
Annual Report and Accounts

for the year ended
31 December 2020

High dividend distribution UK REIT, offering exposure to the regional commercial office property market, with active management by an experienced asset manager.

OUR PURPOSE

- The purpose of the Company is to deliver long-term returns for Shareholders with income generated from investment in UK commercial property outside of the M25 motorway.

OUR VALUES

- Openness and transparency
- Integrity, reliability and good governance
- Collaboration
- Adapt and evolve

OUR CULTURE

- Constructive debate
- Collaborative atmosphere and long-term relationships
- Ongoing dialogue and engagement with stakeholders
- Openness, transparency and integrity

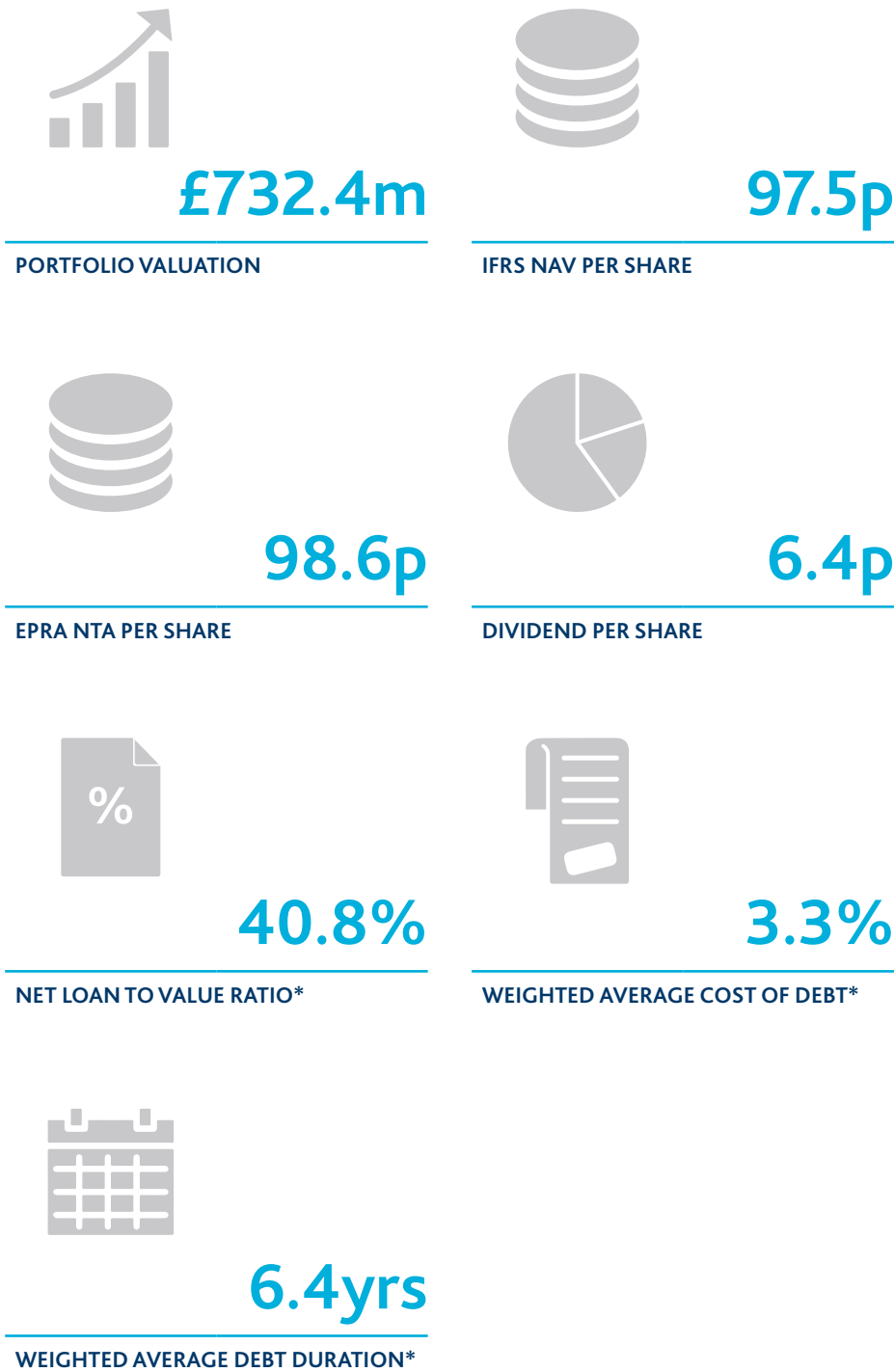
For more details on the Company's values, culture and strategy, please refer to pages 64 and 18, respectively.



Beeston Business Park, Nottingham

Financial Highlights

INCOME FOCUSED – OPPORTUNISTIC BUYING AND STRATEGIC SELLING, COUPLED WITH INTENSIVE ASSET MANAGEMENT, CONTINUES TO SECURE LONG-TERM INCOME



* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 144 and 145 and the EPRA Performance Measures on pages 140 to 142.

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ABOUT US

Regional REIT Limited ("Regional REIT" or the "Company") and its subsidiaries¹ (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 ("Toscafund"), the Investment Manager (together the "Managers").

Regional REIT's commercial property portfolio is comprised wholly of UK assets predominantly offices located in regional centres outside of the M25 motorway. The portfolio is geographically diversified, with 153 properties, 1,245 units and 898 tenants as at 31 December 2020, with a valuation of £732.4 million.

Regional REIT pursues its investment objective by investing in, actively managing and disposing of regional Core Property and Core Plus Property assets. It aims to deliver an attractive total return to its Shareholders, targeting greater than 10% per annum ("pa"), with a strong focus on income supported by additional capital growth prospects.

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

European Public Real Estate Association ("EPRA") Gold Award



In 2020, the Company was pleased to be recognised by EPRA for a third consecutive year and be granted its second EPRA BPR Gold Award in respect of the Company's exceptional compliance with EPRA's Best Practices Recommendations for financial reporting of listed property companies.



Beeston Business Park, Nottingham



Global Reach, Cardiff



Global Reach, Cardiff

WHAT IS A REIT?

A real estate investment trust ("REIT") is a specialist tax-efficient investment vehicle built around real property assets, specifically property rental/letting activities. REITs are quoted companies, or groups of companies, that own and manage property with the aim of generating a rental income. The rental income, after costs, is paid to Shareholders as a dividend distribution so that, over time, dividends will represent a significant proportion of the Shareholders' total return. REITs are a well-established and globally recognised holding structure for property assets.

UK REITs are exempt from UK corporation tax on profits and gains of their qualifying property rental business. However, among a number of conditions, UK REITs are required to distribute a minimum of 90% of their qualifying profits to Shareholders as dividends (known as property income distributions or "PIDs"). As Shareholders receive higher pay-outs than they would if the REIT were subject to UK corporation tax on its property profits and gains, Shareholders are thus required to pay tax on the PIDs. The effect, in general terms, is that taxation is moved from the REIT to the investor and the investor is then liable

for taxation as if they owned the property directly.

Regional REIT and its subsidiaries are a UK REIT group under UK tax legislation, having elected to enter the REIT regime with effect from 7 November 2015. Remaining in the regime is subject to meeting various conditions imposed by legislation.

ISA, SSAS AND SIPP STATUS

The Company's shares should be eligible to be held in an Individual Savings Account ("ISA").

Subject to the rules of the trustees of the relevant scheme, the Ordinary Shares should generally be eligible for inclusion in a small self-administered scheme ("SSAS") or self-invested personal pension ("SIPP") provided: (a) no member of the SSAS or SIPP (or person connected with such a member) occupies or uses any residential property held by the Group; and (b) the SSAS or SIPP, alone or together with one or more associated persons, does not directly or indirectly hold 10% or more of any of the Ordinary Shares, voting rights in the Company, rights to income of the Company, rights to amounts on a distribution of the Company or rights to assets on a winding up of the Company.



Beeston Business Park, Nottingham



Beeston Business Park, Nottingham

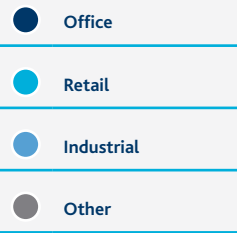
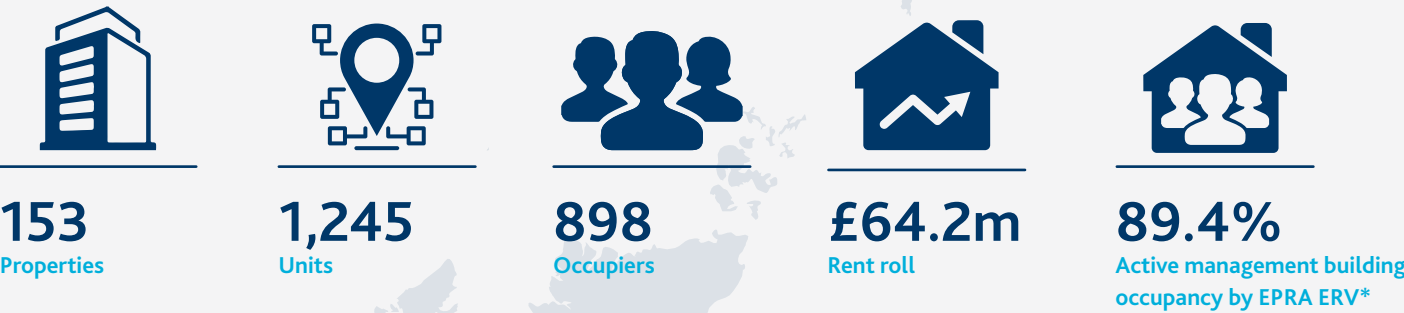


Beeston Business Park, Nottingham

¹ Regional REIT Limited is the parent Company of a number of subsidiaries which together comprise a group within the definition of The Companies (Guernsey) Law 2008, as amended (the "Law") and the International Financial Reporting Standard ("IFRS") 10, 'Consolidated Financial Statements', as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU"). Unless otherwise stated, the text of this Annual Report does not distinguish between the activities of the Company and those of its subsidiaries.

HEADLINES

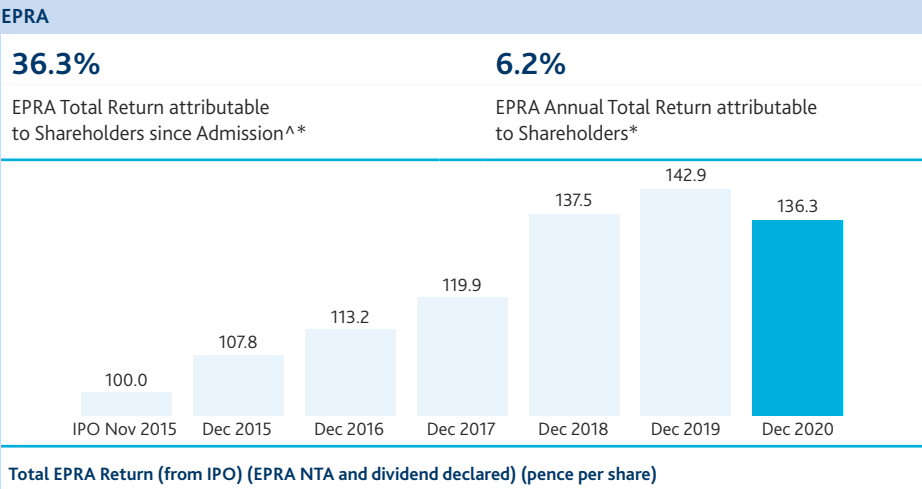
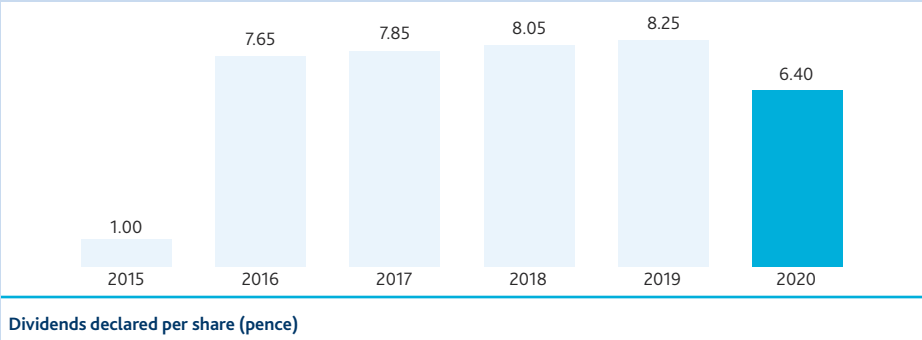
OPERATIONAL HIGHLIGHTS
Deliberately diversified portfolio by location and tenant – regions remain strong



Portfolio by region and sector (by value)	Property acquisitions (before costs)	Property disposal proceeds (net of costs)	WAULT to expiry	WAULT to first break
England & Wales: 82.7% Office: 83.5%	£42.4 million Number of properties: 5	£53.4 million Number of properties: 12	5.1 years	3.2 years



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

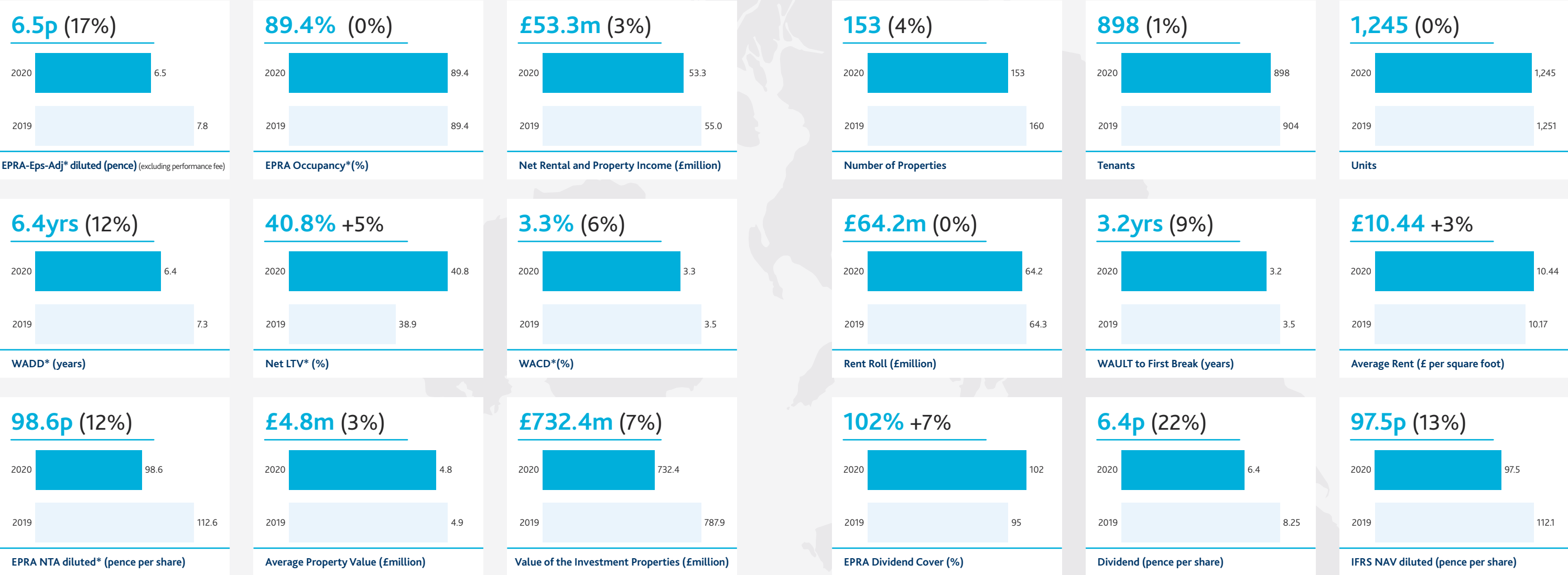


^ Admission: 6 November 2015.
Member of FTSE All-Share Index since March 2016.
Member of FTSE EPRA NAREIT UK Index since June 2016.

* Alternative Performance Measure. Details are provided in the Glossary of Terms on pages 144 and 145 and the EPRA Performance Measures on pages 140 to 142.

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AT A GLANCE



* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 144 and 145 and the EPRA Performance Measures on pages 140 to 142. Terms are defined in the Glossary of Terms on pages 144 and 145.



A YEAR IN REVIEW



Building 2 & 3, The Oaks, Coventry

Juniper Park, Basildon



Waterside Business Park, Swansea

2410 Aztec West, Bristol



Global Reach, Cardiff

Beeston Business Park, Nottingham



PORTFOLIO

Properties:	160
Units:	1,251
Tenants:	904
Valuation:	£787.9m
Rent roll (per annum):	£64.3m
EPRA occupancy (by ERV):	89.4%
LTV:	38.9%

KEY ACQUISITIONS

Amount:	
Location:	
Description:	
Net initial yield:	

KEY DISPOSALS

Amount:	
Location:	
Description:	
Net initial yield:	

CASH/DEBT/EQUITY

Cash balance:	£37.3m
Gross borrowings:	£344.0m

DIVIDENDS

Amount:	2.55p
Period:	Q4 2019

2020

31 Mar

Properties:	154
Units:	1,261
Tenants:	882
Valuation:	£783.6m
Rent roll (per annum):	£63.4m
EPRA occupancy (by ERV):	88.5%
LTV:	38.3%

30 Jun

Properties:	151
Units:	1,249
Tenants:	876
Valuation:	£742.3m
Rent roll (per annum):	£62.9m
EPRA occupancy (by ERV):	89.0%
LTV:	39.7%

30 Sep

Properties:	150
Units:	1,239
Tenants:	857
Valuation:	£739.9m
Rent roll (per annum):	£62.4m
EPRA occupancy (by ERV):	88.6%
LTV:	39.3%

31 Dec

Properties:	153
Units:	1,245
Tenants:	898
Valuation:	£732.4m
Rent roll (per annum):	£64.2m
EPRA occupancy (by ERV):	89.4%
LTV:	40.8%

5 Oct

Amount:	£10.2m
Location:	Swansea & Bristol
Description:	2 offices
Net initial yield:	10.1%

3 Nov

Amount:	£8.4m
Location:	Cardiff
Description:	1 office
Net initial yield:	8.9%

9 Dec

Amount:	£16.4m
Location:	Nottingham
Description:	Business park
Net initial yield:	10.1%

8 Jun

Amount:	£6.3m
Location:	Coventry
Description:	Office
Net initial yield:	6.5%, reflecting an uplift of 8.6% above the Dec 2020 valuation

30 Jun

Cash balance:	£67.9m
Gross borrowings:	£362.7m

2 Oct

Amount:	£32.7m
Location:	Basildon
Description:	Multi-let industrial warehouse and office park
Net initial yield:	Reflects an uplift of 59.4% from the acquisition price of £20.1m, March 2016

30 Sep

Cash balance:	£71.0m
Gross borrowings:	£361.7m

26 Aug

Amount:	1.50p
Period:	Q2 2020

12 Nov

Amount:	1.50p
Period:	Q3 2020

31 Dec

Cash balance:	£67.3m
Gross borrowings:	£366.2m

Strategic Report

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CHAIRMAN'S STATEMENT

The Chairman's Statement together with the Asset and Investment Managers' Report forms part of the Strategic Report and covers the year ended 31 December 2020.

"We are confident that our geographically diversified portfolio, which offers vibrant spaces for a broad range of occupier types, will create long term shareholder value with a strong yield, particularly as we increasingly focus our strategy towards the regional office sector."

KEVIN MCGRATH
Chairman

OVERVIEW

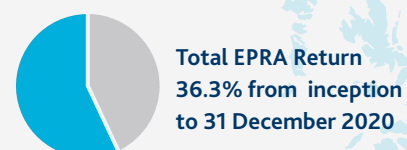
Regional REIT performed relatively well during 2020, despite the challenging and unprecedented environment imposed by the COVID-19 pandemic. Our strategy of having a large number of occupiers operating across a range of industries in growth regions outside the M25 motorway has resulted in a defensive portfolio. Our active asset management team continued to maintain strong working relationships with our 898 occupiers (2019: 904), providing support as required. These actions have continued to underpin the

robust rent collections of 98.2%* (2019: 99.4%) and EPRA occupancy rate** of 89.4% (2019: 89.4%), which the Company has achieved during the year under review.

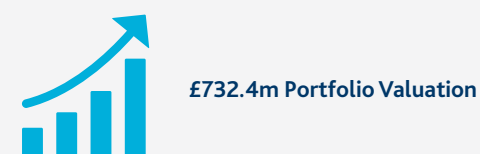
Whilst 2020 was an eventful year, the Company's rent collection remained strong through-out and resulted in EPRA diluted earnings of 6.5 pence per share ("pps") (2019: 7.8pps). IFRS diluted losses per share were 7.2pps (2019: earnings per share of 6.6pps). The full year 2020 dividend of 6.4pps was fully covered.

* As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.

** Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 144 and 145 and the EPRA Performance Measures on pages 140 to 142.



Our investment portfolio was not immune to the challenges posed by the COVID-19 pandemic, with the overall value of the portfolio reducing to £732.4 million as at 31 December 2020 from £787.9 million as at 31 December 2019. The decrease was predominately due to the uncertain economic backdrop resulting in a reduction in the fair value of the portfolio of £54.8 million, albeit this was an 'unrealised' decline.



During the year, the Group made disposals amounting to £53.4 million (net of costs). The proceeds from these disposals were recycled into acquiring properties with an aggregate value of £42.4 million (before costs), further diversifying our occupier base, as well as providing good opportunities to add value through asset management initiatives. Our rolling capital expenditure programme amounted to £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 increase our overall occupier and geographic diversification, whilst continuing to source earning enhancing opportunities in the challenging commercial property market.

COVID-19 RESPONSE

From the onset of the COVID-19 pandemic in early 2020, the Asset Manager reassigned staff to focus upon supporting our occupiers and prioritised cash flow. A full review of all our c. 900 occupiers' financial data was undertaken to ensure the best possible assistance could be provided as required in a timely manner. In addition, increased control reporting was instigated providing actionable data to maintain the robust rent collection which ensured the uninterrupted quarterly dividend.

FINANCIAL RESOURCES

Importantly in the current environment, the Company continues to be in a financially strong position with an EPRA NTA* of £425.6 million (2019: £485.7 million) and a cash balance of £67.4 million as at 31 December 2020 (2019: £37.3 million), of which £55.0 million is unrestricted (2019: £34.7 million). Our approach to debt management, which is to simplify, extend and engineer flexibility into the debt profile, has ensured that the Company was well positioned for the economic turbulence encountered throughout 2020. These attributes remain evident going forward with no need to refinance until 2024.



* 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. Prior year comparatives are stated under the new definition on EPRA NTA. Further detail of the new EPRA performance measures can be found on pages 144 and 145 and reconciled to IFRS measures on pages 140 to 142.

Furthermore, with net borrowings at 40.8%, which is in line with our long-term target of c. 40%, and with our debt facilities maintaining ample headroom against their respective covenants, the Company is in a robust position to withstand any future economic uncertainty.

MARKET ENVIRONMENT

Lambert Smith Hampton² research notes that 2020 total UK commercial property investment amounted to £38.5 billion, which is 21.9% lower than the 2019 total of £49.3 billion. However, there are signs that investment activity is increasing, with total UK investment in the final quarter of 2020 reaching £12.2 billion, a marked improvement of 50.6% on Q3 and only 5.0% below the five-year quarterly average. The rise in activity in the final months of 2020 indicates renewed confidence in the office market following fears regarding the impact that working from home would have on occupational demand. Cushman & Wakefield³ research highlights that many businesses have now stated that offices remain important despite changing working practices. More details can be found in the Asset Manager's Report on pages 25 to 28.

STRATEGY

As announced on 12 November 2020, the Board undertook an internal strategic review of the Company's investment objectives to ensure the maximisation of total Shareholder's returns.

The Board is 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 attractive total Shareholder returns over the long-term. For the foreseeable future, the Board decided that the Company would focus its investment solely on properties in the office sector in the main regional centres of the UK outside of the M25 motorway.

The Company will in due course seek to exit all other commercial property sector investments, including its industrial and remaining retail assets, and promptly recycle the capital into regional offices, whilst giving due consideration to reducing the borrowing facilities and buying back the Company's shares. This will ensure that the Group is able to maximise its investment objectives of delivering an attractive and sustainable income-focused total return to Shareholders over the long-term.

² Lambert Smith Hampton, UKIT Q4 2020.

³ Cushman & Wakefield, Office Market, Q4 2020.

Ashby Park, Ashby De La Zouch



Genesis Business Park, Woking



CHAIRMAN'S STATEMENT continued

DIVIDENDS

The dividend is the major component of total shareholder returns. Over the year under review, the Company declared total dividends of 6.40pps for the year (2019: 8.25pps), comprising one dividend of 1.90pps and three quarterly dividends of 1.50pps each. This represented a yield of 7.8% at a share price of 82.50pps at the close of 31 December 2020. Since inception, the Company has declared dividends amounting to 39.20pps.

It should be highlighted that, looking ahead, there is a clear aspiration by the Board to maintain its record of uninterrupted quarterly dividend payments, especially through this period of continuing uncertainty. 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 36.3% and the annualised EPRA Total Return was 6.2%. The Total Shareholder Return was 20.6%, compared to the FTSE EPRA NAREIT UK Total Return Index, which has generated a return of (5.4%) over the same period.

For the year under review, the Company's Total Shareholder Return was (20.7%), versus the return of (15.9%) for the FTSE EPRA NAREIT UK Total Return Index over the same period.

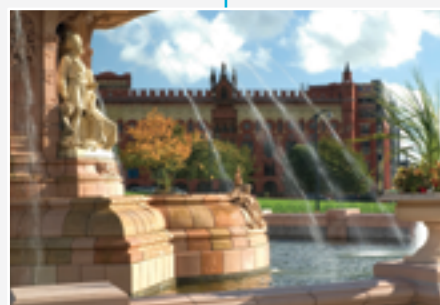
In accordance with the management arrangements, the Asset Manager and Investment Manager are each entitled to a 50% share of a performance fee of 15% of the EPRA Total Return in excess of an annual hurdle rate of 8%. A performance fee did not crystallise for the period from 1 January 2020 to 31 December 2020 (2019: none). Further details of the performance fee can be found on pages 62 and 63.

INTEGRATING A MORE SUSTAINABLE APPROACH

We were pleased to launch our commitment to a sustainability strategy in 2020. The Group has always been cognisant of its environmental impact, the importance of a transparent governance structure and its social responsibility. However, the Company has now committed to a more formal approach with the intention to join Global Real Estate Sustainability Benchmark ("GRESB") in 2021. This will be used as a platform from which sustainability policies and actions will be built upon over the coming years.

ANNUAL GENERAL MEETING

The Company had planned to hold its 2021 Annual General Meeting ("AGM") on Thursday, 19 May 2021. In light of the ongoing COVID-19 situation, in particular the compulsory stay at home measures published by the UK Government on 4 January 2021 currently prohibiting public gatherings of more than two people, the Board has made the decision to delay the Company's 2021 AGM until later in the year with the hope that Shareholders will be able to attend in person. Notice of a revised time and date for the 2021 AGM will be published on our website and by RNS announcement as soon as practicable. The notice of the AGM will be circulated to Shareholders in accordance with the requirements of the Company's Articles of Incorporation.



Templeton on the Green, Glasgow

SHAREHOLDER AND STAKEHOLDER ENGAGEMENT

Our priority throughout 2020 has pivoted from first and foremost providing vibrant workspaces which are in demand by businesses, to providing assistance to our occupiers to navigate the economic turmoil.

I would like to take this opportunity to thank all the asset management teams, from the property management, research, legal, corporate finance, finance to credit control, who transitioned to working from home whilst seamlessly continuing to support our occupiers throughout this challenging period.

On 3 November 2020, the Company was pleased to hold its first capital markets webcast, which was well attended by current and potential investors and stakeholders. The webcast of the event can be found on the Company's website at www.regionalreit.com/investors/results-and-presentations/2020.

OUTLOOK

The Board continues to be encouraged by the robust level of rent collections which support the investment property capital values and the Company's long-term total return prospects. For the remainder of 2021, the Group is confident of maintaining high rent collections and accelerating the momentum on the asset management initiatives, which should continue to deliver income for our Shareholders.

We remain mindful of the challenges to be faced in a structurally evolving property market, which will inevitably continue to be impacted by the COVID-19 pandemic and the aftermath of Brexit. However, our confidence for the long-term remains. It is underpinned by the Group's focus on asset management initiatives to promptly recycle underperforming capital into office opportunities that continue to de-risk the portfolio, whilst increasing the number, quality and quantum of income streams.

KEVIN MCGRATH

Chairman

24 March 2021

www.regionalreit.com

INVESTMENT STRATEGY AND BUSINESS MODEL

Investment Strategy



The Group aims to build a portfolio of interests that, together, offer Shareholders a diversification of investment risk by investing in a range of geographical areas and across a number of high-quality assets and tenants, and through letting properties, where possible, to low-risk tenants.

The Group will use gearing, borrowings and other sources of leverage to implement its investment strategy and enhance equity returns.

Investment Objective



The Investment Objective of the Company is to deliver an attractive total return to Shareholders of greater than 10% per annum, with a strong focus on income from investing in UK commercial property, predominantly in the office sector in major regional centres and urban areas outside of the M25 motorway*.

Investment Policy



The Group will invest predominately in office properties that are situated in the UK and outside of the M25 motorway*.

The Group may also invest in property portfolios in which up to 50% of the properties (by market value) are situated inside the M25 motorway.

In the ordinary course of business, no single property will exceed 10% of the Group's Gross Investment Properties Value at the time of the investment; exceptionally, the Board may consider taking this up to 20%.

The normal minimum value for a single property investment is £5m, except where an asset is within a portfolio of properties for which there shall be no such minimum.

No more than 20% of the Gross Investment Properties Value shall be exposed to any one tenant or group undertaking of that tenant.

Speculative development (properties under construction, but excluding refurbishment, which have not been pre-let) is prohibited. Any other development is restricted to an aggregate maximum of 15% of Gross Investment Properties Value at investment or commencement.

*The Investment Policy and Objective were amended on 26 October 2020.

Borrowings



The Group targets a ratio of net borrowings to Gross Investment Properties Value of 40% over the longer term, with a maximum limit of 50%.

The Group will invest in and, actively manage, a portfolio of mainly office properties or debt portfolios secured on such properties located predominantly in the regional centres of the UK outside of the M25 motorway.

Business Model



Regions primed for growth



Opportunistic approach to the property market



Investing in income producing assets



Active management of the properties



Geographically diversified portfolio



Highly experienced asset manager



INVESTMENT STRATEGY AND BUSINESS MODEL continued

Read more about the Principal Risks and Uncertainties facing the Company on pages 47 to 57, which are linked to the Company's strategy as set out below.

PRINCIPAL RISKS AND UNCERTAINTIES:



Inappropriate investment strategy



Occupiers



Valuation



Financial and tax changes



COVID-19



Operational



Economic and political



Accounting, legal and regulatory



Funding



Environmental and efficiency standards



LINK TO PRINCIPAL RISKS



REGIONS PRIMED FOR GROWTH

Our approach

- The resilient regions are expected to benefit from capital inflows and the strong rebound of the UK economy, which should conflate to ensure occupier demand for offices remains strong.
- Research from CBRE indicates that regional offices have outperformed in comparison to central London offices, delivering superior income returns of 5.9% in 2020 in comparison to central London office returns of 4.1% – a trend that has been witnessed over the past seven years. Total returns in 2020 for regional offices and central London were broadly in-line at 0.6% and 0.7%, respectively.

How we add value

- The investment policy focuses on a portfolio of offices located outside of the M25 motorway, broadly based on the region's economic worth and population mix.
- The Group seeks to enhance income growth and capital values through the proactive approach of the Asset Manager.
- The Asset Manager operates through a number of regional offices, implementing a targeted investment policy and an individual property asset management plan.

Progress during the year

- EPRA Total Return 36.3% since IPO and 6.2% annualised in 2020 (2019: 9.0%).



LINK TO PRINCIPAL RISKS



OPPORTUNISTIC APPROACH TO THE PROPERTY MARKET

Our approach

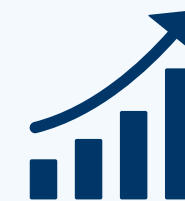
- A focus on exploiting pricing inefficiencies and mismatches between regional Core and Core Plus and primary property yields.
- From such opportunities, the Group will acquire, hold and sell commercial real estate that it believes to be mispriced.
- Utilising leverage to build the acquisitions capability of the business.

How we add value

- An opportunistic approach to UK commercial property with recycling of capital from the portfolio refreshment programme and aiming to acquire properties where the Group can add value through the expertise of the Asset Manager.
- Seeking to build the income growth and capital values of properties, taking undermanaged and underinvested properties to being attractive investments to be retained for yield or for disposal.
- An established borrower with long-term relationships in place with a number of UK banks. The Group will exploit opportunities to improve total returns utilising leverage.
- With debt maturing and opportunities to renegotiate existing facilities, the Group aims to reduce its funding costs.

Progress during the year

- **Completed acquisitions in 2020 totalled £42.4 million (before costs) and disposals (net of costs) of £53.4 million, with average net initial yields of c. 9.8% and c.5.1% respectively.**
- **During 2020, debt facility payments totalled £17.0 million, new borrowings were £39.2 million, resulting in total borrowings of £366.2 million. The average funding cost (including hedging) was 3.3% (2019: 3.5%).**



LINK TO PRINCIPAL RISKS



INVESTING IN INCOME PRODUCING ASSETS

Our approach

- The Group has a strict set of investment criteria to invest, predominantly, in income producing assets capable of delivering an attractive total return to our Shareholders.

How we add value

- Investment decisions are based on identifying strong underlying fundamentals, including inter alia: prospects for future income growth; sector and geographic prospects; lease length; initial and equivalent yields; and the potential for active asset management.
- Speculative development strictly limited to refurbishment programmes.

Progress during the year

- **Rent roll of £64.2 million as at 31 December 2020 (2019: £64.3 million).**
- **Average rents have increased to £10.44 per sq. ft. (2019: £10.17 per sq. ft.).**
- **Declared dividends of 6.40pps for 2020 (8.25pps in 2019).**

INVESTMENT STRATEGY AND BUSINESS MODEL continued



LINK TO PRINCIPAL RISKS



ACTIVE MANAGEMENT OF THE PROPERTIES

Our approach

- The Group prides itself on maintaining a close relationship with its tenants and in the intensive granular management of its properties, a very hands-on approach.
- Our aim is to provide a consistent approach to improving returns, thereby enhancing the quality of the underlying portfolio.

