund Administrators Limited. 	<ul style="list-style-type: none"> The Group continues to receive advice from external advisers on any anticipated future changes to the REIT regime.

10. Environmental and Energy Efficiency Standards

POTENTIAL IMPACT	MITIGATION	MOVEMENT IN THE PERIOD ↗
The Group’s cost base could be impacted, and management time diverted, due to climate changes and	<ul style="list-style-type: none"> The Board receives regular updates on environmental, social, governance and potential legislation changes (e.g. the Government Green Finance Strategy July 2019) from its advisers. The Group has engaged an environmental consultancy to assist with achieving and improving the Global Real Industry Sustainability Benchmark (GRESB). 	<ul style="list-style-type: none"> Additional attention is currently being devoted to this area to ensure the appropriate approach is applied and embedded in Group activities.

associated legislation.		
Changes to the environment could impact upon the operations of the Group.	<ul style="list-style-type: none"> Property acquisitions undergo a rigorous due diligence process, including an environmental assessment. The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process. 	<ul style="list-style-type: none"> The rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.
An Energy Performance Rating of E and below may impact the Group's ability to sell or lease an asset.	<ul style="list-style-type: none"> The Group continues to review each property to ensure adherence with Energy Performance Rating requirements. The energy efficiency of investment acquisitions is fully considered as part of the due diligence process for the acquisition of a property. 	<ul style="list-style-type: none"> The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.

Changes to the Principal Risks and Uncertainties

The Board, via the Audit Committee, has agreed the movement during the period under review to each of the identified principal risks and uncertainties following review of these risks, having considered the characteristics of these and the economic and geo-political factors. Any impact of these risks to the Company's future strategy is considered on an ongoing basis.

Extracts of the Report of the Directors

Share Capital

As at 31 December 2021, the Company's total issued share capital was 515,736,583 Ordinary Shares (2020: 431,506,583).

All of the Company's Ordinary Shares are listed on the premium 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 (2020: none) are currently in issue.

Share Issues

On 1 September 2021, the Company allotted and issued 84,230,000 new Ordinary Shares, which rank *pari passu* with the Company's existing issued Ordinary Shares. These new Ordinary Shares were issued for non-cash consideration in accordance with sections 295 and 296 of the Law as part of the consideration payable to Squarestone Growth LLP for the acquisition of a regional office portfolio announced on 31 August 2021.

At the AGM held on 21 September 2021, the Directors were granted authority to allot Ordinary Shares on a non-pre-emptive basis for cash up to a maximum number of 43,150,658 Shares (being 5% of the issued Share capital on 9 August 2021). The Directors were also granted the authority to disapply pre-emption rights in respect of the allotment of Ordinary Shares up to a maximum number of 21,575,329 Shares (being 5% of the issued Share capital on 9 August 2021) where the allotment of such Shares is for the sole purpose of financing an acquisition or other capital investment as defined by the Pre-Emption Group's Statement of Principles.

No Shares were issued under these authorities during the year under review, and the authorities will expire at the Company's 2022 AGM where resolutions for their renewal will be sought, or, if sooner, on 21 December 2022.

Restrictions on Voting Rights

The Company does not have any restrictions on Shareholder voting rights.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Guernsey company law requires the directors to prepare financial statements for each financial year. The Directors are required under the Listing Rules of the Financial Conduct Authority to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as contained in UK-adopted International Accounting Standards.

The financial statements of the Group are required by law to give a true and fair view of the state of the Group's affairs at the end of the financial period and of the profit or loss of the Group for that period and are required by IFRS and IFRIC as contained in UK-adopted International Accounting Standards to present fairly the financial position and performance of the Group.

In preparing each of the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS and IFRIC as contained in UK-adopted International Accounting Standards;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions; disclose with reasonable accuracy at any time the financial position of the Group; enable them to ensure that the financial statements comply with the requirements of The Companies (Guernsey) Law 2008 and, as regards the Group financial statements, the IFRS and IFRIC as contained in UK-adopted International Accounting Standards. They are also responsible for safeguarding the assets of the Group 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 Regional REIT'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 within the full Annual Report and Accounts, confirms that to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS and IFRIC as contained in UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, including the Asset and Investment Managers' Report, includes a fair review of the development and performance of the business and the position of the Group

and the undertakings included in the consolidation taken as a whole, together with a description of the principal 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 Group's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 28 March 2022 and signed on its behalf by:

Kevin McGrath
Chairman
28 March 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

		Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
	Notes		
Continuing Operations			
Revenue			
Rental and property income	5	79,899	75,941
Property costs	6	(24,075)	(22,662)
Net rental and property income		55,824	53,279
Administrative and other expenses	7	(10,583)	(11,329)
Operating profit before gains and losses on property assets and other investments		45,241	41,950
Gain/(loss) on disposal of investment properties	14	679	(1,073)
Change in fair value of investment properties	14	(8,296)	(54,793)
Gain on the disposal of right of use assets	26	167	-
Change in fair value of right of use assets	26	(206)	(195)
Operating profit/(loss)		37,585	(14,111)
Finance income	9	14	99
Finance expenses	10	(14,872)	(14,108)
Impairment of goodwill	16	-	(558)
Net movement in fair value of derivative financial instruments	25	6,045	(2,523)
Profit/(loss) before tax		28,772	(31,201)
Taxation	11	(15)	203
Total comprehensive income/(loss) for the year (attributable to owners of the parent company)		28,757	(30,998)

Total comprehensive income arises from continuing operations.

Earnings/(losses)/ per Share – basic and diluted	12	6.3p	(7.2)p
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The notes below are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2021

		31 December 2021 £'000	31 December 2020 £'000
	Notes		
Assets			
Non-current assets			
Investment properties	14	906,149	732,380
Right of use assets	26	16,482	16,156
Goodwill	16	-	-
Non-current receivables on tenant loan	17	819	1,011
Derivative financial instruments	25	1,706	-
		<u>925,156</u>	<u>749,547</u>
Current assets			
Trade and other receivables	18	29,404	33,690
Cash and cash equivalents	19	56,128	67,373
		<u>85,532</u>	<u>101,063</u>
Total assets		<u>1,010,688</u>	<u>850,610</u>
Liabilities			
Current liabilities			
Trade and other payables	20	(40,966)	(33,809)
Deferred income	21	(16,751)	(14,584)
Deferred tax liabilities	22	(705)	(690)
		<u>(58,422)</u>	<u>(49,083)</u>
Non-current liabilities			
Bank and loan borrowings	23	(383,474)	(310,692)
Retail eligible bonds	24	(49,596)	(49,441)
Derivative financial instruments	25	-	(4,339)
Lease liabilities	26	(16,795)	(16,473)
		<u>(449,865)</u>	<u>(380,945)</u>
Total liabilities		<u>(508,287)</u>	<u>(430,028)</u>
Net assets		<u>502,401</u>	<u>420,582</u>
Equity			
Stated capital	27	513,762	430,819
(Accumulated losses)		<u>(11,361)</u>	<u>(10,237)</u>
Total equity attributable to owners of the parent company		<u>502,401</u>	<u>420,582</u>
Net asset value per Share – basic and diluted	28	97.4p	97.5p

