



ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2021



THE HIGH DIVIDEND REIT
UK OFFICE SPECIALISTS

FINANCIAL HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2021

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

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

The European Public Real Estate Association (“EPRA”)*

The EPRA’s mission is to promote, develop and represent the European public real estate sector. As an EPRA member, we fully support the EPRA Best Practices Recommendations. Specific EPRA metrics can be found in the Company’s financial and operational highlights, with further disclosures and supporting calculations on pages 161 to 164.

* The European Public Real Estate Association (EPRA)

** Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 166 to 168 and the EPRA Performance Measures on pages 161 to 164.



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, in consequence, UK REITs are required to distribute a minimum of 90% of their qualifying profits to Shareholders as dividends (known as property income distributions or "PIPs"). 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 PIPs. 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.

CONTENTS

OVERVIEW

About Us	3
Operational Highlights	5
Performance Highlights	6
At a Glance	7
A year in review	9

STRATEGIC REPORT

Chairman's Statement	13
Investment Strategy and Business Model	19
Asset and Investment Managers' Report	25
Property Portfolio	38
Financial Review	47
Principal Risks and Uncertainties	52
Going Concern and Viability Statement	62
Sustainability Report	63
Section 172 Statement	77
Management Arrangements	80
Other information	82

CORPORATE GOVERNANCE

Board of Directors	85
Report of the Directors	87
Statement of Directors' Responsibilities	93
Corporate Governance Statement	95
Audit Committee Report	105
Nomination Committee Report	109
Management Engagement and Remuneration Committee Report	110
Directors' Remuneration Report	111
Independent Auditor's Report	113
Appendix 1: Auditor's responsibilities for the audit of the financial Statements	118

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income	121
Consolidated Statement of Financial Position	122
Consolidated Statement of Changes in Equity	123
Consolidated Statement of Cash Flows	124
Notes to the Consolidated Financial Statements	125

ADDITIONAL INFORMATION

EPRA Performance Measures	161
Notes to the Calculation of EPRA Performance Measures	162
Property Related Capital Expenditure Analysis	165
Glossary of Terms	166
AIFMD Disclosures	169
Company Information	170
Forthcoming Events	171
Shareholder Information	171
Dividend History	172

OVERVIEW

About Us	3
Operational Highlights	5
Performance Highlights	6
At a Glance	7
A year in review	9

HIGH DIVIDEND DISTRIBUTION UK REIT, OFFERING EXPOSURE TO THE REGIONAL COMMERCIAL OFFICE PROPERTY MARKET, WITH ACTIVE MANAGEMENT BY AN EXPERIENCED ASSET MANAGER.

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, offices located in regional centres outside of the M25 motorway. The portfolio is geographically diversified, with 168 properties, 1,511 units and 1,077 tenants as at 31 December 2021, with a valuation of £906.1 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.

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 United Kingdom ("UK"). Unless otherwise stated, the text of this Annual Report does not distinguish between the activities of the Company and those of its subsidiaries.



Our Purpose

The purpose of the Company is to deliver long-term returns for Shareholders with income generated from investment in UK offices predominately outside of the M25 motorway. To us this means being a responsible owner of offices that offer occupiers vibrant spaces in which they can grow their businesses.



Our Values

- **Transparency**
We are professional, transparent and committed to doing what is best for all parties.
- **Integrity**
We act with integrity and honesty in all that we do. We will be truthful, even if it means delivering difficult messages.
- **Collaboration**
We openly collaborate and always seek to build positive long-term relationships grounded in cooperation that benefit all parties.
- **Adapt and evolve**
We are a forward-thinking business that seeks to continually advance strategically, challenge assumptions, adapt and make a positive difference that benefits all parties.



Our Culture

As the Company has no employees and acts through its service providers, its culture is represented by the Company's values and behaviour of the Board in its engagement with the third parties to which it delegates functions and its stakeholders. The Board is responsible for embedding the Company's culture in the Company's operations.

For more details on the Company's values, culture and strategy, please refer to pages 20 and 82, respectively.

OPERATIONAL HIGHLIGHTS YEAR ENDED 31 DECEMBER 2021

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



168 Properties



1,511 Units



1,077 Occupiers



£72.1m Rent Roll



Portfolio by region and sector (by value)

81.0% England & Wales

89.8% Office



£236.0m Property acquisitions (before costs)

31 properties



£76.9m Property disposal proceeds (net of costs)

16 properties



81.8% EPRA Occupancy by ERV*



4.8 yrs WAULT to expiry

3.0 yrs WAULT to first break

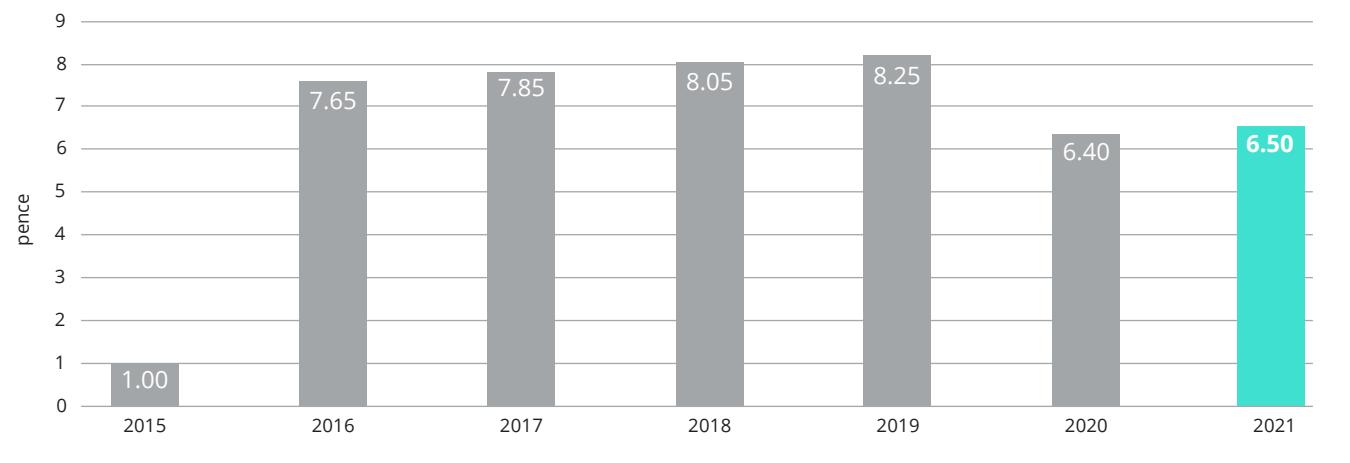
* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 166 to 169 and the EPRA Performance Measures on pages 161 to 164.