How we add value

- The Asset Manager undertakes all of the principal property management activities in-house and remains close to its tenants, ensuring an immediate understanding of their requirements and enabling better decision-making capability.
- The Asset Manager utilises a range of approaches to each asset, tailoring the project programme for each property.

Progress during the year

- **Net capital expenditure of £8.8 million in 2020 (2019: £5.8 million); capital expenditure is recovered through dilapidations, service charges or improved property rental income.**
- **Active and intense asset management maintained robust EPRA occupancy of 89.4% (2019: 89.4%).**



LINK TO PRINCIPAL RISKS



DIVERSIFIED INCOME FOCUSED PORTFOLIO

Our approach

- A distinctive large and diverse commercial property portfolio.
- An approach that diversifies the investment risk of the portfolio and enables better management of the timing of lease re-gears, new lettings, geography and sector.

How we add value

- The portfolio consists of mainly offices, geographically well spread across the regions of the UK outside of the M25 motorway and with a broad mix of tenants.

Progress during the year

- **153 properties (2019: 160), 1,245 units (2019: 1,251) and 898 tenants (2019: 904) as at 31 December 2020.**
- **The largest single property is only 3.8% of the Gross Investment Properties value (2019: 4.3%) and the largest tenant only 3.5% of Gross Rental Income (2019: 2.5%).**
- **England & Wales represent 82.7% of the Gross Investment Properties value (2019: 82.0%); office 83.5% and industrial 11.1% (2019: office 79.9%; industrial 13.7%).**



LINK TO PRINCIPAL RISKS



HIGHLY EXPERIENCED ASSET MANAGER

Our approach

- The Asset Manager has the heritage of a long-established property investment management team.

How we add value

- The capabilities and track record of the management team, including knowledge, expertise and established relationships, provide an important competitive advantage for operating in the fragmented UK regional secondary property market. The senior management team of the Asset Manager collectively have over 180 years of property experience, with a proven record of creating value.

Progress during the year

- **The Asset Manager grew property rental income for a similar portfolio on a like-for-like basis through the 2008-12 recession.**
- **LSPIM is based in Glasgow and has a number of offices around the UK, with 62 employees employed, as at 31 December 2020, working on Regional REIT.**



ASSET AND INVESTMENT MANAGERS' REPORT

"We are pleased to report that the Company delivered a robust performance in 2020 despite the impact of COVID-19 on all our daily lives and, in turn, the commercial property market. Notwithstanding the challenges presented, we continued to deliver an uninterrupted quarterly dividend, ever mindful of our commitment to our Shareholders."

I would like to take this opportunity to thank my focused and hardworking team who adapted and responded seamlessly to assist our occupiers through this most challenging period. Responding to occupiers' needs prior to, and during, this period was key to maintaining strong rent collection of 98.2% over the course of 2020. As normal life comes into sight, and indicators are anticipating a prompt economic recovery, we view our regional portfolio as well positioned to benefit."*

Following the Board's strategic review, we continue to move the portfolio to focus on regional offices. We are convinced that in future, regional, high quality offices with affordable rents will continue to see demand from occupiers and, given limited supply, there remains a strong rental growth story. We see a compelling opportunity to further leverage the experience of our asset management platform to unlock value from the regional office sector over the long term, whilst continuing to deliver yield."

STEPHEN INGLIS

CEO of London & Scottish Property Investment Management,
the Asset Manager of Regional REIT



Columbus House, Coventry



HIGHLIGHTS FROM 2020

98.2%

Achieved high levels of rent collection. As at 12 March 2021, the rent collections continued to strengthen, with FY 2020 collections increasing to 96.1%, adjusting for monthly rent and agreed collection plans, stands at 98.2%, which is similar to the equivalent date in 2019 when 99.4% had been collected.

5.1%

Disposals during 2020 totalled £53.4 million (net of costs), reflecting an average net initial yield of 5.1% (5.6% excluding vacant properties).

9.8%

Acquisitions in 2020 totalled £42.4 million (before costs) for five properties, reflecting an average net initial yield of 9.8%.

74.4%

Increase of retention of income to 74.4% (by value) for leases that came up for renewal in 2020, up from 65.9% in December 2019.

53

Completed 53 new lettings in 2020, totalling 177,883 sq. ft., which when fully occupied will provide a gross rental income of c.£2.0 million.

+2.6%

Average rent by let sq. ft. increased by 2.6% from £10.17 per sq. ft. in December 2019 to £10.44 per sq. ft. in December 2020.

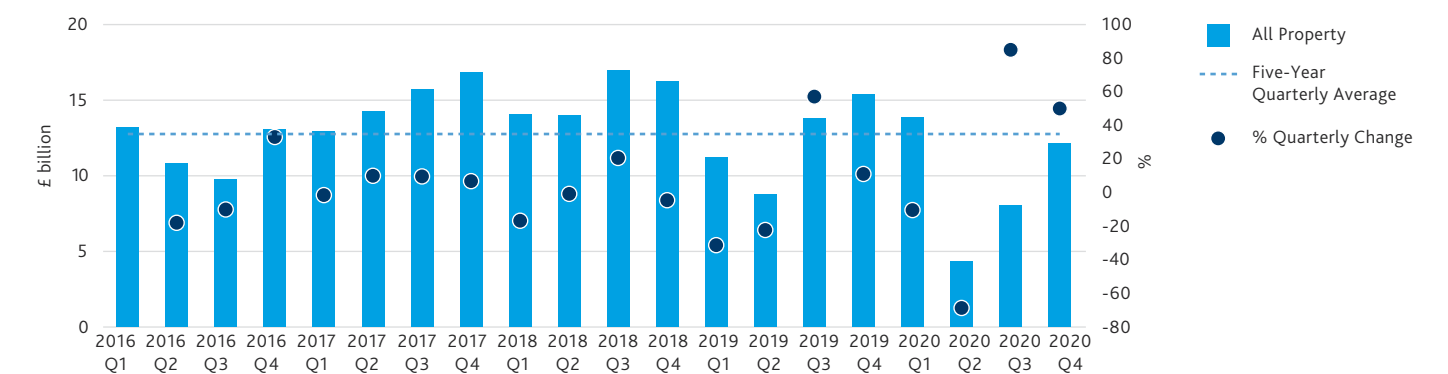
INVESTMENT ACTIVITY IN THE UK COMMERCIAL PROPERTY MARKET

According to research from Lambert Smith Hampton ("LSH")⁴ in 2020 total investment in the UK commercial property market amounted to £38.5 billion, 24.9% below the five-year average and 21.9% lower than the 2019 volume of £49.3 billion. However, there are signs that investment activity is increasing, with total UK investment in the final quarter of 2020 reaching £12.2 billion, a marked improvement of 50.6% on Q3 and only 5.0% below the five-year quarterly average. The rise in activity in the final months of 2020 indicates renewed confidence in the office market following fears regarding the impact that working from home would have on occupational demand. Cushman & Wakefield research highlights that many businesses have now stated that offices remain important despite changing working practices⁵.

Following muted investment at the beginning of 2020, the UK regions outside of London attracted £4.5 billion in investment during the final quarter of 2020 – just 1.6% below the five year quarterly average. This brought investment in the second half of 2020 to £8.4 billion, 78.6% higher than the first half of 2020. Annual investment in the regional markets reached £13.0 billion in 2020. LSH research notes that the improvement in investment volumes in Q4 2020 was reflected across the majority of UK regions, with seven of the 11 regions recording a volume higher than their respective five-year quarterly averages.

⁴ Lambert Smith Hampton, UKIT Q4 2020

⁵ Cushman & Wakefield, Office Market, Q4 2020



Quarterly Investment Volumes

Figure 1: Lambert Smith Hampton Research (February 2021)

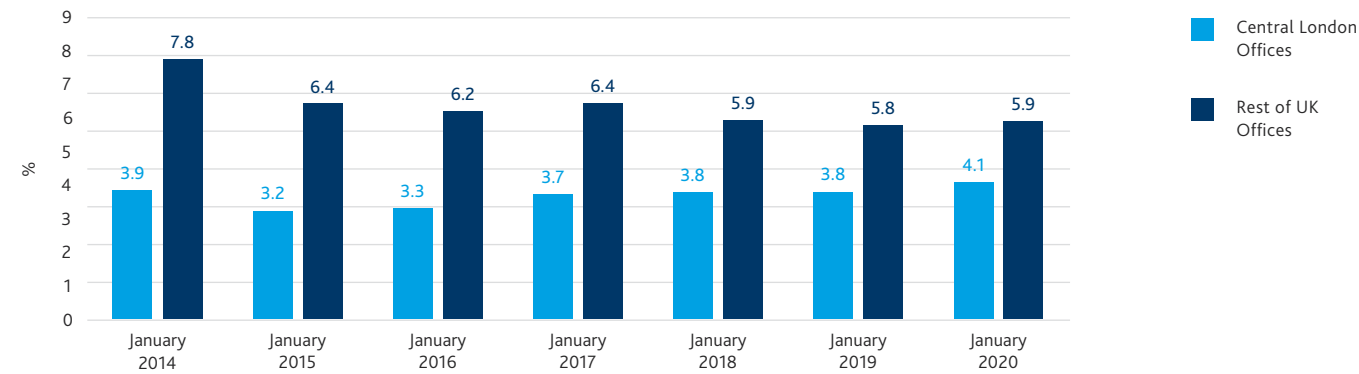
* As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Overseas investment in the UK property markets accounted for just over half (52.8%) of total investment in 2020 according to data from LSH⁶. LSH estimate that total overseas investment for 2020 reached £20.4 billion, 14.1% lower than the 10-year average. Overseas investment in Q4 2020 reached £6.5 billion, more than double Q3's level and 9.7% higher than the five-year quarterly average, suggesting that struggles with COVID-19 and Brexit uncertainty have been offset by favourable exchange rates and attractive yields. Figures indicate that Europe, Far

East, Middle East and North America were all net investors in the final quarter of 2020.

Research from CBRE⁷ indicates that regional offices have outperformed in comparison to central London offices, delivering superior income returns of 5.9% in 2020 in comparison to central London office returns of 4.1% – a trend that has been witnessed over the past seven years. Total returns in 2020 for regional offices and central London were broadly in-line at 0.6% and 0.7% respectively.



Central London & Regional Office Income Returns (12 months to December 2020)

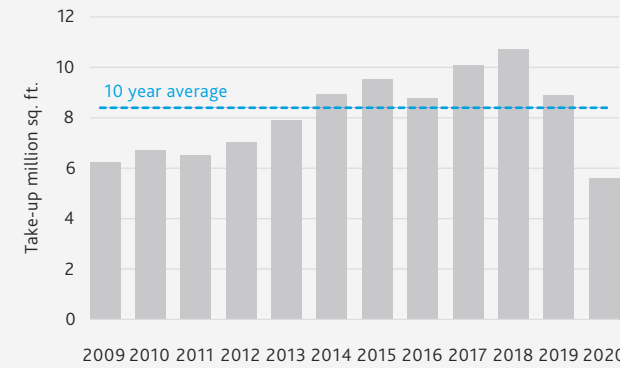
Figure 2: CBRE (February 2021)

OCCUPATIONAL DEMAND IN THE UK REGIONAL OFFICE MARKET

Avison Young estimates that take-up of office space across nine regional office markets⁸ totalled 5.6 million sq. ft. in 2020; 36.7% below the level of take-up recorded in 2019, and 33.1% lower than the 10-year average. Both the city centre and out-of-town markets were affected by COVID-19, with a decline in take-up volumes of 38.9% and 32.6%, respectively. Occupational demand was driven by the technology, media & telecoms sector, which accounted for the highest proportion of take-up at 26% in 2020. Following the technology, media & telecoms sector, the insurance & financial sector and the public services, education & health sector accounted for the second and third largest proportion of take-up in the regional cities, accounting for 18% and 9% respectively.

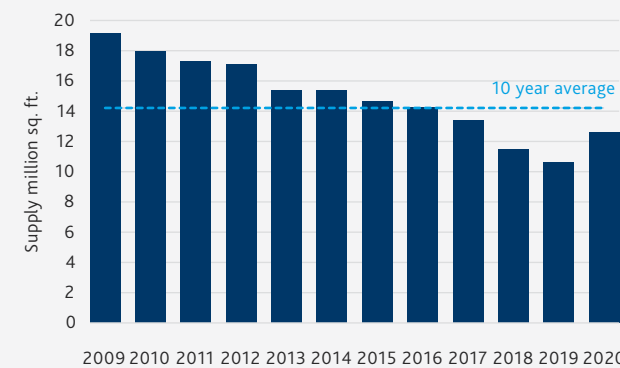
According to Savills, there was a rise in availability for regional office stock across nine regional UK markets⁹, with total availability rising by 18.9% in 2020 to 12.6 million sq. ft.. Despite the uptick in availability and supply the total supply remains 11.3% below the 10-year average. This marks the first 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 9.6% in 2019 to 11.4% in 2020 but remains 15.4% below the 10-year average¹⁰.

Furthermore, it is estimated that approximately 5.6 million sq. ft. of office space is currently under construction in the Big Nine regional markets, with Manchester, Glasgow and Bristol accounting for 29.9%, 24.4% and 11.1%, respectively. 49.4% of office buildings currently under construction are already pre-let.



Regional Demand: Annual Office Take-Up

Figure 3: Avison Young (February 2021)



Regional Supply: Annual Office Supply

Figure 4: Savills (February 2021)

⁶ Lambert Smith Hampton, UKIT, Q4 2020

⁷ CBRE Monthly Index, Q4 2020

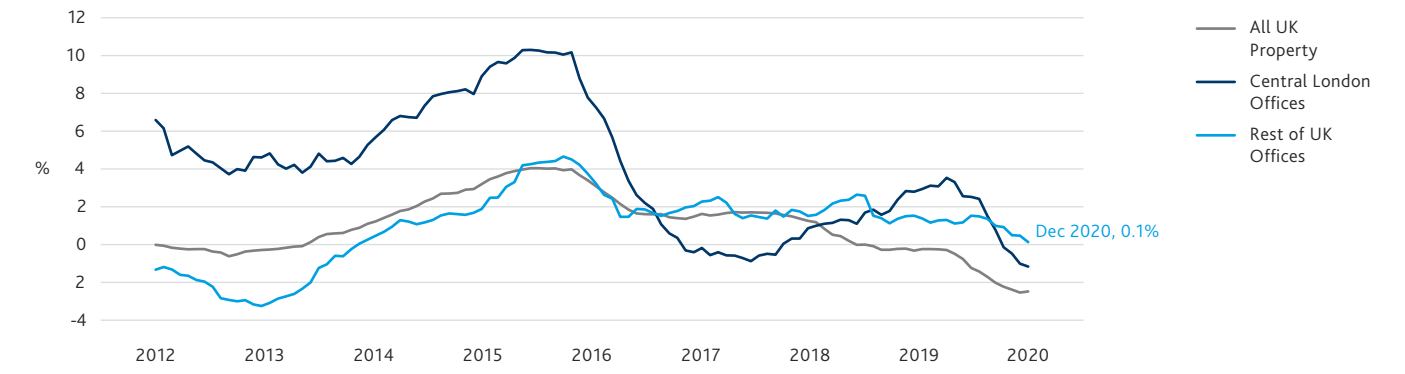
⁸ Nine regional office markets mentioned by Avison Young includes: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle

⁹ Nine regional office markets mentioned by Savills includes: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds & Manchester

¹⁰ Savills: The Regional Office Market Overview, Q4 2020

RENTAL GROWTH IN THE UK REGIONAL OFFICE MARKET

A lack of availability in the Big Nine regional markets has supported headline rents in 2020, though some rent free periods have moved out slightly, according to research from Avison Young. 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 2020 with modest growth of 0.1%. Conversely, central London offices and all UK property rents have declined by -1.2% and -2.5% respectively. Colliers International expects this trend to continue in 2021, estimating that average rents in the London office market will see larger declines than the regional markets. However, their research suggests that the majority of rental decline will occur in the first half of 2021, and the sector should stabilise in the second half of the year as workers return to the office following the vaccine rollout and easing of UK Government restrictions.



Rental Value Growth (vs previous 12 months)

Figure 5: CBRE (February 2021)



FUTURE OFFICE DEMAND

Although the COVID-19 pandemic has forced the adoption of alternative ways of working, it can be argued that the pandemic merely accelerated changes that were already occurring in terms of both digital transformation and flexible working. However, in accelerating the working from home trend, the pandemic also highlighted its limitations in terms of collaborative working, training and productivity, to name a few. To date, there has been considerable speculation regarding the future of the office. The office has long provided a place for concentrated work and increasingly a place for collaboration, connection, innovation and social interaction, and the desire for these characteristics has not diminished. Research by JLL found that 70% of employees believe the office environment is more conducive to team building and creative collaboration, with 74% of respondents indicating that they were looking forward to the opportunity to return to the office.

The Asset Manager believes that the office will continue to play a vital role in working life and that, going forward, many occupiers will require more space per employee as greater importance is placed on health and wellbeing. The average office space per employee has reduced drastically since the 1990s, with typical densities of just c.85 sq. ft. per employee¹¹. Therefore, de-densification of floorplates will likely take place as offices are transformed to encourage teamworking, innovation and education. Additionally, preferences for increased distance between workstations, more private offices, more defined private space, and a reduction in hot desking may result in increased demand for space¹².

¹¹ WSP, Demand for Office Space

¹² Brookfield Research, Gensler U.S. Work From Home Survey 2020.

REGIONAL REIT'S OFFICE ASSETS

EPRA occupancy of the Group's regional offices rose to 88.6% (2019: 88.4%). A like-for-like comparison of the Group's regional offices' EPRA occupancy, as at 31 December 2020 versus 31 December 2019, shows occupancy of 88.0% (2019: 88.4%). WAULT to first break was 2.6 years (2019: 3.0 years); like-for-like WAULT to first break of 2.5 years (2019: 3.0 years).

OCCUPIER DEMAND IN THE UK INDUSTRIAL MARKET

Take-up in the final quarter of 2020 reached 14.3 million sq. ft., pushing annual take-up during 2020 to 50.4 million sq. ft.; a 49.7% increase from 2019 levels, 44.8% above the 10-year average and 35.8% above the five-year average¹³. The increase in take-up throughout 2020 resulted in a 14% fall in availability, with some regions now met with growing shortages of suitable supply. CBRE¹⁴ research shows that 49.4% of take-up was within the East Midlands and South East as the M1 corridor remains the most attractive location for occupiers. Following this, Yorkshire & North East, and West Midlands accounted for 20.5% and 13.7% of take-up in 2020, respectively.

Occupier demand within the industrial market continues to benefit from growth in online shopping, as online retailing currently accounts for 35.2% of total retail sales in the UK, according to the Office for National Statistics ("ONS")¹⁵. This is considerably higher than the 19.5% recorded in January 2020. BNP Paribas Real Estate research shows that online retailers were the most active in terms of take-up throughout 2020, accounting for 37.5% of annual take-up. Following this, 3PL/ Distribution and General Retail accounted for 22.4% and 18.5% of take-up in 2020 respectively¹⁶.

In terms of development, 8.2 million sq. ft. of speculative development was delivered in 2020. Cushman & Wakefield highlight that just under six million sq. ft of committed speculative development is due to be delivered in 2021 across 43 units.

RENTAL GROWTH IN THE INDUSTRIAL MARKET

Research by BNP Paribas Real Estate illustrates that competition for industrial space led to rental growth in 2020. The research compared data from the monthly MSCI Index for December 2020, which showed rental growth of 2.3% for the 12 months to the end of December 2020, compared to a 2.3% decline for all property types. BNP Paribas Real Estate estimates that rental growth in the industrial market is likely to remain positive during 2021¹⁷.

The Investment Property Forum UK Consensus Forecast, November 2020, anticipates rental growth in the industrial sector of 1.0% in 2021, providing evidence of sustained growth. Additionally, the IPF UK Consensus Forecast predicts 2.2% and 1.8% average rental growth rates respectively for 2022 and 2020/24. In comparison, the IPF UK Consensus Forecast predicts that there will be a decline for the All Property average rents in 2021 of 2.8%.

REGIONAL REIT'S INDUSTRIAL ASSETS

EPRA occupancy of the Group's industrial sites was 94.6% (2019: 95.5%). A like-for-like comparison of the Group's industrial offices' EPRA occupancy, 31 December 2020 versus 31 December 2019, shows occupancy of 93.4% (2019: 94.5%). WAULT to first break increased to 6.2 years (2019: 5.8 years); like-for-like WAULT to first break of 6.7 years (2019: 7.2 years).

¹³ Cushman & Wakefield, Industrial Marketbeat Q4 2020

¹⁴ CBRE, Market Summary, Q4 2020

¹⁵ ONS, Retail Sales, Great Britain, January 2021

¹⁶ BNP Paribas, Industrial & Logistics Insider, Q4 2020

¹⁷ Industrial & Logistics Insider Q4 2020

PROPERTY PORTFOLIO

As at 31 December 2020, the Group's property portfolio was valued at £732.4 million (2019: £787.9 million), with rent roll of £64.2 million (2019: £64.3 million) and an EPRA occupancy of 89.4% (2019: 89.4%).

On a like-for-like basis, 31 December 2020 versus 31 December 2019, EPRA occupancy was 88.7% (2019: 89.0%).

There were 153 properties (2019: 160) in the portfolio, with 1,245 units (2019: 1,251) and 898 tenants (2019: 904). If the portfolio was fully occupied at Cushman & Wakefield's view of market rents, the rental income would be £76.6 million per annum as at 31 December 2020 (2019: £77.2 million).

As at 31 December 2020, the net initial yield on the portfolio was 6.9% (2019: 6.2%), the equivalent yield was 8.8% (2019: 8.3%) and the reversionary yield was 9.4% (2019: 9.1%).



£732.4m
Investment
properties value



£64.2m
Rent roll



898
Occupiers

PROPERTY PORTFOLIO BY SECTOR

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Net initial yield (%)	Equivalent yield (%)	Reversionary yield (%)
Office	115	611.2	83.5	4.7	88.6	2.6	52.9	13.26	64.5	129.10	6.8	8.8	9.6
Industrial	16	81.3	11.1	1.9	94.6	6.2	6.6	3.90	7.4	42.87	7.0	8.1	8.0
Retail	20	30.0	4.1	0.4	93.1	3.7	3.9	9.58	3.9	67.41	9.9	10.8	11.2
Other	2	9.9	1.3	0.1	89.0	14.8	0.9	12.82	0.8	115.03	7.8	9.9	7.3
Total	153	732.4	100.0	7.2	89.4	3.2	64.2	10.44	76.6	102.26	6.9	8.8	9.4

PROPERTY PORTFOLIO BY REGION

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (mil)	Occupancy (EPRA) (%)	WAULT to first break (yrs)	Gross rental income (£m)	Average rent (£psf)	ERV (£m)	Capital rate (£psf)	Net initial yield (%)	Equivalent yield (%)	Reversionary yield (%)
Scotland	39	127.0	17.3	1.5	86.7	3.6	13.1	10.42	15.0	85.19	8.4	10.1	10.8
South East	31	184.6	25.2	1.3	87.5	2.5	14.9	13.29	18.5	138.64	6.3	8.2	8.9
North East	20	79.8	10.9	0.9	85.8	2.7	6.8	8.81	8.4	87.72	5.9	9.4	9.9
Midlands	28	139.9	19.1	1.5	93.6	3.4	12.6	8.85	13.7	91.80	7.7	8.4	8.9
North West	16	88.9	12.1	1.0	86.9	4.6	6.6	8.36	9.6	87.89	5.5	9.1	9.4
South West	14	80.2	11.0	0.5	96.8	2.4	7.0	15.87	8.0	160.59	6.7	8.3	9.1
Wales	5	32.0	4.4	0.4	93.1	4.6	3.2	9.28	3.4	81.02	8.8	9.0	9.4
Total	153	732.4	100.0	7.2	89.4	3.2	64.2	10.44	76.6	102.26	6.9	8.8	9.4

* Tables may not sum due to rounding

ASSET AND INVESTMENT MANAGERS' REPORT continued

TOP 15 INVESTMENTS (MARKET VALUE) AS AT 31 DECEMBER 2020

Property	Sector	Anchor tenants	Market value (£million)	% of portfolio	Lettable area (Sq. Ft.)	EPRA Occupancy (%)	Annualised gross rent (£million)	% of gross rental income	WAULT to first break (years)
Tay House, Glasgow	Office	Barclays Execution Services Ltd, University of Glasgow	28.0	3.8	156,853	94.2	2.7	4.2	2.0
Genesis Business Park, Woking	Office	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide	23.9	3.3	98,359	80.6	1.3	2.1	3.1
Buildings 2 & 3 HBOS Campus, Aylesbury	Office	Bank Of Scotland Plc, Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd	23.5	3.2	140,791	95.7	2.3	3.5	2.4
Hampshire Corporate Park, Eastleigh	Office	Aviva Central Services UK Ltd, National Westminster Bank Plc, Utilita Energy Ltd, Digital Wholesale Solutions Ltd	19.5	2.7	85,422	99.8	1.5	2.4	2.6
800 Aztec West, Bristol	Office	Edvance SAS, The Secretary of State for Defence	19.2	2.6	73,292	100.0	1.5	2.4	2.6
Norfolk House, Smallbrook Queensway, Birmingham	Office	Secretary of State for Communities & Local Government, Spark44 Ltd	18.9	2.6	114,982	97.4	1.6	2.5	1.7
Beeston Business Park, Nottingham	Office/ Industrial	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd	18.0	2.5	215,330	100.0	1.8	2.8	6.3
Road 4 Winsford Industrial Estate, Winsford	Industrial	Jiffy Packaging Ltd	16.3	2.2	246,209	100.0	1.0	1.6	13.8
One & Two Newstead Court, Nottingham	Office	E.ON UK Plc	15.7	2.1	146,262	100.0	1.4	2.2	2.9
Portland Street, Manchester	Office	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd, Simard Ltd	15.1	2.1	55,787	98.8	0.9	1.5	3.1
Ashby Park, Ashby De La Zouch	Office	Ceva Logistics Ltd, Brush Electrical Machines Ltd, Hill Rom UK Ltd	12.6	1.7	91,034	100.0	1.1	1.8	2.7
Columbus House, Coventry	Office	TUI Northern Europe Ltd (Shell Energy)	12.0	1.6	53,253	100.0	1.4	2.1	3.0
Templeton On The Green, Glasgow	Office	The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Cornerstone Community Care	11.7	1.6	142,512	89.9	1.2	1.9	3.4
Oakland House, Manchester	Office	Please Hold (UK) Ltd, HSS Hire Service Group Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd	10.8	1.5	160,975	88.1	1.1	1.8	2.9
Chancellor Court, Leeds	Office	St James's Place Wealth Management Group Plc	10.1	1.4	41,666	99.0	0.3	0.5	0.8
Total			255.2	34.8	1,822,727	95.5	21.3	33.2	3.4

* Tables may not sum due to rounding

TOP 15 TENANTS (SHARE OF RENTAL INCOME) AS AT 31 DECEMBER 2020

Tenant	Property	Sector	WAULT to first break (years)	Lettable area (Sq. Ft.)	Annualised gross rent (£million)	% of Gross rental income
Barclays Execution Services Ltd	Tay House, Glasgow Waterfront Business Park, Fleet	Administrative and support service activities	0.8	108,386	2.2	3.5
Secretary of State for Communities & Local Government	1 Burgage Square, Wakefield Bennett House, Stoke-On-Trent Cromwell House, Tritton Road, Lincoln Norfolk House, Birmingham Oakland House, Manchester Waterside Business Park, Swansea	Public sector	2.4	173,735	2	3.2
Bank Of Scotland Plc	Buildings 3 HBOS Campus, Aylesbury High Street/Bank Street, Dumfries	Banking	1.4	92,978	1.5	2.3
E.ON UK Plc	One & Two Newstead Court, Nottingham	Electricity, gas, steam and air conditioning supply	2.9	146,262	1.4	2.2
TUI Northern Europe Ltd	Columbus House, Coventry	Professional, scientific and technical activities	3.0	53,253	1.4	2.1
The Scottish Ministers	Calton House, Edinburgh Quadrant House, Dundee Templeton On The Green, Glasgow The Courtyard, Falkirk	Public sector	1.6	111,076	1.3	2.1
Jiffy Packaging Ltd	Road 4 Winsford Industrial Estate, Winsford	Manufacturing	13.8	246,209	1.0	1.6
Edvance SAS	800 Aztec West, Bristol	Electricity, gas, steam and air conditioning supply	2.4	41,285	0.9	1.4
John Menzies Plc	2 Lochside Avenue, Edinburgh	Professional, scientific and technical activities	2.6	43,780	0.9	1.4
The Royal Bank Of Scotland Plc	Cyan Building, Rotherham	Banking	0.5	67,458	0.9	1.3
SPD Development Co Ltd	Clearblue Innovation Centre, Bedford	Professional, scientific and technical activities	4.8	58,167	0.8	1.3
Aviva Central Services UK Ltd	Hampshire Corporate Park, Chilworth House, Eastleigh	Other service activities	3.9	42,612	0.8	1.2
James Howden & Company Ltd	Howden Site, Renfrew	Manufacturing	4.1	204,414	0.8	1.2
Odeon Cinemas Ltd	Kingscourt Leisure Complex, Dundee	Information and communication	14.8	41,542	0.7	1.1
The Secretary of State for Defence	800 Aztec West, Bristol	Public sector	3.0	32,007	0.6	1.0
Total			3.5	1,463,164	17.3	26.9

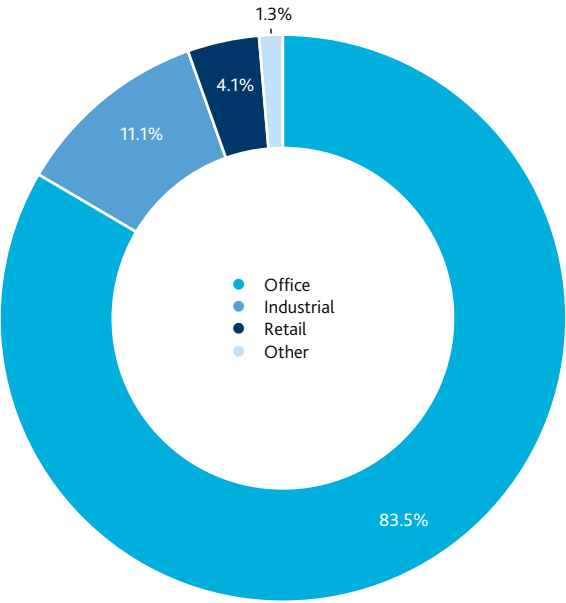
* Tables may not sum due to rounding

ASSET AND INVESTMENT MANAGERS’ REPORT continued

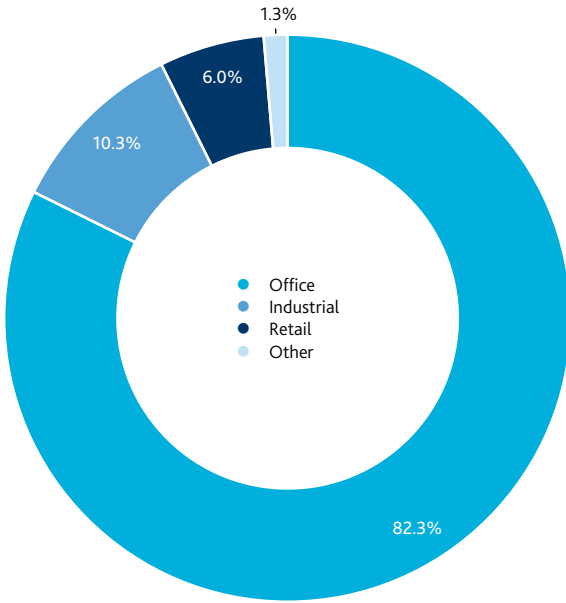
PROPERTY PORTFOLIO SECTOR AND REGION SPLITS BY VALUATION AND INCOME

By Valuation
As at 31 December 2020, 83.5% (2019: 79.9%) of the portfolio by market value was offices and 11.1% (2019: 13.7%) was industrial. The balance was made up of retail, 4.1% (2019: 5.0%) and other, 1.3% (2019: 1.4%). By UK region, as at 31 December 2020, Scotland represented 17.3% (2019: 18.0%) of the portfolio and England 78.3% (2019: 79.5%); the balance of 4.4% (2019: 2.5%) was in Wales. In England, the largest regions were the South East, the Midlands and the North West.

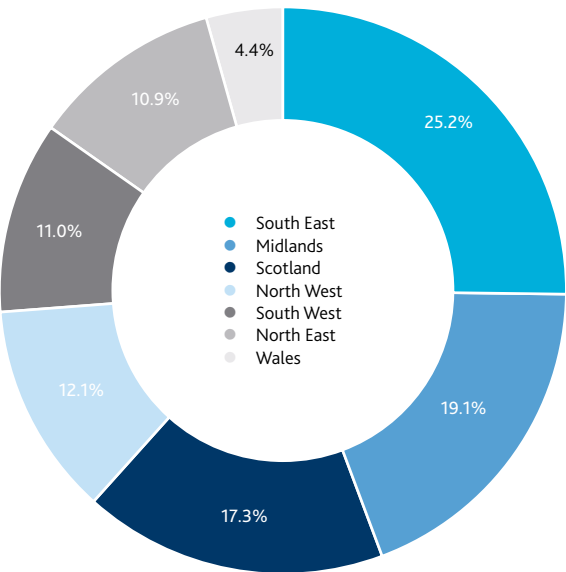
By Income
As at 31 December 2020, 82.3% (2019: 79.7%) of the portfolio by income was offices and 10.3% (2019: 12.4%) was industrial. The balance was made up of retail, 6.0% (2019: 6.7%), and other, 1.3% (2019: 1.2%). By UK region, as at 31 December 2020, Scotland represented 20.4% (2019: 19.9%) of the portfolio and England 74.6% (2019: 77.2%); the balance of 5.0% was in Wales (2019: 2.9%). In England, the largest regions were the South East, the Midlands and the South West.