The notes below 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 28 March 2022 and signed on its behalf by:

Kevin McGrath,
Chairman
28 March 2022

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

Attributable to owners of the parent company				
	Notes	Stated capital £'000	Retained earnings/ (Accumulated losses) £'000	Total £'000
Balance at 1 January 2021		430,819	(10,237)	420,582
Total comprehensive income		-	28,757	28,757
Shares issued	27	83,051	-	83,051
Share issue costs	27	(108)	-	(108)
Dividends paid	13	-	(29,881)	(29,881)
Balance at 31 December 2021		513,762	(11,361)	502,401

For the year ended 31 December 2020

Attributable to owners of the parent company				
	Notes	Stated capital £'000	Retained earnings/ (Accumulated losses) £'000	Total £'000
Balance at 1 January 2020		430,819	52,909	483,728
Total comprehensive loss		-	(30,998)	(30,998)
Dividends paid	13	-	(32,148)	(32,148)
Balance at 31 December 2020		430,819	(10,237)	420,582

The notes below are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flows from operating activities		
Profit/(loss) for the year before taxation	28,772	(31,201)
- Change in fair value of investment properties	8,296	54,793
- Change in fair value of financial derivative instruments	(6,045)	2,523
- (Gain)/loss on disposal of investment properties	(679)	1,073
- Gain on disposal of right of use assets	(167)	-
- Change in fair value of right of use assets	206	195
Impairment of goodwill	-	558
Finance income	(14)	(99)
Finance expense	14,872	14,108
Decrease/(increase) in trade and other receivables	4,398	(2,821)
Increase in trade and other payables	5,089	7,595
Increase in deferred income	2,167	1,283
Cash generated from operations	56,895	48,007
Interest paid	(13,053)	(12,515)
Taxation received	-	174
Net cash flow generated from operating activities	43,842	35,666
Investing activities		
Purchase of investment properties	(175,196)	(53,759)
Sale of investment properties	76,940	53,428
Interest received	15	101
Net cash flow used in investing activities	(98,241)	(230)
Financing activities		
Share issue costs	(108)	-
Dividends paid	(27,813)	(26,672)
Bank borrowings advanced	77,305	39,200
Bank borrowings repaid	(3,539)	(17,029)
Bank borrowing costs paid	(2,051)	(192)
Lease repayments	(640)	(618)
Net cash flow generated/(used) in financing activities	43,154	(5,311)
Net (decrease)/increase in cash and cash equivalents	(11,245)	30,125
Cash and cash equivalents at the start of the year	67,373	37,248
Cash and cash equivalents at the end of the year	56,128	67,373

The notes below are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. Corporate information

The Group's consolidated financial statements for the year ended 31 December 2021 comprise the results of the Company and its subsidiaries (together constituting the "Group") and were approved by the Board and authorised for issue on 28 March 2022.

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 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 2018.

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 Strategic Report within the full Annual Report.

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

2. Basis of preparation

In accordance with Section 244 of The Companies (Guernsey) Law 2008, the Group confirms that the financial information for the year ended 31 December 2021 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The statutory accounts for the year ended 31 December 2021 have been audited and approved, but have not yet been filed.

The Group's audited financial statements for the year ended 31 December 2021 received an unqualified audit opinion and the auditor's report contained no statement under section 263(2) or 263(3) of The Companies (Guernsey) Law 2008.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 28 March 2022.

2.1 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 (£'000) pound, except where otherwise indicated.

2.2 Going concern

The Directors have carefully considered areas of potential financial risk and have reviewed cash flow forecasts, evaluating a number of scenarios which included extreme downside sensitivities in relation to rental cash collection, no property acquisitions, no elective capital expenditure, REIT regime compliance, and no dividends. A range of scenarios of up to 12 months of nil rental cash collection were considered, and taking into account mitigating management actions, the Company had adequate resources to continue its operations. Further effects of the COVID-19 outbreak are documented in the going concern and viability statements within the full Annual Report and within principal and emerging risks above.

No material uncertainties have been detected which would influence the Group's ability to continue as a going concern for a period of at least 12 months from the approval of these financial statements. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for this period.

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

2.3 Business combinations

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 Business Combinations ("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.

2.4 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 2021 and which have had an impact on the financial statements are as follows:

Interest Rate Benchmark Reform—Phase 2:

Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments; Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' (effective for periods beginning on or after 1 January 2021) These amendments address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The Group's borrowings with Royal Bank of Scotland, Bank of Scotland & Barclays and Santander UK are transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark. The borrowings with RBS transitioned during the year and the Santander UK borrowings transition for the first interest payment in 2022. There has been and is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments. As the Group does not apply hedge accounting, the accounting standard amendments have not had a significant impact on the preparation of the financial statements.

Amendments to IFRS 16 'Leases' (effective for periods beginning on or after 1 June 2020) These amendments provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. These amendments have not had a significant impact on the preparation of the financial statements.

2.5 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 2022 and have not been applied in preparing these financial statements. These are:

Amendments to IFRS 3 'Business Combinations' (effective for periods beginning on or after 1 January 2022) – gives clarification on the recognition of contingent liabilities at acquisition and clarifies that contingent assets should not be recognised at the acquisition date. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' (effective for periods beginning on or after 1 January 2022) – gives clarification on costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS 9 'Financial Instruments' (effective for periods beginning on or after 1 January 2022) – gives clarification on the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original liability. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' (effective for periods beginning on or after 1 January 2023) – clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period and not expectations of or actual events after the reporting date. The amendments also give clarification to the definition of settlement of a liability. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' (effective for periods beginning on or after 1 January 2023) – are intended to help entities in deciding which accounting policies to disclose in their

financial statements. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for periods beginning on or after 1 January 2023) – introduces the definition of an accounting estimate and includes other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are not expected to have a significant impact on the preparation of the financial statements.

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 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 £906,149,000 (31 December 2020: £732,380,000), 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 value of the properties has been assessed in accordance with the relevant parts of the current RICS Red Book. In particular, we have assessed the fair value as referred to in VPS4 item 7 of the RICS Red Book. Under these provisions, the term "Fair Value" means the definition adopted by the International Accounting Standards Board ("IASB") in IFRS 13, namely "The price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Factors reflected include current market conditions, annual rentals, lease lengths and location. The significant methods and assumptions used by the valuers in estimating the fair value of investment property are set out in note 14.

There is some uncertainty concerning the impact of COVID-19; however, the independent valuers note the following in their report.