PERFORMANCE HIGHLIGHTS

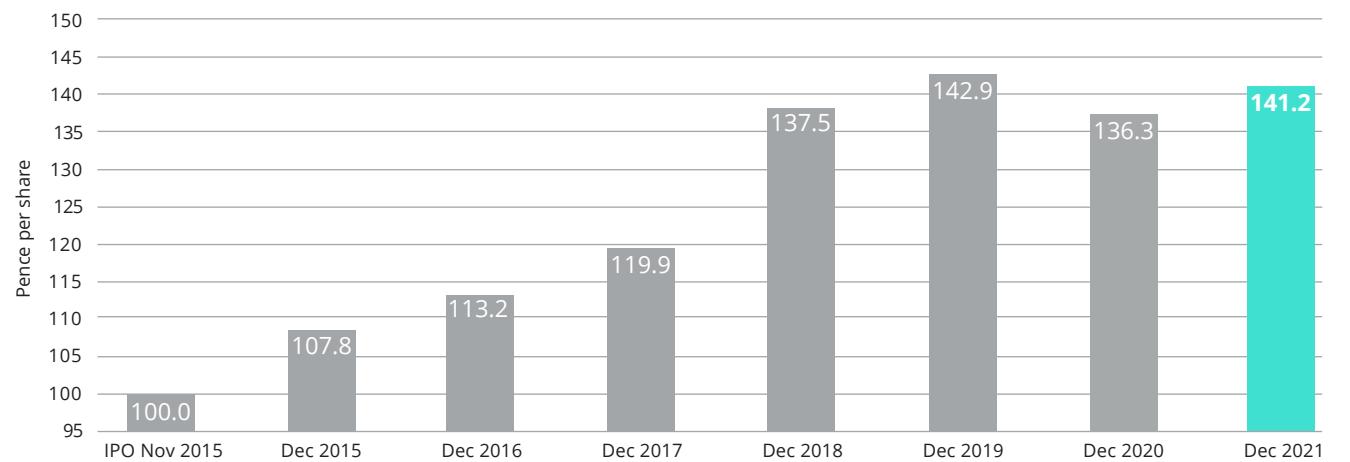
YEAR ENDED 31 DECEMBER 2021

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

Dividends declared per share



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



41.2%

EPRA Total Return attributable to Shareholders
since Admission[^]

5.8%

EPRA Annual Total Return attributable to Shareholders

[^] Admission: 6 November 2015.
Member of FTSE All-Share Index since March 2016.
Member of FTSE EPRA NAREIT UK Index since June 2016.
Terms are defined in the Glossary of Terms on pages 166 to 169.

AT A GLANCE

EPRA-Eps-Adj* diluted (pence)
(excluding performance fee)**6.6p +2%**

2021	6.6
2020	6.5
2019	7.8

EPRA Occupancy*
(%)**81.8% (9%)**

2021	81.8
2020	89.4
2019	89.4

Net Rental and Property Income
(£m)**£55.8m +5%**

2021	55.8
2020	53.3
2019	55.0

WADD*
(years)**5.5yrs (14%)**

2021	5.5
2020	6.4
2019	7.3

Net LTV*
(%)**42.4% +4%**

2021	42.4
2020	40.8
2019	38.9

WACD*
(%)**3.3% (0%)**

2021	3.3
2020	3.3
2019	3.5

EPRA NTA - Diluted*
(pps)**97.2p (1%)**

2021	97.2
2020	98.6
2019	112.6

Average Property Value
(£m)**£5.4m +13%**

2021	5.4
2020	4.8
2019	4.9

Investment Properties Value
(£m)**£906.1m +24%**

2021	906.1
2020	732.4
2019	787.9

* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 166 and 168 and the EPRA Performance Measures on pages 161 to 164. Terms are defined in the Glossary of Terms on pages 166 and 168.



Number of Properties**168 +10%**

2021	 168
2020	 153
2019	 160

Occupiers**1,077 +20%**

2021	 1,077
2020	 898
2019	 904

Units**1,511 +21%**

2021	 1,511
2020	 1,245
2019	 1,251

**Rent Roll
(£m)****£72.1m +12%**

2021	 72.1
2020	 64.2
2019	 64.3

**WAULT to first break
(years)****3yrs (6%)**

2021	 3.0
2020	 3.2
2019	 3.5

**Average rent* (per square foot)
(£)****£12.75 +22%**

2021	 12.75
2020	 10.44
2019	 10.17

**EPRA Dividend Cover
(%)****102% (0%)**

2021	 102
2020	 102
2019	 95

**Dividend per Share
(pps)****6.5p +2%**

2021	 6.5
2020	 6.4
2019	 8.25

**IFRS Nav - Diluted
(pps)****97.4p (0%)**

2021	 97.4
2020	 97.5
2019	 112.1

* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 166 and 168 and the EPRA Performance Measures on pages 161 to 164. Terms are defined in the Glossary of Terms on pages 166 and 168.



A YEAR IN REVIEW

PORTFOLIO

	31 Dec 2020
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%

31 Mar

Properties:	153
Units:	1,245
Tenants:	874
Valuation:	£734.7m
Rent roll (per annum):	£62.8m
EPRA occupancy (by ERV):	87.8%
LTV:	41.3%

30 Jun

Properties:	151
Units:	1,214
Tenants:	847
Valuation:	£729.1m
Rent roll (per annum):	£61.1m
EPRA occupancy (by ERV):	83.2%
LTV:	39.8%

KEY ACQUISITIONS

Amount:	
Location:	
Description:	
Net initial yield:	

2021**KEY DISPOSALS**

Amount:	
Location:	
Description:	
Net initial yield:	

CASH/DEBT/EQUITY	31 Dec 2020
Cash balance:	£67.3m
Gross borrowings:	£366.2m

	31 Mar
£62.7m	
£365.9m	

	30 Jun
£75.3m	
£365.7m	

2 Jul

£8.6m

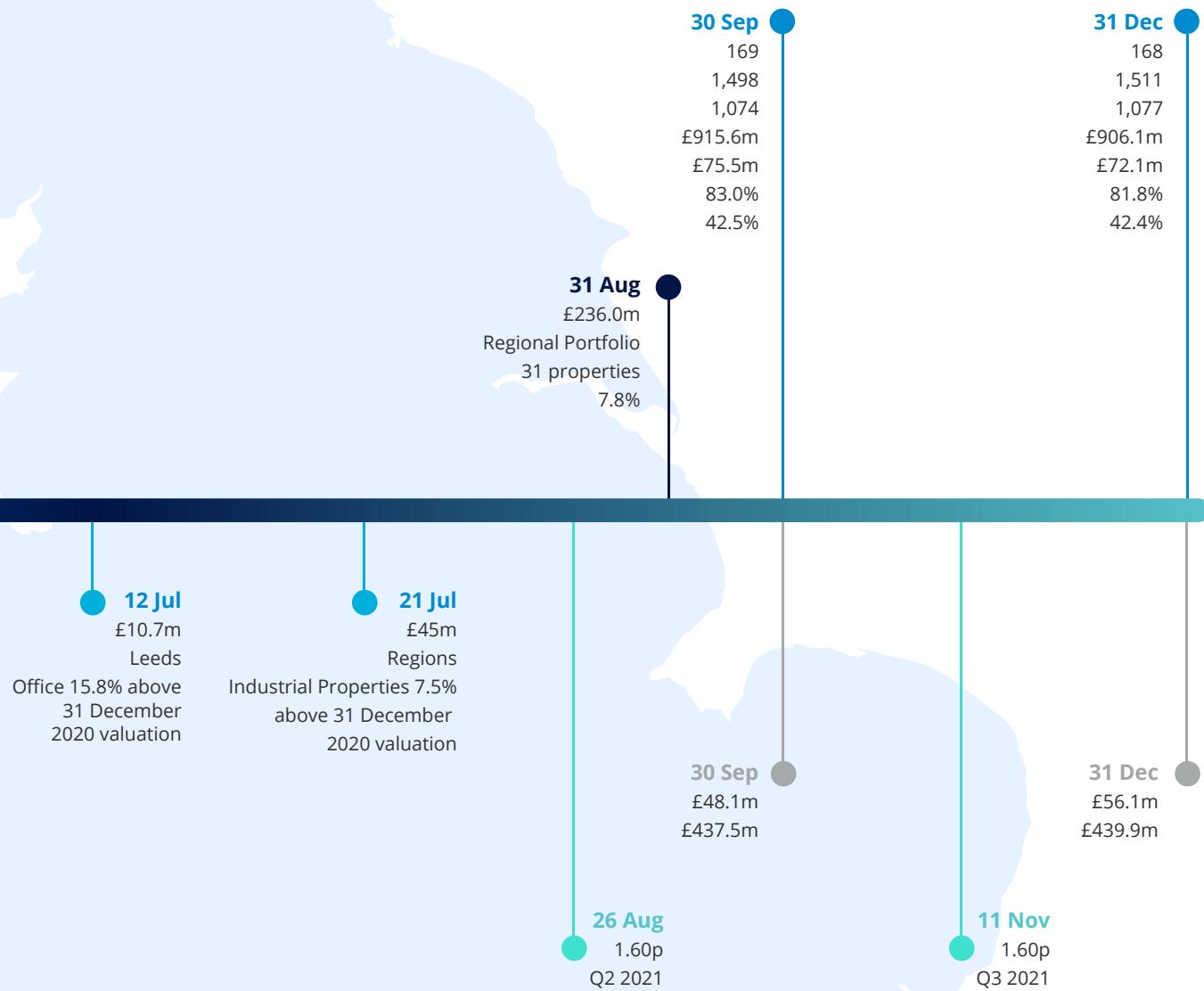
Wetherby Industrial
7.2% Net initial yield
36.5% uplift from
acquisition price