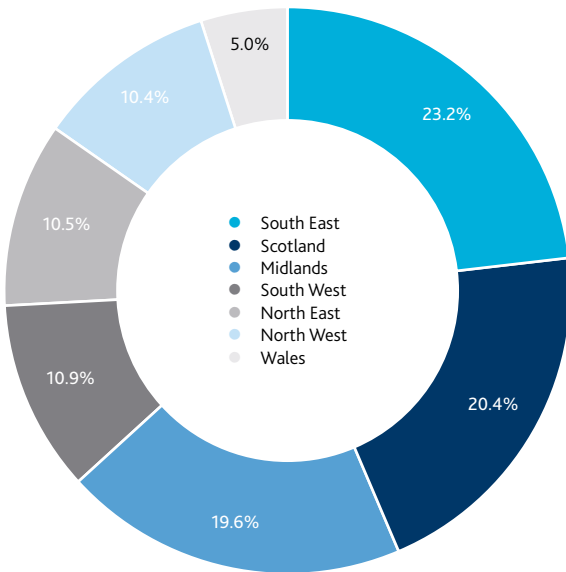
Sector Split by Valuation



Sector Split by Income



Regional Split by Valuation

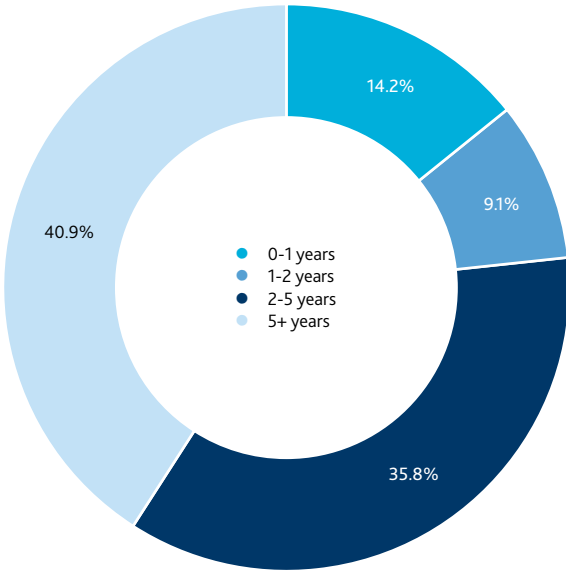


Regional Split by Income

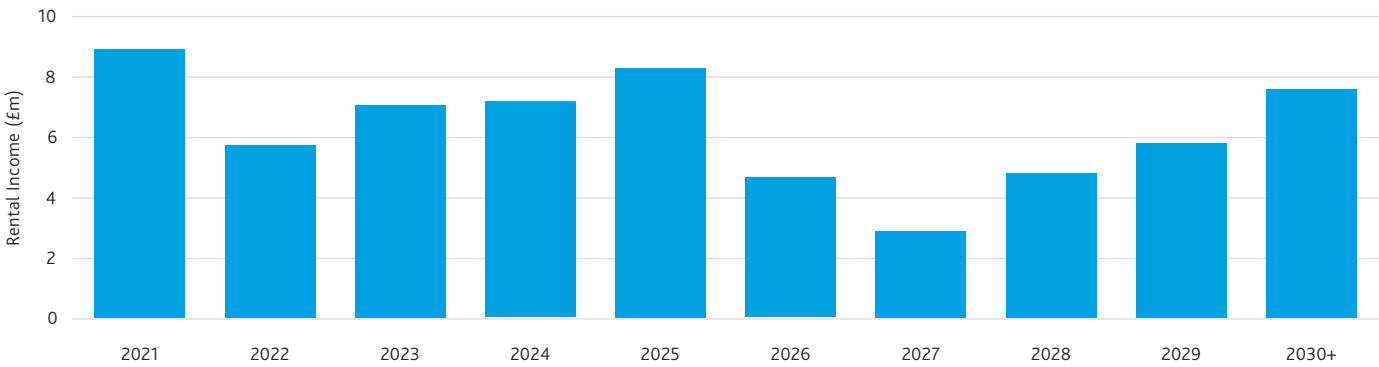
Source: LSPIM. Charts may not sum due to rounding.

LEASE EXPIRY PROFILE

The WAULT on the portfolio is 5.1 years (2019: 5.5 years); WAULT to first break is 3.2 years (2019: 3.5 years). As at 31 December 2020, 14.2% (2019: 5.5%) of income was from leases, which will expire within one year, 9.1% (2019: 14.2%) between one and two years, 35.8% (2019: 33.0%) between two and five years and 40.9% (2019: 47.4%) after five years.

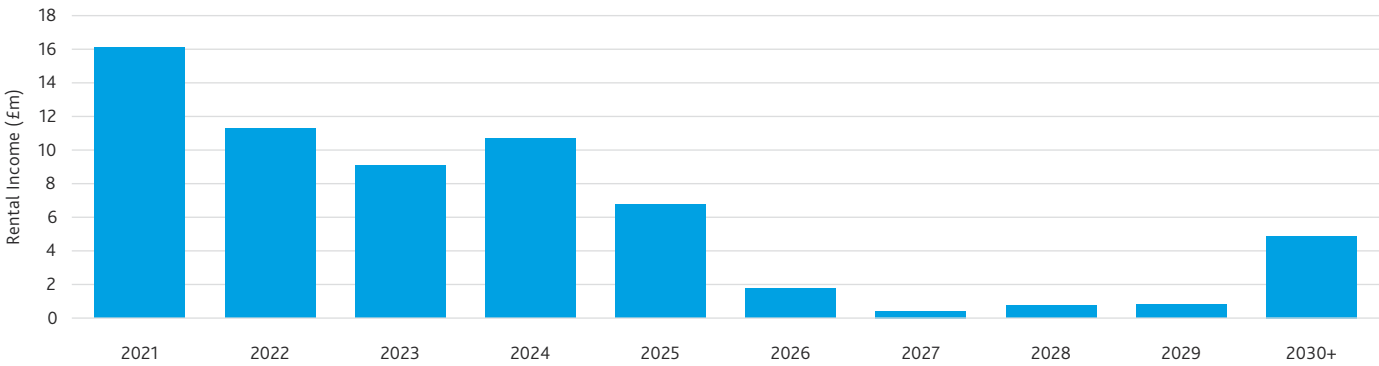


Lease Expiry Income Profile



Lease Expiry Income Profile by year

Source: LSPIM



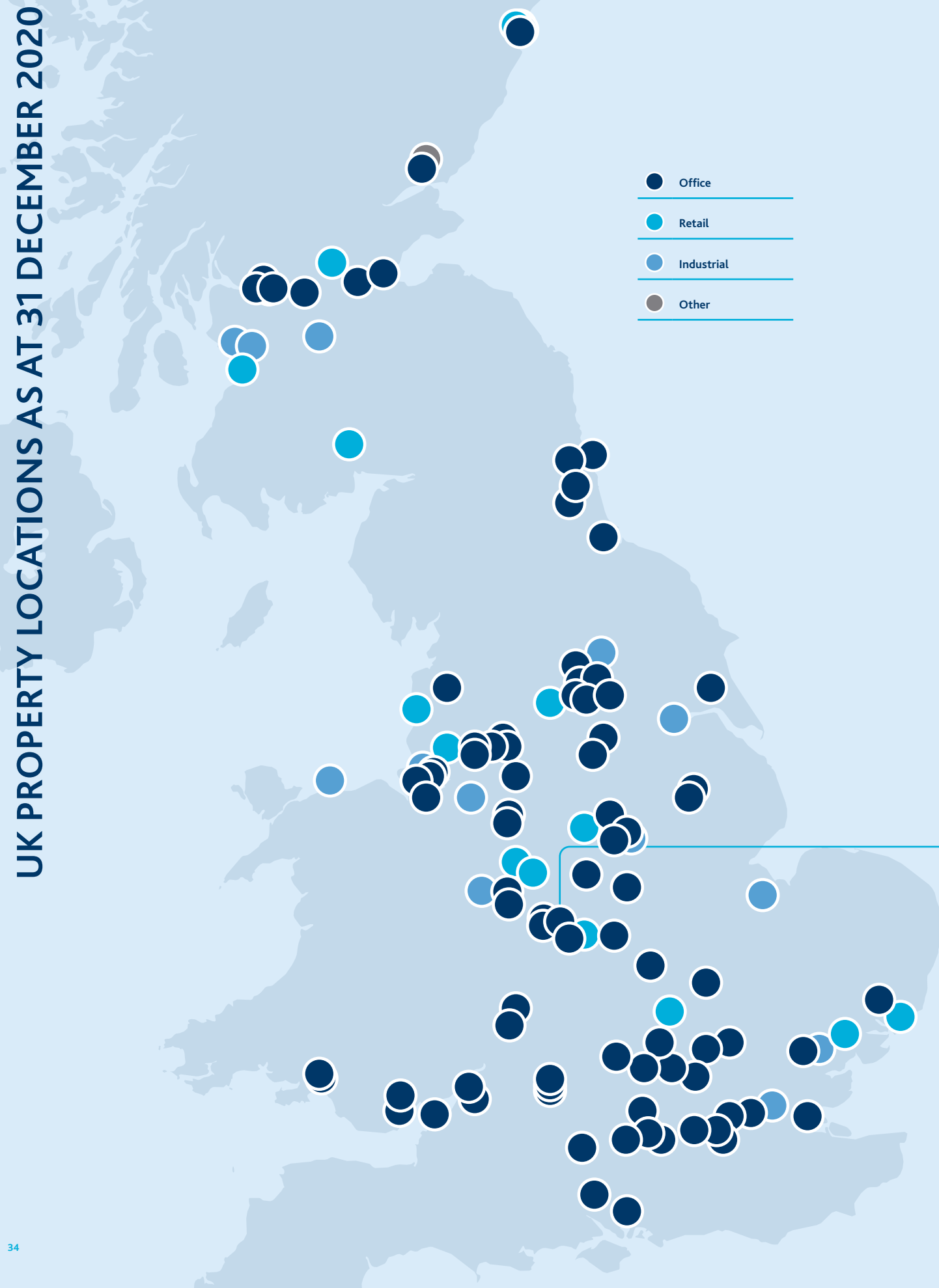
Lease Expiry to First Break Income Profile by Year

Source: LSPIM

Source: LSPIM. Charts may not sum due to rounding.

ASSET AND INVESTMENT MANAGERS' REPORT continued

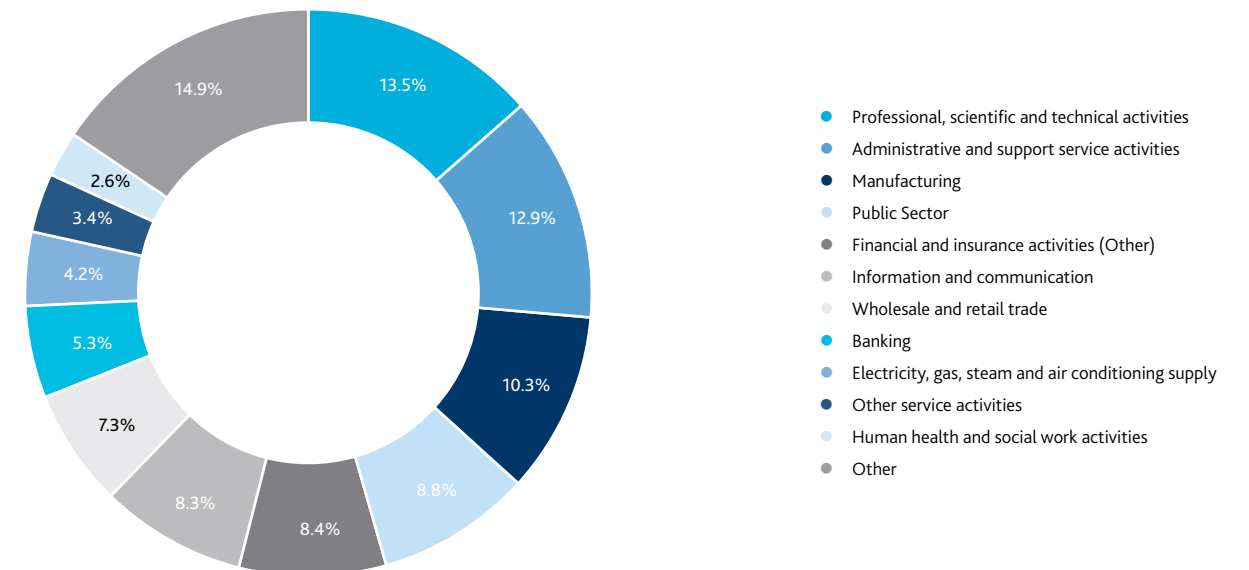
UK PROPERTY LOCATIONS AS AT 31 DECEMBER 2020



TENANTS BY STANDARD INDUSTRIAL CLASSIFICATION AS AT 31 DECEMBER 2020

As at 31 December 2020, 13.5% of income was from tenants in the professional, scientific and technical activities sector (2019: 13.0%), 12.9% from the administrative and support service activities sector (2019: 12.0%), 10.3% from the manufacturing sector (2019: 8.7%), 8.8% from the public sector (2019: 8.4%) and 8.4% from the financial and insurance activities (other) sector (2019: 7.2%). The remaining exposure is broadly spread.

No tenant represents more than 4% of the Group's rent roll as at 31 December 2020, the largest being 3.5% (2019: 2.5%).



Tenants by SIC Codes (% of gross rent)

Chart may not sum due to rounding.

* Other – Accommodation and food service activities, activities of extraterritorial organisations and bodies, arts, entertainment and recreation, charity, construction, education, mining and quarrying, not specified, public administration and defence; compulsory social security, real estate activities, registered Society, residential, sole trader, transportation and storage, water supply, sewerage, waste management and remediation activities, and motorcycles.



Norfolk House, Birmingham

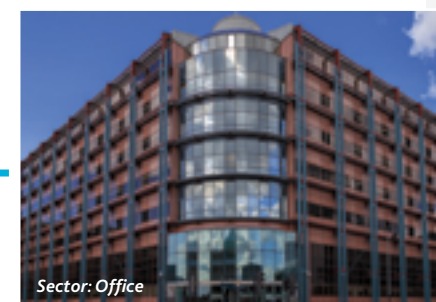


ASSET AND INVESTMENT MANAGERS' REPORT continued

Top 15 Properties



Top 15 Properties



Sector: Office

1. Tay House, Glasgow

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£28.0m	£2.7m	156,853sq. ft	94.2%

Anchor Tenants: Barclays Execution Services Ltd, University of Glasgow

WAULT (to first break): 5.4 (2.0) years

Landmark Grade A office building offering column free floor plates of 10,000 – 30,000 sq. ft. in Glasgow's city centre. The building underwent an extensive refurbishment during 2008-10 and, in 2016, the first and second floors were comprehensively refurbished.



Sector: Office

2. Genesis Business Park, Woking

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£23.9m	£1.3m	98,359sq. ft	80.6%

Anchor Tenants: Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide

WAULT (to first break): 6.5 (3.1) years

Business park consisting of eight detached buildings extending in total to 98,359 sq. ft.. Genesis is the premier out of town office park situated approximately one mile from Woking's town centre. It is located within the south west quadrant of London's M25 commuter belt, within five miles of Junction 11.



Sector: Office

3. Buildings 2 & 3 HBOS Campus, Aylesbury

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£23.5m	£2.3m	140,791sq. ft	95.7%

Anchor Tenants: Bank Of Scotland Plc, Ulmost Life and Pensions Ltd, Agria Pet Insurance Ltd

WAULT (to first break): 3.2 (2.4) years

Campus of two buildings, including the "Blue Leanie", acquired in March 2016 as part of the larger Rainbow Portfolio. The campus development is situated on the south east corner of the town centre. The property is located approximately 44 miles northwest of central London, 23 miles from Oxford and 15 miles south of Milton Keynes. The property has recently been rebranded as Bear Brook Office Park to appeal to a wider range of potential occupiers.



Sector: Office

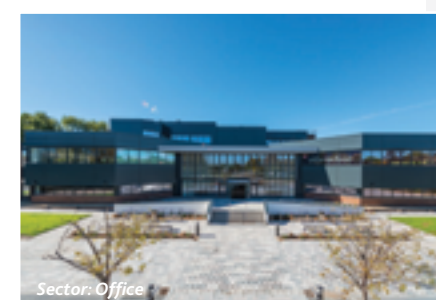
4. Hampshire Corporate Park, Eastleigh

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£19.5m	£1.5m	85,422sq. ft	99.8%

Anchor Tenants: Aviva Central Services UK Ltd, National Westminster Bank Plc, Utilita Energy Ltd, Digital Wholesale Solutions Ltd

WAULT (to first break): 6.5 (2.6) years

Acquired in January 2015, two office buildings named Chilworth House and Hampshire House. The offices are within one of Chandler's Ford's most prestigious office parks on the south coast. Since acquisition, Hampshire House has undergone an interior and exterior refurbishment as part of the Company's capital expenditure programme. The offices benefit from excellent transport links with Junctions 13 and 14 of the M3 motorway and Junction 5 of the M27 motorway. Southampton International Airport is approximately two miles away and train stations are available in Eastleigh, Southampton Parkway and Chandler's Ford.



Sector: Office

5. 800 Aztec West, Bristol

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£19.2m	£1.5m	73,292sq. ft	100.0%

Anchor Tenants: Evdance SAS, The Secretary of State for Defence

WAULT (to first break): 7.8 (2.6) years

Acquired vacant in January 2016 as part of the Rainbow Portfolio. This property consists of 73,292 sq. ft. of office space consisting of the ground floor and two upper floors with 330 parking spaces on a premier out of town business park to the north west of Bristol's city centre. The property is located within close proximity of the M5 motorway. The building underwent remodelling and refurbishment resulting in revised approach, frontage, and foyer, opening up of floor plates, creation of roof terrace, replacement of all cladding/glazing and replacement of M & E resulting in an EPC improvement from an E to a B energy rating.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Top 15 Properties



Sector: Office

6. Norfolk House, Birmingham

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£18.9m	£1.6m	114,982sq. ft	97.4%

Anchor Tenants: Secretary of State for Communities & Local Government, Spark44 Ltd

WAULT (to first break): 3.4 (1.7) years

Acquired in February 2019, Norfolk House occupies a 0.52-acre island site in the centre of Birmingham in close proximity to Birmingham New Street Train Station and adjacent to the Bullring Shopping Centre. The building is split over six floors with 12 retail units on the ground floor level totalling 26,099 sq. ft. and 88,883 sq. ft. of office accommodation on the ground floor and above.



Sector: Office/Industrial

7. Beeston Business Park, Nottingham

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£18.0m	£1.8m	215,330sq. ft	100.0%

Anchor Tenants: Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd

WAULT (to first break): 9.2 (6.3) years

Acquired in December 2020, Beeston Business Park is located four miles south west of Nottingham's city centre in a prominent location, adjoining Beeston Train Station, offering direct connectivity to London St Pancras International. The park comprises 215,330 sq. ft. across one multi-let office building, three single let industrial buildings, a vacant development plot and sporting fields on a total site area of 26.53 acres. The property is fully let.



Sector: Industrial

8. Road Four, Winsford Industrial Estate, Winsford

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£16.3m	£1.0m	246,209sq. ft	100.0%

Anchor Tenants: Jiffy Packaging Ltd

WAULT (to first break): 13.8 (13.8) years

Acquired in August 2014. Let to Jiffy Packaging until 2034, 246,209 sq. ft. industrial asset providing combination of high bay warehouse space, stand-alone industrial unit, offices, yard and car parking. The industrial estate is located on road four in Winsford with the A54 providing access to the M6 motorway. Winsford Railway Station is approximately 0.54 miles from the industrial estate.



Sector: Office

9. One & Two Newstead Court, Nottingham

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£15.7m	£1.4m	146,262sq. ft	100.0%

Anchor Tenants: E.ON UK Plc

WAULT (to first break): 4.6 (2.9) years

Acquired from receivership in May 2014. Two modern, high quality large office pavilions let to E.ON on an established business park, located north of Nottingham. Road connections are accessed at Junction 27 of the M1 motorway via the A608, providing links to the UK National Motorway Network. The nearest railway station is Nottingham.



Sector: Office

10. Portland Street, Manchester

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£15.1m	£0.9m	55,787sq. ft	98.8%

Anchor Tenants: Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd, Simard Ltd

WAULT (to first break): 5.2 (3.1) years

Acquired from receivership in December 2013. Refurbished vacant modern offices behind a retained listed façade consisting of the ground floor and six upper floors extending to 55,787 sq. ft.. Since acquisition, c. £1m has been spent on remedial works. Following successful completion of works, the building re-launched into letting market. The property is located on Portland Street at the junction with Piccadilly. The property is at the epicentre of Manchester's transport infrastructure with adjacent access to the Piccadilly Gardens Bus Station and Metrolink tram and bus station whilst Piccadilly Railway Station is within close proximity.

Top 15 Properties



Sector: Office

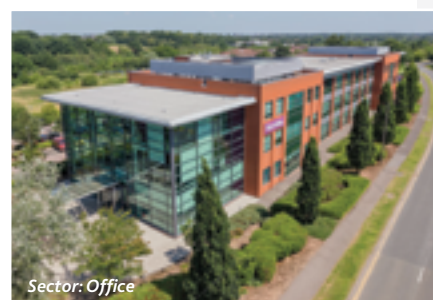
11. Ashby Park, Ashby De La Zouch

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£12.6m	£1.1m	91,034sq. ft	100.0%

Anchor Tenants: Ceva Logistics Ltd, Brush Electrical Machines Ltd, Hill Rom UK Ltd

WAULT (to first break): 2.7 (2.7) years

Acquired in March 2017 from The Conygar Investment Company PLC as part of a larger property portfolio, the property comprises of three detached office buildings constructed in the mid 1990's, with a combined floor area of 91,034 sq. ft. of space. The property is fully let to five occupiers. The location has excellent motorway access. East Midlands Airport is eight miles to the north. The nearest railway station is Burton Upon Trent.



Sector: Office

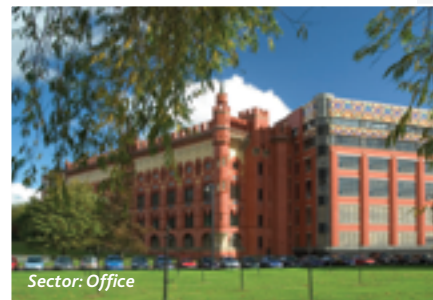
12. Columbus House, Coventry

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£12.0m	£1.4m	53,253sq. ft	100.0%

Anchor Tenants: TUI Northern Europe Ltd (Shell Energy)

WAULT (to first break): 3.0 (3.0) years

Acquired in August 2014. A high specification purpose-built HQ style building in an established and popular business park let on a long-term FRI lease to Tui who have sub-let the entire space to First Utility that provides an underpinning to the rent. The property comprises a purpose-built office building of masonry construction, arranged over three floors. The property is located on Westwood Way, with great transport links to the city and close to the A45, north & southbound.



Sector: Office

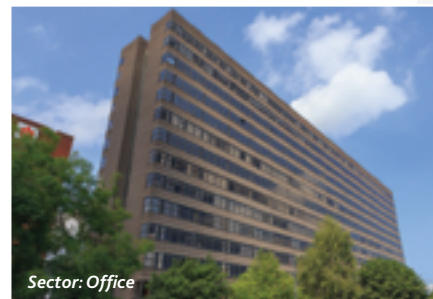
13. Templeton on the Green, Glasgow

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£11.7m	£1.2m	142,512sq. ft	89.9%

Anchor Tenants: The Scottish Ministers, The Scottish Sports Council, Heidi Beers Ltd, Cornerstone Community Care

WAULT (to first break): 6.6 (3.4) years

Acquired in 2013, the property comprises of a former landmark factory building of traditional brick construction which consists of five buildings offering a varied range of unit sizes. The property is located on Glasgow Green, just off London Road, which is a main thoroughfare to the east of Glasgow's city centre, providing excellent access to local bus routes and train network via the adjacent Bridgeton station.



Sector: Office

14. Oakland House, Manchester

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£10.8m	£1.1m	160,975sq. ft	88.1%

Anchor Tenants: Please Hold (UK) Ltd, HSS Hire Service Group Ltd, CVS (Commercial Valuers & Surveyors) Ltd, Rentsmart Ltd

WAULT (to first break): 4.2 (2.9) years

Acquired in March 2016 as part of the larger Wing Portfolio, a 15-storey office block which is prominently located on Talbot Road, one of the main arterial routes in the Old Trafford area of Manchester. The property offers easy access to the city centre with two Metrolink stops within a short walk. Additionally, both the M60 and M602 motorways are within a short distance.



Sector: Office

15. Chancellor Court, Leeds

Market value	Annualised gross rent	Lettable area	EPRA Occupancy
£10.1m	£0.3m	41,666sq. ft	99.0%

Anchor Tenants: St James's Place Wealth Management Group Plc

WAULT (to first break): 0.8 (0.8) years

Two self-contained office buildings with combined floor area of 41,666 sq. ft.. Currently being extensively refurbished in order to reposition the property in the local market, the property will shortly be rebranded as The Coachworks. The property comprises two detached office buildings of brick construction arranged over four floors. The property is located on The Calls at its junction with Crown Street, in the south western fringes of Leeds's city centre. The property lies within close proximity to Leeds's Railway Station.

ASSET AND INVESTMENT MANAGERS' REPORT continued

OUR APPROACH TO CORPORATE SOCIAL RESPONSIBILITY

The Company's belief in the importance of sustainability, which encompasses environmental, social and governance ("ESG"), has guided its transactional activity since inception and is increasingly inculcated in its activities. The importance of ESG may have grown over recent years however, the Company's view has always been to approach transactions and our operational activities by seeking to minimise any negative impacts upon the environment and society as a whole.

The Company has committed to a more formal sustainability approach with the intention to join GRESB in 2021. This is to be achieved with the guidance and assistance of an external sustainability consultant. The Company will use GRESB as a platform from which sustainability policies and actions can be built upon over the coming years to unlock sustainable value to the benefit of both the greater community and the Company's stakeholders.

Occupier Survey

During 2020, the Company's occupiers took part in a survey designed by the Asset Manager. The objective of the survey was firstly, to gain a greater insight and understanding of their requirements during a challenging period and if any likely changes were envisaged in the foreseeable future. Secondly, it sought an understanding of how the Asset Manager's assistance to navigate both the UK Government COVID-19 financial and stay at home measures had been received.

The survey captured both quantitative and qualitative responses providing both actionable responses and an understanding of occupiers' future requirements. Following the success of the survey, future surveys are likely to be scheduled, maintaining another channel of communication with the occupiers. An overview of the survey was included in the Company's Capital Markets Event presentation held on the 3 November 2020, which is available on the Company's website at www.regionalreit.com.

Community Engagement

Though the Company did not engage directly in philanthropic activity during 2020, both the Asset Manager and Investment Manager supported a number of causes outside of their respective mandates. The support provided by each of the Managers was focused across both healthcare and social charitable donations and sponsoring events.

The philanthropic support provided to healthcare causes included, but was not limited to:

- Research into blood cancer and, in particular, how it affects children and adolescents
- Sponsorship of the London Football Awards, a fundraising event for the Willow Foundation which is a charity providing special days for the seriously ill between the ages of 16 and 40
- Sponsorship of an African children's hospice
- The treatment of acquired immunodeficiency syndrome (AIDS)

The philanthropic support provided to social causes included, but was not limited to:

- Enable Scotland - a Scottish Charity, working for an equal society for every person who has learning disability
- School programmes for drug awareness, fire safety, and anti-bullying
- Bereavement counselling



Case Study

During the summer of 2020, a team from the Asset Manager took part in the virtual 2020 Rob Worboys Challenge (view.ceros.com/cushmanwakefield/robworboychallenge/p/1).

From 2016 to 2019, participants cycled around the Isle of Arran; however, due to the COVID-19 restrictions the event was held virtually in 2020, with the Asset Management team producing an admirable challenge.



Case Study

The Managers have each been a principal sponsor of The October Club since the early 2000s (www.theoctoberclub.co.uk/). The aim of the charity is to transform a relatively small and worthy charity by providing significant financial support for a specific project that redefines its effectiveness. A member of the Investment Management team chaired the charity for four years (2009-2012) and is now Vice-President. Regardless of the hurdles presented by COVID-19, the Managers maintained an active role in raising funds for the October Club during 2020 helping to transform James' Place, a charity dealing with suicide, by establishing their extraordinary service in London.

As set out on page 64, the Board seeks to promote the Company's culture through ongoing dialogue and engagement with its stakeholders, principally the Managers.

ASSET AND INVESTMENT MANAGERS' REPORT continued

Environmental Matters

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

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

Improving Resource Management at our Assets

In order to reduce energy consumption both in landlords' and tenants' areas, the Asset Manager needs to work closely with tenants. The Asset Manager engages with tenants on resource consumption where the Asset Manager has responsibility for the payment of the supply. It has also engaged an energy consultant to advise on energy efficiencies. Energy improvements are always considered as part of our repair or refurbishment programmes in accordance with the Group's electricity procurement strategy, which aims for all properties within the portfolio to source power from 100% renewable sources as far as possible. When new energy suppliers are added to the property portfolio, their existing contract status will be assessed and the supply moved to a 100% renewable source as soon as it is practical. Please see below for examples of properties where we have improved the energy efficiency and undertaken other actions to reduce the environmental impact of our properties.

Developments and Refurbishments

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

Climate Change

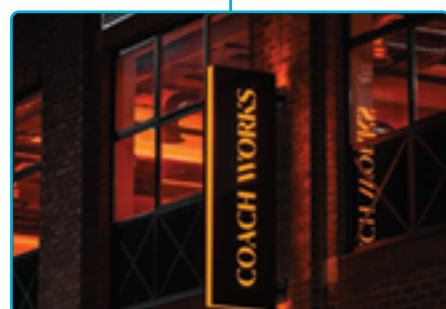
As the first major economy to legislate for net zero emissions by 2050, the UK's commitment to climate change is clear. The UK commercial property sector has a responsibility to reduce the environmental impact of its buildings. The Company has begun working with sustainability consultants to develop sustainability policies and actions towards a future with more sustainable buildings for the benefit of both society as a whole and the Company's Shareholders.

Our Section 172 Statement can be found on pages 59 to 61.

Case Study: The Coachworks, Chancellor Court, Leeds

Ground & First Floors, Harcourt House/Whole of Halsbury House were comprehensively refurbished. The scope of energy improvements includes:

- Full renewal of air conditioning and fresh air systems to include heat recovery and controllable flow rates for maximum efficiency according to occupation levels. Exceptional environmental design in respect of COVID-19.
- Renewal of entire electrical infrastructure to latest standards.
- Full replacement of lighting installations to LED.
- Full replacement of water heating systems with modern high efficiency units.
- Upgrade and renewal of insulation materials to piped systems.
- Upgrade of windows to ground floor, to higher standards as well as secure by design, and replacement of failed double-glazing units to reinstate environmental performance to upper floors.
- Refurbishment of all window operating systems to reinstate a fresh air supplemental provision.
- Detailed recycling inventory relating to 100% repurposing of removed old materials.
- Open form design to minimise the energy provision associated with new finishes.
- Replacement of entrance door systems, and to primary lobbies, to maximise heat retention.
- Renewal of common area toilets which included sensor taps, water control, lighting and unitary design in respect of COVID-19.
- Provision of showers to encourage alternative forms of commuting.
- Installation of a substantial and secure cycle store.
- Improved reception and informal meeting spaces.
- Some of the office space that has been refurbished had a historic rating of G and the common areas had a rating of C. The refurbished areas are shortly to be reassessed once all works complete and the refurbished areas should achieve a B rating.



Case Study: 30-34 Hounds Gate, Nottingham

Ground & First Floors/Entrance Foyer were comprehensively refurbished. The scope of energy improvements includes:

- Full renewal of air conditioning and fresh air systems to include heat recovery and controllable flow rates for maximum efficiency according to occupation levels.
- Renewal of entire electrical infrastructure to latest standards.
- Renewal of common area toilets which included water control to sanitary appliances and LED lighting.
- Installation of substantial insulation to vaulted ceiling to minimise heat loss.
- Renewal of reception to include a reduction in external doors, while maintaining fire compliance, to maximise heat retention and renewal of heating systems with high efficiency equipment.
- Renewal, latest phase, of common area wiring and emergency LED lighting to latest standards.

Case Study: Ashby Park, Ashby De La Zouch

Ceva House was comprehensively refurbished. The scope of energy improvements includes:

- Renewal of all internal lighting, all offices on all floors, to high efficiency LED fittings.
- Repair and renewal in part, with modern high efficiency components, of the air conditioning system throughout the building.
- Complete renewal of the entire Building Management System, with related controls and field wiring plus monitoring equipment, to ensure systems are running at peak efficiency.
- Remote monitoring equipment and computerised control of multiple office area zoning to ensure fan coil control to maintain unified ambient temperatures throughout.
- Renewal of isolated failed double-glazing units to reinstate the envelope efficiency.
- Renewal of common area toilets which included sensor taps, water control to sanitary appliances, LED lighting and unitary design in respect of COVID-19.
- Replacement of reception entrance doors with high performance double glazed and automated facilities, ensuring maximum heat retention.
- Repositioning and replacement of primary common area doors, incorporating full height glazing, to maximise solar gain and natural light benefits.
- Rejuvenation and refinishing of landscaped areas to enhance the sites horticultural contribution.
- The existing EPC for the building shows a rating of D. Following recent completion of the works, the buildings EPC will shortly be reassessed, and a significant improvement is anticipated as a direct result of the works highlighted.



ASSET AND INVESTMENT MANAGERS' REPORT continued

FINANCIAL REVIEW

Net Asset Value

In the year ended 31 December 2020, the EPRA NTA* of the Group decreased to £425.6 million (IFRS NAV: £420.6 million) from £485.7 million (IFRS NAV: £483.7 million) as at 31 December 2019, equating to a decrease in the diluted EPRA NTA of 14.0pps (IFRS: 14.6pps) to 98.6pps (IFRS: 97.5pps). This is after the dividends declared in the year amounting to 7.45pps.