The outbreak of Novel Coronavirus (COVID-19), which was declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, continues to affect economies and real estate markets globally. Nevertheless, as at the valuation date, property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

3.1.2 Fair valuation of interest rate derivatives

In accordance with IFRS 13, 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 £1,706,000 asset (31 December 2020: £4,339,000 liability). 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 Leases – the Group as lessee

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. Under IFRS16, the Group calculates the lease liability at each reporting date and at the inception of each lease. The liability is calculated using present value of future lease payments using the Group's incremental borrowing rate as the discount rate. At 31 December 2021, there were 12 leases with the range of the period left to run being 45 and 130 years. The Directors have determined that the discount rate to use in the calculation for each lease is 3.5% being the Group's weighted average cost of debt at the date of transition.

3.1.4 Dilapidation income

The Group recognises dilapidation income in the Group's Statement of Comprehensive Income when the right to receive the income arises. In determining accrued dilapidations, the Group has considered historic recovery rates, while also factoring in expected costs associated with recovery.

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

Management considered that up until 9 November 2018, the Group had de facto control of View Castle Limited and its 27 subsidiaries (the "View Castle Sub Group") by virtue of the amended and restated Call Option Agreement dated 3 November 2015. Following a restructure of the View Castle Sub Group, the majority of properties held within the View Castle Sub Group now reside in a new special purpose vehicle ("SPV"). A new call option was entered into dated 9 November 2018 with View Castle Limited and five of its subsidiaries (the "View Castle Group"). As per the previous amended and restated Call Option Agreement, under this new option the Group may acquire any of the properties held by the View Castle Group for a fixed nominal consideration. Despite having no equity holding, the Group is deemed to have control over the View Castle Group as the Option Agreement means that the Group is exposed to, and has rights to, variable returns from its involvement with the View Castle Group, through its power to control.

3.2.3 Acquisitions of subsidiary companies

For each acquisition, the Directors consider whether the acquisition met the definition of the acquisition of a business or the acquisition of a group of assets and liabilities.

A business is defined in IFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Furthermore, a business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The companies acquired in the year have comprised portfolios of investment properties and existing leases with multiple tenants over varying periods, with little in the way of processes acquired. It has therefore concluded in each case that the acquisitions did not meet the criteria for the acquisition of a business as outlined above.

3.2.4 Recognition of income

Service charges and other similar receipts are included in net rental and property income gross of the related costs as the Directors consider the Group acts as principal in this respect.

4. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the financial statements for the year ended 31 December 2020 and have been consistently applied for the year ended 31 December 2021.

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 value 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 the 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 are 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.

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 value 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 amount 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 the value in use and the fair value less the costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4.6. Derivative financial instruments

Derivative financial instruments, comprising interest rate caps and swaps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Group would receive or pay to 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.

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 as at fair value through profit or loss or at amortised cost, depending on the purpose for which the asset was acquired. Currently the Group does not have any financial assets which it has classified at fair value through profit or loss.

Assets held at amortised cost arise principally from the provision of goods and services (e.g. trade and other receivables), but also incorporate other financial assets where the objective is to hold these assets in order to collect contractual cash flows which comprise the payment of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for impairment.

The Group's financial assets comprise 'trade and other receivables', 'tenant loan' and 'cash and cash equivalents'.

The tenant loan relates to a loan made to a tenant which is subject to interest. The amount receivable has been recognised at amortised cost using the effective interest method.

4.8. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently carried at amortised cost less provision for impairment. Where the time value of money is material, receivables are carried at amortised cost using the effective interest method. Impairment provisions are recognised based on the expected credit loss model detailed within IFRS 9.

The Group recognises a loss allowance for expected credit losses on trade receivables. The loss allowance is based on lifetime expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Impaired balances are reported net, however, impairment provisions are recorded within a separate provision account with the loss being recognised within administration costs within the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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 and other payables

Trade and other 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 (comprising bank loans and retail eligible bonds) 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.

Bank and other borrowings are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in Group's Consolidated Statement of Comprehensive Income.

4.12 Dividends payable to Shareholders

Equity dividends are recognised and accrued from the date declared and when they are no longer at the discretion of the Company.

4.13 Rental and property 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 and property 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.

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.

Dilapidation income is recognised in the Group's Statement of Comprehensive Income when the right to receive it arises.

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

Income arising from expenses recharged to tenants is recognised in the year in which the compensation becomes receivable. Service charges and other similar receipts are included in net rental and property income gross of the related costs as the Directors consider the Group acts as principal in this respect.

4.14 Property costs

Non-recoverable property costs contain service and management charges related to empty properties.

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

Recoverable property costs contain service charges and other similar costs which are recognised in the accounting period in which the services are rendered.

4.15. Interest income

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

4.16. Dividend income

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

4.17. Finance costs

Interest costs are expensed in the period in which they occur. Arrangement fees that a Group entity incurs in connection with bank and other borrowings are amortised over the term of the loan.

4.18. 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/(loss) for the period. Taxable profit/(loss) differs from net profit/(loss) 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.

There are a small number of entities within the Group which fall outside the REIT rules and are subject to UK taxes on profits and property gains.

4.19 Deferred tax

Deferred tax is provided in full using the liability method on temporary 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/(loss). 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 substantively 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.

The deferred tax liability in relation to investment properties that are measured at fair value is determined assuming that the property will be recovered entirely through sale.

Deferred tax has been recognised on the unrealised property valuation gains/(losses) of properties owned by Group entities which fall outside of the REIT tax rules.

The current rate of UK Corporation Tax is 19%.

4.20. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary Shares. Ordinary Shares are classed as equity.

4.21. Share-based payments

The Group has entered into performance fee arrangements with the Asset Manager and Investment Manager 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. If circumstances change and the fee is no longer settled by the issue of Shares, then the amounts previously credited to equity reserves are reversed. In the year ending 31 December 2021 no cash or equity rewards have been made.

4.22 Leased assets

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold

investment properties. These leased assets are capitalised as “right of 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.

Right of use assets are valued at fair value and the change in fair value is recognised in the Consolidated Statement of Comprehensive Income.

The associated financial liability is valued at the present value of future lease payments using the Group’s incremental borrowing rate. The value of the financial liability is revalued at each reporting date. Lease payments reduce the financial liability and interest on the financial liability is recognised in finance costs.

5. Rental and property income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Rental income – freehold property	57,128	55,382
Rental income – long leasehold property	8,626	6,695
Recoverable service charge income and other similar items	14,145	13,864
Total	79,899	75,941

6. Property costs

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Other property expenses and irrecoverable costs	9,930	8,798
Recoverable service charge expenditure and other similar costs	14,145	13,864
Total	24,075	22,662

7. Administrative and other expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Investment management fees	2,326	2,577
Property management fees	2,495	2,266
Asset management fees	2,326	2,579
Directors’ remuneration (see note 8)	254	255
Administration fees	647	634
Legal and professional fees	1,680	1,674
Marketing and promotion	72	69
Other administrative costs (including bad debts)	755	1,257
Bank charges	28	18
Total	10,583	11,329

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

Fees payable to the Company's Auditor for the audit of the Company's annual accounts*	88	105
Fees payable to the Group's Auditor and its associates for the audit of the Company's subsidiaries	117	105
Total fees payable for audit services	205	210
Fees payable to the Group's Auditor and its associates for other services:		
Audit-related services	27	26
Total fees payable to the Group's Auditor and its associates	232	236

* The prior year charge includes fees of £20,000 in respect of additional audit work required for the 2019 audit due to the COVID-19 pandemic.