DIVIDENDS

Amount:	
Period:	

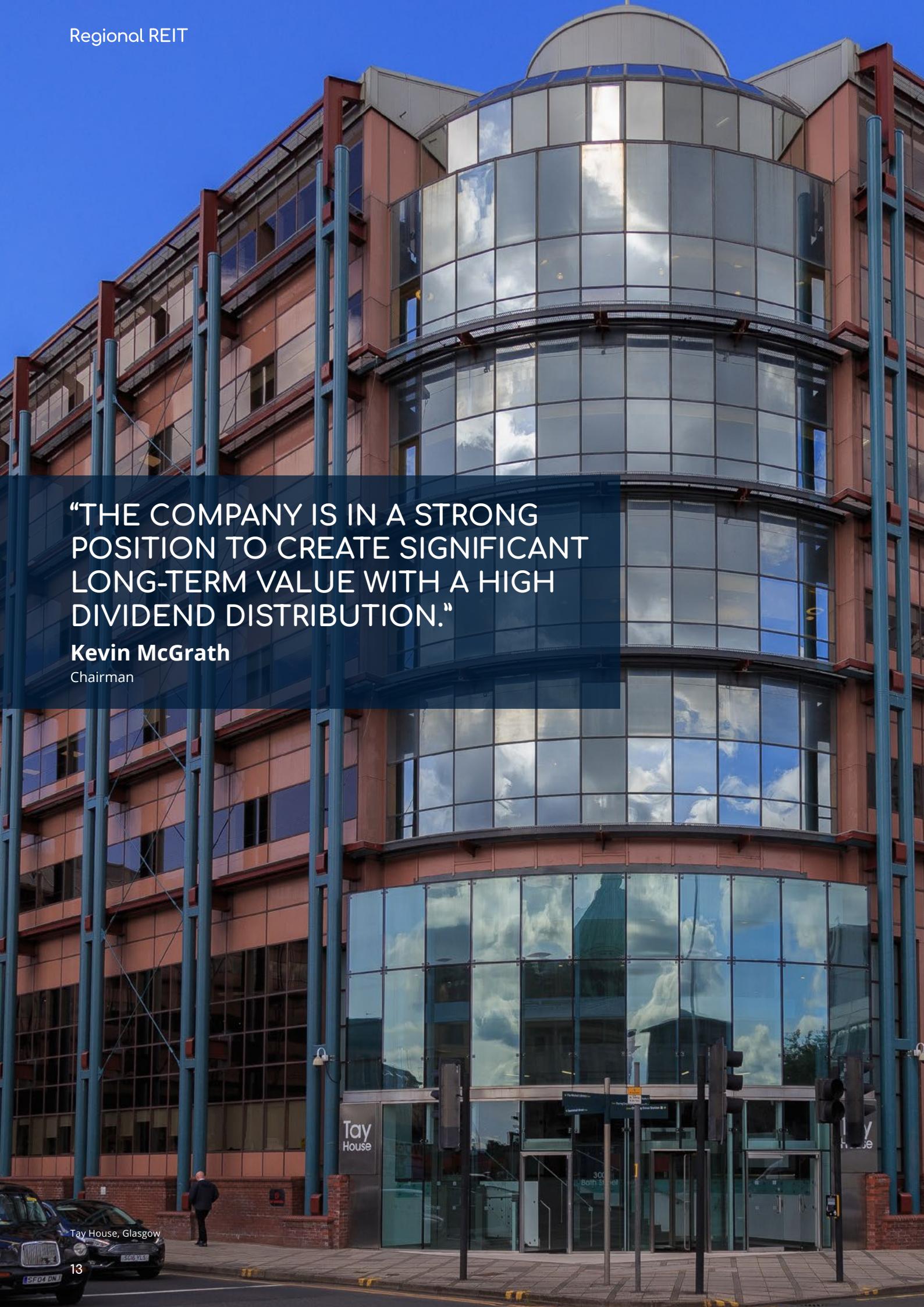
25 Feb
1.50p
Q4 2020

19 May
1.60p
Q1 2021



STRATEGIC REPORT

Chairman's Statement	13
Investment Strategy and Business Model	19
Asset and Investment Managers' Report	25
Property Portfolio	38
Financial Review	47
Principal Risks and Uncertainties	52
Going Concern and Viability Statement	62
Sustainability Report	63
Section 172 Statement	77
Management Arrangements	80
Other information	82



“THE COMPANY IS IN A STRONG POSITION TO CREATE SIGNIFICANT LONG-TERM VALUE WITH A HIGH DIVIDEND DISTRIBUTION.”

Kevin McGrath

Chairman



CHAIRMAN'S STATEMENT

Kevin McGrath

Chairman

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 2021.

Overview

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

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

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

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

CHAIRMAN'S STATEMENT CONTINUED



**£906.1m
Portfolio Valuation**



**6.5pps Attractive
2021 Dividend
(2020: 6.4pps)**



**6.9% Attractive
Dividend Yield at
31 December 2021**



**Total EPRA Return
41.2% from inception to
31 December 2021**

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

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



Financial Resources

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

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

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

Market Environment

Investment in the UK commercial property market reached £57.0 billion in 2021, according to research by Lambert Smith Hampton ("LSH")², 6.1% above the five-year average, 40.1% higher than the volume recorded in 2020, and 15.4% above pre-COVID-19 levels in 2019. Investor sentiment remained positive in the final quarter of 2021, despite concerns surrounding Omicron, and the quarterly investment was £17.3 billion, the highest level recorded since Q2 2015.