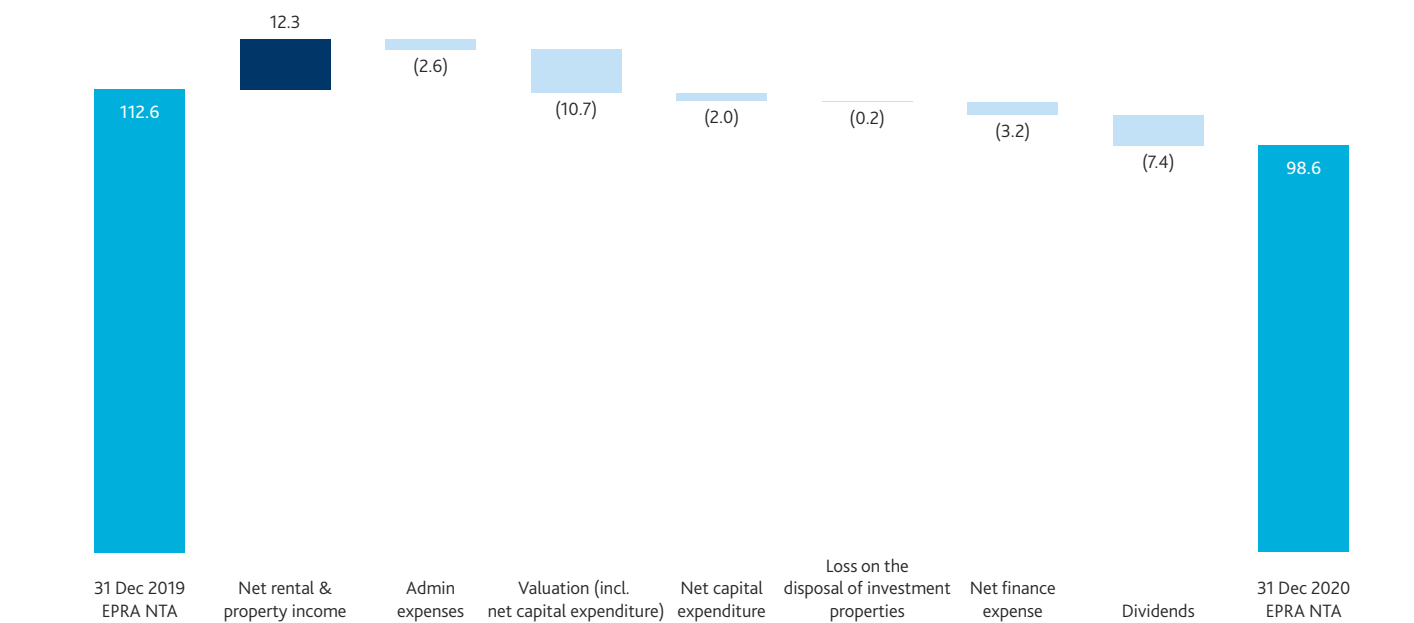
The EPRA NTA decrease of some £60.1 million since 31 December 2019 was predominately due to a £54.8 million revaluation of the property portfolio held at 31 December 2020, after capital expenditure amounting to £8.8 million, the amount of which is yet to be fully captured in the valuation, and a realised loss of £1.1 million on the disposal of investment properties.

The investment property portfolio valuation as at 31 December 2020 amounted to £732.4 million (2019: £787.9 million). The decrease over the period is a reflection of the aforementioned unrealised downward revaluation from the prior year end, unrecognised capital expenditure and disposals. Overall, on a like-for-like basis, the portfolio value decreased by 7.2% during the year.

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

Property Portfolio by Region

	Year ended 31 December 2020 (£million)	Year ended 31 December 2019 (£million)
Acquisitions		
Net (after costs)	45.0	89.9
Gross (before costs)	42.4	87.1
Disposals		
Net (after costs)	53.4	24.3
Gross (before costs)	56.4	24.9
Capital Expenditure		
Net (after dilapidations)	8.8	5.8
Gross (before dilapidations)	13.1	8.0



EPRA Net Tangible Asset Bridge 31 December 2020

Source: Toscafund

* 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. Prior year comparatives are stated under the new definition on EPRA NTA. Further detail on the new EPRA performance measures can be found on pages 140 to 142.

Table may not sum due to rounding.

The diluted EPRA NTA per share decreased to 98.6pps (2019: 112.6pps). The EPRA NTA is reconciled in the table below:

	£million	Pence per share
Opening EPRA NTA (31 December 2019)	485.7	112.6
Net rental and property income	53.3	12.3
Administration and other expenses	(11.3)	(2.6)
Loss on the disposal of investment properties	(1.1)	(0.2)
Change in the fair value of investment properties	(54.8)	(12.7)
Change in value of right of use	(0.2)	(0.0)
EPRA NTA after operating profit	471.6	109.3
Net finance expense	(14.0)	(3.2)
Taxation	0.2	0.0
EPRA NTA before dividends paid	457.8	106.1
Dividends paid	(32.1)	(7.4)
Closing EPRA NTA (31 December 2020)	425.6	98.6

Income Statement

Operating profit before gains and losses on property assets and other investments for the year ended 31 December 2020 amounted to £42.0 million (2019: £44.1 million). The Company incurred a loss after finance items and before taxation of £31.2 million (2019: gain £26.3 million). This reduction is predominately the result of two factors: firstly, a loss in the fair value of investment properties over the year as a result of the impact of the COVID-19 pandemic on the property market and secondly a loss on the disposal of investment properties. 2020 included the rent roll for properties held from the 31 December 2019, plus the partial rent roll for properties disposed or acquired during the year.

Rental and property income amounted to £62.1 million, excluding recoverable service charge income and other similar items (2019: £64.4 million). The decrease was primarily the result of the decrease in the rent roll being held over the year to 31 December 2020.

Currently more than 80% of the rental income is collected within 30 days of the due date and bad debts in the year were £1.1 million (2019: £0.5 million).

Non-recoverable property costs, excluding recoverable service charge income and other similar costs, amounted to £8.8 million (2019: £9.4 million), and the rent roll decreased to £64.2 million (2019: £64.3 million).

Realised loss on the disposal of investment properties amounted to £1.1 million (2019: gain £1.7 million). These losses were incurred on smaller lot-size vacant properties so to mitigate future on-going operating costs, and to allow the redeployment of under-performing capital. The change in the fair value of investment properties amounted to a loss of £54.8 million (2019: loss of £3.5 million). Net capital expenditure amounted to £8.8 million (2019: £5.8 million). The change in value of right of use asset amounted to a charge of £0.2 million (2019: £0.2 million).

Finance expenses amount to £14.1 million (2019: £13.9 million). The increase is primarily due to the drawdown of the available borrowing headroom. On 26 March 2020, the Group drew down £30.7 million from the Santander and Royal Bank of Scotland facilities, ensuring ample liquidity.

The EPRA cost ratio, including direct vacancy costs, was 32.4% (2019: 31.6%). The EPRA cost ratio, excluding direct vacancy costs was 19.6% (2019: 18.7%). The ongoing charges for the year ending 31 December 2020 were 4.6% (2019: 4.5%).

The EPRA Total Return from Listing to 31 December 2020 was 36.3% (2019: 43.0%), an annualised rate of 6.2% pa (2019: 9.0% pa).

Dividend

In relation to the year from 1 January 2020 to 31 December 2020, the Company declared dividends totalling 6.40pps (2019: 8.25pps). Since the end of the year, the Company has declared a dividend for the fourth quarter of 2020 of 1.50pps. A schedule of dividends can be found on page 149.

Debt Financing and Gearing

Borrowings comprise third-party bank debt which is secured over properties owned by the Group and repayable over the next four to nine years, with a weighted average maturity of 6.4 years (2019: 7.3 years).

The Group's borrowing facilities are with the Royal Bank of Scotland, Scottish Widows Limited & Aviva Investors Real Estate Finance, Scottish Widows Limited and Santander UK. Total bank borrowing facilities at 31 December 2020 amounted to £316.2 million (2019: £294.0m) (before unamortised debt issuance costs), with £5.7 million available to be drawn, and 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 2020 amounted to £371.9 million (2019: £371.9 million).

To ensure the Group retained ample liquidity following the implementation of the Government COVID-19 regulations, £30.7 million was drawn down on 26 March 2020 from the Santander UK and the Royal Bank of Scotland facilities.

At 31 December 2020, the Group's cash and cash equivalent balances amounted to £67.4 million (2019: £37.3 million), of which £55.0 million (2019: £34.7 million) was unrestricted cash.

The Group's net loan to value ("LTV") ratio stands at 40.8% (2019: 38.9%) before unamortised costs. The Board continues to target a net LTV ratio of 40%, with a maximum limit of 50%.

ASSET AND INVESTMENT MANAGERS’ REPORT continued

Debt Profile and LTV Ratios as at 31 December 2020

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value** %	Annual interest rate %
Royal Bank of Scotland	55,000	52,349	June 2024	45.7	2.15 over 3 months £ LIBOR
Scottish Widows & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	47.4	3.28 Fixed
Scottish Widows	36,000	36,000	December 2028	41.0	3.37 Fixed
Santander UK	65,870	62,822	June 2029	39.8	2.20 over 3 months £ LIBOR
	321,870	316,171			
Retail eligible bond	50,000	50,000	August 2024	NA	4.50 Fixed
	371,870	366,171			

* 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 2020, the Group had substantial headroom against its borrowing covenants.

The net gearing ratio (net debt to Ordinary Shareholders’ equity (diluted)) of the Group was 71.0% as at 31 December 2020 (2019: 63.4%). Interest cover, excluding amortised costs, stands at 3.4 times (2019: 3.6 times) and including amortised costs, stands at 3.0 times (2019: 3.2 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 2020 %	31 December 2019 %
Borrowings interest rate hedged	101.6	108.1
Thereof:		
Fixed	68.6	73.0
Swap	16.5	17.6
Cap	16.5	17.6
WACD¹	3.3	3.5

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 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 2020, the Group recognised a tax credit of £0.2 million (2019: £0.3 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

RISK FRAMEWORK



The Board has overall responsibility for the Company’s system of risk management and internal controls and for ensuring their effectiveness. The Board recognises the importance of identifying and actively monitoring its strategic, valuation, tenant, financial, operational, regulatory, environmental risks and any other long-term emerging threats, trends and challenges facing the business. The Audit Committee supports the Board in the management of risk and 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.

IDENTIFICATION, EVALUATION AND MITIGATION

The identification of risk, its evaluation and management is an ongoing process. 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 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. The combined scores are then colour coded, applying a traffic light system of green, amber and red to emphasise those posing the greatest threats to the Company. 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 will vary over time but the Board is responsible for defining the level and type of risk that the Company takes on in accordance with the strategy. 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.

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 2020, the principal risks and uncertainties faced by the Company were exacerbated by the impact of the Government’s reaction to the COVID-19 pandemic. As uncertainty increased, the Board has worked even closer with the Asset Manager, Investment Manager and its third-party suppliers to maintain resilience in the operations of the Company and management of the property portfolio. 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 meet 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 RISKS AND UNCERTAINTIES continued

PRINCIPAL RISK SUMMARY

Principal Risk	Evolution of the trend during the year	Link to Strategy
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	↗	🏠

Read more about the Company's business model and strategy on pages 18 to 22, which are listed below.

BUSINESS MODEL AND STRATEGY



Regions primed for growth



Opportunistic approach to the property market



Investing in income producing assets



Active management of the properties



Geographically diversified portfolio



Highly experienced asset manager



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



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.	<p>A clearly defined investment strategy which is reviewed annually.</p> <p>A defined and rigorous investment appraisal process.</p> <p>Acquire portfolios which offer Shareholders. diversification of investment risk by investing in a range of geographical areas and number of properties.</p> <p>Supply and demand market information is reviewed continuously to assist in acquisitions and disposals.</p> <p>All the above steps are monitored to ensure the strategy is implemented.</p>	<p>The property portfolio remains balanced across a range of geographical areas and large number of investment properties.</p>
	<p>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.</p>	<p>The Group continues to purchase properties in the UK outside the M25 motorway.</p>
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.		<p>Tay House (2019: Tay House) is the highest valued property, which equates to 3.8% (2019: 4.3%) of the Group's investment properties.</p>
No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant.		<p>The Group's largest single tenant exposure is 3.5% (2019: 2.5%) of gross rental income, being Barclays Execution Services Ltd. (2019: Barclays Execution Services Ltd.).</p>
Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited.		<p>No speculative construction was undertaken during the year under review.</p>
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.		<p>The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.</p>

PRINCIPAL RISKS AND UNCERTAINTIES continued



MOVEMENT IN THE PERIOD

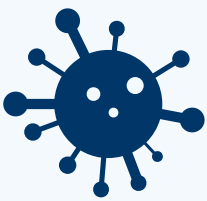


LINK TO STRATEGY



2. VALUATION

Potential impact	Mitigation	Movement in the period
The valuation of the Group's portfolio affects its profitability and net assets.	<p>The Company's external valuer, Cushman & Wakefield, provides independent valuations for all properties on a six-monthly basis in accordance with the RICS Red Book.</p> <p>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.</p> <p>The Asset Manager's experience and extensive knowledge of the property market. The Asset Manager is able to challenge the external valuers' findings.</p> <p>The Company's Auditor engages an independent third party to evaluate the Cushman & Wakefield valuation.</p>	Cushman & Wakefield independently provide the valuation for the entire portfolio, valuing each individual asset.



MOVEMENT IN THE PERIOD




LINK TO STRATEGY




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 to access funding at competitive rates, adherence to banking covenants, maintain a progressive dividend policy, and adhere to the HMRC REIT regime requirements, especially if associated restrictions remain in place for a significant period.	<p>The Asset Manager continues to adapt, as required, to support tenants in accessing UK Government financial assistance.</p> <p>The Asset Manager, where appropriate, has put in place social distancing measures as advised by the UK Government.</p> <p>The property portfolio has been deliberately constituted to ensure a diverse range of tenants by standard industrial classification comprised of 52% of government designated essential services.</p> <p>A large proportion of the available borrowing facility headroom was drawn down from Santander UK and the Royal Bank of Scotland ensuring substantial working capital was available.</p> <p>Close relationships with lenders ensuring continued dialogue around covenants and ability to access funding as required at competitive rates.</p> <p>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.</p>	The Group has continued to scrutinise all current risk mitigation approaches employed and to work closely with all parties through this disruptive period.


PRINCIPAL RISKS AND UNCERTAINTIES continued



MOVEMENT IN THE PERIOD




LINK TO STRATEGY




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.	<p>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 898 (2019: 904) income streams which are located in areas of expected economic growth.</p> <p>The Board receives advice on macro-economic risks, including Brexit, from the Investment Manager and other advisers and acts accordingly.</p>	There remains a risk that property valuations and the occupancy market may be impacted by the post Brexit transition period.



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



5. FUNDING

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.	<p>The Asset Manager has a Corporate Finance team dedicated to optimising the Group's funding requirements.</p> <p>Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity.</p> <p>Borrowings are currently provided by a range of institutions with targeted staggered maturities.</p> <p>Strong relationships with key long-term lenders.</p> <p>Continual monitoring of LTV.</p>	<p>Weighted average debt term decreased to 6.4 years from 7.3 years in 2019.</p> <p>Weighted average cost of capital, including hedging costs was 3.3% (2019: 3.5%).</p> <p>LTV increased to 40.8% from 38.9% as at 31 December 2019.</p>
Bank reference interest rates may be set to rise accompanying higher inflation.	<p>Policy of hedging at least 90% of variable interest rate borrowings.</p> <p>Borrowings are currently provided by a range of institutions with targeted staggered maturities.</p>	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	<p>The Asset Manager's Corporate Finance team reviews the applicable covenants on a regular basis and are considered in future operational decisions.</p> <p>Compliance certificates and requested reports are prepared as scheduled.</p>	The Group continues to have substantial headroom against the applicable borrowing covenants.

Milburn House, Newcastle



PRINCIPAL RISKS AND UNCERTAINTIES continued



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



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.	<p>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.</p> <p>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.</p> <p>Potential acquisitions are reviewed for tenant overlap and potential disposals are similarly reviewed for tenant standard industrial classification concentration.</p>	<p>This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio.</p> <p>The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 898 at the year-end (2019: 904).</p>
A high concentration of lease term maturity and/or break options could result in a more volatile contracted rent roll.	<p>The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration.</p> <p>There is a focus on securing early renewals and increased lease periods.</p> <p>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.</p>	<p>The WAULT to first break as at 31 December 2020 was 3.2 years (2019: 3.5 years)</p> <p>The largest tenant is 3.5% (2019: 2.5%) of the gross rental income, being Barclays Execution Services Ltd.</p> <p>The Asset Management team remains vigilant to the financial wellbeing of our current tenants and continues to liaise with occupiers and agents.</p>



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



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.	The Board receives advice on these changes where appropriate and will act accordingly.	Advice is received from several corporate advisers, including tax adviser Grant Thornton UK LLP and the Group adapts to changes as required.



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



8. OPERATIONAL

Potential impact	Mitigation	Movement in the period
Business disruption could impinge on the normal operations of the Group.	<p>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.</p> <p>An annual due diligence exercise is carried out on all principal third-party service providers.</p>	<p>Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans.</p> <p>The annual due diligence visits were curtailed due to Government restrictions. However, assurances were received as required from third party service providers.</p> <p>No concerns were identified.</p>
	As an externally managed investment Company, there is a continued reliance on the Asset and Investment Managers and other third-party service providers.	Both the Asset and Investment Manager are viable going concerns.
	All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk.	The Asset Manager continues to monitor changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures.
	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.	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.	<p>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.</p> <p>As required the building management systems are reviewed for cyber security risk.</p>	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.

PRINCIPAL RISKS AND UNCERTAINTIES continued



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



9. ACCOUNTING, LEGAL, AND REGULATORY

Potential impact	Mitigation	Movement in the period
Changes to accounting, legal and/or regulatory legislation could result in changes to current operating processes.	<p>Robust processes are in place to ensure adherence to accounting, legal, regulatory requirements, and Listing Rules.</p> <p>All contracts are reviewed by the Group's legal advisers.</p> <p>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.</p> <p>All compliance issues are raised with the Financial Adviser.</p>	<p>The Group continues to receive advice from its corporate advisers and has incorporated changes where required.</p> <p>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.</p>
Loss of REIT status	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.	The Group continues to receive advice from external advisers on any anticipated future changes to the REIT regime.



MOVEMENT IN THE PERIOD



LINK TO STRATEGY



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 associated legislation.	<p>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.</p> <p>The Group has engaged an environmental consultancy to assist with achieving the Global Real Industry Sustainability Benchmark (GRESB). This will provide a platform from which improved sustainability activities can be built upon.</p>	Additional attention is currently being devoted in this area to ensure the appropriate approach is applied and embedded in Group activities.
Changes to the environment could impact upon the operations of the Group.	<p>Property acquisitions undergo a rigorous due diligence process, including an environmental assessment.</p> <p>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.</p>	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.	<p>The Group continues to review each property to ensure adherence with Energy Performance Rating requirements.</p> <p>The energy efficiency of investment acquisitions is fully considered as part of the due diligence process for the acquisition of a property.</p>	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 geopolitical factors. Any impact of these risks to the Company's future strategy is considered on an ongoing basis.

GOING CONCERN AND VIABILITY STATEMENT

GOING CONCERN

The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue as a going concern. This expectation is underpinned by having made an assessment of the Group’s ability to continue in operational existence, giving due consideration to the Group’s cash resources, borrowing facilities, rental income, acquisition and disposals of investment properties, elective and committed capital expenditure, dividend distributions and the current uncertainties created by the COVID-19 pandemic.

The Group ended the year under review with £67.4 million of cash and cash equivalents, of which £55.0 million was unrestricted cash. The borrowing facilities remained compliant with all loan covenants, with an LTV of c. 40.8%, based upon the value of the Group’s investment properties as at 31 December 2020. Rental income collections remained robust with 98.2% of rent invoiced in the year collected as at 12 March 2021*.

Given the substantial amount of unrestricted cash currently held by the Group and, with the next borrowing due to mature being the Company’s Retail Eligible Bond in August 2024, the Directors are satisfied that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months from the date that these Financial Statements were approved.

Based on the above, together with available market information, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Accordingly, the Directors consider that it is appropriate to continue to prepare the Financial Statements on a going concern basis.

VIABILITY STATEMENT

In accordance with the Association of Investment Companies Code of Corporate Governance (the “AIC Code”) and, taking into consideration the current uncertainties created by the COVID- 19 pandemic, the Directors have assessed the prospects of the Group and future viability over a three-year period from the year end, being longer than the 12 months required by the going concern provision. The Board conducted the review with regard to the Group’s long-term strategy, principal risks and risk appetite, current position, asset performance and future plans. Following this review, the Board determined that three years to 31 December 2023 is the maximum timescale over which the performance of the Group can be forecast with any material degree of accuracy and is therefore an appropriate period over which to consider the Group’s viability.

Achievement of the one-year forecast has a greater level of certainty and is used to set near-term targets across the Group. Achievement of the subsequent forecasted years is less certain than the one-year forecast. However, the Board’s forecast provides a longer-term outlook against which strategic decisions can be made.

** As at 12 March 2021, rent collections to 31 December 2020 amounted to 98.2%; actual rent collected 96.1%, monthly rents 0.5% and deals agreed of 1.6%.*

Assessment of Review Period

The Board chose to conduct the review for a three-year period giving consideration to:

- The Group’s WAULT of 3.2 years to first break.
- The Group’s detailed forecast covering a rolling three-year period.
- The Group’s weighted average debt to maturity was 6.4 years as at 31 December 2020.

Assessment of Prospects and Viability

The financial planning process considers the Group’s profitability, capital values, LTV, cashflows, dividend cover, banking covenants and other key financial metrics over the three-year period.

Furthermore, the Board, in conjunction with the Audit Committee, carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the three-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believes that the Group is well positioned to manage its principal risks and uncertainties successfully, notwithstanding the current economic and political environment.

The Board’s expectation is further underpinned by the regular briefings provided by each of the Asset Manager and Investment Manager. These briefings consider market conditions, investment opportunities, the Company’s ability to raise third-party funds and deploy these promptly, changes in the regulatory landscape and current political and economic risks and uncertainties. These risks, and other potential risks which may arise, continue to be closely monitored by the Board.

Confirmation of Viability

The Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years, taking into account the Group’s current position, the principal risks and uncertainties and, on the assumption that the current economic turbulence resulting from the impact of COVID-19 will reduce as the UK Governments lift restrictions.

The Directors have carefully reviewed areas of potential financial risk. The Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for the foreseeable future.

SECTION 172 STATEMENT

STAKEHOLDER ENGAGEMENT AND BOARD DECISION MAKING

In accordance with the AIC Code, the Board is required to understand the views of the Company’s key stakeholders and describe in the Annual Report how their interests and the matters set out in Section 172 of the UK Companies Act 2006¹⁸ have been considered in Board discussions and decision making. This section of the UK’s Companies Act requires the Directors to have regard to the following matters:

- the likely consequences of any decision in the long term;
- the interests of the company’s employees*;
- the need to foster the Company’s business relationships with suppliers, customers and others;
- the impact of the Company’s operations on the community and the environment;
- the Company’s reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board is of the view that effective engagement with all of its stakeholders plays an important role, underpins good governance and creates long-term Shareholder value.

The importance of stakeholder considerations, in particular in the context of decision making, is taken into account at every Board meeting. All discussions involve careful consideration of the longer-term consequences of any decisions and their implications for stakeholders. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the Board seeks to understand the needs and priorities of each group during its discussions. Examples of material matters discussed during the year are set out in the Chairman’s Statement on pages 14 to 17 and below. In addition, the Investment Strategy and Business Model set on pages 18 to 22 gives examples of how we approach each specific element of our strategy which supports the business model, including an explanation of our values and approach.

Examples of the Board having taken into consideration its stakeholders in decisions are set where relevant below.

Our Stakeholders

As the Company is an externally managed REIT and does not have any employees, the Board believes that the Company’s key stakeholders comprise, in no particular order, its Tenants, Shareholders, Managers, other Service Providers and Lenders. The section below sets out why these stakeholders are considered of importance to the Company and the actions taken to ensure that their interests are taken into account.

Tenants

The ability of the Company to meet its investment objective requires a strong focus on generating income from the property portfolio. To do this, the Company must understand its tenants needs, challenges and future aspirations to retain lettings and lease renewals. The Company has engaged a dedicated property manager, London and Scottish Property Asset Management Limited (“LSP”) to manage the day-to-day property management and tenant interaction. LSP regularly visit properties and communicates with existing tenants to understand

their needs and improve their satisfaction. This improves retention rates and also attracts prospective tenants.

Following the outbreak of the COVID-19 pandemic, the Asset Manager has worked even closer with tenants to understand their needs during the crisis. The Board firmly believes that by supporting tenants now and strengthening existing relationships, the Company will have improved future occupancy levels, which in turn will maintain and generate income for the Company.

The Asset Manager reports at a high level on its engagement with tenants at every Board meeting.

The Board recognises that the Company has certain responsibilities to its stakeholders and the wider society. As an externally managed REIT, the Company itself does not have employees. However, the Company aims to conduct itself responsibly, ethically and fairly. Further details can be found on pages 40 to 43.

An example of how the interests of our tenants were taken into consideration and acted upon at the onset of COVID-19 was the re-orientation of the Asset Management platform to increase the lines of communication to all tenants. This allowed guidance and assistance to be provided promptly, as required, to all our tenants in order to navigate the evolving Government COVID-19 financial assistance schemes. Building upon this assistance, the Asset Manager was again able to react promptly to the changing Government COVID-19 restriction guidelines to implement and assist with the necessary property updates.

As detailed on page 40, during 2020, the Company’s occupiers took part in a survey designed by the Asset Manager to gain a greater insight and understanding of their requirements and determine whether any likely changes were envisaged in the foreseeable future. Further surveys are likely to be scheduled, maintaining another channel of communication and engagement with the Company’s occupiers.

Shareholders

Continued Shareholder support and engagement are critical to the existence of the Company and the delivery of its long-term strategy. The Board’s primary focus is to promote the long-term success of the Company for the benefit of its Shareholders as a whole. The Board oversees the delivery of the investment objective, policy and strategy, as agreed by the Company’s Shareholders. The Board welcomes all Shareholder’s views and aims to act fairly between all Shareholders.

The Board is committed to maintaining open channels of communication and engagement with Shareholders which is given a high priority by both the Board and the Managers. The Chairman ensures that the Board as a whole has a clear understanding of the views of Shareholders by receiving regular updates from the Company’s Corporate Broker and Financial Adviser and Managers.

The Managers and the Company’s Corporate Broker and Financial Adviser are in regular contact with major Shareholders, which includes meetings and roadshows. The Managers report the results of all meetings and the views of those Shareholders to the Board on a regular basis. At every Board meeting, the Directors receive an investor

¹⁸ Although Section 172 of the Companies Act 2006 does not apply to the Company, being a Guernsey incorporated company, the AIC Code requires that the matters stated under Section 172 are reported on by all companies irrespective of domicile.

* not applicable to the Company as it has no employees.

SECTION 172 STATEMENT continued

relations update from the Investment Manager on the share trading activity, share price performance and any Shareholder feedback, as well as an update from the Investment Manager on any publications or comments by press and analysts. The Chairman and the other Directors are available to attend these meetings with Shareholders if required. Relations with Shareholders are also considered as part of the annual Board evaluation process. For further details regarding this process see pages 84 and 85.

On 3 November 2020, the Company held a virtual Capital Markets Day for analysts and institutional investors. The Company's Managers provided information on the UK economy and the regional office market, with a particular focus on the current shortage of supply, considerable demand imbalance and the inherent value within the portfolio. The Managers also provided further insight into the ongoing attractions of the Company's office sector assets following the COVID-19 pandemic, the Company's strategy for continued income generation and growth and their thoughts on the future of the market.

All Shareholders are encouraged to vote at the AGM, during which the Board and the Managers intend to make themselves available to discuss issues affecting the Company and answer any questions. The Asset Manager generally delivers a presentation on the Company's performance and the future outlook at the AGM. The Board has made the decision to delay the 2021 AGM to later in the year in the hope that Shareholders will be able to attend the AGM in person.

Shareholders ordinarily have an opportunity to meet the Directors and to ask the Managers or any of the Directors questions at the AGM. Shareholders wishing to raise questions or concerns directly with the Chairman, Senior Independent Director or Company Secretary, outside of the AGM, should do so using the contact details provided on page 147.

The Company releases regular trading updates and announcements to the market regarding performance. The annual report and half-year report are made available on the Company's website, together with other communications to Shareholders. These reports provide Shareholders with a clear understanding of the Company's performance and financial position. This information is supported by regular announcements on activity within the property portfolio such as lettings, lease extensions and acquisitions announced via the London Stock Exchange and are also available on the Company's website. Following the announcement of the Company's full year and half yearly results, a presentation is held for analysts and investors.

The Asset Manager and Investment Manager

The performance of both the Asset Manager and Investment Manager is critical for the Company to successfully deliver its investment strategy and meet its objective to provide Shareholders with an attractive total return of greater than 10% per annum.

Maintaining a close and constructive working relationship with the Managers is crucial as the Board and the Managers aim to achieve the investment objective. Important components in the collaboration with the Managers, representative of the Company's culture are:

- Encouraging open discussion with each of the Managers;

- Recognising that the interests of Shareholders and the Managers are for the most part well aligned, adopting a tone of constructive challenge, balanced when those interests are not fully congruent by robust negotiation of their terms of engagement;
- Drawing on Board Members' individual experience to support the Managers in the monitoring and development of the property portfolio;
- Supporting the Managers in their philanthropic activities; and
- Willingness to make the Board Members' experience available to support the Managers in the sound long-term development of its business and resources, recognising that the long-term health of the Managers is in the interests of Shareholders in the Company.

The Board receives presentations from the Asset Manager at every Board meeting to help it to exercise effective oversight of the Asset Manager and the Company's Strategy.

On behalf of the Company's Shareholders, the Management Engagement and Remuneration Committee (the "MERC") conducts an annual review of the performance of the Asset Manager and Investment Manager. More details on the conclusion of this review is set out on page 92.

Other Service Providers

The Company's day-to-day operational functions are delegated to a number of third-party service providers, each engaged under separate contracts. The Company's principal third-party service providers include the Company Secretary, Corporate Broker and Financial Adviser, Administrator, Legal Adviser, Tax Adviser, Auditor and the Registrar. The Company relies on these reputable advisers for support in complying with all relevant legal and regulatory obligations. The Board maintains regular contact with its key third-party service providers, taking a constructive and positive approach to working with these service providers with the aim of building long-term relationships. Their advice, as well as their needs and views, are routinely taken into account.

The Audit Committee reviews and evaluates the control environments in place at the key third-party service providers. Further details regarding the role of the Audit Committee are set out on page 91. The MERC formally assess their performance, fees and continuing appointment at least annually to ensure that the key third-party service providers continue to function at an acceptable level. Further information about the review of third-party service providers is set out on page 92.

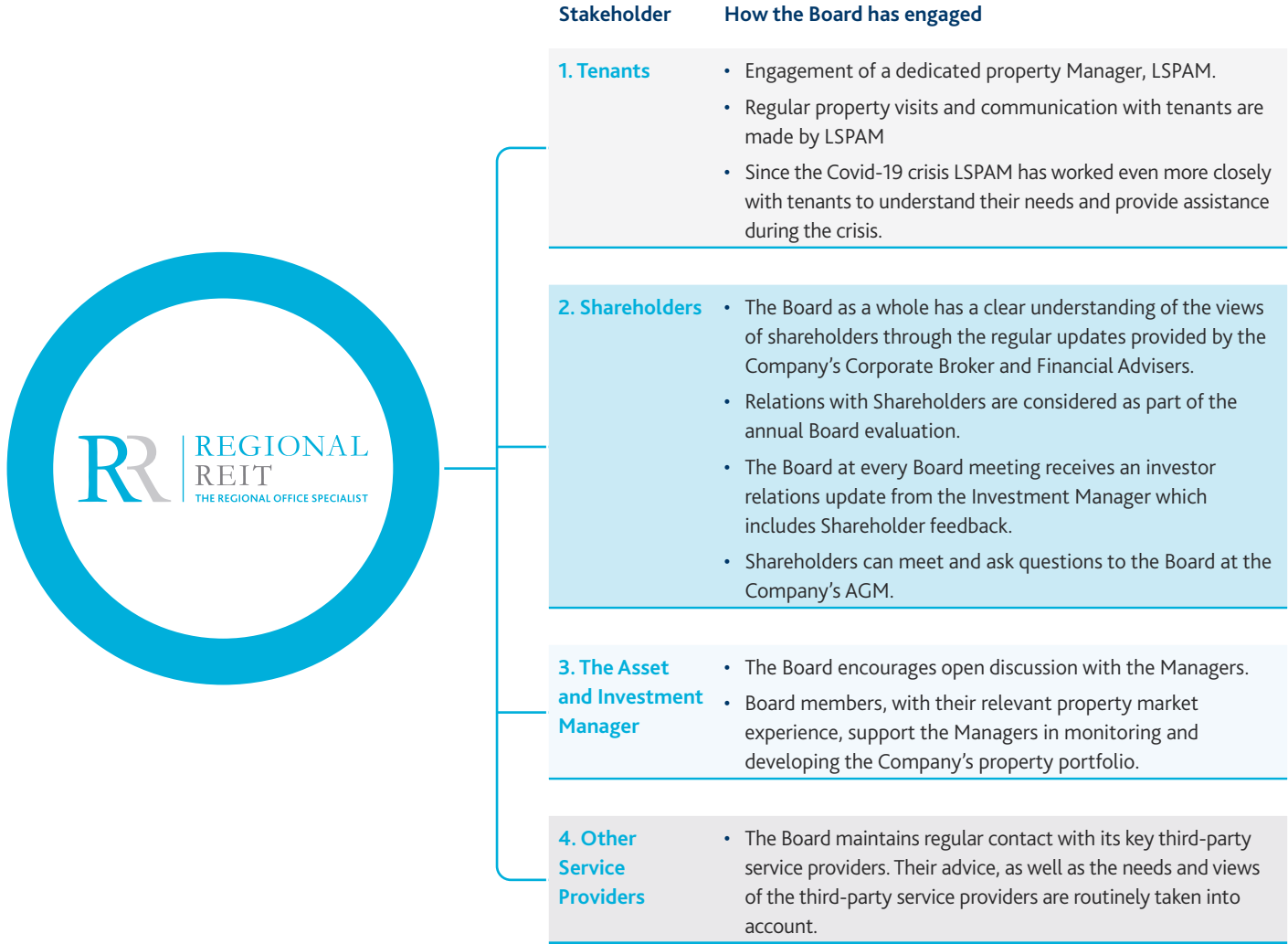
Lenders

Availability of funding and liquidity are crucial to the Company's ability to take advantage of investment opportunities as they arise.