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 2021 £'000	Year ended 31 December 2020 £'000
Directors' fees	231	231
Employer's National Insurance contributions	23	24
Total	254	255

9. Finance income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest income	14	99
Total	14	99

10. Finance expense

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest payable on bank borrowings	10,795	10,257
Amortisation of loan arrangement fees	1,067	857
Bond interest	2,250	2,250
Bond issue costs amortised	155	155
Bond expenses	8	8
Lease interest	597	581
Total	14,872	14,108

11. Taxation

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

Corporation tax charge/(credit)	-	(157)
Increase/(decrease) in deferred tax creditor	<u>15</u>	<u>(46)</u>
Total	<u>15</u>	<u>(203)</u>

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Profit/(loss) before taxation	<u>28,772</u>	<u>(31,201)</u>
UK Corporation Tax rate	19%	19%
Theoretical tax at UK Corporation Tax rate	5,467	(5,928)
Effects of:		
Revaluation of investment property	1,576	10,410
Permanent differences	(207)	(363)
Profits from the tax-exempt business	(6,836)	(4,276)
Deferred tax movement	<u>15</u>	<u>(46)</u>
Total	<u>15</u>	<u>(203)</u>

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.

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 corporation tax. Gains on UK properties are also exempt from tax, provided 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.

As a REIT, Regional REIT Ltd is required to pay PIDs equal to at least 90% of the Group's exempted net income. To retain UK REIT status, there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

UK corporation tax arises on entities which form part of the Group consolidated accounts but do not form part of the REIT group.

Due to the Group's REIT status and its intention to continue meeting the conditions required to obtain approval in the foreseeable future, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments held by entities within the REIT group.

No deferred tax asset has been recognised in respect of losses carried forward due to the unpredictability of future taxable profits.

12. Earnings per Share

Earnings per Share amounts are calculated by dividing profits/(losses) for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Calculation of earnings per Share		
Net profit/(loss) attributable to Ordinary Shareholders	28,757	(30,998)
Adjustments to remove:		

Changes in value of investment properties	8,296	54,793
Changes in fair value of right of use assets	206	195
(Gain)/loss on disposal of investment property	(679)	1,073
Gain on the disposal of right of use assets	(167)	-
Changes in fair value of interest rate derivatives and financial assets	(6,045)	2,523
Impairment of goodwill	-	558
Deferred tax charge/(credit)	15	(46)
EPRA net profit attributable to Ordinary Shareholders	30,383	28,098
Weighted average number of Ordinary Shares	459,660,172	431,506,583
Earnings/(loss) per Share – basic and diluted	6.3p	(7.2)p
EPRA earnings per Share – basic and diluted	6.6p	6.5p

13. Dividends

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Dividend of 1.50 (2020: 2.55) pence per Ordinary Share for the period 1 October – 31 December	6,473	11,004
Dividend of 1.60 (2020: 1.90) pence per Ordinary Share for the period 1 January – 31 March	6,904	8,198
Dividend of 1.60 (2020: 1.50) pence per Ordinary Share for the period 1 April – 30 June	8,252	6,473
Dividend of 1.60 (2020: 1.50) pence per Ordinary Share for the period 1 July – 30 September	8,252	6,473
	29,881	32,148

On 25 February 2021, the Company announced a dividend of 1.50 pence per Share in respect of the period 1 October 2020 to 31 December 2020. The dividend payment was made on 9 April 2021 to Shareholders on the register as at 5 March 2021.

On 19 May 2021, the Company announced a dividend of 1.60 pence per Share in respect of the period 1 January 2021 to 31 March 2021. The dividend payment was made on 16 July 2021 to Shareholders on the register as at 28 May 2021.

On 26 August 2021, the Company announced a dividend of 1.60 pence per Share in respect of the period 1 April 2021 to 30 June 2021. The dividend payment was made on 15 October 2021 to Shareholders on the register as at 10 September 2021.

On 11 November 2021, the Company announced a dividend of 1.60 pence per Share in respect of the period 1 July 2021 to 30 September 2021. The dividend payment was made on 12 January 2022 to Shareholders on the register as at 19 November 2021.

On 24 February 2022, the Company announced a dividend of 1.70 pence per Share in respect of the period 1 October 2021 to 31 December 2021. The dividend will be paid on 8 April 2022 to Shareholders on the register as at 4 March 2022. The financial statements do not reflect this dividend.

The Board intends to pursue a progressive dividend policy and continue to pay quarterly dividends. The level of future payment of dividends will be determined by the Board having regard to, amongst other things, the financial position and performance of the Group at the relevant time, UK REIT requirements, and the interest of Shareholders.

14. 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 recognised and relevant professional qualifications and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the Red Book and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

There is some uncertainty concerning the impact of COVID-19; however, the independent valuers note the following in their report.

The outbreak of Novel Coronavirus (COVID-19), which was declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, continues to affect economies and real estate markets globally. Nevertheless, as at the valuation date, property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

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 (see note 3.2.3).

Group	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2021			
Valuation at 1 January 2021	659,432	72,948	732,380
Property additions – acquisitions	155,806	95,625	251,431
Property additions – subsequent expenditure	3,329	3,487	6,816
Property disposals	(60,304)	(16,557)	(76,861)
Gain/(loss) on the disposal of investment properties	(1,256)	1,935	679
Change in fair value during the year	<u>(5,567)</u>	<u>(2,729)</u>	<u>(8,296)</u>
Valuation at 31 December 2021	<u>751,440</u>	<u>154,709</u>	<u>906,149</u>
Movement in investment properties for the year ended 31 December 2020			
Valuation at 1 January 2020	697,908	90,007	787,915
Property additions – acquisitions	44,956	-	44,956
Property additions – subsequent expenditure	8,446	357	8,803
Property disposals	(47,035)	(6,393)	(53,428)
Gain/(loss) on the disposal of investment properties	(1,128)	55	(1,073)
Change in fair value during the year	<u>(43,715)</u>	<u>(11,078)</u>	<u>(54,793)</u>
Valuation at 31 December 2020	<u>659,432</u>	<u>72,948</u>	<u>732,380</u>

The net book value of properties disposed of during the year amounted to £76,181,000 (2020: £54,501,000).

The historic cost of the properties is £942,694,000 (31 December 2020: £759,705,000).

Bank borrowings are secured by charges over 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. The value of investment properties secured at 31 December 2021 was £896,149,000 (31 December 2020: £705,130,000).

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 2021	906,149	-	-	906,149
31 December 2020	732,380	-	-	732,380

The hierarchy levels are defined in note 30.