Savills research highlights that investor sentiment in the regional office market has improved throughout 2021³. Regional office investment totalled £7.2 billion in 2021, 34.8% higher than 2020 figures, and marginally above the five-year average⁴. Investment in office parks in 2021 reached £2.8 billion, the highest level reported since 2017, and 31.6% above the five-year average. Optimism in the regional office market has been supported by strong employment growth. The most recent data from the ONS shows that the UK employment rate rose to 75.5% in the three months to November 2021, up from 74.9% for the same period in 2020⁵.

More details can be found in the Asset Manager's Report on pages 28 to 31.

Cromwell Place, Basingstoke



Strategy Update – Positioned for Growth

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

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

Dividends

The dividend is the major component of Total Shareholder Returns. For the year under review, the Company declared total dividends of 6.50pps for the year (2020: 6.40pps), comprising three quarterly dividends of 1.60pps each and a fourth dividend of 1.70pps. This represented a yield of 6.9% at a share price of 93.90pps at the close of 31 December 2021. Since inception, the Company has declared dividends amounting to 45.7pps.

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

² Lambert Smith Hampton, UKIT Q4 2021

³ Savills, UK Regional Investment Market Watch – December 2021

⁴ Lambert Smith Hampton, UKIT Q4 2021

⁵ ONS, Labour Market Overview, UK – January 2022

CHAIRMAN'S STATEMENT CONTINUED

Performance

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

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

Integrating a More Sustainable Approach

The Company has always been cognisant of its environmental impact, transparent governance structure and its social responsibility. With the Company's commitment to a more focused and formal approach, the Company joined the Real Estate Sustainability Benchmark ("GRESB"), achieving a green star for 2021. The Company has continued with a programme of integrating environmental, social and governance through its decision making. More details are set out in the Sustainability Report on pages 63 to 76.

Annual General Meeting

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

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

Shareholder and Stakeholder Engagement

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

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

Board and Governance

I am pleased to announce that in 2021 a Nomination Committee was constituted by the Board. The Committee's Terms of Reference can be found on the Company's website. The Committee comprises all of the independent Non-Executive Directors. More details can be found on page 109.

Outlook

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

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

Kevin McGrath

Chairman

28 March 2022



PORLAND STREET



OAKLAND HOUSE



THE ROYALS

MANCHESTER

INVESTMENT STRATEGY AND BUSINESS MODEL



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 £5 million, except where an asset is within a portfolio of properties for which there shall be no such minimum.

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

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



Investment Objective

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



Ashby Park, Ashby De La Zouch

BUSINESS MODEL



Geographically diversified portfolio



Opportunistic approach to the property market



Investing in income producing assets



Highly experienced asset manager



Active management of the properties



Regions primed for growth



Investment Strategy

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

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.



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%.



Newstead Court, Nottingham

INVESTMENT STRATEGY AND BUSINESS MODEL CONTINUED

Read more about the Principal Risks and Uncertainties facing the Company on pages 52 to 61, which are linked to the Company's strategy as set out below.

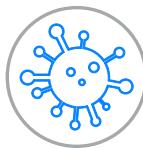
Principal Risks and Uncertainties:



Inappropriate
investment
strategy



Valuation



COVID-19



Economic and
political



Funding



Occupiers



Financial and tax
changes



Operational



Accounting, legal
and regulatory



Environmental
and efficiency
standards



Admiral House, Sunderland

Link to Principal Risks**Geographically 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

- 168 properties (2020: 153), 1,511 units (2020: 1,245) and 1,077 tenants (2020: 898) as at 31 December 2021.
- The largest single property is only 3.0% of the Gross Investment Properties value (2020: 3.8%) and the largest tenant only 2.5% of Gross Rental Income (2020: 3.5%).
- England & Wales represent 81.0% of the Gross Investment Properties value (2020: 82.7%); office 89.8% and industrial sites are 5.1% (2020: office 83.5%; industrial 11.1%).

Link to Principal Risks**Investing in Income Producing Assets****Our approach**

- The Group has a strict set of investment criteria to invest, predominately, 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 £72.1 million as at end 2021 (2020: £64.2 million).
- Average rents have increased to £12.75 per sq. ft. (2020: £10.44 per sq. ft.).
- Declared dividends of 6.50pps for 2021 (6.40pps in 2020).

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 £6.8 million in 2021 (2020: £8.8 million); capital expenditure is recovered through dilapidations, service charges or improved property rental income.
- Active and intense asset management maintained robust EPRA occupancy of 81.8% (2020: 89.4%).

[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 2021 totalled £236.0 million (before costs) and disposals (net of costs) of £76.9 million, with average net initial yields of c. 7.8% and c. 6.5% respectively.
- During 2021, debt facility payments totalled £3.5 million, new borrowings were £77.3 million, resulting in total borrowings of £439.9 million. The average funding cost (including hedging) was 3.3% (2020: 3.3%).

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 68 employees, as at 31 December 2021, working on Regional REIT.

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 5.7% in 2021 in comparison to central London office returns of 3.6% – a trend that has been witnessed over the past seven years. Total returns in 2021 for regional offices amounted to 7.7%, up from 0.6% in 2020.

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 individual property asset management plans.

Progress during the year

- EPRA Total Return 41.2% (2020: 36.3%) since IPO and 5.8% annualised in 2021 (2020: 6.2%).



**"WE ARE PLEASED TO REPORT THAT THE COMPANY
PERFORMED WELL IN 2021, DESPITE THE UNDERLYING
CHALLENGES CAUSED BY COVID-19.**

Since IPO, we have consistently provided a quarterly dividend to our Shareholders. This has been achieved through a defensive and geographically diversified portfolio of assets, which is poised to benefit from the UK's return to the office in 2022.

Stephen Inglis

CEO of London & Scottish Property Investment Management,
Asset Manager



ASSET AND INVESTMENT MANAGERS' REPORT

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

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

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

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

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

Stephen Inglis

CEO of London & Scottish Property Investment Management,
Asset Manager

ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

HIGHLIGHTS FROM 2021

- **High level of rent collection**

As at 18 March 2022, rent collection continued to strengthen, with FY 2021 collections increasing to 99.2%, adjusting for monthly rent and agreed collections plans, which is similar to the equivalent date in 2020 when 95.9% had been collected.

- **55 new lettings**

Completed 55 new lettings in 2021, totalling 194,716 sq. ft., which when fully occupied will provide a gross rental income of c. £2.5 million.

- **£236.0m of acquisitions**

Acquisitions in 2021 totalled £236.0 million (before costs) for 31 assets, reflecting an average net initial yield of 7.8%, and a reversionary yield of 11.0%.

- **£76.9m of disposals**

Disposals during 2021 totalled £76.9 million (net of costs), reflecting an average net initial yield of 6.5% (6.6% excluding vacant properties).

- **Increase in average rent**

Average rent by let sq. ft. increased by 22.2% from £10.44 per sq. ft. in December 2020 to £12.75 per sq. ft. in December 2021.

- **Increase in capital value**

Capital value per sq. ft. increased by 21.9% from £102.26 per sq. ft. in December 2020 to £124.70 per sq. ft.