Considering how important the availability of funding is, the Company aims to demonstrate to lenders that it is a well-managed business, and in particular, that the Board focuses regularly and carefully on the management of risk.

The above mechanisms for engaging with stakeholders are kept under review by the Board and will be discussed on a regular basis at Board meetings to ensure that they remain effective.

HOW HAS THE BOARD ENGAGED WITH STAKEHOLDERS DURING THE YEAR?



BOARD DECISION-MAKING

The major decisions taken by the Board during 2020 are summarised below and show how the Board had regard to its stakeholders and the longer-term success of the Company:

Principal decision – Focus on office sector

For the foreseeable future, the Board has decided that the Company will focus its investment solely on properties in the office sector in the main regional centres of the UK outside of the M25 motorway. The Company will in due course seek to exit all other commercial property sector investments, including its industrial and remaining retail sites, while promptly recycling the capital into regional offices. This will ensure the Group is able to maximise its investment objectives of delivering Shareholders an attractive and sustainable income focused total return over the long term.

Principal decision – 2020 Dividend

The Board is committed to paying a full year dividend of 6.40pps, conscious of our commitment to Shareholders to maintain an uninterrupted quarterly dividend.

Principal decision – Buybacks

Where the Board considers it to be accretive to do so, the Company may undertake a buyback of its own shares using proceeds from asset sales. However, the Company will take a balanced approach, continuing to seek to identify attractive new acquisitions which present long term shareholder value.

Principal decision – Commitment to sustainability strategy

The Board is cognisant of the Group's environmental impact, its continued transparent approach to corporate governance and its social responsibility. It has now committed to a more formal approach to sustainability with its intention to join GRESB in 2021. This will provide a platform from which sustainability policies and actions will be built upon over the coming years.

Further details on the Company's approach to Corporate Social Responsibility can be found on pages 40 to 43.

MANAGEMENT ARRANGEMENTS

The Board has overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of all suppliers of services to the Company, including the Asset Manager and Investment Manager. It is also responsible for the determination of the Company's investment policy and strategy and the Company's system of internal and financial controls, including ensuring that commercial risks and financing needs are properly considered and that the obligations of a public limited company are adhered to.

To assist the Board in the day-to-day operations of the Company, arrangements have been put in place to delegate authority for the performance of day-to-day operations of the Company to the Asset Manager, Investment Manager and other third-party service providers.

The Asset Manager and Investment Manager are in frequent contact with the Board and the Asset Manager supplies the Directors with regular updates on the Company's activities and detailed reports at each Board meeting.

ASSET MANAGER

The Asset Management Agreement was assigned to London & Scottish Property Investment Management Limited on 3 May 2019 from an existing entity within the Asset Manager group following a restructure. The Asset Manager is engaged to provide asset management services to the Company, Regional Commercial Midco Limited ("Midco") and the respective Group limited companies which hold the properties directly.

Under the Asset Management Agreement, the Asset Manager is responsible for the day-to-day asset management of the Property Portfolio, subject to the Investment Objectives of the Company, its Investment Policy (as set out on page 18) and the overall supervision of the Board. The Asset Manager will also advise the Company on the acquisition, management and disposal of the Group's properties.

Notice of termination of the Asset Management Agreement may be given no later than one year prior to the end of 3 November 2023. If a notice to terminate is not given, the agreement shall continue for the next three-year period.

Notwithstanding the above terms, the Asset Management Agreement may be terminated with immediate effect in certain circumstances, including a material unremedied breach by the Asset Manager.

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

At any time after the later of (i) the fifth anniversary of the date of the Asset Management Agreement (3 November 2020) and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Asset and Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Asset Manager nor its associates may vote) that individuals providing the services under the Asset Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Asset Manager under the Asset Management Agreement.

PROPERTY MANAGER

London & Scottish Property Asset Management Limited has been appointed to manage the day-to-day property management of each property within the Portfolio. A Property Management fee of 4%, based upon the gross rental yield, is charged per annum.

INVESTMENT MANAGER AND ALTERNATIVE INVESTMENT FUND MANAGER

The Company has appointed Toscafund Asset Management LLP as the Company's Investment Manager (and to provide certain related services to Midco and the respective companies which hold property directly). The Investment Manager is responsible for the day-to-day management of the Company's investments, subject to the Investment Objective and the Investment Policy of the Company. The Investment Manager is also the Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

Notice of termination of the Investment Management Agreement may be given no later than one year prior to the end of 3 November 2023. If a notice to terminate is not given, the agreement shall continue for the next three-year period.

Notwithstanding the above terms, the Investment Management Agreement shall terminate with immediate effect in certain circumstances, including the Investment Manager ceasing for any reason to be authorised under Financial Services and Markets Act 2000 to carry out the regulated activity of managing an AIF, or the Investment Manager committing a material breach of its obligations either (i) not capable of being remedied (after the Company has served notice to terminate) or (ii) which is capable of being remedied and failing to remedy the same within 30 days after service of notice by the Company requesting the same to be remedied.

At any time after the later of (i) the fifth anniversary of the date of the Investment Management Agreement (3 November 2020) and (ii) the first date on which EPRA NAV exceeds £750,000,000, the Board and the Investment Manager may decide, with the approval of an ordinary resolution (upon which neither the Investment Manager nor its associates may vote) that individuals providing the services under the Investment Management Agreement are to become an internal resource of the Company in lieu of the appointment of the Investment Manager under the Investment Management Agreement.

MANAGEMENT AND PERFORMANCE FEES

The Asset and Investment Managers are each entitled, in every financial year (or part thereof), to 50% of an annual management fee on a scaled rate of 1.1% of the Company's EPRA NAV, reducing to 0.9% on net assets over £500,000,000. The fee shall be payable in cash quarterly in arrears.

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

Period ran from 6 November 2015 to 31 December 2018. Subsequent Performance Periods are annual, from 1 January to 31 December. Any performance fee payable for the period commencing 1 January 2019 and subsequent periods is to be paid in part 34% in cash and 66% in Ordinary Shares. Any Ordinary Shares issued to the Managers are to be issued at the prevailing price per Ordinary Share on the date of issue.

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 per Ordinary Share in any previous Performance Period or the Placing Price (100p per Ordinary Share). Full details of the Managers' Performance Fee are given on pages 160 to 162 of the Company's Prospectus, published on 24 June 2019.

PERFORMANCE FEE

As reported in the Chairman's Statement on page 16, a performance fee was not crystallised for the performance fee period from 1 January 2020 to 31 December 2020.

Continuing Appointment of Asset Manager and Investment Manager

The Board keeps the performance of both the Asset Manager and Investment Manager under continual review. The MERC, comprising the independent non-executive Directors, conducts an annual review of the performance of the Asset Manager and Investment Manager. Further details can be found on page 92.

It is considered that the Asset Manager and Investment Manager has each executed the Company's investment strategy according to the Board's expectations. Accordingly, the Directors believe that the continuing appointment of London & Scottish Property Investment Management Limited as the Asset Manager of the Company and, Toscafund Asset Management LLP as the Investment Manager of the Company, on the terms agreed, is in the best interests of the Company and its Shareholders as a whole.

ADMINISTRATOR

The Company appointed Jupiter Fund Services Limited as the Administrator to the Company pursuant to an Administration Agreement. Under the terms of the Administration Agreement, the Administrator is responsible for the Company's general administrative functions such as maintaining the Company's records and statutory registers and acting as the Company's Designated Administrator. The Administrator has outsourced certain of its services under the Administration Agreement to Link Alternative Fund Administrators Limited as Sub-Administrator. An annual fee of £136,637 is payable by the Company to the Administrator and Sub-Administrator in respect of these services.

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

COMPANY SECRETARY

Link Company Matters Limited was appointed to provide company secretarial services to the Company pursuant to a Company Secretarial Services Agreement. This agreement automatically renews for 12-month periods unless notice of termination is served by either party at least six months prior to the end of each period.

OTHER INFORMATION

PRINCIPAL ACTIVITY

The Company has been incorporated for the purpose of investment in, holding and managing commercial property investments, or debt portfolios secured on such properties, which are located predominately in the regional centres of the UK outside the M25 motorway.

STATUS

The Company is incorporated in Guernsey, Channel Islands 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. It is a member of the AIC.

STATUS FOR TAXATION

In accordance with the Guernsey economic substance legislation effective 1 January 2019, the Company has opted for Non-Tax Resident status. This status allows the Company to distribute or accumulate income without deduction of Guernsey income tax.

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

The Company is registered for VAT purposes in England.

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

CULTURE

The Board has established core values for the Company that align with the Company's purpose, culture and strategy. These are set out on the inside front cover. The Directors are aware that establishing and maintaining a healthy corporate culture amongst the Board and in its interaction with the Managers, Shareholders and other stakeholders will support the delivery of its purpose and investment strategy.

The Board's culture itself is one of openness, collaboration and transparency of debate. The Directors are comfortable to give their opinions in a respectful environment, allowing challenge and constructive discussion. The Board maintains a desire for strong governance and diversity. All Directors act with integrity, lead by example and seek to promote the Company's culture through ongoing dialogue and engagement with its stakeholders, principally the Managers.

The Board seeks to appoint appropriate service providers and, through the MERC, evaluates their service on a regular basis as described on page 92. Their ongoing appointments are not only reflective of their performance by reference to their contractual and service level obligations, but also take into account the extent to which their individual corporate cultures align with those of the Company. The Board considers the culture of the Managers and other stakeholders, including their practices and behaviour, relationships with the Board and through regular reporting from these stakeholders, and in particular during the annual review of the performance and continuing appointment of all service providers. Details of each of the Manager's philanthropic activity during the year is set out on pages 40 to 41.

The Strategic Report has been approved by the Board at its meeting held on 24 March 2021 and signed on its behalf.

On behalf of the Board

KEVIN MCGRATH

Chairman and Independent Non-Executive Director

24 March 2021



2 Lochside Avenue, Edinburgh



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BOARD OF DIRECTORS



**KEVIN MCGRATH MRICS DL OBE
(CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR)**

Appointed: 16 October 2015

Kevin McGrath is Chairman of M&M Property Asset Management, having previously been managing director and senior adviser of F&C REIT Asset Management. Prior to F&C REIT, Kevin was a founding equity partner in REIT Asset Management, a property investment, finance and asset management partnership, which managed a global commercial property portfolio and had offices in London, Munich, Tel Aviv, Stockholm and Mumbai.

Prior to REIT Asset Management, Kevin was a senior investment surveyor with Hermes Investment Management, the fund manager for British Telecommunications and Post Office Pension Schemes. Before that, he worked for various local authorities in a variety of property-related positions and prior to that he worked in manufacturing and banking.

Kevin is a member of the Royal Institute of Chartered Surveyors and the Worshipful Company of Chartered Surveyors and is a Freeman of the City of London. He has worked in the property industry for over 37 years and graduated from the Polytechnic of the South Bank with a BSc (Distinction) in Estate Management and obtained a postgraduate diploma in Property Investment (Award Winner) from the College of Estate Management.

Kevin was appointed an Officer of the Most Excellent Order of the British Empire in the Queen's 2016 Birthday Honours List for Services to Charities. He was The High Sheriff of the County of Greater London for 2014/15 and is the Representative Deputy Lieutenant for the London Borough of Hammersmith and Fulham. Kevin was awarded an Honorary Degree award of the Doctor of the University from the University of Surrey in 2017 in recognition of an outstanding contribution to the arts.

He is a trustee of several charities including The Old Vic Theatre Trust, The Clink Prison Restaurant Charity and Arts Education (ArtsEds) Schools for the Performing Arts.



**WILLIAM EASON
(SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR)**

Appointed: 16 October 2015

William ("Bill") Eason was previously head of charities with Quilter Cheviot and, before that, with Laing & Cruickshank. He had managed diversified high net worth portfolios since 1973 and became a member of the London Stock Exchange in 1976. Bill was chief investment officer at Laing & Cruickshank Investment Management and has acted as chairman of Henderson High Income Trust plc, a non-executive director of The European Investment Trust plc and Senior Independent Director of Henderson International Income Trust plc. Bill is currently a director of Institutional Protection Services Ltd. He is a Chartered Fellow of the Chartered Institute for Securities and Investment. Amongst his charitable roles, Bill has acted as a governor of Henley Management School and is currently a trustee of Marshall's Charity, The Gordon Foundation, the John Hampden Fund and a business fellow of Gray's Inn.



**DANIEL TAYLOR
(INDEPENDENT NON-EXECUTIVE DIRECTOR)**

Appointed: 16 October 2015

Daniel ("Dan") Taylor is the chairman of Westchester Capital Limited, an investment and advisory firm specialising in real estate. Dan currently holds the role of managing director of Bourne Office Space Limited, a privately held serviced office business based in London, in which Westchester Capital is a principal investor. From 2011 to 2015, Dan was chairman and a principal shareholder of AIM-listed Avanta Serviced Office Group plc, then the UK's second largest serviced office provider. Prior to this, he was managing director of financier Grosvenor ParkMedia, Inc. for whom he managed a US\$400m investment joint venture with Fortress Investment Group LLC providing finance to the media industry. From 1989 to 1999, Dan was president and founder of Victoria Asset Management Inc., an investment company in Houston, Texas, specialising in distressed real estate assets. Dan started his professional career as a financial analyst with Bank of America in San Francisco, and then as vice president at FirstBoston Inc., in charge of an institutional equity division based in London.

Dan has held directorships for various private and listed companies involving investment management, corporate finance and corporate governance roles. Dan graduated from Stanford University in 1980.



**FRANCES DALEY
(INDEPENDENT NON-EXECUTIVE DIRECTOR)**

Appointed: 1 February 2018

Frances Daley is a chartered accountant who qualified with a predecessor firm to Ernst & Young LLP. She subsequently spent nine years in corporate finance with Royal Bank of Canada and Ernst & Young, followed by 18 years in various chief financial officer roles, principally in the licensed retail sector (10 years) and in healthcare. From 2007 to 2012, she was group finance director of the private equity backed Lifeways Group, the UK's largest provider of specialist support to adults with learning disabilities and mental health needs.

Ms Daley is a non-executive director of Henderson Opportunities Trust Plc and chair of Barings Emerging EMEA Opportunities PLC. She is also chair of Haven House Children's Hospice.

Ms Daley graduated from Cambridge University in 1980 with a degree in Land Economy.



**STEPHEN INGLIS
(NON-EXECUTIVE DIRECTOR)**

Appointed: 16 October 2015

Stephen Inglis is the founder and chief executive officer of the Asset Manager. He has over 30 years' experience in the commercial property market, the majority of which has been working in the investment and development sector. His career to date has been split between London and Scotland and he has gained extensive knowledge of the UK regional property markets. He is a chartered surveyor and became a member of RICS in 2001 and is also a member of the Investment Property Forum.



**TIMOTHY BEE
(NON-EXECUTIVE DIRECTOR)**

Appointed: 7 July 2017

Tim Bee is the Investment Manager's chief legal counsel. He joined the Investment Manager in May 2014 having previously been a corporate partner at two leading London-based law firms where he advised on a wide range of transactions for public and private companies, financial institutions and fund managers. He qualified as a solicitor in 1988 and has extensive experience in mergers and acquisitions, equity capital markets and financial services.

REPORT OF THE DIRECTORS

The Directors of Regional REIT are pleased to present their report and the consolidated audited financial statements of the Group for the year ended 31 December 2020.

In accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules, the reports within the Corporate Governance section of the Annual Report and Accounts should be read in conjunction with one another, and the Strategic Report. As permitted, some of the matters normally included in the Directors’ Report have instead been included in the Strategic Report (pages 14 to 19) as the Board considers them to be of strategic importance.

DIRECTORS

All Directors of the Company were in office during the year and at the date of this report. Their full biographies can be found on pages 68 and 69. Details of the Directors’ terms of appointment can be found in the Corporate Governance Statement and the Directors’ remuneration report.

None of the Directors or any persons connected with them had a material interest in the transactions and arrangements of, or the agreement with, the Managers during the year, other than Mr Inglis who is the Chief Executive Officer and Founder of London & Scottish Property Investment Management, the Company’s Asset Manager and Mr Bee who is the Legal Counsel of Toscafund Asset Management LLP, the Company’s Investment Manager and are not therefore considered to be independent.

In the event of any conflict between their positions as Chief Executive Officer and Founder of London & Scottish Property Investment Management, the Company’s Asset Manager, Legal Counsel of Toscafund Asset Management LLP, the Company’s Investment Manager, Mr Inglis and Mr Bee respectively, will comply with the provisions in the Company’s Articles of Incorporation concerning the declaration of Directors’ interests and authorisation of conflicts of interest and any other limits or conditions imposed by the Board.

All Directors will stand for re-election at the 2021 AGM in accordance with the Company’s Articles and the AIC Code.

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

DIVERSITY

The Board of Directors of the Company comprises five males and one female.

The Board recognises the importance and benefits of improving the gender balance of the Board. Notwithstanding this, the Board does not consider that it would be appropriate to set diversity targets as all Board appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

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



Left to right: William Eason, Timothy Bee, Kevin McGrath, Stephen Inglis, Daniel Taylor, Frances Daley.

DIRECTORS

There is no requirement under the Company’s Articles of Incorporation or the terms of their appointment for Directors to hold shares in the Company.

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

Director	At 31 December 2020		At 24 March 2021	
	Number of Ordinary Shares	% Interest in share capital	Number of Ordinary Shares	% Interest in share capital
Kevin McGrath*	334,158	0.08	334,158	0.08
William Eason	225,000	0.05	225,000	0.05
Daniel Taylor**	709,998	0.16	709,998	0.16
Frances Daley	76,948	0.02	76,948	0.02
Stephen Inglis***	1,097,912	0.25	1,097,912	0.25
Timothy Bee****	232,031	0.05	232,031	0.05

* Held by his spouse and children.

** Held by his spouse and children.

*** Held by himself and spouse.

**** Held beneficially by his spouse.

REPORT OF THE DIRECTORS continued

SHARE CAPITAL

As at 31 December 2020, the Company’s total issued share capital was 431,506,583 Ordinary Shares (2019: 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 (2019: none) are currently in issue.

SHARE ISSUES

At the AGM held on 5 August 2020, the Directors were granted authority to allot Ordinary Shares on a non-pre-emptive basis for cash up to a maximum number of 21,575,329 shares (being 5% of the issued share capital on 25 June 2020). 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 25 June 2020) 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 2021 AGM where resolutions for their renewal will be sought, or, if sooner, on 5 November 2021.

PURCHASE OF OWN SHARES

At the AGM held on 5 August 2020, the Company was authorised to purchase up to a maximum of 43,150,658 of its own Ordinary Shares (being 10% of the Company’s issued share capital on 25 June 2020).

No shares have been purchased under this authority during the year under review, which will expire at the Company’s 2021 AGM where a resolution for its renewal will be sought, or, if sooner, on 5 November 2021.

RESTRICTIONS ON THE TRANSFER OF SHARES

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

If any Ordinary Shares are owned directly, indirectly or beneficially by a person believed by the Board to be a “Non-Qualified Holder” (see below), the Board may give notice to such person requiring him either: (i) to provide the Board within 30 days of receipt of such notice with sufficient satisfactory documentary evidence to satisfy the Board that

such person is not a Non-Qualified Holder, or (ii) to sell or transfer his Ordinary Shares to a person who is not a Non-Qualified Holder within 30 days and within such 30 days to provide the Board with satisfactory evidence of such sale or transfer and pending such sale or transfer, the Board may suspend the exercise of any voting or consent rights and rights to receive notice of or attend any meeting of the Company and any rights to receive dividends or other distributions with respect to such Ordinary Shares. Where condition (i) or (ii) is not satisfied within 30 days after the serving of the notice, (i) the person will be deemed, upon the expiration of such 30 days, to have forfeited his Ordinary Shares or (ii) if the Board in its absolute discretion so determines, the Company may dispose of the Ordinary Shares at the best price reasonably obtainable and pay the net proceeds of such a disposal to the former holder.

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

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

RESTRICTIONS ON VOTING RIGHTS

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

SUBSTANTIAL SHAREHOLDINGS

The Company has received notification of the following disclosable interests in the voting rights of the Company:

Shareholder	At 31 December 2020		At 24 March 2021	
	Number of Ordinary Shares notified	% Interest in share capital	Number of Ordinary Shares notified	% Interest in share capital
Toscafund Asset Management LLP	27,154,198	6.29	27,154,198	6.29
Unicorn Asset Management Limited	21,670,216	5.02	21,670,216	5.02

The Company has not been informed of any other changes to the notifiable interests between 31 December 2020 and the date of this report.

As a company registered in Guernsey, the disclosure thresholds for such a non-UK issuer (in accordance with Disclosure Guidance & Transparency Rule 5) are 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

DIVIDEND POLICY

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

Shareholders are not required to vote on the payment of a dividend under Guernsey law at the Company’s AGM. Given the requirement to distribute at least 90% of qualifying property rental business income, it is not thought that this adversely impacts Shareholders’ rights.

The Company intends to continue to pursue a progressive dividend policy and its quarterly dividends provide a source of regular income for Shareholders, thus improving the Company’s cashflow return profile. However, in view of ongoing circumstances, the Company reserves the right to review future dividend payments.

- For the purpose of determining the profits available for a dividend distribution, the Company continues to choose to treat all of its net income from the Property Related Business as qualifying property income, notwithstanding that the Company accounts for both property income and interest income.
- The payment and level of dividends will always remain subject to the Company’s performance, its financial position, the business outlook and to market conditions.
- It is the Company’s intention to continue to declare and pay dividends on a quarterly basis. The dividends for the first, second and third quarters of any specific financial year are expected to be declared at or near the same level on a pence per share basis (if necessary, as adjusted for any capital raising, consolidation or split). The fourth-quarter dividend in relation to that same financial year will be declared to at least manage compliance with the REIT distribution requirement.
- The Board will resolve to declare any dividends at an appropriate time after the end of the relevant quarter dates, being 31 March, 30 June, 30 September and 31 December. The dividends will be paid approximately one month after being declared.

In order to maintain REIT status, the Company is required to meet a minimum distribution test for each accounting period that it is a REIT. This minimum distribution test requires the Company to distribute

at least 90% of the income profits (broadly, calculated using normal tax rules) of the Group to the extent that they are derived from the Property Related Business of the Group (other than any Property Related Business carried on outside the UK by non-UK tax resident members of the Group).

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

RESULTS AND DIVIDENDS

A summary of the Company’s performance during the year and the outlook for the forthcoming year is set out in the Chairman’s Report and the Asset and Investment Managers’ Report on pages 14 to 17 and 18 to 46, respectively.

During 2020, the Company declared three quarterly dividends, one of 1.90pps and two of 1.50pps. A fourth quarterly dividend of 1.50pps for the year ended 31 December 2020 was declared on 25 February 2021. This dividend was paid on 9 April 2021 to Shareholders on the register at the close of business on 5 March 2021. The ex-dividend date was 4 March 2021.

CORPORATE GOVERNANCE STATEMENT

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

The Corporate Governance Statement on pages 77 to 87 forms part of this report.

ARTICLES OF INCORPORATION

In accordance with the Articles of Incorporation, the Board must seek Shareholder approval to amend the Articles of Incorporation. During the year under review, the Board did not propose a change to the Articles of Incorporation.

REPORT OF THE DIRECTORS continued

STAKEHOLDER ENGAGEMENT

While the Company has no employees, suppliers or customers, the Directors give regular consideration to the need to foster the Company's business relationships with its stakeholders, in particular with tenants, Shareholders, the Managers and other service providers. The effect of this consideration upon the principal decisions taken by the Company during the financial year is set out in further detail in the Strategic Report on pages 59 to 61.

RELATIONS WITH SHAREHOLDERS

Communication with Shareholders remains of critical importance to the Board, who believe that understanding the views of Shareholders is a key factor in the Group's strategic direction and successful development of the business.

The Company places considerable emphasis on maintaining an open dialogue with Shareholders, and in particular institutions and wealth managers. It has a regular schedule of announcements and additional announcements as required. In addition, meetings are held with institutional Shareholders, private Shareholders, wealth managers, and sell-side equity analysts to present the Group's financial and operational results and to discuss the strategy and business model, as well as the UK regional commercial property market. During the year, the Asset Manager met with and sought the views of some of the Company's Shareholders regarding the Company conducting share buybacks. This played a role in the Board's decision to buyback the Company's shares where it is considered accretive to do so. As the parameters around buybacks that were agreed by the Board had not been met, as set out on page 72, the Company did not purchase any of its own shares during the year.

The Company also encourages investors and analysts to utilise its on-line facilities and communications and has developed a comprehensive website of Group-specific information and other information generally useful to real estate investment trust investors and analysts.

The Board receives a regular investor relations report summarising Shareholder contact, sell-side analysts' research, media coverage, and share price movements. The Investment Manager regularly participates in Investor Relations programmes to raise the profile of the Company and to attract new Shareholders. This year, the Company was represented by the Investment and Asset Manager at the virtual Capital Markets Event. In addition, the Board receives feedback from its Corporate Broker and Financial Adviser on Shareholder matters.

FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties faced by the Group and the Group's policies for managing these risks are set out on pages 47 to 57.

The principal financial risks relating to financial instruments, including the Company's retail eligible sterling bonds, and details of the risk mitigation factors relating to these financial instruments are set out in note 4.11.

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Corporate responsibility covers many different aspects of business. We believe in conducting our business activities ethically and responsibly. Our approach is set out on pages 40 and 41. Whilst the Group has no direct social or community responsibilities, the Company is supportive of the Managers' philanthropic activities, details of which are set out on pages 40 and 41.

The environmental impact of our properties is important to the Group. The Company launched its commitment to a sustainability strategy in 2020, with the intention to join GRESB in 2021. This will be used as a platform from which sustainability policies and actions will be built upon over the coming years. Further details can be found on page 42.

AUDITOR

RSM UK Audit LLP was appointed as auditor to the Company on listing on 6 November 2015. RSM UK Audit LLP has expressed its willingness to continue in office as Auditor to the Company and resolutions for its re-appointment and for the Audit Committee to determine its remuneration will be proposed at the forthcoming AGM.

AUDIT INFORMATION

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

LISTING RULES DISCLOSURES

Listing Rule 9.8.4R requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4, except for the details of any arrangements under which a director of the company has waived any emoluments from the company and the details of any contract of significance in which a Director is or was materially interested.

As set out on page 94, Mr Bee and Mr Inglis do not receive any remuneration from the Company. The details of the Agreements with the Asset Manager and Investment Manager are set out in note 35.

FUTURE DEVELOPMENTS

Information on future developments is detailed within the Strategic Report on page 15.

ANNUAL GENERAL MEETING

The Company's 2021 AGM was due to be held on 19 May 2021. However, in view of the evolving UK Government restrictions on public gatherings, the Board has made the decision to delay the AGM until later in the year in the hope that Shareholders can attend in person. A further announcement will be made in due course.

For and on behalf of the Board

KEVIN MCGRATH

Chairman

24 March 2021



Tay House, Glasgow



HBOS Campus, Aylesbury



Newstead Court, Nottingham



Genesis Business Park, Woking

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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- 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 and disclose with reasonable accuracy at any time the financial position of the group and 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, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 the Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE CONSOLIDATED ANNUAL REPORT

Each of the Directors, whose names and functions are listed on pages 68 and 69, confirms that to the best of each person’s knowledge:

- the financial statements, prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss 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 24 March 2021 and signed on its behalf by:

KEVIN MCGRATH
Chairman
24 March 2021

CORPORATE GOVERNANCE STATEMENT

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

The Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject.

INTRODUCTION FROM THE CHAIRMAN

I am pleased to introduce this year’s Corporate Governance Statement.

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors’ Responsibilities on page 76, indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council (“FRC”) 2018 UK Corporate Governance Code (the “UK Code”) and the AIC Code of Corporate Governance issued in 2019, (the “AIC Code”), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC and the Guernsey Financial Services Commission (“GFSC”), provides more relevant information to Shareholders and that by reporting against the AIC Code the Company has met its obligations in relation to the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules.

The Board is accountable to Shareholders for the governance of the Company and is committed to maintaining the highest standard of corporate governance for the long-term sustainable success of the Company.

The UK Code is available on the FRC website (www.frc.org.uk). The AIC Code is available on the AIC website (www.theaic.co.uk) and includes an explanation of how the AIC Code adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

The GFSC’s Finance Sector Code of Corporate Governance (the “GFSC Code”), updated and published in February 2016, applies to all companies that hold a licence from the GFSC under the regulatory laws or which are registered or authorised as collective investment schemes, which includes the Company. Companies which report against the AIC Code are deemed to meet the requirements of the GFSC Code. A copy of the GFSC Code can be obtained via the GFSC website at www.gfsc.gg.

THE PRINCIPLES OF THE AIC CODE

The AIC Code is made up of 18 principles split into five sections:

- Board leadership and purpose
- Division of responsibilities
- Composition, succession and evaluation
- Audit, risk and internal control
- Remuneration

Similar to the UK Code, the AIC Code specifies a “comply or explain” basis and the Board’s report under this section explains any deviation from its provisions.

COMPLIANCE WITH THE AIC CODE

The Board attaches great importance to the matters set out in the AIC Code (incorporating the UK Code) and strives to observe its principles. Accordingly, the table below reports on the Company’s compliance with the recommendations of the AIC Code throughout the year.

Throughout the year ended 31 December 2020, the Board considers that it has managed its affairs in compliance with the AIC Code, except where it has concluded that adherence or compliance with any particular principle or provision of the AIC Code would not have been appropriate to the Company’s circumstances. It should be noted that, as an investment company, all of the Directors are non-executive and being externally managed, the day-to-day responsibilities of the Company are delegated to third parties.

The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors’ remuneration;
- management performance, remuneration and succession planning;
- workforce policies (including remuneration) and practices; and
- the need for an internal audit function.

For the reasons explained in the AIC Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company with no employees. The Company has therefore not reported further in respect of these provisions.

Moreover, the principles and provisions of the AIC Code have been complied with throughout the year, except for the following:

- as a Guernsey incorporated entity, there are no statutory requirements for the Company to develop a remuneration policy. The steps taken by the MERC to ensure that Directors’ fees support the Company’s strategy and promote its long-term success are set out in the Remuneration Report on pages 92 and 93.
- the Board do not consider it necessary to appoint a separate nomination committee as this function is currently undertaken by the Board as a whole. This will be kept under review.