It has been determined that the entire investment properties portfolio should be classified under the level 3 category. The table below shows the movement in the year on the level 3 category:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Balance at the start of the year	732,380	787,915
Additions	258,247	53,759
Disposals	(76,861)	(53,428)
Gain/(loss) on the disposal of investment properties	679	(1,073)
Change in fair value during the year	(8,296)	(54,793)
Balance at the end of the year	906,149	732,380

The determination of the fair value of the investment properties held by each consolidated subsidiary requires the use of estimates such as future cash flows from investment properties, which take into consideration lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property, and discount rates applicable to those assets. Future revenue streams comprise contracted rent (passing rent) and estimated rental value after the contract period. In calculating ERV, 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.

As at 31 December 2021, the estimated fair value of each property has been primarily derived using comparable recent market transactions on arm's length terms and assessed in accordance with the relevant parts of the RICS Valuation - Global Standards and the RICS Valuation UK National Supplement.

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: £9,000 – £3,125,246 per annum (2020: £9,000 – £3,092,291 per annum).

Observable input: rental growth

The increase in rent is based on contractual agreements: 12.29% (2020: 13.08%)

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: 0.00% – 60.37% (2020: 0.00% – 25.64%).

Unobservable inputs:

The significant unobservable inputs (level 3) are sensitive to changes in the estimated future cash flows from investment properties such as increases and decreases in contracted rents, operating expenses and capital expenses, plus transactional activity in the real estate market.

As set out within the significant accounting estimates and judgements, 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.

15. Investment in subsidiaries

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

	Country of incorporation	Ownership %
Blythswood House LLP (in liquidation)	United Kingdom	100%
Beaufort Office Park Management Company Limited	United Kingdom	100%
Glasgow Airport Business Park Management Company Limited	United Kingdom	100%
Regional Commercial MIDCO Ltd	Jersey	100%
RR Aspect Court Ltd	Jersey	100%
RR Bristol Ltd	Jersey	100%
RR Hounds Gate Ltd	Jersey	100%
RR Rainbow (Aylesbury) Ltd	Jersey	100%
RR Rainbow (North) Ltd	Jersey	100%
RR Rainbow (South) Ltd	Jersey	100%
RR Range Ltd	Jersey	100%
RR Sea Dundee Ltd	United Kingdom	100%
RR Sea Hanover Street Ltd	United Kingdom	100%
RR Sea Lamont I Ltd	Jersey	100%
RR Sea Lamont II Ltd	Jersey	100%
RR Sea Lamont III Ltd	Jersey	100%
RR Sea St. Helens Ltd	United Kingdom	100%
RR Sea Stafford Ltd	United Kingdom	100%
RR Sea Strand Ltd	United Kingdom	100%
RR Sea TAPP Ltd	Guernsey	100%
RR Sea TOPP Bletchley Ltd	Guernsey	100%
RR Sea TOPP I Ltd	Guernsey	100%
RR UK (Central) Ltd	Jersey	100%
RR UK (Cheshunt) Ltd	Jersey	100%
RR UK (South) Ltd	Jersey	100%
RR UK (Port Solent) Ltd	Jersey	100%
RR Wing Portfolio Ltd	Jersey	100%
Smallbrook Queensway Limited	Jersey	100%
Quay West Estate Company Limited	United Kingdom	100%
Tay Properties Ltd	Jersey	100%
TCP Arbos Ltd	Jersey	100%
TCP Channel Ltd	Jersey	100%
Tosca Chandlers Ford Ltd	Jersey	100%
Tosca Glasgow II Ltd	United Kingdom	100%
Tosca Midlands Ltd	Jersey	100%
Tosca North West Ltd	Jersey	100%
Tosca Scotland Ltd	Jersey	100%
RR Star Ltd	Jersey	100%
Tosca Swansea Ltd	Jersey	100%
Tosca UK CP II Ltd	Jersey	100%
Tosca UK CP Ltd	Jersey	100%
Toscafund Bennett House Ltd	Jersey	100%
Toscafund Bishopgate Street Ltd	Jersey	100%
Toscafund Blythswood Ltd	Jersey	100%
Toscafund Brand Street Ltd	Jersey	100%
Toscafund Chancellor Court Ltd	Jersey	100%
Toscafund Crompton Way Ltd	Jersey	100%
RR Falcon Ltd	Jersey	100%

Toscafund Glasgow Ltd	Jersey	100%
Toscafund Harvest Ltd	Jersey	100%
Toscafund Milburn House Ltd	Jersey	100%
Toscafund Minton Place Ltd	Jersey	100%
Toscafund Newstead Court Ltd	Jersey	100%
Toscafund Portland Street Ltd	Jersey	100%
Toscafund St Georges House Ltd	Jersey	100%
Toscafund St James Court Ltd	Jersey	100%
Toscafund Strathclyde BP Ltd	Jersey	100%
Toscafund Wallington Ltd	Jersey	100%
Toscafund Westminster House Ltd	Jersey	100%
Toscafund Sheldon Court Ltd	Jersey	100%

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

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

Under this option, the Group has the ability to acquire any of the properties held by the View Castle Group by issuing an option notice for a nominal consideration of £1. The recipient of the option notice will be obliged to convey its title within one month after receipt of the option notice.

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

The companies which make up the View Castle Group are as follows:

List of subsidiaries that are controlled by the Group:

	Country of incorporation	Effective Ownership %
Castlestream Ltd (in liquidation)	United Kingdom	100%
Caststop Ltd (in liquidation)	United Kingdom	100%
Credential (Baillieston) Ltd (in liquidation)	United Kingdom	100%
Credential (Greenock) Ltd (in liquidation)	United Kingdom	100%
Credential (Wardpark North) Ltd	United Kingdom	100%
Credential Charing Cross Ltd (in liquidation)	United Kingdom	100%
Credential Estates Ltd	United Kingdom	100%
Hamiltonhill Estates Ltd (in liquidation)	United Kingdom	100%
Old Rutherglen Road Ltd (in liquidation)	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco 2 Ltd	United Kingdom	100%
The Legal Services Centre Ltd (in liquidation)	United Kingdom	100%
View Castle Ltd	United Kingdom	100%
View Castle (Milton Keynes) Ltd	United Kingdom	100%
View Castle (Properties) Ltd	United Kingdom	100%

All of the above entities have been included in the Group's consolidated financial statements up to 31 December 2021.

Business Combinations

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

16. Goodwill

	31 December 2021 £'000	31 December 2020 £'000
Group		
At start of year	-	558
Impairment	-	(558)

At end of year

-	-
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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.

17. Non-current receivables

Non-current receivables on tenant loans

	31 December 2021 £'000	31 December 2020 £'000
At start of year	1,203	1,348
Amounts repaid in the year	(192)	(145)
At end of year	1,011	1,203
Asset due within 1 year (note 18)	192	192
Asset due after 1 year	819	1,011
	1,011	1,203

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 on late payments and is repayable in instalments over ten years.

18. Trade and other receivables

	31 December 2021 £'000	31 December 2020 £'000
Gross amount receivable from tenants	10,835	11,768
Less provision for impairment	(1,615)	(1,458)
Net amount receivable from tenants	9,220	10,310
Current receivables – tenant loans (note 17)	192	192
Income tax	52	52
Other receivables	736	1,458
Prepayments	19,204	21,678
	29,404	33,690

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.