Investment Activity in the UK Commercial Property Market

Investment in the UK commercial property market reached £57.0 billion in 2021, according to research by Lambert Smith Hampton ("LSH")⁶, 6.1% above the five-year average, 40.0% higher than the volume recorded in 2020, and 15.4% above pre-COVID-19 levels in 2019. Investor sentiment remained positive in the final quarter of 2021, despite concerns surrounding the Omicron variant, with a quarterly investment of £17.3 billion – the highest level recorded since Q2 2015. Investment in Q4 2021 marked an improvement of 23.4% on Q3 2021 and was 28.7% above the five-year quarterly average. 2021 proved to be a strong year for investment in portfolio deals, with investment totalling £15.6 billion, 50.9% above 2020 figures and 20.1% above the pre-pandemic level recorded in 2019. The commercial property market is well positioned for a positive 2022. Savills forecast that investment will increase by 10% over the next 12 months, with growth expected to be underpinned by occupational factors such as falling unemployment and companies reporting strong employment intentions⁷.

The strength of the UK regional markets was particularly pronounced in 2021, with annual investment reaching £21.3 billion, 12.0% above the five-year average and 54.2% higher than 2020 investment volumes. Conversely, London volumes were down relative to trend with 2021 volumes falling 6.0% below the five-year average at £20.1 billion.

LSH research notes that a rise in investment levels was reflected across the majority of UK regions, with seven of the 11 regions recording a volume above the respective five-year averages. The largest increase in regional investment in 2021 relative to the five-year average occurred in the East, West Midlands, North West, South East and Northern Ireland.

Savills research highlights that investor sentiment in the regional office market improved throughout 2021⁸. Regional office investment totalled £7.2 billion in 2021, 34.8% higher than 2020 figures, and marginally above the five-year average⁹. Investment in office parks in 2021 reached £2.8 billion, the highest level reported since 2017, and 31.6% above the five-year average. Optimism in the regional office market has been supported by strong employment growth. The most recent data from the ONS shows that the UK employment rate rose to 75.5% in the three months to November 2021, up from 74.9% for the same period in 2020¹⁰. Moreover, a survey by Deloitte shows that 74% of CFOs plan to increase employee numbers over the next 12 months. This is in stark contrast to the same quarter in 2020, in which less than a quarter of CFOs planned to increase headcount and approximately 50% planned to reduce staff numbers¹¹. Strong employment rates and encouraging levels of recruitment are positive indicators for occupational demand.

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

Quarterly Investment Volumes

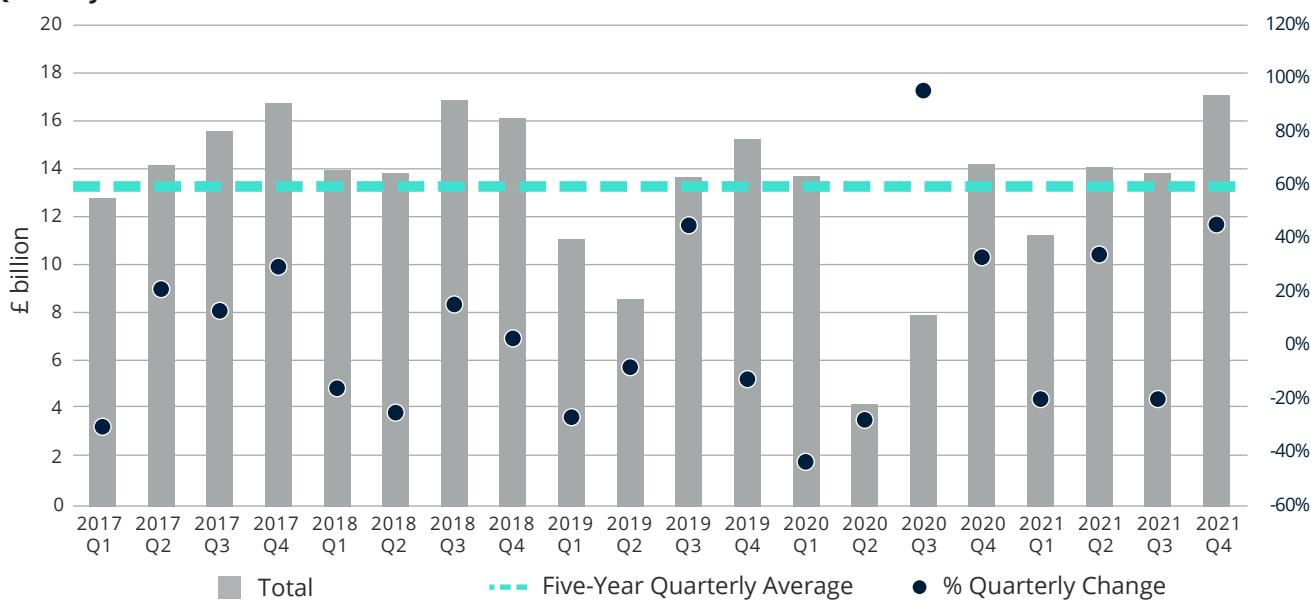


Figure 1: Lambert Smith Hampton Research (February 2022)

⁶ Lambert Smith Hampton, UKIT Q4 2021

⁷ Savills, MIM, UK Commercial – January 2022

⁸ Savills, UK Regional Investment Market Watch – December 2021

⁹ Lambert Smith Hampton, UKIT Q4 2021

¹⁰ ONS, Labour Market Overview, UK – January 2022

¹¹ Deloitte, CFO Survey, Q4 2021

ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

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

Research from CBRE¹² indicates that regional offices have outperformed in comparison to central London offices, delivering superior income returns of 5.7% in 2021 in comparison to central London office returns of 3.6% – a trend that has been witnessed over the past seven years. With a total return of 7.7% for regional offices, 2021 marked a significant improvement on 2020 performance, in which a total return of 0.6% was reported.

12 CBRE Monthly Index, Q4 2021

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

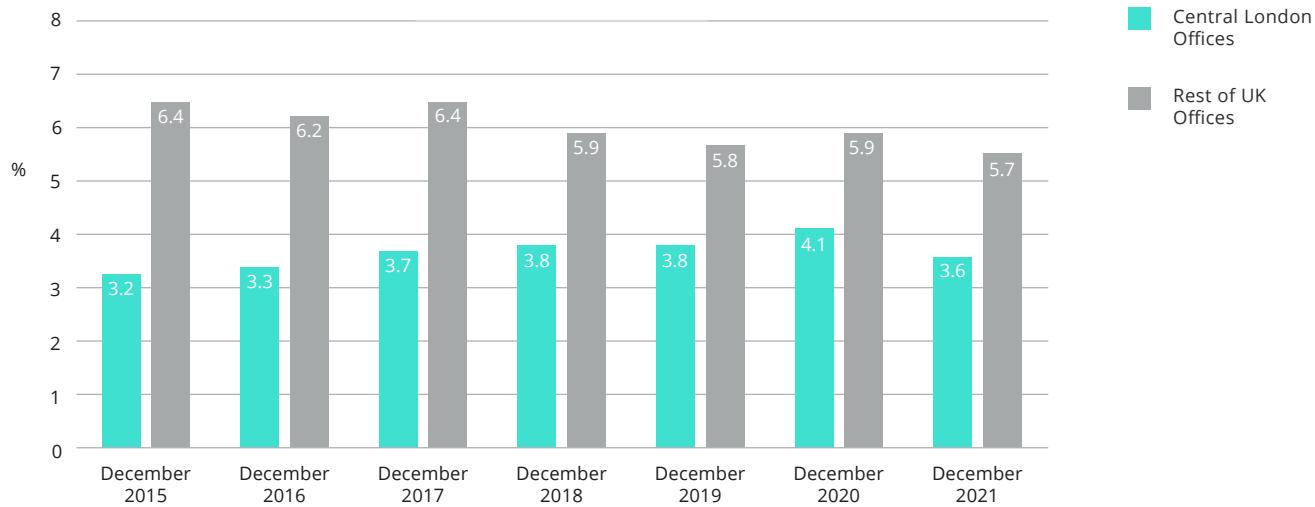


Figure 2: CBRE (February 2022)



Occupational Demand in the UK Regional Office Market

Avison Young estimates that take-up of office space across nine regional office markets¹³ totalled 8.1 million sq. ft. in 2021; 41.9% above the level of take-up recorded in 2020, and 5.0% lower than the 10-year average. Take-up in the final quarter of 2021 was 21.9% above the five-year average at 2.7 million sq. ft., marking the highest quarterly take-up figure in over three years. This highlighted a return to 'normal' demand levels in the second half of 2021 with take-up in H2 totalling 5.0 million sq. ft. Avison Young highlights that there is increased demand for greater customer care, space that encourages collaboration, and a focus on health and well-being.