CORPORATE GOVERNANCE STATEMENT continued

BOARD LEADERSHIP AND PURPOSE

AIC Code Principle	Compliance statement
A. A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society.	<p>The Board considers the long-term sustainable success of the Company to be its main focus and all decisions are considered from this point of view.</p> <p>The opportunities and risks faced by the business are considered, monitored and assessed on a regular basis. An example of this was the Board's decision to alter the Company's strategy to become a regional office specialist. This was based upon the Asset Manager's unique operating platform and experience coupled with the observed supply and demand imbalance in the office sector. Further details can be found in the Chairman's Statement on pages 14 to 17.</p> <p>Details regarding the principal risk and uncertainties and the sustainability of the business model can be found in the Strategic Report on pages 47 to 57.</p>
B. The Board should establish the Company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	<p>The purpose of the Company, as set out on page 1, is to deliver long-term returns for Shareholders with income generated from investment in UK office space outside of the M25 motorway. The strategy that the Board follows in order to execute this is outlined in the Strategic Report on pages 14 to 65.</p> <p>As outlined on the inside front cover, the Board has adopted some key values which are embedded into the culture of the business and are key to any decision made by the Company.</p> <p>The Directors agree that establishing and maintaining an open and inclusive culture among the Board and in its interaction with the Asset and Investment Managers, Shareholders and other stakeholders, will support the delivery of its purpose, values, and strategy.</p> <p>The values and culture of the business are considered as part of the annual Board evaluation process to ensure that they remain a key focus that all decisions are based on.</p>
C. The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	<p>The Board and the MERC regularly review the performance of the Company and the performance and resources of the Investment Manager, the Asset Manager and the Company's services providers to ensure that the Company can continue to meet its objectives.</p> <p>The Board assesses performance in a number of different ways including regularly reviewing the financial forecasts and KPIs, as well as debt financing and gearing.</p> <p>The Audit Committee is responsible for assessing and managing risks. The Company's principal risks and uncertainties can be found on pages 47 to 57. Risks are reviewed as part of the Audit Committee's review of the internal controls reports of the Company's key service providers. A risk matrix is maintained, which is also regularly reviewed by the Audit Committee. Further details can be found on page 47.</p>
D. In order for the Company to meet its responsibilities to Shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.	<p>The Board understands its responsibilities to Shareholders and stakeholders and considers the opinions of all such parties when making any decision. The Board considers that, other than Shareholders, the Company's other key stakeholders are the Company's tenants, its third-party providers and its Asset Manager and Investment Manager.</p> <p>The Board considers the impact any decision will have on all stakeholders to ensure that they are making a decision that promotes the long-term success of the Company, whether this be in relation to dividends, property acquisitions or disposals, etc.</p> <p>Further details can be found on pages 59 to 61.</p> <p>The Directors place considerable importance on Shareholder engagement and on communications with them and all other stakeholders. Shareholders who wish to contact the Board may do so by emailing rgl_cosec@linkgroup.co.uk. All Directors make themselves available to meet Shareholders at the Company's AGM or any other such times as required by Shareholders. The Board has made the decision to delay the 2021 AGM to later in the year in the hope that Shareholders can attend in person.</p>

DIVISION OF RESPONSIBILITIES

AIC Code Principle	Compliance statement
F. The chair leads the Board and is responsible for its overall effectiveness in directing the Company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	<p>There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third-party service providers.</p> <p>The Board has approved a policy which sets out the responsibilities of the Chairman, Mr McGrath and Senior Independent Director, Mr Eason, a copy of which is available on the Company's website. The Chairman is responsible for leading the Board and is responsible for its overall effectiveness in directing the affairs of the Company. The Chairman ensures that all Directors receive accurate, timely and clear information and helps promote a culture of openness and debate in Board meetings by encouraging and facilitating the effective contribution of other Directors towards a consensus view. The Chairman also takes a leading role in ensuring effective communications with Shareholders and other stakeholders.</p> <p>The Board meets regularly throughout the year and representatives of the Asset Manager and Investment Manager are in attendance, when appropriate, at each Board and/or Committee meeting.</p> <p>The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing, following consultation with the Asset Manager and the Investment Manager, the Company's investment policy, long-term objectives, commercial strategy, the gearing policy and the setting of any limits and any treasury policies.</p> <p>Prior to each Board and Audit Committee meeting, Directors are provided with a comprehensive set of papers giving detailed information on the Company's portfolio including property acquisitions/disposals and financial position and all Directors have timely access to all relevant management financial and regulatory information.</p>
G. The Board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the Board's decision making.	<p>All of the Directors are non-executive and are independent of the Asset Manager and Investment Manager and the other service providers (with the exception of Mr Inglis who is the Chief Executive Officer and Founder of London & Scottish Property Investment Management, the Company's Asset Manager and Mr Bee who is the Legal Counsel of Toscafund Asset Management LLP, the Company's Investment Manager).</p> <p>A majority of the Board will at all times be independent of the Asset and Investment Managers.</p> <p>The Chairman, Mr McGrath, was independent of the Asset Manager and Investment Manager at the time of his appointment and remains so. The Board is aware of the AIC's guidance on this issue and regards Mr McGrath as independent.</p> <p>None of the Directors is a director of another investment company managed by the Company's Asset Manager or Investment Manager nor has any Board member been an employee of the Company or currently have any connection to any of its service providers (with the exception of Mr Inglis and Mr Bee).</p> <p>During the year under review, Mr Eason and Ms Daley continued to be directors of separate companies managed by the investment manager Janus Henderson. This has been considered by the Board, which was satisfied that they were demonstrably independent and that their independence as Directors of the Company was not affected. Although managed by the same investment manager, these appointments are entirely separate from each other and this Company. Therefore, the other Directors, having considered the impact of this relationship, were satisfied that each Director took an impartial and objective approach in their duties as a Director of the Company. Mr Eason retired from the board of the Henderson International Income Trust PLC on 8 December 2020.</p> <p>The board evaluation concluded that each Director provides a valuable contribution to Board meeting discussions and exercises appropriate levels of challenge and debate.</p>

CORPORATE GOVERNANCE STATEMENT continued

DIVISION OF RESPONSIBILITIES

AIC Code Principle	Compliance statement
H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third-party service providers to account.	<p>As part of the Board evaluation process, the contributions of each Director, as well as the time commitments made by each board member are considered and reviewed. It was concluded that each Director provided appropriate levels of challenge and provided the Company and each of the Asset Manager and Investment Manager with guidance and advice when required.</p> <p>The MERC reviews the performance and cost of the Company's third-party service providers on an annual basis. More information regarding the work of the MERC can be found on pages 92 and 93.</p>
I. The Board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	<p>The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are in place and followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.</p>

COMPOSITION, SUCCESSION AND EVALUATION

AIC Code Principle	Compliance statement
J. Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	<p>The Board has adopted a diversity policy, which acknowledges the benefits of greater diversity, and remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Board.</p> <p>Whilst the Board does not feel that it would be appropriate to set targets as all appointments are made on merit, the following objectives for the appointment of Directors have been established:</p> <ul style="list-style-type: none">• all Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective;• long lists of potential non-executive directors should include diverse candidates of appropriate merit; and• to only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice. <p>The Company is committed to ensuring that any vacancies to the Board arising in the future are filled by the most qualified candidates, whilst ensuring the benefits of greater diversity.</p>
K. The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	<p>Directors' biographical details are set out on pages 68 and 69 of this Report. These demonstrate the wide range of skills and experience that the Directors bring to the Board including in of the property sector, investment trusts, and financial and public company management.</p> <p>The Board has approved a tenure policy, which encompasses the whole Board and Chairman, to ensure that the Board continues to have the right balance of skills and experience.</p> <p>Each Director was appointed with a view to establishing a Board with a good combination of skills, experience and knowledge. This is reviewed as part of the annual Board process. When considering new appointments, the Board will review the skills of the Directors and seek to add persons with complementary skills or who possess skills and experience which fill any gaps in the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively. Where appropriate, the need for diversity on the Board will be taken into account when considering new appointments. The Company's diversity policy can be found on page 70.</p>

COMPOSITION, SUCCESSION AND EVALUATION

AIC Code Principle	Compliance statement
L. Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	<p>The Directors are aware of the need to continually monitor and improve performance and recognise that this can be achieved through undertaking a regular Board evaluation exercise, providing a valuable feedback mechanism for improving Board effectiveness.</p> <p>The Board agreed that the use of an externally facilitated evaluation service provider was not necessary during the year ended 31 December 2020. However, this will be kept under review.</p> <p>During the year, the Company implemented a thorough appraisal process to review the effectiveness of the Board as a whole, its Committees and individual Directors (including the independence of each Director and their ability to commit sufficient time to the Company's activities). The internal appraisal process was conducted by the Chairman, following the year end, through individual interviews with each Director. In order to ensure a consistency of approach, the Chairman referred to an outline of the topics and questions that he wanted to cover during each appraisal.</p> <p>The appraisal of the Chairman followed the same process and was carried out by the Board as a whole under the leadership of Mr Eason (the Senior Independent Director), who obtained the views from other Directors.</p> <p>The results of the appraisal process, which were discussed collectively by the Board at its March meeting, indicated that the Board and its Committees continue to work well at a high standard and there are no significant concerns among the Directors about the Board's effectiveness. In particular, the Directors believed that there was a continued emphasis on strategy and the longer term when making decisions. More time will be allocated next year to the Board's longer-term succession planning. Other areas of strength included the skills and experience of Board members, in particular to both challenge and support the Managers.</p> <p>Additionally, the review of the Chairman's performance was positive, and the other Directors considered that the Chairman remained independent and that he continued to strongly and effectively lead the Board.</p> <p>As a result of the evaluation, the Board is satisfied that all Directors are independent, with the exception of Mr Inglis and Mr Bee, and that all Directors contribute effectively and have the skills and experience relevant to foster the effective leadership and direction of the Company. All Directors are able to commit sufficient time to the Company's activities.</p> <p>It is recommended that Shareholders vote in favour of each Director's re-election at the forthcoming AGM. All Directors are subject to annual re-election by Shareholders. More information regarding the proposed re-election of each Director can be found in the Notice of Annual General Meeting.</p>

CORPORATE GOVERNANCE STATEMENT continued

AUDIT, RISK AND INTERNAL CONTROL

AIC Code Principle	Compliance statement
M. The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.	<p>The Audit Committee has put in a place a non-audit services policy, which ensures that any work outside the scope of the standard audit work requires prior approval by the Audit Committee. This enables the Committee to ensure that the external auditors remain fully independent.</p> <p>In addition, the Audit Committee carries out a review of the performance of the external auditor on an annual basis. Feedback from other third parties, including the Asset Manager and Investment Manager, is included as part of this assessment to ensure the Audit Committee takes into account the views of different parties who have a close working relationship with the external auditor.</p> <p>Further information regarding the work of the Audit Committee can be found on pages 88 to 91.</p>
N. The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.	<p>The Audit Committee has considered the Audited Annual Report and Financial Statements as a whole and agreed that it presents a fair, balanced, and understandable assessment of the Company's position and prospects.</p>
O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	<p>Risks faced by the Company are considered, monitored and assessed on a regular basis by the Audit Committee. For details in respect to the Company's principal risks and uncertainties and the appropriate measures taken to mitigate each risk can be found on pages 47 to 57.</p> <p>Given the nature of the business, the Company is reliant on its service providers and their internal controls. The Audit Committee reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon. The Chairman of the Audit Committee meets, at least annually, with representatives of each of the Asset Manager and Investment Manager independently, to review and discuss the internal controls within their businesses.</p>
P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.	<p>In respect of Directors' remuneration, the Company follows the recommendation of the AIC Code that non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. As stated in the Remuneration Report on page 94, the Company's approach to non-executive director's remuneration is that remuneration should reflect the experience of the Board as a whole and the responsibilities and time commitments each Director would have to devote to the Company's affairs.</p>
Q. A formal and transparent procedure for developing policy remuneration should be established. No director should be involved in deciding their own remuneration outcome.	<p>The MERC considers at least annually the level of Directors' fees and compares these with the fees paid by the Company's peer group and industry generally, taking into account the time commitment and responsibility of each Board member.</p> <p>Further details on the Directors' remuneration are contained in the Directors' Remuneration Report on pages 94 and 95. No Director is involved in deciding their own remuneration.</p>
R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	<p>Any decision with regard to remuneration is taken by the MERC after considering the performance of the Company and the current market conditions.</p>

HIGHLIGHTS AT A GLANCE

Board and Committee Meeting Attendance
for the year ended 31 December 2020

100%

Female Representation on our Board
as at 31 December 2020

16.7%

Board Independence
as at 31 December 2020

66.7%

THE BOARD OF DIRECTORS

The Board consists entirely of Non-Executive Directors, who have all served throughout the period. Biographical details of the Directors of the Company are shown on pages 68 and 69.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below.

The Company's culture is set out on the inside front cover. The values of the Company are set out on the inside front cover. These values are considered in Board decision making. The purpose of the Company is the investment objective, which can be found on page 18. The strategy that the Board follows to meet this objective is outlined in the Strategic Report on page 18. The business model that the Company operates is set out on pages 19 to 23.

The Board ensures that the necessary resources are in place for the Company to meet its objectives. It does this predominately through its engagement with third-party service providers. The Board regularly reviews financial forecasts and KPIs, as well as debt financing and gearing. Further details can be found on pages 8 and 9 and pages 44 to 46 of the Strategic Report.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision-making. As part of this, the opportunities and risks faced by the business are considered, monitored and assessed on a regular basis, both in terms of actual and emerging risks that the business may face. Emerging risks are identified by the Board through a variety of means including advice from the Company's Managers, the AIC and Directors' industry knowledge and market changes and events.

More detail regarding the principal risks and uncertainties, emerging risks and the sustainability of the business can be found in the Strategic Report on pages 40 to 57.

BOARD OPERATION

There is a clear division of responsibilities between the Board and the Managers. The Directors have agreed a formal schedule of matters specifically reserved for their approval. The schedule of matters reserved to the Board includes, but is not limited to the following:

- approval of asset acquisitions and disposals over £15 million;
- approval of capital expenditure;
- approval of the Company's borrowings;
- approval of the Company's investment policy, long-term objectives and commercial strategy;
- approval of the gearing policy of the Company;
- approval of annual and half-yearly reports and financial statements and accounting policies, prospectuses, circulars and other Shareholder communications;
- raising new capital;
- approval of dividends;
- Board appointments and removals; and
- appointment and removal of the Asset Manager, Investment Manager, Auditor and the Company's other service providers, including the Company Secretary.

A copy of the schedule of matters reserved for the Board can be found on the Company's website.

To assist the Board in the day-to-day operations of the Company, arrangements have been put in place to delegate authority for the performance of day-to-day operations of the Company to the Asset Manager and Investment Manager and other third-party service providers. The Board has appointed the Asset Manager and Investment Manager to manage the Company's portfolio within guidelines set by the Board, detailed in the respective management agreements with the Company. Both Managers are in frequent contact with the Board and supply the Directors with regular updates on the Company's activities and a detailed report at each Board meeting.

The Board, at its regular meetings, undertakes reviews of key investment and financial data, analyses of asset allocation, peer group information, the economy generally, transactions and performance comparisons, share price (whether at a discount or premium to NAV) and NAV performance. It receives an update from the Asset Manager on property market conditions and trends, movements compared to previous quarters, yields on properties within the portfolio, lease lengths and letting activity, including estimated rental values and vacant properties. The Board also receives an update from the Investment Manager on investor relations. Discussions also take place on strategic proposals, developments and legal and governance matters.

Representatives of each of the Asset and Investment Manager are appointed to the Board, which facilitates communication between them and the Board and supplements the regular reporting to the Directors.

CORPORATE GOVERNANCE STATEMENT continued

BOARD MEETING ATTENDANCE

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year under review, the number of scheduled Board meetings attended by each Director was as follows:

Director	Scheduled Board Meetings	
	Number entitled to attend	Number attended
Kevin McGrath	4	4
William Eason	4	4
Daniel Taylor	4	4
Frances Daley	4	4
Stephen Inglis	4	4
Timothy Bee	4	4

Additional Board meetings were also held as required during the year, including to deal with corporate transactions such as property disposals and acquisitions, dividends, establishment of a share buyback programme and were attended by those Directors available at the time. The Board also held an all-day strategy meeting during the year, which all Directors attended.

The Board follows a formal agenda, which is approved by the Chairman and circulated by the Company Secretary in advance of the meeting to all the Directors and other attendees. A typical agenda includes a review of performance with a detailed update from Asset and Investment Manager on the property portfolio, investment opportunities and disposals, the Company's financial performance, updates on investor relations and specific regulatory or governance matters. Representatives of the Company's Advisers are invited to attend Board meetings from time to time, particularly the Company's Corporate Broker and Financial Adviser and Legal Adviser.

The Board is responsible for the strategy of the Company and monitors performance against its agreed strategy on an ongoing basis.

The Board is responsible for setting the overall strategic objectives of the Company and meets once a year to focus exclusively on strategy.

CONFLICTS OF INTEREST

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

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

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

BOARD EVALUATION

The Directors are aware of the need to continually monitor and improve performance and recognise that this can be achieved through undertaking a regular Board evaluation exercise, providing a valuable feedback mechanism for improving Board effectiveness. The Board agreed that the use of an externally facilitated evaluation service provider was not necessary this year, however, this will be kept under review.

During the year, the Company implemented a thorough appraisal process to review the effectiveness of the Board as a whole, its Committees and individual Directors (including the independence of each Director and their ability to commit sufficient time to the Company's activities). The internal appraisal process was conducted by the Chairman, following the year end, through individual appraisals with each Director. In order to ensure a consistency of approach, the Chairman referred to an outline of the topics and questions that he wanted to cover during each appraisal that addressed a broad range of issues and which enabled them to provide comments on a range of matters. The questions covered, but was not limited to, Board performance, culture, relationships between Board members, relationships between the Board and the Managers, content and scope

of topics covered at Board meetings and the nature and dynamics of Director contributions to meeting. The operation of the Board's committees was also addressed.

The appraisal of the Chairman followed the same process and was carried out by the Board as a whole under the leadership of Mr Eason (the Senior Independent Director), who obtained the views from other Directors.

The results of the appraisal process, which were discussed collectively by the Board at its March meeting, indicated that the Board and its Committees continue to work well at a high standard and there are no significant concerns among the Directors about the Board's effectiveness. In particular, the Directors believed that there was a continued emphasis on strategy and the longer term when making decisions. More time will be allocated next year to the Board's longer-term succession planning, with focus on developing a diverse pipeline for succession and the Chairman is keen to increase his engagement with key Shareholders. Other areas of strength included the skills and experience of Board members, in particular to both challenge and support the Managers.

Additionally, the review of the Chairman's performance was positive, and the other Directors considered that the Chairman remained independent and that he continued to strongly and effectively lead the Board.

As a result of the evaluation, the Board is satisfied that all Directors are independent, with the exception of Mr Inglis and Mr Bee, and that all Directors contribute effectively and have the skills and experience relevant to foster the effective leadership and direction of the Company. It was found that the Directors can commit sufficient time to the Company's activities.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles and the AIC Code, Directors are subject to election by Shareholders at the first AGM after their appointment. Thereafter all Directors submit themselves for annual re-election by Shareholders at the AGM of the Company.

TENURE

Each Director has a letter of appointment setting out their terms of appointment. These letters detail an initial three-year appointment, but each Director may be invited by the Board to serve for an additional period of three years, if both the individual Director and the Board believes this is in the interest of the Company, having taken into account the independence of the Director.

In 2020 the Board agreed to extend the appointment period of Mr Bee for a further three-year term. In 2018, the Board had agreed to extend the appointment period of Mr McGrath, Mr Taylor, Mr Inglis and Mr Eason for a further three-year term.

Directors are initially appointed by the Board, until the following AGM when, as required by the Company's Articles, they will stand for re-election by Shareholders. Thereafter, a Director's appointment

is subject to an annual performance evaluation and the approval of Shareholders at each AGM, in accordance with corporate governance best practice.

The Board has adopted a formal tenure policy for Directors based on a continual review of performance. It is not anticipated that any of the Directors would normally serve in excess of nine years in order to provide regular refreshment of the Board and facilitate diversity of the Board. In exceptional circumstances, which would be fully explained to Shareholders at the time, an extension might be appropriate.

Similarly, it is not anticipated that the Chairman will normally serve in excess of nine years, this limit being decided by the Board in consideration of the need for regular Board refreshment. However, given the entirely non-executive nature of the Board and as the Chairman may not be appointed as such at the time of their initial appointment as a Director, in exceptional circumstances, which would be fully explained at the time, a short extension might be appropriate. As with all Directors, the continuing appointment of the Chairman is subject to ongoing review of performance, including a satisfactory annual evaluation, annual re-election by Shareholders and may be further subject to the particular circumstances of the Company at the time he or she intends to retire from the Board.

Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate nomination committee and this function is carried out by the Board. The independent Directors would be expected to lead the process of the appointment of any new Director to the Board as and when vacancies arise and as part of the Directors' ongoing succession plans. As part of this process, the use of an external executive search agency will be considered. The Board will keep the decision not to appoint a separate nomination committee under review.

INDUCTION AND TRAINING

On appointment, the Asset Manager, Investment Manager and Company Secretary provide new Directors with induction training as appropriate. The training covers the Company's investment strategy, policies and practices. The Directors are also given regular briefings on changes in law and regulatory requirements that affect the Company and the Directors. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of Directors' training needs are carried out by the Chairman by means of the evaluation process.

The Directors have access to the advice and services of the Company Secretary through its appointed representative, who is responsible for general secretarial functions and for assisting the Company with compliance with its continuing obligations as a company listed on the premium segment of the Official List. The Company Secretary is also responsible for ensuring good information flows between all parties.

When deemed necessary, the Directors can seek independent professional advice.

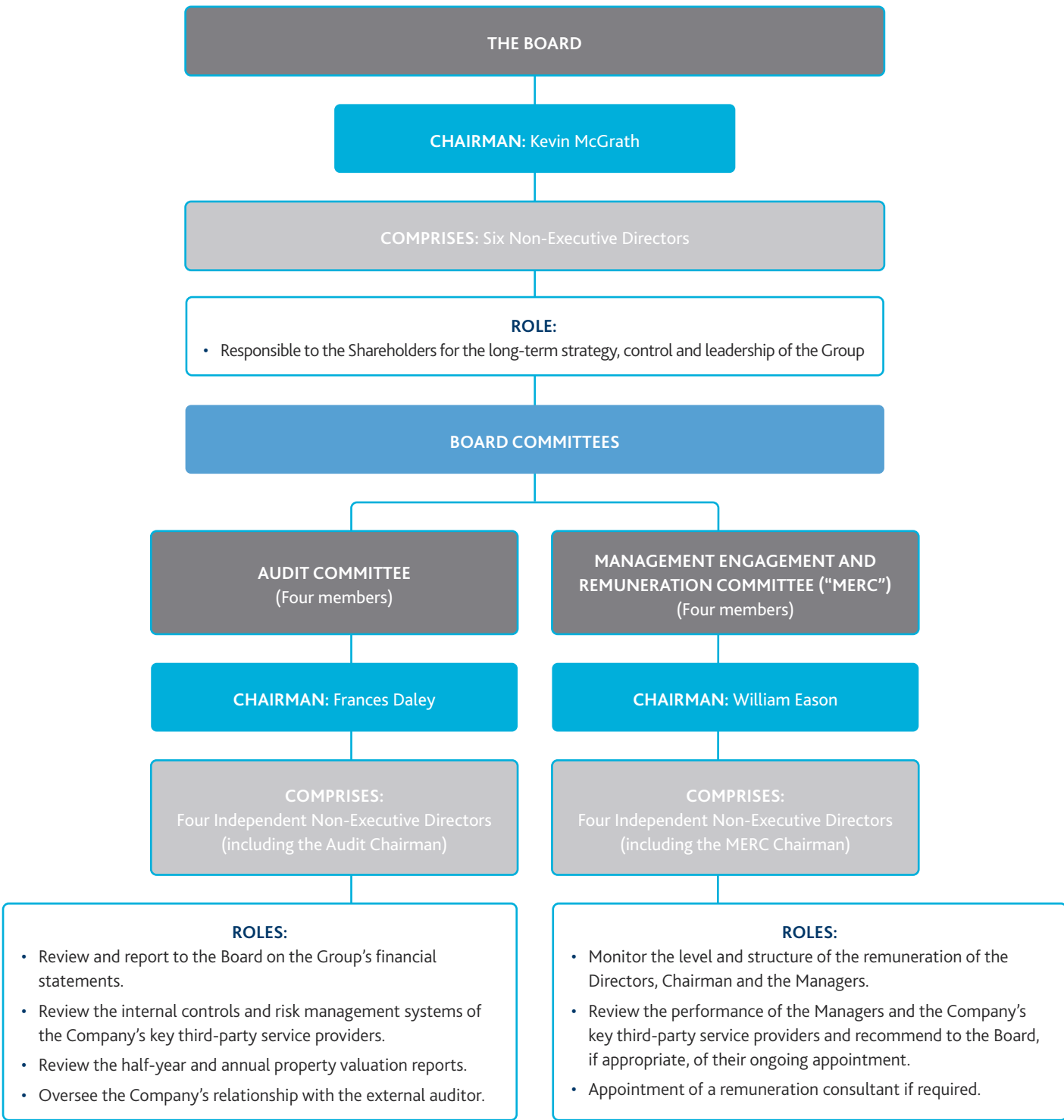
BOARD COMPOSITION



CORPORATE GOVERNANCE STATEMENT continued

BOARD COMMITTEES

The Board has delegated authority to the following Committees and there are written terms of reference for each, outlining its authority and duties, which can be found on the Company's website, www.regionalreit.com.



BOARD COMMITTEES

The Board has two Committees in operation and has delegated certain responsibilities to the Audit Committee and the MERC. Given the size of the Company, it is not felt appropriate for the Company to have a separate nomination committee.

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

AUDIT COMMITTEE

The Audit Committee comprises the four Independent Directors and is chaired by Ms Daley. It meets at least twice a year, or more often if required. The Chairman of the Company is a member of the Audit Committee but does not act as committee chairman.

All members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates. The Board is also satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

Any individual who is not a member of the Audit Committee is not entitled to attend or to vote at its meetings. However, the Audit Committee may invite anyone to attend Committee meetings at its discretion and representatives of the external Auditor are invited to attend as necessary. An Audit Committee Report is set out on pages 88 to 91.

MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE

The MERC comprises the four Independent Directors and is chaired by Mr Eason. It meets at least once a year, or more often if required. The Chairman of the Company is a member of the MERC but does not act as committee chairman.

Although an individual who is not a member of the MERC is not entitled to attend and vote on matters at its meetings, the Committee may invite anyone to attend at its discretion. The MERC Report is set out on pages 92 and 93.

MANAGEMENT OF RISK AND INTERNAL CONTROLS

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

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

- the Board, through the Audit Committee, will conduct a risk and control assessment on an annual basis, including a review of the internal controls procedures of the Company's principal third-party service providers;
- the responsibilities for the investment management, asset management, accountancy and depositary functions are segregated,

and the procedures of the third-party service providers are designed to safeguard the Company's assets;

- the Board is kept regularly updated by each of the Asset Manager and Investment Manager outside of scheduled Board meetings and each Manager provides reports at each meeting of the Board; and
- under the terms of the Asset Management Agreement between the Company and the Asset Manager, Board approval is required for purchases of property exceeding £15 million in value and for disposals exceeding £15 million in value.

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

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks are monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk register is reviewed by the Audit Committee every six months.

The principal risks that have been identified by the Board are set out on pages 47 to 57.

The Board reviews financial information produced by the Investment Manager and the Sub-Administrator on a regular basis.

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

The Audit Chairman, on behalf of the Audit Committee, meets with representatives of LSPIM and Toscafund to discuss and review their internal controls. The Depositary provides depositary services under the AIFMD to the Company and reports on an annual basis to the Company, in addition to quarterly reports, on its specific monitoring of cash transactions and asset verification.

Taking into account the principal and emerging risks provided on pages 47 to 57 and the ongoing work of the Audit Committee in monitoring the risk management and internal control systems on behalf of Board, the Directors:

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

This statement was approved by the Board of Directors and signed on its behalf by

LINK COMPANY MATTERS LIMITED
Company Secretary
24 March 2021

AUDIT COMMITTEE REPORT



Left to right: Kevin McGrath, William Eason, Frances Daley, Daniel Taylor.

I am pleased to present the Audit Committee Report for the year ended 31 December 2020, which provides an overview of our activities and our role in ensuring the integrity of the Group’s published financial information and effectiveness of its risk management, controls and related processes.

As set out on page 87, the Audit Committee is a Board Committee with governance responsibilities that include the oversight of financial disclosures and corporate reporting and it is therefore important that the Committee operates effectively and efficiently. The Committee meets at least twice annually, and its quorum is two members.

FINANCIAL REPORTING

It is a principal responsibility of the Audit Committee to review and report to the Board on the Group’s financial statements, including the Preliminary Statement, the Annual Report and Half-Year Report. When conducting its reviews, the Committee considers the overall requirement that the financial statements present a “true and fair view”, the Company’s accounting policies and significant financial judgements.

We are pleased to advise the Board that the 2020 Annual Report and the audited Financial Statements taken as a whole are fair, balanced and understandable and provides the necessary information for our Shareholders to assess the Company’s position and performance, business model and strategy.

RISK MANAGEMENT AND CONTROL

On an annual basis, the Audit Committee reviews the internal controls and risk management systems of the Company’s key third-party service providers. No significant matters of concern were raised. On an annual basis, the Chairman of the Audit Committee meets with representatives of each of the Asset Manager and Investment Manager to discuss and review their internal controls and compliance. There were no significant matters of concern identified from these meetings.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix. This is done on a six-monthly basis. The Company’s principal risks and uncertainties are set out on pages 47 to 57.

AUDIT COMMITTEE COMPOSITION

During the year under review, the membership of the Audit Committee, which remained unchanged, comprised the four independent non-executive Directors. None of the members of the Committee are connected to either the Asset Manager or Investment Manager or to the Auditor. Whilst Mr McGrath is an independent Director, he is also Chairman of the Company. The Committee has considered it beneficial to have Mr McGrath as a member of the Committee as he was independent on appointment and provides significant input into Audit Committee meetings.

I am a qualified accountant, a Fellow of the Institute of Chartered Accountants in England and Wales, and therefore consider that I have an appropriate level of recent and relevant financial experience to discharge my duties as Chairman of the Audit Committee.

The Audit Committee’s role and responsibilities are set out in the terms of reference, which were last updated in March 2021 and are available on the Company’s website at www.regionalreit.com.

MEETINGS

The Audit Committee met on three occasions during the year and once post the year end to consider the audit findings report and the Financial Statements.

Attendance at these scheduled meetings was as follows:

Member	Scheduled Audit Committee Meetings	
	Number entitled to attend	Number attended
Frances Daley (Chairman)	3	3
William Eason	3	3
Kevin McGrath	3	3
Daniel Taylor	3	3

MATTERS CONSIDERED BY THE AUDIT COMMITTEE IN THE YEAR

At these meetings, the Audit Committee has:

- reviewed the internal controls and risk management systems of key third-party service providers;
- reviewed financial results;
- reviewed and, where appropriate, updated the Company’s Financial Position and Prospects Procedures;
- reviewed the Group’s banking arrangements;
- reviewed the assessment of the Company’s prospects and viability made by the Investment Manager for the next three years which formed the basis for the viability statement (see page 58);
- agreed the audit plan with the Auditor, including the principal areas of focus and, agreed the audit fee;
- reviewed the half-year and annual valuation reports from Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield);
- reviewed whether an internal audit function would be of value;
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the provision of non-audit services by the Auditor;
- reviewed the independence of the Auditor;
- reviewed the Group’s Financial Statements and advised the Board accordingly; and
- considered the Audit Quality Review from the FCA.

The Administrator and the Investment Manager update the Audit Committee on changes to accounting policies, legislation and best practice and areas of significant judgment undertaken by the Investment Manager.

SIGNIFICANT MATTERS CONSIDERED BY THE AUDIT COMMITTEE

The Committee considered the following key matters in relation to the Company during the period:

COVID-19

The Committee has considered the continuing impact of the COVID-19 pandemic on the principal and emerging risks facing the Company and the Group and on its financial performance, through both its scheduled meetings and at additional update meetings which have been held regularly since March 2020. Further information on the impact of COVID-19 on the Group is set out on pages 15 and 51 and in the going concern and viability disclosures on page 58.

Property Portfolio Valuation

The Committee recognises that the valuation of the properties within the Company’s portfolio is central to the Company’s business and that errors could have a material impact on the Company’s net asset value. Properties are independently valued by specialist third party service provider, Cushman & Wakefield at the half year and year end. Furthermore, as part of the annual independent Audit process, the Company’s auditor, RSM UK Audit LLP carry out an assessment of the property portfolio valuation provided by Cushman & Wakefield which includes using their own expert, providing the Committee further comfort that property valuations are accurate.

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

The Asset Manager has held open discussions with the valuers throughout the year on the valuation process to discuss and challenge various elements of the property valuations. The Auditor also meets with the independent property valuer as part of the audit process to discuss and challenge their approach and findings. The Auditor has also engaged its own independent expert to consider the valuation.

The Committee reviewed the half year valuation as at 30 June 2020 and, since the year end, the Committee has considered the year-end valuation report. It discussed the year-end report with the Asset Manager. The Committee was satisfied with the valuation report.

The performance of Cushman & Wakefield is assessed on an annual basis by the MERC, as set out in their report on page 92.

AUDIT COMMITTEE REPORT continued

Going Concern and Long-Term Viability of the Company

The Audit Committee considered the Company's financial requirements for the next twelve months and concluded that it has sufficient resources to meet its commitments and any outstanding loan covenants. Consequently, the financial statements have been prepared on a going concern basis.

The Audit Committee also considered the longer-term viability statement within the annual report for the year ended 31 December 2020, covering a three-year period, and the underlying factors and assumptions which contributed to the Committee deciding that three years was an appropriate length of time to consider the Company's long-term viability. The Company's viability statement can be found on page 58.

FRC Audit Quality Review

During 2019, the Audit Quality Review Team from the FRC conducted an audit quality review ("AQR") of our 2018 year end audit, performed by our auditor, RSM UK Audit LLP as part of its annual programme of promoting improvement in the overall quality of auditing in the UK.

I was involved in the planning for the review which included a preparatory call with the FRC. Following completion of the AQR, the Committee was provided with a report from the FRC's AQR Team. The Committee discussed the AQR findings, in particular with respect to the challenge of the judgements made in relation to the valuation of investment properties with RSM. RSM has confirmed that it has enhanced its audit procedures to address the specific matters raised in the AQR findings, which in respect of the valuation of investment properties includes the engagement of an independent expert to value the Company's investment properties in the audit process.

EXTERNAL AUDITOR

The Audit Committee has primary responsibility for overseeing the relationship with the external auditor, RSM UK Audit LLP. This includes assessing their performance, effectiveness and independence annually and recommending to the Board their reappointment or removal.

RSM UK Audit LLP has been auditor to the Company since listing on 6 November 2015, during which time Mr Euan Banks, Partner at RSM UK Audit LLP, was the lead audit partner on the audit. However, following the 2019-year end audit, Mr Euan Banks reached the end of his five-year term as audit partner and was replaced by Mr Alan Aitchison. The transitional arrangements were discussed with RSM UK Audit LLP and the Investment Manager and Asset Manager to ensure a smooth handover and induction process. In accordance with requirements relating to the appointment of auditors, the Company will conduct a competitive audit tender no later than in respect of financial year ending 31 December 2025. There are no contractual obligations that would restrict the Audit Committee from selecting an alternative external auditor.

Each year, the Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, undertakes a detailed review of the audit plan and the audit results report and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor.

Working with the Auditor

Each year, the Audit Committee meets with the lead audit partner before the annual results are prepared to discuss the scope of the audit plan, with a particular focus on risk and materiality. The external Auditor further meets with the Audit Committee post the year end audit work being completed to discuss the findings of the external audit and to consider and evaluate any findings. To facilitate further open dialogue and assurance, the Audit Committee holds a private session with the Auditor without members of the Asset Manager and Investment Manager being present.

ANNUAL REVIEW OF THE EXTERNAL AUDITOR

The Audit Committee has undertaken a review of the effectiveness of the external audit process and considered the reappointment of the Auditor. The review comprised, amongst other factors, the quality of the staff, including the performance of the lead audit partner, the competence and expertise of the audit team, the resources, and communication between the audit team and the Asset Manager and Investment Manager.

Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year ended 31 December 2020 and the Audit Committee concluded that the quality of the external Auditor's work, and the knowledge and competence of the audit team, had been maintained at an appropriate standard during the year.

AUDIT FEES AND NON-AUDIT SERVICES

An audit fee of £84,500 was agreed in respect of the audit of the Company for the year ended 31 December 2020 (2019: £102,500). An additional fee of £20,000 was paid to the Auditor for the additional work undertaken on the 2019 Annual Report and Accounts in respect of COVID-19. The Group's audit fees for the year ended 31 December 2020 totalled £197,000 (2019: £219,000).

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

The Auditor provided audit-related services in respect of agreed-upon procedures on the Group's interim financial statements for the period ended 30 June 2020. The fee charged for this service was £26,500 (2019: £26,500). The Audit Committee considered this service to be closely aligned to the role as auditor. The Auditor did not provide any non-audit services to the Company for the year under review (2019: £80,000).

INDEPENDENCE AND OBJECTIVITY OF THE AUDITOR

The Audit Committee has considered the independence and objectivity of the Auditor and has conducted a review of non-audit services which the Auditor has provided during the year under review. The Audit Committee receives an annual assurance from the Auditor that its independence is not compromised by the provision of non-audit services and that it maintains appropriate internal safeguards in line with applicable professional standards.

In evaluating the performance of the Auditor, the Audit Committee considered the effectiveness of the audit process, taking consideration of the quality of delivery, staff expertise, audit fees and the Auditor's independence, along with matters raised during the audit.

Having considered the Auditor's independence in respect of the year under review, the Audit Committee is satisfied with the Auditor's performance, objectivity and independence.

The Audit Committee reviews the continuing appointment of the Auditor on an annual basis and gives regular consideration to the Auditor's fees and independence, along with matters raised during each audit.

AUDITOR APPOINTMENT

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

Internal Audit

The Audit Committee reviewed whether an internal audit function would be of value and concluded that there is no need for an internal audit function, principally because the Company delegates its day-to-day operations to third parties that are monitored by the Committee and, which provide control reports on their operations at least annually. In addition, given the limited size and complexity of the business, it was agreed that an internal audit function would provide minimal added comfort at considerable extra cost to the Company.