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

	31 December 2021 £'000	31 December 2020 £'000
< 30 days	4,605	6,000
30–60 days	1,160	915
> 60 days	5,070	4,853
	10,835	11,768

Less provision for impairment	<u>(1,615)</u>	<u>(1,458)</u>
	<u>9,220</u>	<u>10,310</u>

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 2021 £'000	31 December 2020 £'000
At start of year	1,458	891
Provision for impairment in the year	1,971	1,787
Receivables written off as uncollectable	(633)	(719)
Unused provision reversed	(1,181)	(501)
At end of year	1,615	1,458

Other categories within trade and other receivables do not include impaired assets. Receivables are written off as uncollectable where there is no reasonable expectation of recovery.

19. Cash and cash equivalents

	31 December 2021 £'000	31 December 2020 £'000
Group		
Cash held at bank	49,919	54,958
Restricted cash held at bank	6,209	12,415
At end of year	56,128	67,373

Restricted cash balances of the Group comprise:

- £4,149,000 (2020: £10,752,000) of funds held in blocked bank accounts which are controlled by 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.
- £2,060,000 (2020: £1,663,000) of funds which represent tenants' rental deposits.

All restricted cash balances will be available before 31 March 2022.

In addition, £10,040,000 (2020: £7,462,000) of cash funds represent service charge income received from tenants for settlement of future service charge expenditure. These amounts are not analysed as restricted balances.

20. Trade and other payables

	31 December 2021 £'000	31 December 2020 £'000
Withholding tax due on dividends paid	861	572
Dividends announced but not paid	8,252	6,473
Trade payables	3,559	2,262
Other payables	13,245	11,205
Value added tax	1,714	3,662
Accruals	13,335	9,635
At end of year	40,966	33,809

Other payables principally include rent deposits held and service charge costs.

The Directors consider the fair value of trade and other payables to equal their carrying amounts.

21. Deferred income

Deferred rental income of £16,751,000 (31 December 2020: £14,584,000) represents rent received in advance from tenants.

22. Deferred tax liabilities

	31 December 2021 £'000	31 December 2020 £'000
Deferred tax	705	690
	<u>705</u>	<u>690</u>
The movement on deferred tax liability is shown below:		
At start of year	690	736
Deferred tax on the valuation of investment properties	15	(46)
At end of year	<u>705</u>	<u>690</u>

23. Bank and loan borrowings

Bank borrowings are secured by charges over 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 2021 £'000	31 December 2020 £'000
Bank borrowings drawn at start of year	316,171	294,000
Bank borrowings drawn	77,305	39,200
Bank borrowings repaid	<u>(3,539)</u>	<u>(17,029)</u>
Bank borrowings drawn at end of year	389,937	316,171
Less: unamortised costs at start of year	(5,479)	(6,144)
Less: loan issue costs incurred in the year	(2,051)	(192)
Add: loan issue costs amortised in the year	<u>1,067</u>	<u>857</u>
At end of year	<u>383,474</u>	<u>310,692</u>
Maturity of bank borrowings		
Repayable within 1 year	-	-
Repayable between 1 to 2 years	-	-
Repayable between 2 to 5 years	127,220	52,349
Repayable after more than 5 years	262,717	263,822
Unamortised loan issue costs	<u>(6,463)</u>	<u>(5,479)</u>
	<u>383,474</u>	<u>310,692</u>

As detailed in note 24, the Group has £50,000,000 (31 December 2020: £50,000,000) retail eligible bonds in issue.

The table below lists the Group's borrowings.

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value**	Annual interest rate	Amortisation
Royal Bank of Scotland, Bank of Scotland and Barclays	128,000	127,220	Aug-26	43.4%	2.40% over 3mth £ SONIA	Mandatory prepayment

Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	46.4%	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	Dec-28	38.7%	3.37% Fixed	None
Santander UK	65,870	61,717	Jun-29	39.0%	2.20% over 3mth £ LIBOR Moving to SONIA 01/01/22	Mandatory prepayment
Total bank borrowings	394,870	389,937				
Retail eligible bond	50,000	50,000				
Total	444,870	439,937				

SONIA = Sterling Over Night Indexed Average

LIBOR = London Interbank Offered Rate (Sterling)

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

The percentage of loans at variable rates of interest was 42.9% (31 December 2020: 54.9%).

The weighted average term to maturity of the Group's debt at the year end was 5.5 years (31 December 2020: 6.4 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the year end was 3.0% (31 December 2020: 3.1%).

The Group weighted average interest rate, including the retail eligible bonds and hedging costs at the year end, amounted to 3.3% per annum (31 December 2020: 3.3% per annum).

The Group has been in compliance with all of the financial covenants relating to the above facilities as applicable throughout the year covered by these consolidated financial statements. Each facility has distinct covenants which generally include: historic interest cover, projected interest cover, LTV cover and debt service cover. A breach of agreed covenant levels would typically result in an event of default of the respective facility, giving the lender the right, but not the obligation, to declare the loan immediately due and payable. Where a loan is repaid in these circumstances, early repayment fees will apply, which are generally based on a percentage of the loan repaid or calculated with reference to the interest income foregone by the lenders as a result of the repayment.

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

In line with recent announcements from the Bank of England and the FCA, the Royal Bank of Scotland and Bank of Scotland & Barclays borrowings and Santander UK borrowings are transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark. The borrowings with RBS transitioned during the year and the Santander UK borrowings transition for the first interest payment in 2022. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

24. Retail Eligible Bonds

The Company has in issue £50,000,000 (31 December 2020: £50,000,000) 4.5% Retail Eligible Bonds with a maturity date of 6 August 2024. These unsecured bonds are listed on the London Stock Exchange ORB platform.

	31 December 2021 £'000	31 December 2020 £'000
Bond principal at start of year	50,000	50,000
Unamortised issue costs at start of year	(559)	(714)
Amortisation of issue costs	155	155
At end of year	49,596	49,441

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 2021 £'000	31 December 2020 £'000
Group		
Fair value at start of year	(4,339)	(1,816)
Revaluation in the year	<u>6,045</u>	<u>(2,523)</u>
Fair value at end of year	<u>1,706</u>	<u>(4,339)</u>

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 and discounted.

The table below details the hedging and swap notional amounts and rates against the details of the Group's loan facilities.

Lender	Original facility £'000	Outstanding debt £'000	Maturity date	Annual interest rate	Notional amount £'000	Rate
Royal Bank of Scotland, Bank of Scotland and Barclays	128,000	127,220	Aug-26	2.40% over 3 months £ SONIA	73,000 55,000	0.97% 0.97%
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	3.28% Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	Dec-28	3.37% Fixed	n/a	n/a
Santander UK	65,870	61,717	Jun-29	2.20% over 3 months £ LIBOR Moving to SONIA 01/01/22	32,935 32,935	1.45% 1.45%
Total	<u>394,870</u>	<u>389,937</u>				

SONIA = Sterling Over Night Indexed Average

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2021, the swap notional arrangements were £105.94m (31 December 2020: £60.44m) and the cap notional arrangements amounted to £87.94m (31 December 2020: £60.44m).