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

According to Savills, there was a rise in availability for regional office stock across ten regional UK markets¹⁴, with total availability rising by 11.3% in 2021 to 14.7 million sq. ft. The uptick in availability over the last two years has pushed supply marginally above the 10-year average by 0.6%. This marks the second year that supply of office stock has increased over the last decade, having gradually fallen each year since 2009. The overall vacancy rate for regional offices ticked upwards from 11.4% in 2020 to 12.6% in 2021 but remains 2.2% below the 10-year average¹⁵.

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

Regional Supply: Annual Office Supply

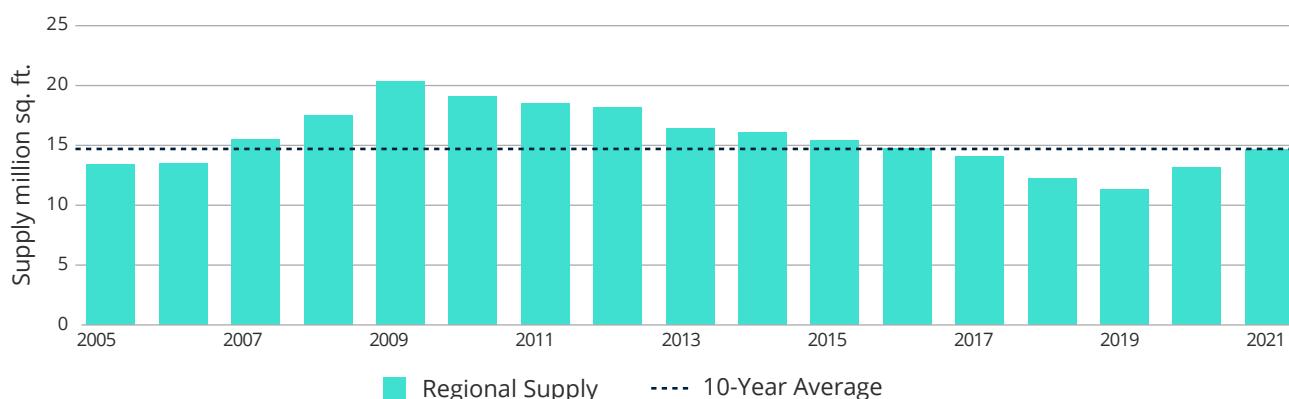


Figure 3: Savills (February 2022)

Vacancy Rates in the Regional Office Market

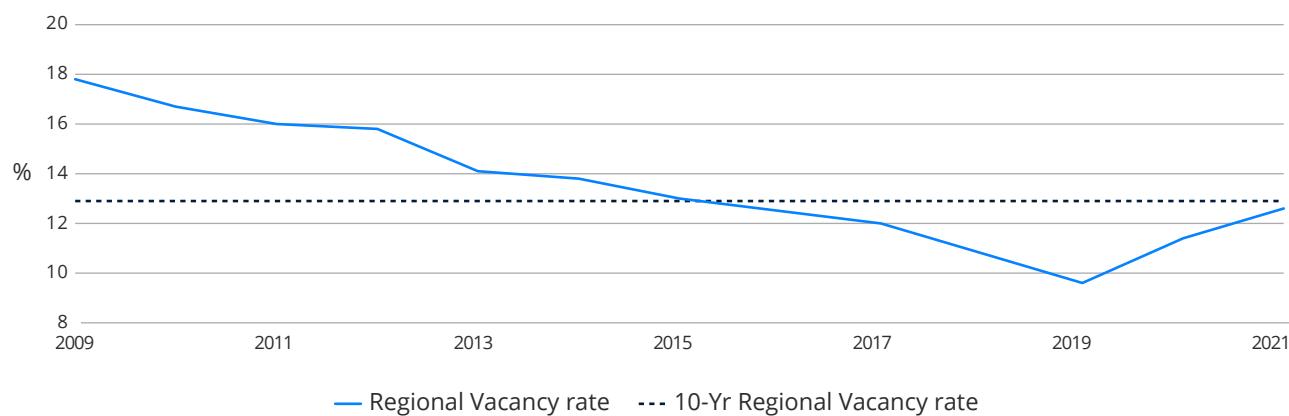


Figure 4: Savills (February 2022)

¹³ Nine regional office markets mentioned by Avison Young include: Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester & Newcastle
¹⁴ Ten regional office markets mentioned by Savills include: Aberdeen, Birmingham, Bristol, Cambridge, Cardiff, Edinburgh, Glasgow, Leeds, Manchester and Oxford
¹⁵ Savills: The Regional Office Market Overview, Q4 2021

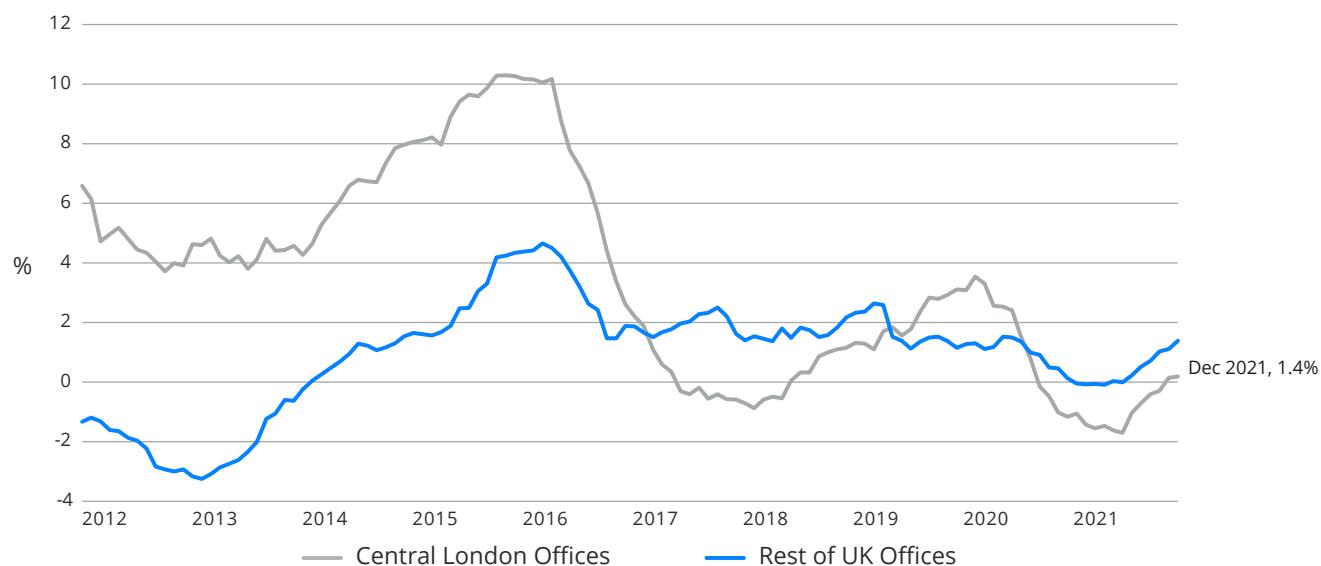
ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