ROLE OF THE AUDIT COMMITTEE

The principal duties of the Audit Committee are:

Financial Reporting

- to review the integrity and contents of the half-yearly financial statements, full-year financial statements and preliminary results announcement of the Company;
- to review and report to the Board on any significant financial reporting issues and judgements, having regard to any matters communicated to it by the Auditor; and
- as requested by the Board, to review the contents of the Annual Report and audited financial statements and to advise the Board on whether, taken as a whole, the report is fair, balanced and understandable and provides Shareholders with sufficient information to assess the Company's position and performance, business model and strategy.

Risk Management and Control

- to keep under review the adequacy of the Company's Asset and Investment Manager and third-party service providers' internal controls and risk management systems;
- review the Company's risk register, including significant and emerging risks; and
- to assess the prospects of the Company for the next 12 months and to consider its longer-term viability.

External Audit

- to manage the relationship with the Company's external Auditor, including reviewing the Auditor's remuneration, re-appointment, terms of engagement, objectivity and independence and performance. The Committee makes recommendations to the Board as appropriate;
- to review the policy on the engagement of the Auditor to supply non-audit services and the fees paid for such services;
- to safeguard the Auditor's independence and objectivity; and
- to regularly review the need for an internal audit function.

External Property Valuation

- to review the quality and appropriateness of the half-yearly and full-year external valuations of the Group's property portfolio.

Other

- to review the Committee's terms of reference and performance effectiveness; and
- to report to the Board on how it has discharged its responsibilities.

The Audit Committee reports and makes recommendations to the Board, as appropriate.

COMMITTEE EFFECTIVENESS

During the year, the Board carried out an internally facilitated evaluation of its performance and that of its Committees. This evaluation confirmed that the Audit Committee continued to operate at an appropriate standard.

FRANCES DALEY
Chairman
Audit Committee
24 March 2021

MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE REPORT



Left to right: William Eason, Kevin McGrath, Daniel Taylor, Frances Daley.

I am pleased to present the Management Engagement and Remuneration Committee ("MERC") Report for the year ended 31 December 2020.

COMPOSITION AND MEETINGS

The MERC, whose membership remained unchanged and consists solely of the independent non-executive Directors and myself as Chairman, met once during the year. The MERC is required to meet at least once annually, and its quorum is two members.

Attendance at these meetings was as follows:

Member	Scheduled MERC Meetings	
	Number entitled to attend	Number attended
Bill Eason (Chairman)	1	1
Kevin McGrath	1	1
Daniel Taylor	1	1
Frances Daley	1	1

ACTIVITIES DURING THE YEAR

The Board keeps the ongoing performance of each of the Asset and Investment Manager under continual review and, through the MERC, conducts an annual appraisal of the performance of each of the Managers, along with the performance of key third-party service providers.

On a regular basis, the Board reviews the acquisition and disposal decisions made by the Asset Manager. To ensure open and regular communication between the Managers and the Board, representatives of both Managers have been appointed to the Board and attend all Board meetings. The Asset Manager provide regular updates to the Board on the Company's assets and the property market generally. The Investment Manager provides regular updates to the Board on the Company's financial performance. The Board keeps the performance of both Managers under continual review.

The MERC considered the ongoing appointment of the Company's third-party service providers for the year ended 31 December 2020 and was satisfied with the effectiveness of the performance of these providers and that the Company was benefiting from added value in respect of the services it procures from these third parties. It recommended to the Board that all third-party service providers be retained.

In addition, the Investment Manager undertakes continual review of the competitiveness of the fees of the Company's service providers and advises the MERC as appropriate.

The MERC also considered the remuneration of the independent non-executive Directors, details of which can be found in the Remuneration Report on pages 94 and 95. No individual was involved in discussions about his/her own remuneration.

DIRECTORS INTERESTS

The Company's Articles of Incorporation do not require a Director to own shares in the Company. The interests of the Directors and any connected persons in the Ordinary Shares of the Company as at 31 December 2020 and the date of this report can be found on page 71.

REMUNERATION ADVISERS

The Company has not sought the advice or service by any outside persons or consultants in respect of the consideration of Directors' remuneration.

ROLE OF THE MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE

The principal duties of the MERC are:

- to recommend and monitor the appropriateness of the ongoing appointment of the Asset Manager and Investment Manager of the Company and make a recommendation to the Board thereon;
- to recommend and monitor the appropriateness of the level of fees of the Asset Manager and Investment Manager and make a recommendation to the Board thereon;
- to recommend and monitor the appropriateness of the ongoing appointment of the third-party service providers and make a recommendation to the Board thereon;
- to monitor and agree the level and structure of remuneration of the Directors of the Company;
- to authorise the policy for authorising claims for expenses from the Directors; and
- to select, appoint and set the terms for any remuneration consultant who advise the committee.

COMMITTEE EFFECTIVENESS

During the year, the Board carried out an internally facilitated evaluation of its performance and that of its Committees. This evaluation confirmed that the MERC continued to operate at a high standard.

WILLIAM EASON

Chairman

Management Engagement and Remuneration Committee

24 March 2021

DIRECTORS’ REMUNERATION REPORT

STATEMENT FROM THE CHAIRMAN

As Chairman of the MERC and on behalf of the Board, I am pleased to present the Directors’ Remuneration Report for the year ended 31 December 2020. This report has been prepared in accordance with the relevant requirements of the Listing Rules. As set out on page 87 in the corporate governance statement, the MERC comprises only the non-executive Directors of the Company.

As at 31 December 2020 and the date of this report, the Board consists entirely of non-executive Directors and the Company has no employees. During the year under review, the MERC reviewed the level of Directors’ remuneration, having regard to the level of activity of the Company, its financial results, market rates generally and the time commitment and responsibilities required of each Director. The MERC ensured that the level of remuneration remained aligned to the performance of the Company and will take into consideration the views of Shareholders on Directors’ remuneration.

The MERC reviews Directors’ fees on an annual basis. No Director is involved in determining their own remuneration. The MERC has not been provided with any advice or services by any person or organisation in respect of its consideration of the Directors’ remuneration. The MERC met once during the year.

In the year under review, the MERC decided to not make any changes to the Directors’ remuneration. The annual fees for Directors were last increased on 1 April 2019, having been set in 2015.

DIRECTORS’ REMUNERATION

The level of remuneration has been set to reflect the experience of the Board as a whole, determined with reference to comparable organisations and appointments. The Directors shall be entitled to receive fees for their services, such sums not to exceed in aggregate £300,000 in any financial year (or such sum as the Company in general meeting shall from time to time determine). The fee for any new Director appointed will be determined on the same basis.

Mr Eason receives no additional remuneration for his role as chairman of the MERC or as Senior Independent Non-Executive Director. Ms Daley receives no additional remuneration for her role as chairman of the Audit Committee.

Mr Inglis has waived his right to receive remuneration from the Company due to his position as chief executive officer of the Asset Manager. Mr Bee has waived his right to receive remuneration from the Company due to his position as chief legal counsel of the Investment Manager.

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

ADDITIONAL REMUNERATION

There are no performance conditions attaching to the remuneration of the Directors as the Board does not believe that this is appropriate for non-executive Directors. The Directors do not receive pension benefits, long-term incentive schemes or share options or any other non-statutory benefits. Directors’ & Officers’ liability insurance is maintained and paid for by the Company on behalf of the Directors. No Director is entitled to any other monetary payment or any assets of the Company.

PAYMENT FOR LOSS OF OFFICE AND PAYMENTS TO PAST DIRECTORS

Compensation will not be made upon early termination of appointment. No payment has been made to any former Director for loss of office (2019: none). There were no payments for past Directors in the year ended 31 December 2020 (2019: none).

REMUNERATION CONSULTANTS

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

TOTAL DIRECTOR REMUNERATION (AUDITED)

The remuneration paid to the Directors as fees for their services during the year is set out in the table below:

Director	Fees paid to 31 December 2020	Fees paid to 31 December 2019
Kevin McGrath	£73,500	£72,625
William Eason	£52,500	£51,875
Daniel Taylor	£52,500	£51,875
Frances Daley	£52,500	£51,875
Stephen Inglis	–	–
Tim Bee	–	–
Aggregate:	<u>£231,000</u>	<u>£228,250</u>

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

No additional remuneration was paid to the Directors during the year. No Director claimed any expenses during the year.

The basic fee payable to Directors in respect of the year ended 31 December 2020 and the expected fees payable in respect of the year ending 31 December 2021 are set out in the table below:

Director	Expected annual fees for the year to 31 December 2021	Annual fees for the year to 31 December 2020
Chairman	£73,500	£73,500
Non-executive director	£52,500	£52,500
Total remuneration paid to Directors	<u>£231,000</u>	<u>£231,000</u>

The approval of Shareholders would be required to increase the aggregate limit of Directors’ fee of £300,000, as set out in the Company’s articles of incorporation.

DIRECTORS’ SHAREHOLDINGS

Neither the Company’s articles of incorporation nor the Directors’ letters of appointment require a Director to own shares in the Company. Any shares held by the Directors and their connected persons have been bought on the open market. Details of the Directors’ interests in shares are provided on page 71.

SHAREHOLDER ENGAGEMENT

The Company is committed to ongoing shareholder dialogue and any views expressed by Shareholders on the fees being paid to Directors would be taken into consideration by the MERC in the annual review of Directors’ fees.

By order of the Board

WILLIAM EASON

Chairman of the Management Engagement and Remuneration Committee

24 March 2021

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF REGIONAL REIT LIMITED

OPINION

We have audited the financial statements of Regional REIT Limited (the ‘group’) for the year ended 31 December 2020 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group’s affairs as at 31 December and of the group’s loss for the year then ended;
- are in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- comply with the requirements of The Companies (Guernsey) Law, 2008 and Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group’s ability to continue to adopt the going concern basis of accounting included:

- checking the integrity and accuracy of the cashflow forecasts and covenant calculations prepared by management;
- challenging management on the reasonableness of the assumptions made in the forecasts particularly in respect of; the non-payment of rent by tenants; the drawdown of funds from existing bank facilities;

the headroom in banking covenants; and the ability to make dividend payments;

- assessing the reasonableness of assumptions and explanations provided by management to supporting information, where available;
- stress-testing management’s cashflow forecasts to assess the impact of assumptions worse than those included in management’s model; and
- auditing the accuracy of disclosures made in the financial statements in respect of risks, going concern and viability.

Our evaluation of the directors’ assessment of the group’s ability to continue to adopt the going concern basis of accounting included gaining an understanding of their assessment of the underlying risks relating to going concern, the key facts and variables within that assessment and the judgements they applied in reaching their conclusion. We concluded that the directors’ assessment was appropriate in the circumstances.

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

In relation to the entities reporting on how they have applied the AIC Code of Corporate Governance, we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	Group <ul style="list-style-type: none">• Valuation of Investment Property
Materiality	Group <ul style="list-style-type: none">• Overall materiality: £9,570,000 (2019: £5,314,000)• Performance materiality: £7,170,000 (2019: £2,657,000)
Scope	Our audit procedures covered 85% of revenue, 93% of total assets and 95% of loss before tax.

KEY AUDIT MATTERS

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

Investment Properties

Key audit matter description	<p>This is detailed in the Audit Committee report on pages 88 to 91; the significant accounting judgements and estimates on page 109; note 4 of the significant accounting policies to the financial statements on page 111.</p> <p>The Group owns or controls through a portfolio of Special Purpose Vehicles (SPV’s) a portfolio of investment properties which include industrial, office and retail properties. The total value of the portfolio at 31 December 2020 was £732.4 million (2019: £787.9 million). These properties are diversified across the UK with a wide geographical spread.</p> <p>The Directors’ assessment of the value of the investment properties at the year-end date, is considered a key audit matter due to the magnitude of the total amount, the potential impact of the movement in value on the reported results, and the subjectivity and complexity of the valuation process.</p> <p>The valuation is carried out by external valuers, Cushman & Wakefield in line with the methodology set out in note 3.1.1.</p>
How the matter was addressed in the audit	<p>We audited the independent valuations of investment properties to evaluate whether they had been prepared on a consistent basis for all properties and in accordance with RICS standards and are considered to be appropriate and correctly recorded in the consolidated financial statements in line with financial reporting framework. We assessed the external valuers’ qualifications and expertise and considered their terms of engagement, we also considered their objectivity and any other existing relationships with the group and concluded that there was no evidence that the valuers’ objectivity had been compromised.</p> <p>We engaged a property valuation specialist, as our auditor’s expert, and based on our initial discussions we identified 46 properties for detailed testing, where the current year valuation fell outside their current market expectations, or where the property was either individually material or had valuation or yield movements that were higher or lower than expected from our overall review of the portfolio.</p> <p>We discussed and challenged the valuation of 27 of these properties with the valuer, who demonstrated a detailed knowledge of each property, the geographical location, the tenant status and the overall asset desirability. We corroborated the additional information provided to support these movements.</p> <p>In addition, our auditor’s expert, carried out a review of the valuations for the remaining 19 properties. Our expert considered the specific inputs to these valuations and also considered the comparable transaction evidence that was used by management’s expert in preparing their valuation.</p> <p>We audited the additions and disposals made in the year and agreed a sample of these to completion statements.</p> <p>We tested the inputs used by the valuer and ensured these reflected the correct inputs for a sample of properties.</p>
Key observations	<p>We concluded that the fair values of the investment properties being adopted by the group were appropriate.</p>

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF REGIONAL REIT LIMITED

continued

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group
Overall materiality	£9,570,000 (2019: £5,314,000)
Basis for determining overall materiality	1.1% of Total Assets
Rationale for benchmark applied	Total assets was used as a benchmark as it was assessed that the shareholders will be primarily interested in the growth in the value of property, represented by the property valuation. In the prior year our materiality was based on a blend of measures including total assets, revenue, and result before tax.
Performance materiality	£7,170,000 (2019: £2,657,000)
Basis for determining performance materiality	75% of overall materiality
Materiality levels for those classes of transactions where materiality levels are lower than overall materiality	The statement of comprehensive income was tested to the lower Performance Materiality figure of £1,680,000 to reflect that those values are significantly lower than those in the statement of financial position.
Reporting of misstatements to the Audit Committee	Misstatements in excess of £478,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The group consists of 90 components, located in the following countries; Guernsey; Jersey; and the United Kingdom.

The coverage achieved by our audit procedures was:



Full scope audits were performed for 11 components, specific audit procedures for 21 components and analytical procedures at group level for the remaining 58 components.

The specific audit procedures for 19 components include the review of the investment properties held by those components. The specific audit procedures for the remaining two components included procedures on cash and cash equivalents.

All audit work on the components was performed by RSM UK Audit LLP with no work performed by other component auditors.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

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

CORPORATE GOVERNANCE STATEMENT

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

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

- Directors’ statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 58;
- Directors’ explanation as to its assessment of the group’s prospects, the period this assessment covers and why this period is appropriate set out on page 58;
- Directors’ statement on fair, balanced and understandable set out on page 76;

- Board’s confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 87;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 87; and,
- The section describing the work of the audit committee set out on pages 88 to 91.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors’ responsibilities statement set out on page 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

THE EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF REGIONAL REIT LIMITED

continued

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team and component auditors:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework, that the group operates in and how the group is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud; and
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud, having obtained an understanding of the effectiveness of the control environment.

All relevant laws and regulations identified at a Group level and areas susceptible to fraud that could have a material effect on the consolidated financial statements were communicated to component auditors. Any instances of non-compliance with laws and regulations identified and communicated by a component auditor were considered in our group audit approach.

The most significant laws and regulations were determined as follows:

Legislation/ Regulation	Additional audit procedures performed by the Group audit engagement team and component auditors included:
<i>IFRS; The Companies (Guernsey) Law 2008; AIC Code of Corporate Governance; and Listing and Transparency Rules</i>	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklist to identify areas of non-compliance.
<i>Tax compliance; and UK REIT regulations</i>	Inspection of advice received from external tax advisors; Input from an internal auditor’s expert was obtained regarding compliance with the UK REIT regulations.
<i>Land and Building Regulations</i>	Inspection of technical due diligence report and legal due diligence report.
<i>Environmental Policies and Regulations</i>	Inspection of environmental due diligence report.
<i>Health and Safety Regulations</i>	Inspection of health and safety risk report.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the Group audit engagement team and component auditors:
<i>Management override of internal controls</i>	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor’s report. This description, which is located on page 101, forms part of our auditor’s report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the audit committee on 06 November 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted consecutive appointments is six years, covering the years ending 31 December 2015 to 31 December 2020.

The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the company’s members, as a body, in accordance with section 262 of The Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

ALAN AITCHISON
FOR AND ON BEHALF OF RSM UK AUDIT LLP, AUDITOR
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG
24 March 2021

APPENDIX:
AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, including the FRC’s Ethical Standard as applied to public interest entities, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Continuing Operations			
Revenue			
Rental and property income	5	75,941	75,645
Property costs	6	(22,662)	(20,681)
Net rental and property income		53,279	54,964
Administrative and other expenses	7	(11,329)	(10,904)
Operating profit before gains and losses on property assets and other investments		41,950	44,060
(Loss)/gain on disposal of investment properties	14	(1,073)	1,662
Change in fair value of investment properties	14	(54,793)	(3,513)
Change in fair value of right of use assets	27	(195)	(194)
Operating (loss)/profit		(14,111)	42,015
Finance income	9	99	155
Finance expenses	10	(14,108)	(13,880)
Impairment of goodwill	16	(558)	(557)
Net movement in fair value of derivative financial instruments	26	(2,523)	(1,479)
(Loss)/profit before tax		(31,201)	26,254
Taxation	11	203	257
Total comprehensive (loss)/income for the year (attributable to owners of the parent Company)		(30,998)	26,511
Total comprehensive income arises from continuing operations.			
(Losses)/earnings per share – basic and diluted	12	(7.2)p	6.6p

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Investment properties	14	732,380	787,915
Right of use assets	27	16,156	16,351
Goodwill	16	–	558
Non-current receivables on tenant loan	17	1,011	1,156
		749,547	805,980
Current assets			
Trade and other receivables	18	33,690	32,158
Cash and cash equivalents	19	67,373	37,248
		101,063	69,406
Total assets		850,610	875,386
Liabilities			
Current liabilities			
Trade and other payables	20	(33,809)	(22,153)
Deferred income	21	(14,584)	(13,301)
Deferred tax liabilities	22	(690)	(736)
		(49,083)	(36,190)
Non-current liabilities			
Bank and loan borrowings	23	(310,692)	(287,856)
Retail eligible bonds	25	(49,441)	(49,286)
Derivative financial instruments	26	(4,339)	(1,816)
Lease liabilities	27	(16,473)	(16,510)
		(380,945)	(355,468)
Total liabilities		(430,028)	(391,658)
Net assets		420,582	483,728
Equity			
Stated capital	28	430,819	430,819
(Accumulated losses)/retained earnings		(10,237)	52,909
Total equity attributable to owners of the parent company		420,582	483,728
Net asset value per share – basic and diluted	29	97.5p	112.1p

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 24 March 2021 and signed on its behalf by:

KEVIN MCGRATH
Chairman and Independent Non-Executive Director
24 March 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Notes	Attributable to owners of the parent company		
		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

	Notes	Attributable to owners of the parent company		
		Stated capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019		370,316	59,199	429,515
Total comprehensive income		–	26,511	26,511
Issue of share capital	28	62,500	–	62,500
Share issue costs	28	(1,997)	–	(1,997)
Dividends paid	13	–	(32,801)	(32,801)
Balance at 31 December 2019		430,819	52,909	483,728

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities		
(Loss)/profit for the year before taxation	(31,201)	26,254
– Change in fair value of investment properties	54,793	3,513
– Change in fair value of financial derivative instruments	2,523	1,479
– Loss/(gain) on disposal of investment properties	1,073	(1,662)
– Change in fair value of right of use assets	195	194
Impairment of goodwill	558	557
Finance income	(99)	(155)
Finance expenses	14,108	13,880
Increase in trade and other receivables	(2,821)	(7,881)
Increase/(decrease) in trade and other payables	7,595	(12,416)
Increase in deferred income	1,283	2,259
Cash generated from operations	48,007	26,022
Finance costs	(12,515)	(12,165)
Taxation received/(paid)	174	(839)
Net cash flow generated from operating activities	35,666	13,018
Investing activities		
Purchase of investment properties	(53,759)	(49,917)
Sale of investment properties	53,428	24,294
Interest received	101	163
Acquisition of subsidiaries, net of cash acquired	–	(43,943)
Net cash flow used in investing activities	(230)	(69,403)
Financing activities		
Proceeds from the issue of shares	–	62,500
Share issue costs	–	(1,997)
Dividends paid	(26,672)	(32,534)
Zero Dividend Preference Shareholders repaid	–	(39,879)
Bank borrowings advanced	39,200	22,911
Bank borrowings repaid	(17,029)	(19,398)
Bank borrowing costs paid	(192)	(2,168)
Bond issue costs paid	–	(7)
Lease repayments	(618)	(618)
Net cash flow used in financing activities	(5,311)	(11,190)
Net increase/(decrease) in cash and cash equivalents	30,125	(67,575)
Cash and cash equivalents at the start of the year	37,248	104,823
Cash and cash equivalents at the end of the year	67,373	37,248

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE INFORMATION

The Group's consolidated financial statements for the year ended 31 December 2020 comprise the results of the Company and its subsidiaries (together constituting the "Group") and were approved by the Board and authorised for issue on 24 March 2021.

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 on pages 14 to 64.

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

2. BASIS OF PREPARATION

The Group's consolidated financial statements have been prepared on a going concern basis in accordance with the Disclosure Guidance and Transparency Rules of the FCA, the requirements of The Companies (Guernsey) Law 2008 and with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee ("IFRIC") as issued by the IASB adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

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 on page 58 and within principal and emerging risks on pages 47 to 57.

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 2020 and have had an impact on the financial statements are as follows:

Amendments to IFRS 3 'Business Combinations' (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions. As detailed in note 2.3, careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the amendments to this standard have not had any impact on the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020) – make amendments to clarify the definition of 'material'. The amendments make IFRSs more consistent but are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS 16 'Leases' (effective from June 2020 onwards) – were issued in response to the COVID-19 pandemic to address accounting treatment for rent concessions granted to lessees as a direct result of the pandemic. The Group has not received any rent concessions for its long leasehold investment properties and therefore accounting treatment has not been affected.

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 2021 and have not been applied in preparing these financial statements. These are:

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 and Santander UK will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

The Directors are currently assessing the impact of the changes in accounting standards but as the Group does not apply hedge accounting, it is anticipated that the accounting standard amendments will not 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 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1. Critical accounting estimates and assumptions

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

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £732,380,000 (31 December 2019: £787,915,000), 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.

In relation to Brexit, the recently completed negotiations with regards to the terms of the UK's exit from the EU has meant that property market remains uncertain. There is some uncertainty concerning the impact of COVID 19 however the independent valuers note the following in their report.

"The pandemic and the measures taken to tackle COVID-19 continue 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 an adequate quantum of 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 £4,339,000 liability (31 December 2019: £1,816,000 liability). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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 and at 1 January 2019 when the standard was first adopted. 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 2020, there were 13 leases with the range of the period left to run being 46 and 105 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 were transferred into two new special purpose vehicles ("SPVs") with two additional properties to be transferred into these SPVs at a later date. 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 2019 and have been consistently applied for the year ended 31 December 2020.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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 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 payables

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

4.11. Bank and other borrowings

All bank and other borrowings (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. Zero Dividend Preference Shares

Zero Dividend Preference Shares ("ZDP Shares") are recognised as liabilities in the Group's Consolidated Statement of Financial Position in accordance with IAS 32 Financial Instruments: Presentation. After initial recognition, these liabilities are measured at amortised cost, which represents the value the liability is recognised at initial recognition, plus the accrued interest entitlement to the date of these financial statements.

4.13. 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.

4.14. 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.

4.15. 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.

4.16. 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.

4.17. Dividend income

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

4.18. 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.

4.19. Taxation

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

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

The Group elected to be treated as a UK REIT with effect from 7 November 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from UK Corporation Tax. Gains on UK properties are also exempt from tax, provided that they are not held for

trading or sold in the three years after completion of development. The Group is otherwise subject to UK Corporation Tax.

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.

4.20. 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. 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 is 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 of properties owned by Group entities which fall outside of the REIT tax rules.

The current rate of UK Corporation Tax is 19%.

4.21. Stated capital

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

4.22. Share-based payments

The Group has entered into Performance Fee arrangements with the Asset Manager and Investment 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.

4.23. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

5. RENTAL AND PROPERTY INCOME

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Rental income – freehold property	55,382	53,404
Rental income – long leasehold property	6,695	10,989
Recoverable service charge income and other similar items	13,864	11,252
Total	75,941	75,645

6. PROPERTY COSTS

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Other property expenses and irrecoverable costs	8,798	9,429
Recoverable service charge income and other similar costs	13,864	11,252
Total	22,662	20,681

Property costs represent direct operating expenses which arise on investment properties that generate rental income.

7. ADMINISTRATIVE AND OTHER EXPENSES

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Investment management fees	2,577	2,356
Property management fees	2,266	2,280
Asset management fees	2,579	2,356
Directors' remuneration (see note 8)	255	255
Administration fees	634	746
Legal and professional fees	1,674	2,107
Marketing and promotion	69	96
Other administrative costs (including bad debts)	1,257	657
Bank charges	18	51
Total	11,329	10,904

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 2020 £'000	Year ended 31 December 2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts*	105	83
Fees payable to the group's auditor and its associates for the audit of the Company's subsidiaries	105	114
Total fees payable for audit services	210	197
Fees payable to the group's auditor and its associates for other services:		
Audit-related services	26	26
Corporate finance services	–	80
Total	236	303

* The current 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 2020 £'000	Year ended 31 December 2019 £'000
Directors' fees	231	228
Employer's National Insurance contributions	24	27
Total	255	255

9. FINANCE INCOME

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest income	99	155
Total	99	155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

10. FINANCE EXPENSES

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest payable on bank borrowings	10,257	9,904
Accrued capital entitlement on ZDP Shares	–	60
Amortisation of loan arrangement fees	857	912
Amortisation of ZDP Share acquisition costs	–	3
Bond interest	2,250	2,250
Bond issue costs amortised	155	157
Bond expenses	8	11
Lease interest	581	583
Total	14,108	13,880

11. TAXATION

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Corporation tax credit	(157)	(359)
(Decrease)/increase in deferred tax creditor	(46)	102
Total	(203)	(257)

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
(Loss)/profit before taxation	(31,201)	26,254
UK Corporation Tax rate	19%	19%
Theoretical tax at UK Corporation Tax rate	(5,928)	4,988
Effects of:		
Revaluation of investment property	10,410	668
Permanent differences	(363)	(556)
Profits from the tax-exempt business	(4,276)	(5,459)
Deferred tax movement	(46)	102
Total	(203)	(257)

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 and UK income 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 and UK income tax arise 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 (losses)/profits for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Calculation of earnings per share		
Net (loss)/profit attributable to Ordinary Shareholders	(30,998)	26,511
Adjustments to remove:		
Changes in value of investment properties	54,793	3,513
Changes in fair value of interest rate derivatives and financial assets	2,523	1,479
Loss/(gain) on disposal of investment property	1,073	(1,662)
Impairment of goodwill	558	557
Deferred tax (credit)/charge	(46)	102
Close out costs on borrowings and derivatives	–	487
EPRA net profit attributable to Ordinary Shareholders	27,903	30,987
Add performance fee	–	–
Company specific adjusted earnings figure	27,903	30,987
Weighted average number of Ordinary Shares	431,506,583	398,867,828
(Loss)/earnings per share – basic and diluted	(7.2)p	6.6p
EPRA earnings per share – basic and diluted	6.5p	7.8p
Company specific adjusted earnings per share – basic and diluted	6.5p	7.8p

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For the year ended 31 December 2020

13. DIVIDENDS

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Dividend of 2.55 (2019: 2.50) pence per Ordinary Share for the period 1 October 2019 – 31 December 2019	11,004	9,321
Dividend of 1.90 (2019: 1.90) pence per Ordinary Share for the period 1 January 2020 – 31 March 2020	8,198	7,084
Dividend of 1.50 (2019: 1.90) pence per Ordinary Share for the period 1 April 2020 – 30 June 2020	6,473	8,198
Dividend of 1.50 (2019: 1.90) pence per Ordinary Share for the period 1 July 2020 – 30 September 2020	6,473	8,198
	32,148	32,801

On 27 February 2020, the Company announced a dividend of 2.55 pence per share in respect of the period 1 October 2019 to 31 December 2019. The dividend payment was made on 9 April 2020 to Shareholders on the register as at 6 March 2020.

On 21 May 2020, the Company announced a dividend of 1.90 pence per share in respect of the period 1 January 2020 to 31 March 2020. The dividend payment was made on 17 July 2020 to Shareholders on the register as at 5 June 2020.

On 26 August 2020, the Company announced a dividend of 1.50 pence per share in respect of the period 1 April 2020 to 30 June 2020. The dividend payment was made on 16 October 2020 to Shareholders on the register as at 4 September 2020.

On 12 November 2020, the Company announced a dividend of 1.50 pence per share in respect of the period 1 July 2020 to 30 September 2020. The dividend payment was made on 8 January 2021 to Shareholders on the register as at 20 November 2020.

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 will be paid on 9 April 2021 to Shareholders on the register as at 5 March 2021. The financial statements do not reflect this dividend.

The Board intends to pursue a progressive dividend policy and continue to pay quarterly dividends. However, in view of ongoing circumstances, the Company reserves the right to review future dividend payments.

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.

In relation to Brexit, the recently completed negotiations with regards to the terms of the UK's exit from the EU has meant that the property market remains uncertain. There is some uncertainty concerning the impact of COVID 19 however the independent valuers note the following in their report.

"The pandemic and the measures taken to tackle COVID-19 continue 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 an adequate quantum of 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.

	Freehold property £'000	Long leasehold property £'000	Total £'000
Group			
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)
(Loss)/gain on the disposal of investment properties	(1,128)	55	(1,073)
Change in fair value during the year	(43,715)	(11,078)	(54,793)
Valuation at 31 December 2020	659,432	72,948	732,380

	Freehold property £'000	Long leasehold property £'000	Total £'000
Movement in investment properties for the year ended 31 December 2019			
Valuation at 1 January 2019	625,020	93,355	718,375
Property additions – acquisitions	89,920	–	89,920
Property additions – subsequent expenditure	5,527	238	5,765
Property disposals	(24,003)	(291)	(24,294)
Gain/(loss) on the disposal of investment properties	1,679	(17)	1,662
Change in fair value during the period	(235)	(3,278)	(3,513)
Valuation at 31 December 2019	697,908	90,007	787,915

The net book value of properties disposed of during the year amounted to £54,501,000 (2019: £22,623,000).

The historic cost of the properties is £759,705,000 (31 December 2019: £751,638,000).

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 2020 was £705,130,000 (31 December 2019: £748,715,000).

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

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
Date of valuation:				
31 December 2020	732,380	–	–	732,380
31 December 2019	787,915	–	–	787,915

The hierarchy levels are defined in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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 2020 £'000	Year ended 31 December 2019 £'000
Balance at the start of the year	787,915	718,375
Additions	53,759	95,685
Disposals	(53,428)	(24,294)
(Loss)/gain on the disposal of investment properties	(1,073)	1,662
Change in fair value during the year	(54,793)	(3,513)
Balance at the end of the year	732,380	787,915

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 2020, 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 – £3,092,291 per annum (2019: £6,000 – £3,092,291 per annum).

Observable input: rental growth

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

Observable input: net initial yield

The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0.00%-25.64% (2019: 0.00%-28.70%).

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
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 Ltd	Jersey	100
Quay West Estate Company Ltd	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 Garnet Ltd	Jersey	100
Tosca Glasgow II Ltd	United Kingdom	100
Tosca Midlands Ltd	Jersey	100
Tosca North East Ltd	Jersey	100
Tosca North West Ltd	Jersey	100
Tosca Scotland Ltd	Jersey	100
RR Star Ltd	Jersey	100
Tosca South West Ltd	Jersey	100
Tosca Swansea Ltd	Jersey	100
Tosca Thorpe Park Ltd	Jersey	100
Tosca UK CP II Ltd	Jersey	100
Tosca UK CP Ltd	Jersey	100
Tosca Victory House Ltd	Jersey	100
Tosca Winsford Ltd	Jersey	100
Toscafund Bennett House Ltd	Jersey	100
Toscafund Bishopgate Street Ltd	Jersey	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

	Country of incorporation	Ownership %
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 Welton Road Ltd	Jersey	100
Toscafund Westminster House Ltd	Jersey	100
Toscafund Sheldon Court Ltd	Jersey	100
RR Skylar 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	Ownership %
Castlestream Ltd	United Kingdom	100%
Caststop Ltd (in liquidation)	United Kingdom	100%
Credential (Baillieston) Ltd (in liquidation)	United Kingdom	100%
Credential (Greenock) Ltd	United Kingdom	100%
Credential (Wardpark North) Ltd	United Kingdom	100%
Credential (Wardpark South) Ltd (in liquidation)	United Kingdom	100%
Credential Bath Street Ltd (in liquidation)	United Kingdom	100%
Credential Charring Cross Ltd (in liquidation)	United Kingdom	100%
Credential Estates Ltd	United Kingdom	100%
View Castle Ltd	United Kingdom	100%
Credential Residential Finance Ltd (in liquidation)	United Kingdom	100%
Credential Tay House Ltd (in liquidation)	United Kingdom	100%
Hamiltonhill Estates Ltd (in liquidation)	United Kingdom	100%
Lilybank Church Ltd (in liquidation)	United Kingdom	100%
Lilybank Terrace Ltd (in liquidation)	United Kingdom	100%
Old Mill Studios Ltd (in liquidation)	United Kingdom	100%

	Country of incorporation	Ownership %
Old Rutherglen Road Ltd	United Kingdom	100%
Rocket Unit Trust	Jersey	100%
Squeeze Newco (Elmbank) Ltd (in liquidation)	United Kingdom	100%
Squeeze Newco 2 Ltd	United Kingdom	100%
The Legal Services Centre Ltd	United Kingdom	100%
View Castle (Properties) Ltd	United Kingdom	100%
View Castle (Milton Keynes) Ltd	United Kingdom	100%

All of the above entities have been included in the Group's consolidated financial statements up to 31 December 2020.