The Group weighted average effective interest rate was 3.3% (31 December 2020: 3.3%) 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 101.3% (31 December 2020: 101.8%), as shown below. The over-hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

31 December 31 December

	2021 £'000	2020 £'000
Total bank borrowings	<u>389,937</u>	<u>316,171</u>
Notional value of interest rate caps and swaps	193,870	120,870
Value of fixed rate debts	<u>201,000</u>	<u>201,000</u>
	<u>394,870</u>	<u>321,870</u>
Proportion of hedged debt	<u>101.3%</u>	<u>101.8%</u>

The Group has not adopted hedge accounting in either year.

26. Leases

	31 December 2021 £'000	31 December 2020 £'000
Right of use asset		
At start of year	16,156	16,351
Right of use asset acquired	6,438	-
Derecognition of right of use asset	(5,906)	-
Fair value movement	<u>(206)</u>	<u>(195)</u>
	<u>16,482</u>	<u>16,156</u>
Lease liability		
At start of year	16,473	16,510
Finance lease liability acquired	6,438	-
Derecognition of finance lease liability	(6,073)	-
Lease payments	(640)	(618)
Interest charges	<u>597</u>	<u>581</u>
	<u>16,795</u>	<u>16,473</u>

The derecognition of right of use assets and liabilities during the year gave rise to a realised gain of £167,000 (2020: £nil).

The Group's lease commitments which are now represented by the right of use asset and lease liability are spread across 12 separate leases with the two largest leases at Mountbatten Court Basingstoke and Northern Cross Basingstoke making up 35% of the balance. Total commitments on leases in respect of land and buildings are as follows:

	31 December 2021 £'000	31 December 2020 £'000
Group		
Payable within 1 year	648	618
Payable between 1 and 2 years	648	618
Payable between 2 and 5 years	1,943	1,854
Payable after 5 years	<u>47,668</u>	<u>50,346</u>
	<u>50,907</u>	<u>53,436</u>

27. Stated capital

Stated capital represents the consideration received by the Company for the issue of Ordinary Shares.

Group	31 December 2021	31 December 2020
-------	---------------------	---------------------

Issued and fully paid	£'000	£'000
Shares of no par value		
At start of the year	430,819	430,819
Shares issued	83,051	-
Share issue costs	(108)	-
	<hr/>	<hr/>
At end of the year	513,762	430,819
	<hr/>	<hr/>
Number of Shares in issue		
At start of the year	431,506,583	431,506,583
Shares issued	84,230,000	-
	<hr/>	<hr/>
At end of the year	515,736,583	431,506,583
	<hr/>	<hr/>

During the year 84,230,000 Shares were issued as part of the consideration package for the purchase of a group of investment properties. The value of Shares issued was £83,051,000 (98.6p per Share).

28. Net asset value per Share (NAV)

Basic NAV per Share is calculated by dividing the 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.

In October 2019, EPRA issued new best practice recommendations that replaced EPRA net asset value (NAV) with three new measures of net asset value. The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure, hence this is now reported in place of EPRA NAV. Further detail of the new EPRA performance measures can be found in the full Annual Report.

Net asset values have been calculated as follows:

Group	31 December 2021 £'000	31 December 2020 £'000
Net asset value per Consolidated Statement of Financial Position	502,401	420,582
Adjustment for calculating EPRA net tangible assets:		
Derivative financial instruments	(1,706)	4,339
Deferred tax liability	705	690
	<hr/>	<hr/>
EPRA Net Tangible Assets	501,400	425,611
	<hr/>	<hr/>
Number of Ordinary Shares in issue	515,736,583	431,506,583
	<hr/>	<hr/>
Net asset value per Share – basic and diluted	97.4p	97.5p
	<hr/>	<hr/>
EPRA Net Tangible Assets per Share – basic and diluted	97.2p	98.6p
	<hr/>	<hr/>

29. Notes to the Statement of Cash Flows

29.1 Non-Cash Transactions

During the year, a non-cash transaction took place whereby 84,230,000 Shares were issued as part of the consideration package for the purchase of a group of investment properties. The value of Shares issued was £83,051,000.

During the year, three right of use assets and liabilities were recognised at the value of £6,438,000 being the present value of the lease payments associated with the Group's long leasehold investment properties. Also during the year, three right of use assets and liabilities were derecognised following the sale of long-leasehold investment properties.

29.2 Reconciliation of changes in liabilities to cash flows arising from financing activities

31 December 2021

	Bank loans and borrowings £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2021	310,692	49,441	4,339	16,473	380,945
Changes from financing cash flows:					
Bank and bond borrowings advanced	77,305	-	-	-	77,305
Bank borrowings repaid	(3,539)	-	-	-	(3,539)
Bank and bond borrowing costs paid	(2,051)	-	-	-	(2,051)
Lease payments	-	-	-	(640)	(640)
Total changes from financing cash flows	71,715	-	-	(640)	71,075
Amortisation of issue costs	1,067	155	-	-	1,222
Unwinding of discount	-	-	-	597	597
Change in fair value	-	-	(6,045)	-	(6,045)
Finance lease liability acquired	-	-	-	6,438	6,438
Derecognition of finance lease liability	-	-	-	(6,073)	(6,073)
Total other changes	1,067	155	(6,045)	962	(3,861)
Balance at 31 December 2021	383,474	49,596	(1,706)	16,795	448,159

31 December 2020

	Bank loans and borrowings £'000	Retail Eligible Bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
Balance at 1 January 2020	287,856	49,286	1,816	16,510	355,468
Changes from financing cash flows:					
Bank and bond borrowings advanced	39,200	-	-	-	39,200
Bank borrowings repaid	(17,029)	-	-	-	(17,029)
Bank and bond borrowing costs paid	(192)	-	-	-	(192)
Lease payments	-	-	-	(618)	(618)
Total changes from financing cash flows	21,979	-	-	(618)	21,361
Amortisation of issue costs	857	155	-	-	1,012
Unwinding of discount	-	-	-	581	581
Change in fair value	-	-	2,523	-	2,523
Total other changes	857	155	2,523	581	4,116
Balance at 31 December 2020	310,692	49,441	4,339	16,473	380,945

30. Financial risk management**30.1 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, amounts due to 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 of the Group's financial instruments that are carried in the financial statements and their fair value:

Group	31 December 2021		31 December 2020	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets – measured at amortised cost				
Trade and other receivables	10,967	10,967	12,971	12,971
Cash and short-term deposits	56,128	56,128	67,373	67,373
Financial assets – measured at fair value through profit or loss				
Interest rate derivatives	1,706	1,706	-	-
Financial liabilities – measured at amortised cost				
Trade and other payables	(38,391)	(38,391)	(29,575)	(29,575)
Bank and loan borrowings	(383,474)	(387,373)	(310,692)	(327,409)
Retail eligible bonds	(49,596)	(51,190)	(49,441)	(49,500)
Lease liability	(16,795)	(16,795)	(16,473)	(16,473)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	-	-	(4,339)	(4,339)

The following financial liabilities are recorded in the Consolidated Statement of Financial Position at amortised cost but their fair value is different as disclosed above. Their fair values are determined as follows:

- The fair value of bank and loan borrowings is determined by reference to mark-to-market valuations provided by the lenders.
- The fair value of Retail Eligible Bonds is determined by their published market value.
- The fair value of the lease liability has been determined as the present value of future cash flows discounted using the Group's incremental borrowing rate.