Rental Growth in the UK Regional Office Market

The CBRE Monthly Index shows that rental value growth held up better for the rest of UK office markets in the 12 months ended December 2021 with growth of 1.4%. Conversely, central London offices experienced modest growth of 0.2% during 2021. According to MSCI, average rents in the regional office market

(outside of London and the South East) increased by 1.6% in 2021. Demand for quality office space has put an upward pressure on rents, with growth of 2.3% recorded across the Big Nine regional markets in 2021, with average headline rents now sitting at £32.67 per sq. ft., according to research from Avison Young. Colliers International noted that office park rental growth was particularly encouraging, with an annual increase of 2.1% as reported by MSCI¹⁶.

Rental Value Growth (vs previous 12 months)



Regional REIT's Office Assets

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

¹⁶ Colliers International, Property Snapshot, December 2021

Property Portfolio

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

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

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

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

Property Portfolio by Sector

Sector	Properties	Valuation (£m)	% by valuation	Sq. ft. (m)	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	138	813.4	89.8	6.0	80.8	2.6	63.9	14.07	86.3	134.77	5.4	8.8	9.6
Industrial	7	46.4	5.1	0.7	90.7	7.2	3.3	5.10	3.6	66.18	6.1	7.5	7.4
Retail	20	33.9	3.7	0.4	92.6	3.6	3.9	9.99	3.8	78.14	9.3	9.7	9.8
Other	3	12.5	1.4	0.1	92.7	13.0	1.0	12.66	0.9	129.27	6.6	8.0	7.5
Total	168	906.1	100.0	7.3	81.8	3.0	72.1	12.75	94.6	124.70	5.6	8.7	9.4

Property Portfolio by Region

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

* Tables may not sum due to rounding

ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

Top 15 Investments (market value) as at 31 December 2021

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

* Tables may not sum due to rounding

Top 15 Tenants (share of rental income) as at 31 December 2021

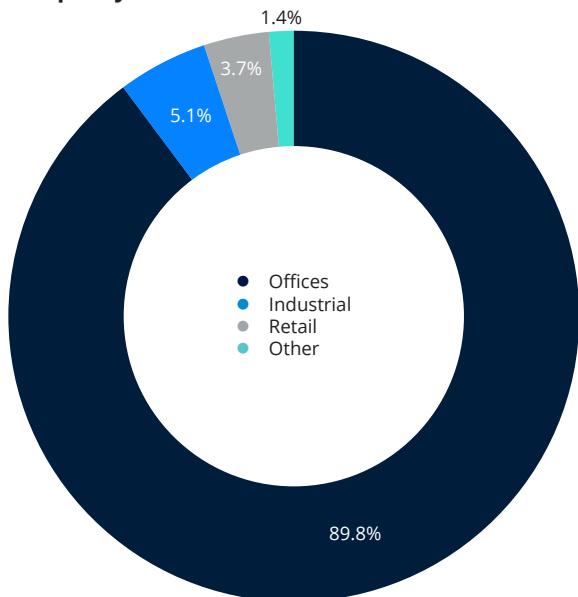
Tenant	Property	Sector	WAULT to first break (years)	Lettable area (Sq. Ft.)	Annualised gross rent (£m)	% of gross rental income
Virgin Media Ltd	Eagle Court, Coventry Road, Birmingham Genesis Business Park, Woking Southgate Park, Peterborough	Information and communication	1.8	112,147	1.8	2.5
NHS	Aspect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

* Tables may not sum due to rounding

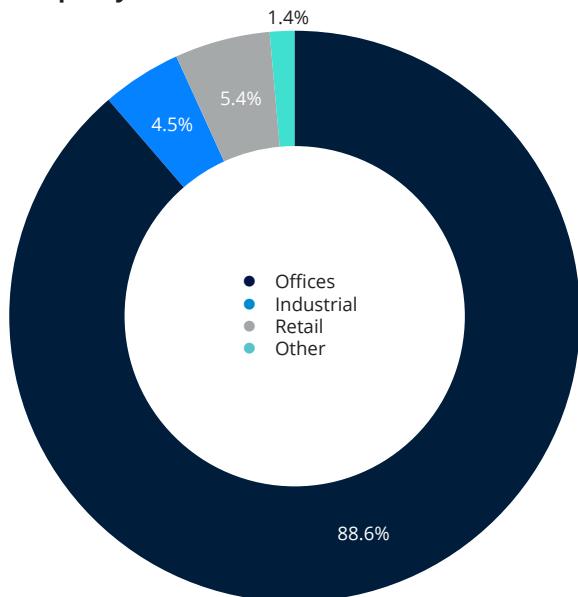
ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

Property Portfolio Sector and Region Splits by Valuation and Income as at 31 December 2021