Business Combinations

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

16. GOODWILL

	31 December 2020 £'000	31 December 2019 £'000
Group		
At start of year	558	1,115
Impairment	(558)	(557)
At end of year	–	558

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. As at 31 December 2020 the goodwill has been fully impaired to a nil value.

17. NON-CURRENT RECEIVABLES

Non-current receivables on tenant loans

	31 December 2020 £'000	31 December 2019 £'000
At start of year	1,348	1,926
Amounts repaid in the year	(145)	(578)
At end of year	1,203	1,348
Asset due within 1 year (note 18)	192	192
Asset due after 1 year	1,011	1,156
	1,203	1,348

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.

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For the year ended 31 December 2020

18. TRADE AND OTHER RECEIVABLES

	31 December 2020 £'000	31 December 2019 £'000
Gross amount receivable from tenants	11,768	8,206
Less provision for impairment	(1,458)	(891)
Net amount receivable from tenants	10,310	7,315
Current receivables – tenant loans (note 17)	192	192
Value added tax	–	1,415
Income tax	52	70
Other receivables	1,458	6,385
Prepayments	21,678	16,781
	33,690	32,158

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 2020 £'000	31 December 2019 £'000
< 30 days	6,000	4,369
30 – 60 days	915	1,055
> 60 days	4,853	2,782
	11,768	8,206
Less provision for impairment	(1,458)	(891)
	10,310	7,315

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 2020 £'000	31 December 2019 £'000
At start of year	891	1,115
Provision for impairment in the year	1,787	562
Receivables written off as uncollectable	(719)	(537)
Unused provision reversed	(501)	(249)
At end of year	1,458	891

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

19. CASH AND CASH EQUIVALENTS

	31 December 2020 £'000	31 December 2019 £'000
Group		
Cash held at bank	54,958	34,731
Restricted cash held at bank	12,415	2,517
At end of year	67,373	37,248

Restricted cash balances of the Group comprise:

- £10,752,000 (2019: £124,000) 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.
- £1,663,000 (2019: £2,312,000) of funds which represent tenants' rental deposits.
- £nil (2019: £81,000) is held in other locked accounts.

All restricted cash balances will be available before 31 March 2021.

In addition, £7,462,000 (2019 £4,225,000) 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 2020 £'000	31 December 2019 £'000
Withholding tax due on dividends paid	572	1,569
Dividends announced but not paid	6,473	–
Trade payables	2,262	3,650
Other payables	11,205	8,544
Value added tax	3,662	–
Accruals	9,635	8,390
At end of year	33,809	22,153

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

21. DEFERRED INCOME

Deferred rental income represents rent received in advance from tenants.

22. TAXATION LIABILITIES

	31 December 2020 £'000	31 December 2019 £'000
Deferred tax	690	736
	690	736
The movement on deferred tax liability is shown below:		
At start of year	736	634
Deferred tax on the valuation of investment properties	(46)	102
At end of year	690	736

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For the year ended 31 December 2020

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 2020 £'000	31 December 2019 £'000
Bank borrowings drawn at start of year	294,000	290,487
Bank borrowings drawn	39,200	22,911
Bank borrowings repaid	(17,029)	(19,398)
Bank borrowings drawn at end of year	316,171	294,000
Less: unamortised costs at start of year	(6,144)	(4,888)
Less: loan issue costs incurred in the year	(192)	(2,168)
Add: loan issue costs amortised in the year	857	912
At end of year	310,692	287,856
Maturity of bank borrowings		
Repayable within 1 year	–	–
Repayable between 1 to 2 years	–	–
Repayable between 2 to 5 years	52,349	48,584
Repayable after more than 5 years	263,822	245,416
Unamortised loan issue costs	(5,479)	(6,144)
	310,692	287,856

As detailed in note 25, the Group has £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	55,000	52,349	June 2024	45.7	2.15 over 3 months £ LIBOR	Mandatory prepayment
Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	47.4	3.28 Fixed	None
Scottish Widows Ltd	36,000	36,000	December 2028	41.0	3.37 Fixed	None
Santander UK	65,870	62,822	June 2029	39.8	2.20 over 3 months £ LIBOR	Mandatory prepayment
Total bank borrowings	321,870	316,171				
Retail eligible bond	50,000	50,000				
Total	371,870	366,171				

LIBOR = London Interbank Offered Rate (Sterling)

MP = Mandatory prepayment

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

The weighted average term to maturity of the Group's debt at the period end was 6.4 years (31 December 2019: 7.3 years). The weighted average interest rate payable by the Group on its debt portfolio, excluding hedging costs, as at the period end was 3.1% (31 December 2019: 3.4%).

The Group weighted average interest rate, including the retail eligible bonds and hedging costs at the period end, amounted to 3.3% per annum (31 December 2019: 3.5% 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 26, 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 Santander UK borrowings will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

24. ZERO DIVIDEND PREFERENCE SHARES

	31 December 2020 £'000	31 December 2019 £'000
At start of year	–	39,816
Amortisation of acquisition costs	–	3
Accrued capital entitlement	–	60
Repayment	–	(39,879)
At end of year	–	–

The Group entity, Regional REIT ZDP PLC, had 30,000,000 zero dividend preference shares ("ZDP shares") in issue, which were listed on the London Stock Exchange (LSE: RGLZ). The ZDP shares were issued at 100 pence per share. The ZDP shares had an entitlement to receive a fixed cash amount on 9 January 2019, being the maturity date, but did not receive any dividends or income distributions. Additional capital accrued to the ZDP shares on a daily basis at a rate equivalent to 6.5% per annum, resulting in a final capital entitlement of 132.9 pence per share, which was paid on 9 January 2019.

25. RETAIL ELIGIBLE BONDS

The Company has in issue £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 2020 £'000	31 December 2019 £'000
Bond principal at start of year	50,000	50,000
Unamortised issue costs at start of year	(714)	(864)
Issue costs	–	(7)
Amortisation of issue costs	155	157
At end of year	49,441	49,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

26. 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 2020 £'000	31 December 2019 £'000
Group		
Fair value at start of year	(1,816)	(337)
Revaluation in the year	(2,523)	(1,479)
Fair value at end of year	(4,339)	(1,816)

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	55,000	52,349	June 2024	2.15 over 3 months £ LIBOR	swap £27,500 cap £27,500	1.26 1.26
Scottish Widows Ltd. & Aviva Investors Real Estate Finance	165,000	165,000	December 2027	3.28 Fixed	n/a	n/a
Scottish Widows Ltd	36,000	36,000	December 2028	3.37 Fixed	n/a	n/a
Santander UK	65,870	62,822	June 2029	2.20 over 3 months £ LIBOR	swap £32,935 cap £32,935	1.45 1.45
Total	321,870	316,171				

LIBOR = London Interbank Offered Rate (Sterling)

As at 31 December 2020, the swap notional arrangements were £60.44m (31 December 2019: £60.50m) and the cap notional arrangements amounted to £60.44m (31 December 2019: £60.50m).

The Group weighted average effective interest rate was 3.3% (31 December 2019: 3.5%) inclusive of hedging costs.

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

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end, the total proportion of hedged debt equated to 101.8% (31 December 2019: 109.5%), as shown below. The over hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but that the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

	31 December 2020 £'000	31 December 2019 £'000
Total bank borrowings	316,171	294,000
Notional value of interest rate caps and swaps	120,870	121,000
Value of fixed rate debts	201,000	201,000
	321,870	322,000
Proportion of hedged debt	101.8%	109.5%

The Group has not adopted hedge accounting.

27. LEASES

As from 1 January 2019, the Group has adopted IFRS16 accounting treatment as described in note 2.4.

	31 December 2020 £'000	31 December 2019 £'000
Right of use asset		
At start of year	16,351	–
Value recognised at 1 January 2020	–	16,545
Fair value movement	(195)	(194)
	16,156	16,351

Lease liability

At start of year	16,510	–
Value recognised at 1 January 2020	–	16,545
Lease payments	(618)	(618)
Interest charges	581	583
	16,473	16,510

The Group's lease commitments which are now represented by the right of use asset and lease liability are spread across 13 separate leases with the two largest leases at Basingstoke and Witham making up 39% of the balance. Total commitments on leases in respect of land and buildings are as follows:

	31 December 2020 £'000	31 December 2019 £'000
Group		
Payable within 1 year	618	618
Payable between 1 – 2 years	618	618
Payable between 2 – 5 years	1,854	1,854
Payable after 5 years	50,346	50,964
	53,436	54,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

28. STATED CAPITAL

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

	31 December 2020 £'000	31 December 2019 £'000
Group		
Issued and fully paid shares of no par value		
At start of the year	430,819	370,316
Shares issued 23 July 2019	–	62,500
Share issue costs	–	(1,997)
At end of the year	430,819	430,819
Number of shares in issue		
At start of the year	431,506,583	372,821,136
Shares issued 23 July 2019	–	58,685,447
At end of the year	431,506,583	431,506,583

29. 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. Prior year comparatives are stated under the new definition on EPRA NTA. Further detail of the new EPRA performance measures can be found on pages 140 to 142.

Net asset values have been calculated as follows:

	31 December 2020 £'000	31 December 2019 £'000
Group		
Net asset value per Consolidated Statement of Financial Position	420,582	483,728
Adjustment for calculating EPRA net tangible assets:		
Derivative financial instruments	4,339	1,816
Deferred tax liability	690	736
Goodwill	–	(558)
EPRA Net Tangible Assets	425,611	485,722
Number of Ordinary Shares in issue	431,506,583	431,506,583
Net asset value per share – basic and diluted	97.5p	112.1p
EPRA Net Tangible Assets per share – basic and diluted	98.6p	112.7p

30. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Bank loans and borrowings £'000	Retail eligible bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
31 December 2020					
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

	Bank loans and borrowings £'000	Zero Dividend Preference Shares £'000	Retail eligible bonds £'000	Derivative financial instruments £'000	Lease liabilities £'000	Total £'000
31 December 2019						
Balance at 1 January 2019	285,599	39,816	49,136	337	16,545	391,433
Changes from financing cash flows:						
Zero Dividend Preference Shareholders repaid	–	(39,879)	–	–	–	(39,879)
Bank and Bond borrowings advanced	22,911	–	–	–	–	22,911
Bank borrowings repaid	(19,398)	–	–	–	–	(19,398)
Bank and Bond borrowing costs paid	(2,168)	–	(7)	–	–	(2,175)
Lease payments	–	–	–	–	(618)	(618)
Total changes from financing cash flows	1,345	(39,879)	(7)	–	(618)	(39,159)
Amortisation of issue costs	912	3	157	–	–	1,072
Accrued capital entitlement	–	60	–	–	–	60
Unwinding of discount	–	–	–	–	583	583
Change in fair value	–	–	–	1,479	–	1,479
Total other changes	912	63	157	1,479	583	3,194
Balance at 31 December 2019	287,856	–	49,286	1,816	16,510	355,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

31. FINANCIAL RISK MANAGEMENT

31.1. 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:

	31 December 2020		31 December 2019	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Group				
Financial assets – measured at amortised cost				
Trade and other receivables	12,971	12,971	16,463	16,463
Cash and short-term deposits	67,373	67,373	37,248	37,248
Financial liabilities – measured at amortised cost				
Trade and other payables	(33,237)	(33,237)	(20,584)	(20,584)
Bank and loan borrowings	(310,692)	(327,409)	(287,856)	(294,875)
Retail eligible bonds	(49,441)	(49,500)	(49,286)	(51,860)
Lease liability	(16,473)	(16,473)	(16,510)	(16,510)
Financial liabilities – measured at fair value through profit or loss				
Interest rate derivatives	(4,339)	(4,339)	(1,816)	(1,816)

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 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 liabilities measured at fair value through profit or loss.

	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2020				
Interest rate derivatives	(4,339)	–	(4,339)	–
	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2019				
Interest rate derivatives	(1,816)	–	(1,816)	–

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.

31.2. 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.

31.3. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

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:

	Increase to the annual interest charge	
	31 December	31 December
	2020 £'000	2019 £'000
Interest rate increase		
0.00%	–	–
0.25%	137	81
0.50%	274	155
0.75%	411	184
1.00%	547	212

The Group’s borrowings with Royal Bank of Scotland and Santander UK will be transitioning from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark by 31 December 2021. There is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

31.4. 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.

31.5. 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.

31.6. 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+ Negative
Royal Bank of Scotland	A+ Negative
Santander UK	A+ Negative
Aviva	A+ Stable
Scottish Widows	A+ Negative
Bank of Scotland plc	A+ Negative

31.7. 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:

	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Group at 31 December 2020					
Trade and other payables	(33,237)	–	–	–	(33,237)
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)
	<u>(46,172)</u>	<u>(12,935)</u>	<u>(137,761)</u>	<u>(335,189)</u>	<u>(532,057)</u>

	Within 1 year £'000	Between 1 to 2 years £'000	Between 2 to 5 years £'000	After 5 years £'000	Total £'000
Group at 31 December 2019					
Trade and other payables	(20,584)	–	–	–	(20,584)
Bank borrowings	(9,579)	(9,579)	(76,588)	(273,944)	(369,690)
Interest rate derivatives	(487)	(483)	(1,111)	–	(2,081)
Retail eligible bonds	(2,250)	(2,250)	(56,750)	–	(61,250)
Lease liability	(618)	(618)	(1,854)	(50,964)	(54,054)
	<u>(33,518)</u>	<u>(12,930)</u>	<u>(136,303)</u>	<u>(324,908)</u>	<u>(507,659)</u>

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

The maturity date of the retail eligible bonds is disclosed in note 25.

The range of maturity dates of the lease liability payments is between 10 and 105 years.

32. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2020

33. OPERATING LEASES

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

	31 December 2020 £'000	31 December 2019 £'000
Group		
Receivable within 1 year	50,739	50,038
Receivable between 1 – 2 years	38,103	41,696
Receivable between 2 – 5 years	57,404	61,181
Receivable after 5 years	40,102	36,202
	<u>186,348</u>	<u>189,117</u>

The Group has in excess of 890 operating leases. The number of years remaining on these operating leases varies between 1 and 80 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.

34. 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.

35. TRANSACTIONS WITH RELATED PARTIES

Transactions with the Directors

Directors' remuneration is disclosed within the Remuneration Report and note 8 to the financial statements. Directors' beneficial interests in the Ordinary Shares of the Company are disclosed within the Directors' Report. During the year, the following dividends were received by the Directors (and their spouses or minor children) on the holdings:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Kevin McGrath	20	21
William Eason	13	17
Daniel Taylor	42	42
Stephen Inglis	63	103
Frances Daley	3	3
Timothy Bee	14	13
Total	<u>155</u>	<u>199</u>

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 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 2020 £'000	Year ended 31 December 2019 £'000
Asset management fees charged*	2,579	2,356
Property management fees charged*	2,266	2,280
Performance fees charged	–	–
Total	<u>4,845</u>	<u>4,636</u>

	31 December 2020 £'000	31 December 2019 £'000
Total fees outstanding	<u>1,190</u>	<u>1,275</u>

* 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 2020 £'000	Year ended 31 December 2019 £'000
Investment management fees charged	2,577	2,356
Performance fees charged	–	–
Total	<u>2,577</u>	<u>2,356</u>

	31 December 2020 £'000	31 December 2019 £'000
Total fees outstanding	<u>612</u>	<u>591</u>

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 2020 or 31 December 2019.

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EPRA PERFORMANCE MEASURES



EPRA BPR AWARDS 2020

In 2020, the Company was pleased to be recognised by EPRA for a third consecutive year and be granted its second EPRA BPR Gold Award in respect of the Company's exceptional compliance with EPRA's Best Practices Recommendations for financial reporting of listed property companies.

The Group is a member of the European Public Real Estate Association ("EPRA").

EPRA has developed and defined the following performance measures to give transparency, comparability and relevance of financial reporting across entities which may use different accounting standards. The Group is pleased to disclose the following measures which are calculated in accordance with EPRA guidance:

EPRA Performance Measure	Definition	EPRA Performance Measure	31 December 2020	31 December 2019
EPRA EARNINGS	Earnings from operational activities	EPRA Earnings EPRA Earnings per share (basic and diluted)	£27,903,000 6.5p	£30,987,000 7.8p
Company Adjusted Earnings	Company Specific Earnings Measure which adds back the performance fee charged in the accounts	Adjusted Earnings EPRA Earnings per share (basic and diluted)	£27,903,000 6.5p	£30,987,000 7.8p

The EPRA NAV set of metrics make adjustments to the NAV per the IFRS financial statements to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.

EPRA Net Reinstatement Value	EPRA NAV metric which assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	EPRA Net Reinstatement Value EPRA Net Reinstatement Value per share (diluted)	£425,611,000 98.6p	£486,280,000 112.7p
EPRA Net Tangible Assets	EPRA NAV metric which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	EPRA Net Tangible Assets EPRA Net Tangible Assets per share (diluted)	£425,611,000 98.6p	£485,722,000 112.6p
EPRA Net Disposal Value	EPRA NAV metric which represents the Shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	EPRA Net Disposal Value EPRA Net Disposal Value per share (diluted)	£404,365,000 93.7p	£473,575,000 109.7p
EPRA NET INITIAL YIELD	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property with (estimated) purchasers' costs.	EPRA Net Initial Yield	6.9%	6.2%
EPRA 'TOPPED-UP' NIY	This measure incorporates an adjustment to the ERA NIY in respect of the expiration of rent-free-periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).	EPRA 'Topped-up' Net Initial Yield	7.4%	6.9%
EPRA VACANCY RATE	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio.	EPRA Vacancy Rate	10.6%	10.6%
EPRA COSTS RATIO	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income.	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	32.4% 19.6%	31.6% 18.7%

NOTES TO THE CALCULATION OF EPRA PERFORMANCE MEASURES

1. EPRA EARNINGS AND COMPANY ADJUSTED EARNINGS

For calculations, please refer to note 12 to the financial statements.

2. EPRA NET REINSTATEMENT VALUE

	31 December 2020 £'000	31 December 2019 £'000
NAV per the financial statements	420,582	483,728
Fair value of derivative financial instruments	4,339	1,816
Deferred tax liability	690	736
EPRA NAV	425,611	486,280
Dilutive number of shares	431,506,583	431,506,583
EPRA NAV per share	98.6p	112.7p

3. EPRA NET TANGIBLE ASSETS

	31 December 2020 £'000	31 December 2019 £'000
NAV per the financial statements	420,582	483,728
Fair value of derivative financial instruments	4,339	1,816
Deferred tax liability	690	736
Goodwill	–	(558)
EPRA Net Tangible Assets	425,611	485,722
Dilutive number of shares	431,506,583	431,506,583
EPRA Net Tangible Assets per share	98.6p	112.6p

4. EPRA NET DISPOSAL VALUE

	31 December 2020 £'000	31 December 2019 £'000
NAV per the financial statements	420,582	483,728
Goodwill	–	(558)
Adjustment for the fair value of bank borrowings	(16,717)	(7,019)
Adjustment for the fair value of retail eligible bonds	500	(2,576)
EPRA Net Disposal Value	404,365	473,575
Dilutive number of shares	431,506,583	431,506,583
EPRA Net Disposal Value per share	93.7p	109.7p

NOTES TO THE CALCULATION OF EPRA PERFORMANCE MEASURES continued

5. EPRA NET INITIAL YIELD

Calculated as the value of investment properties divided by annualised net rents:

	31 December 2020 £'000	31 December 2019 £'000
Investment properties	732,380	787,915
Purchaser costs	48,068	51,561
	<u>780,448</u>	<u>839,476</u>
Annualised cash passing rental income	59,754	57,067
Property outgoing	(5,586)	(5,104)
Annualised net rents	<u>54,168</u>	<u>51,962</u>
Add notional rent expiration of rent free periods or other lease incentives	3,198	6,157
Topped-up net annualised rent	<u>57,366</u>	<u>58,119</u>
EPRA NIY	6.9%	6.2%
EPRA topped up NIY	<u>7.4%</u>	<u>6.9%</u>

6. EPRA VACANCY RATE

	31 December 2020 £'000	31 December 2019 £'000
Estimated Market Rental Value (ERV) of vacant space	7,733	7,853
Estimated Market Rental Value (ERV) of whole portfolio	<u>72,874</u>	<u>73,897</u>
EPRA Vacancy Rate	<u>10.6%</u>	<u>10.6%</u>

7. EPRA COST RATIOS

	31 December 2020 £'000	31 December 2019 £'000
Property costs	22,662	20,681
Less recoverable service charge income and other similar costs	(13,864)	(11,252)
Add administrative and other expenses	<u>11,329</u>	<u>10,904</u>
EPRA costs (including direct vacancy costs)	20,127	20,333
Direct vacancy costs	(7,967)	(8,312)
EPRA costs (excluding direct vacancy costs)	<u>12,160</u>	<u>12,021</u>
Gross rental income	75,941	75,645
Less recoverable service charge income and other similar items	(13,864)	(11,252)
Gross rental income less ground rents	<u>62,077</u>	<u>64,393</u>
EPRA Cost Ratio (including direct vacancy costs)	32.4%	31.6%
EPRA Cost Ratio (excluding direct vacancy costs)	<u>19.6%</u>	<u>18.7%</u>

The Group has not capitalised any overhead or operating expenses in the accounting years disclosed above.

PROPERTY RELATED CAPITAL EXPENDITURE ANALYSIS

	31 December 2020 £'000	31 December 2019 £'000
Acquisitions	44,956	89,920
Subsequent capital expenditure	<u>8,803</u>	<u>5,527</u>
Total capital expenditure	<u>53,759</u>	<u>95,685</u>

Acquisitions – this represents the purchase cost of investment properties and associated incidental purchase expenses such as stamp duty land tax, legal fees, agents' fees, valuations and surveys.

Subsequent capital expenditure – this represents capital expenditure which has taken place post the initial acquisition of an investment property.

GLOSSARY OF TERMS

AIC – Association of Investment Companies. A trade body for closed-end investment companies (www.theaic.co.uk).

AIF – Alternative Investment Fund.

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires the Company to appoint an Alternative Investment Fund Manager (AIFM). The Board of Directors of a closed-ended investment company nevertheless remains fully responsible for all aspects of the Company’s strategy, operations and compliance with regulations.

AIFM – Alternative Investment Fund Manager. The entity which ensures the Company complies with the AIFMD. The Company’s AIFM is Toscafund Asset Management LLP.

Alternative Performance Measures (APMs) – APMs are key performance indicators used by the Board to assess the Company’s performance.

Auditor – RSM UK Audit LLP

Board – the Board of Directors of the Company.

Borrowings – Aggregate amount of total drawn bank facilities and the retail eligible bond.

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

CAPEX – capital expenditure relates to spend used by the organisation to maintain or upgrade physical assets.

Company – Regional REIT Limited (Company Number 60527).

Company Adjusted Earnings – a company specific earnings measure which adds back the performance fee charged in the accounts to EPRA Earnings.

Core Property – stable income properties with low risk.

Core Plus Property – growth and income properties with the ability to increase cash flows through asset management initiatives.

Directors – the Directors of the Company whose names are set out on pages 68 and 69.

EPC – Energy Performance Certificate.

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

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

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

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

EPRA Triple NAV (EPRA NNNAV) – EPRA net assets adjusted to include deferred tax liabilities and the fair values of financial instruments and debt.

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

EPRA “Topped Up” Net Initial Yield – This measure incorporates an adjustment to the ERA NIY in respect of the expiration of rent-free-periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA Net Tangible Assets (EPRA NTA) – EPRA Net Asset Value Measure assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA Total Return – The movement in EPRA NTA plus the dividend distributions paid during the period expressed as a percentage of the EPRA NTA at the beginning of the period.

EPRA Vacancy Rate – occupancy expressed as a percentage being the ERV of vacant space divided by ERV of the whole portfolio. Vacancy Rate should only be calculated for all completed properties but excluding those properties which are under development.

EPRA Occupancy Rate – occupancy expressed as a percentage being the ERV of let space divided by ERV of the whole portfolio. Occupancy Rate should only be calculated for all completed properties but excluding those properties which are under development.

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

ESG – Environmental, Social, and Corporate Governance refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

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

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

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

GRESB – The Global Real Estate Sustainability benchmark. The assessment is the investor driven global ESG benchmark and reporting framework for listed property companies, private property funds, developer and investors that invest directly in real estate.

Gross Asset Value – the aggregate value of the total assets of the Company as determined in accordance with the accounting principles adopted by the Company from time to time.

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

Gross Rental Income – See Rent Roll.

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

Group – Regional REIT Limited and its subsidiaries.

IAS – an international accounting standard established by the International Accounting Standards Board.

ISA – Individual Savings Account.

IPO – Initial Public Offering. The Company’s admission to the London Stock Exchange was on 6 November 2015.

Law – The Companies (Guernsey) Law 2008, as amended

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

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

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

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

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

LIBOR – London Interbank Offer Rate

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

Manager(s) – the Company’s external Asset and Property Manager is London & Scottish Property Investment Management Limited. Its external Investment Manager is Toscafund Asset Management LLP.

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

Net Debt – Total cash and cash equivalents less short- and long-term debt.

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

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

Ordinary Resolution – a resolution passed by more than 50 per cent. majority in accordance with the Companies Law.

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

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

Ongoing Charges – A measure, expressed as a percentage of NAV, of the regular, recurring costs of running an investment company which is calculated in line with AIC methodology

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

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

Prospectus – the Company’s prospectus issued on 5 December 2017.

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

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

Rent Roll – is the contracted gross property rent receivable which becomes payable after tenant incentives in the letting have expired.

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

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

Shares – ordinary shares issued by the Company.

Shareholder – a holder of Shares in the Company.

SIPP – Self-invested personal pension.

SONIA – Sterling Overnight Index Average

SSAS – Small self-administered scheme.

Total Shareholder Return – The movement in the share price, plus the dividend distributions received and reinvested in the period, expressed as percentage of the share price at the beginning of the period.

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

Weighted Average Unexpired Lease Term (WAULT) – is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income (including rent-free).

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

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

Weighted Average Cost of Debt (WACD) – Group borrowings interest and net derivative costs per annum at the period end, divided by total Group debt in issue at the period end.

Weighted Average Debt Duration (WADD) – is calculated by multiplying each tranche of Group debt by the remaining period to its maturity, with the sum of the results being divided by total Group debt in issue at the period end.

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

AIFMD DISCLOSURE

The Alternative Investment Fund Managers’ Directive (“AIFMD”) requires certain information to be made available to investors in Alternative Investment Funds before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within the Initial Public Offering (“IPO”) Prospectus and subsequent equity capital raise prospectuses, which can be found on the Group’s website at: www.regionalreit.com.

MANAGEMENT AGREEMENT

With effect from 6 November 2015, the Company appointed London & Scottish Investments Limited as Asset Manager. Following an internal restructure at London and Scottish Investments Limited, the Asset Manager agreement has been assigned to London and Scottish Property Investment Management Limited (“LSPIM”). Toscafund Asset Management LLP (“Toscafund” or the “AIFM”) was appointed as the Investment Manager. LSPIM and Toscafund each receive half of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value up to £500 million and 0.9% above £500 million. A Performance Fee may also be paid to LSPIM and Toscafund.

Toscafund was authorised as an Alternative Investment Fund Manager, by the UK’s Financial Conduct Authority on 21 July 2014. The AIFM has implemented a remuneration policy, which is effective as of 21 July 2014. The aggregate amount of remuneration in respect of the Company of senior management and members of staff of the AIFM whose actions have a material impact on the operations of the Company during the period 1 January 2020 to 31 December 2020 was £1,691,591 (2019: £3,650,400).

CONTINUING APPOINTMENT OF THE AIFM

The Board continually reviews the performance of the AIFM. The Board, through its Management Engagement and Remuneration Committee, has considered the performance of the AIFM and the terms of its engagement. It is the opinion of the Board that the continuing appointment of the AIFM on the terms agreed is in the interests of Shareholders as a whole. The Board believe that by calculating the management fee on the basis of EPRA NAV, the interests of the AIFM are closely aligned with those of the Shareholders.

PRINCIPAL RISKS AND UNCERTAINTIES

An explanation of the principal risks and how they are managed and the policy and practice with respect to financial instruments are contained in note 31 on pages 132 to 134.

LEVERAGE

Leverage is defined in the AIFMD as any method by which the Group increases its exposure, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means.

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

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

At 31 December 2020, this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	203	219

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

COMPANY INFORMATION

DIRECTORS

Kevin McGrath (Chairman and Independent Non-Executive Director)
William Eason (Senior Independent Non-Executive Director, 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

COMPANY SECRETARY

Link Company Matters Limited
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

ASSET MANAGER

London & Scottish Property Investment Management Limited
Venlaw
349 Bath Street
Glasgow
G2 4AA

INVESTMENT MANAGER

Toscafund Asset Management LLP
5th Floor
15 Marylebone Road
London
NW1 55D

FINANCIAL ADVISER AND JOINT BROKER

Peel Hunt LLP
7th Floor
100 Liverpool Street
London
EC2M 2AT

JOINT BROKER

Panmure Gordon
1 New Change
London
EC4M 9AF

LEGAL ADVISER TO THE COMPANY

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

ADMINISTRATOR

Jupiter Fund Services Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
Guernsey
GY2 4LH

SUB-ADMINISTRATOR

Link Alternative Fund Administrators Limited
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

INDEPENDENT AUDITOR

RSM UK Audit LLP
Third Floor
Centenary House
69 Wellington Street
Glasgow
G2 6HG

REGISTRAR

Link Market Services (Guernsey) Limited
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

DEPOSITARY

Ocorian Depositary (UK) Limited
20 Fenchurch Street
London
EC3M 3BY

PUBLIC RELATIONS

Buchanan Communications Limited
107 Cheapside
London
EC2V 6DN

PROPERTY VALUERS

Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield)
125 Old Broad Street
London
EC2N 1AR

TAX ADVISER

Grant Thornton UK LLP
110 Queen Street
Glasgow
G1 3BX

REGIONAL REIT LIMITED

ISIN:
GG00BYV2ZQ34

SEDOL:
BYV2ZQ3

Legal Entity Identifier:
549300D8G4NKLRIKBX73

Company website
www.regionalreit.com

FORTHCOMING EVENTS IN 2021



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

* The Company's 2021 AGM was due to be held on 19 May 2021. However, in view of the evolving UK Government restrictions on public gatherings, the Board has made the decision to delay the AGM until later in the year in the hope that Shareholders can attend in person. A further announcement will be made in due course.

SHAREHOLDER INFORMATION

SHARE REGISTER ENQUIRIES: LINK GROUP

For any questions about:

- Changing your address or other details;
- Questions about your shares;
- Buying and selling shares.

Phone: 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The Registrar is open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. For Shareholder enquiries please email shareholderenquiries@linkgroup.co.uk.

POSTAL ADDRESS

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

DIVIDEND HISTORY

Year	Period	Announcement date	Ex-date	Record date	Payment date	PID	Non-PID	Total dividend Pence per share
2020	Q4 2020	25/02/2021	04/03/2021	05/03/2021	09/04/2021	1.50	–	1.50
	Q3 2020	12/11/2020	19/11/2020	20/11/2020	08/01/2021	1.50	–	1.50
	Q2 2020	26/08/2020	03/09/2020	04/09/2020	16/10/2020	1.50	–	1.50
	Q1 2020	21/05/2020	04/06/2020	05/06/2020	17/07/2020	1.90	–	1.90
						<u>6.40</u>	<u>–</u>	<u>6.40</u>
2019	Q4 2019	27/02/2020	05/03/2020	06/03/2020	09/04/2020	2.55	–	2.55
	Q3 2019	14/11/2019	21/11/2019	22/11/2019	19/12/2019	1.90	–	1.90
	Q2 2019	29/08/2019	05/09/2019	06/09/2019	15/10/2019	1.90	–	1.90
	Q1 2019	23/05/2019	06/06/2019	07/06/2019	12/07/2019	<u>1.90</u>	<u>–</u>	<u>1.90</u>
						<u>8.25</u>	<u>–</u>	<u>8.25</u>
2018	Q4 2018	21/02/2019	28/02/2019	01/03/2019	11/04/2019	2.50	–	2.50
	Q3 2018	15/11/2018	22/11/2018	23/11/2018	21/12/2018	1.85	–	1.85
	Q2 2018	31/08/2018	13/09/2018	14/09/2018	15/10/2018	1.85	–	1.85
	Q1 2018	17/05/2018	24/05/2018	25/05/2018	13/07/2018	<u>1.85</u>	<u>–</u>	<u>1.85</u>
						<u>8.05</u>	<u>–</u>	<u>8.05</u>
2017	Q4 2017	22/02/2018	01/03/2018	02/03/2018	12/04/2018	2.21	0.25	2.45
	Q3 2017	14/11/2017	23/11/2017	24/11/2017	22/12/2017	1.62	0.18	1.80
	Q2 2017	31/08/2017	07/09/2017	08/09/2017	13/10/2017	1.08	0.72	1.80
	Q1 2017	25/05/2017	08/06/2017	09/06/2017	14/07/2017	<u>1.26</u>	<u>0.54</u>	<u>1.80</u>
						<u>6.17</u>	<u>1.69</u>	<u>7.85</u>
2016	Q4 2016	23/02/2017	02/03/2017	03/03/2017	13/04/2017	2.16	0.24	2.40
	Q3 2016	17/11/2016	24/11/2016	25/11/2016	22/12/2016	1.63	0.12	1.75
	Q2 2016	01/09/2016	08/09/2016	09/09/2016	07/10/2016	1.50	0.25	1.75
	Q1 2016	27/05/2016	09/06/2016	10/06/2016	08/07/2016	<u>1.36</u>	<u>0.39</u>	<u>1.75</u>
						<u>6.65</u>	<u>1.00</u>	<u>7.65</u>
2015	FY 2015*	07/03/2016	17/03/2016	18/03/2016	15/04/2016	<u>0.66</u>	<u>0.34</u>	<u>1.00</u>
						<u>0.66</u>	<u>0.34</u>	<u>1.00</u>

* Full year represents 06/11/2015 to 31/12/2015

Q1	1 Jan to 31 Mar
Q2	1 Apr to 30 Jun
Q3	1 Jul to 30 Sep
Q4	1 Oct to 31 Dec

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Mont Crevelt House, Bulwer Avenue,
St. Sampson, Guernsey GY2 4LH

www.regionalreit.com