The following financial assets and liabilities are recorded in the Consolidated Statement of Financial Position at fair value which is determined as follows:

- The fair value of interest rate derivatives is 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.

Fair value hierarchy

The following table provides the fair value measurement hierarchy for financial assets and liabilities measured at fair value through profit or loss.

	Total	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2021				
Interest rate derivatives	1,706	-	1,706	-
31 December 2020				
Interest rate derivatives	(4,339)	-	(4,339)	-

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.

There have been no transfers between levels during the year.

30.2 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.

30.3 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 swaps. 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	
	31 December 2021 £'000	31 December 2020 £'000
0.00%	-	-
0.25%	208	137
0.50%	415	274
0.75%	559	411
1.00%	671	547

The Group's borrowings with Royal Bank of Scotland, Bank of Scotland & Barclays and Santander UK are transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark. The borrowings with RBS transitioned during the year and the Santander UK borrowings transition for the first interest payment in 2022. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

30.4 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. 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.

30.5 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.

30.6 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 is 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 positive
Royal Bank of Scotland	A+ Stable
Bank of Scotland plc	A+ Stable
Santander UK	A+ Stable
Aviva	A+ Stable
Scottish Widows	A Stable

30.7 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 that 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 2021	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(38,391)	-	-	-	(38,391)
Bank borrowings	(11,333)	(11,333)	(160,167)	(274,447)	(457,280)
Interest rate derivatives	(1,076)	(1,076)	(3,010)	(1,048)	(6,210)
Retail eligible bonds	(2,250)	(2,250)	(52,250)	-	(56,750)
Lease liability	(648)	(648)	(1,943)	(47,668)	(50,907)
	(53,698)	(15,307)	(217,370)	(323,163)	(609,538)
Group at 31 December 2020	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(29,575)	-	-	-	(29,575)
Bank borrowings	(9,262)	(9,262)	(79,509)	(283,232)	(381,265)
Interest rate derivatives	(805)	(805)	(1,898)	(1,611)	(5,119)
Retail eligible bonds	(2,250)	(2,250)	(54,500)	-	(59,000)
Lease liability	(618)	(618)	(1,854)	(50,346)	(53,436)
	(42,510)	(12,935)	(137,761)	(335,189)	(528,395)

The maturity dates of all bank borrowings are disclosed in note 23.

The maturity date of the retail eligible bonds is disclosed in note 24.

The range of maturity dates of the lease liability payments is between 4 and 130 years.

31. 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 and Asset Managers, monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion, deliver a quarterly dividend distribution 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 40% of Investment Property Values at any time. However, the Board may modify the Group'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% of the Investment Property Values at any time without the prior approval of Ordinary Shareholders in a General Meeting.

The optimal debt financing structure for the Group will have consideration for key metrics including: fixed or floating interest rate charged, debt type, maturity profile, substitution rights, covenant and security requirements, lender type, diversity and the lender's knowledge and relationship with the property sector.

32. Operating leases

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

Group	31 December 2021 £'000	31 December 2020 £'000
Receivable within 1 year	56,503	50,739
Receivable between 1–2 years	43,349	38,103
Receivable between 2–5 years	56,017	57,404
Receivable after 5 years	31,267	40,102
	<u>187,136</u>	<u>186,348</u>

The Group has in excess of 1,030 operating leases. The number of years remaining on these operating leases varies between 1 and 87 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.

33. Segmental information

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.

34. Transactions with related parties

Transactions with the Directors

Directors' remuneration is disclosed within the Remuneration Report in the full Annual Report and note 8 to the financial statements. Directors' beneficial interests in the Ordinary Shares of the Company are disclosed within the Directors' Report.

Transactions with the Asset Manager, London & Scottish Property Investment Management 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 chief executive officer of London & Scottish Property Investment Management Limited ("LSPIM") 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, reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

In respect of each portfolio property, the Asset Manager has procured and shall, with the Company in the 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.

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 2021 £'000	Year ended 31 December 2020 £'000
Asset management fees charged*	2,326	2,579
Property management fees charged*	2,495	2,266
Performance fees charged	-	-
Total	4,821	4,845

	31 December 2021 £'000	31 December 2020 £'000
Total fees outstanding	1,350	1,190

* Including irrecoverable VAT charged where appropriate.

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee is a non-executive Director of the Company, as well as being Chief Legal Counsel of the Investment Manager.

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, reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

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 2021 £'000	Year ended 31 December 2020 £'000
Investment management fees charged	2,326	2,577
Total	2,326	2,577

	31 December 2021 £'000	31 December 2020 £'000
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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 the total Shareholder return in excess of the hurdle rate of 8% per annum for the relevant performance period. Total Shareholder return for any financial year 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 financial year. 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. The performance fee was calculated initially on 31 December 2018 and is assessed annually thereafter.

The performance fees are now payable 34% in cash and 66% in Ordinary Shares, at the prevailing price per share, with 50% of the Shares locked-in for one year and 50% of the Shares locked-in for two years.

No performance fee has been earned for the years ending 31 December 2021 or 31 December 2020.

35. Subsequent Events

Post 31 December 2021, the Company has disposed of separately: eight non-core properties for a total consideration of £33.5m, at a 1.3% premium to the 31 December 2021 valuation, with a net initial yield of 5.1% (6.3% excluding vacant properties).

On 24 February 2022, the Company declared the Q4 2021 dividend of 1.70pps, which will be paid to shareholders on 8 April 2022.

Company Information**Directors**

Kevin McGrath (Chairman and Independent Non-Executive Director)

William Eason (Senior Independent Non-Executive Director, Nomination Committee Chairman, Management Engagement and Remuneration Committee Chairman)

Daniel Taylor (Independent Non-Executive Director)

Frances Daley (Independent Non-Executive Director, Audit Committee Chairman)

Stephen Inglis (Non-Executive Director)

Timothy Bee (Non-Executive Director)

Registered office

Regional REIT Limited

Mont Crevelt House

Bulwer Avenue

St. Sampson

Guernsey

GY2 4LH

Regional REIT Limited

ISIN: GG00BYV2ZQ34

SEDOL: BYV2ZQ3

Legal Entity Identifier: 549300D8G4NKLRIBX73

Company website

www.regionalreit.com