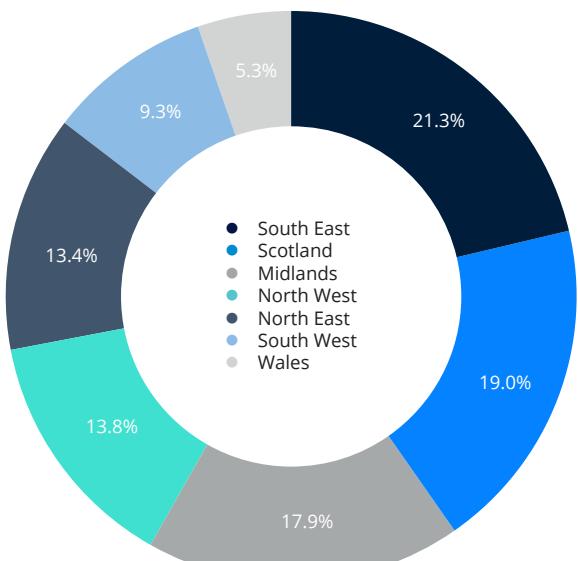
Sector Split by Valuation



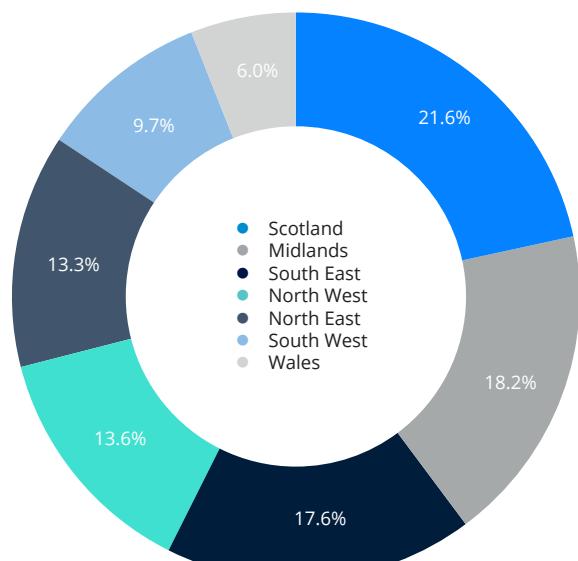
Sector Split by Income



Regional Split by Valuation



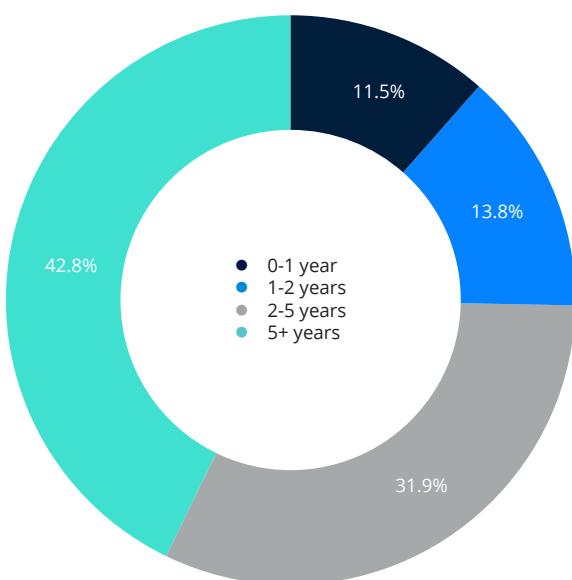
Regional Split by Income



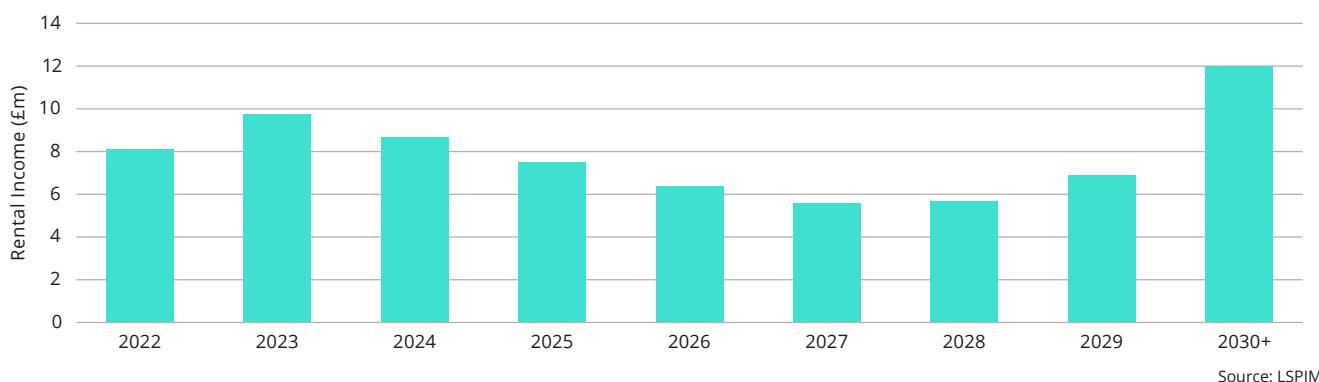
Lease Expiry Profile

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

Lease Expiry Income Profile



Lease Expiry Income Profile by year



Lease Expiry to First Break Income Profile by Year



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

Source: LSPIM

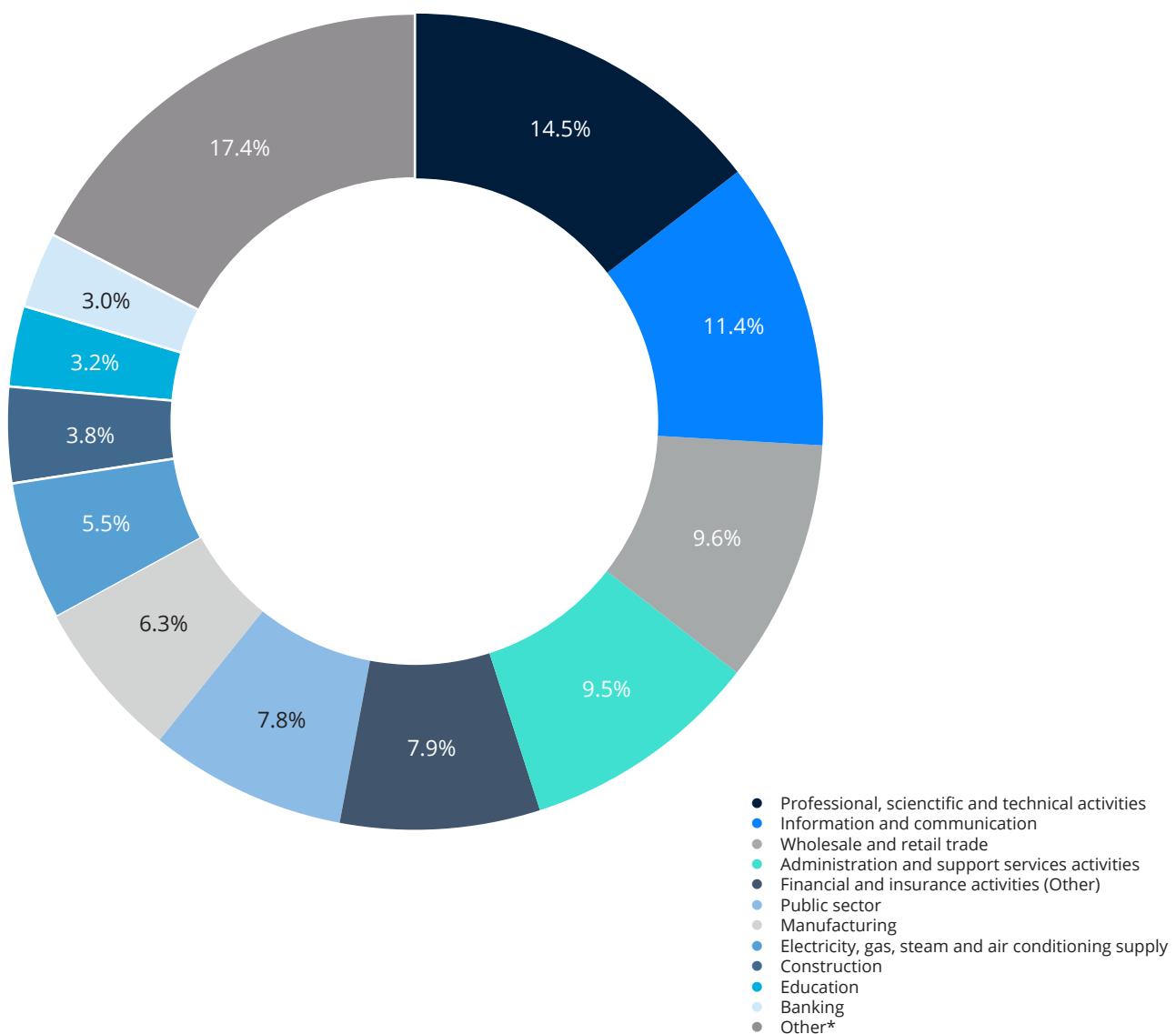
ASSET AND INVESTMENT MANAGERS' REPORT CONTINUED

Tenants by Standard Industrial Classification as at 31 December 2021

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

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

Tenants by SIC Codes (% of gross rent)

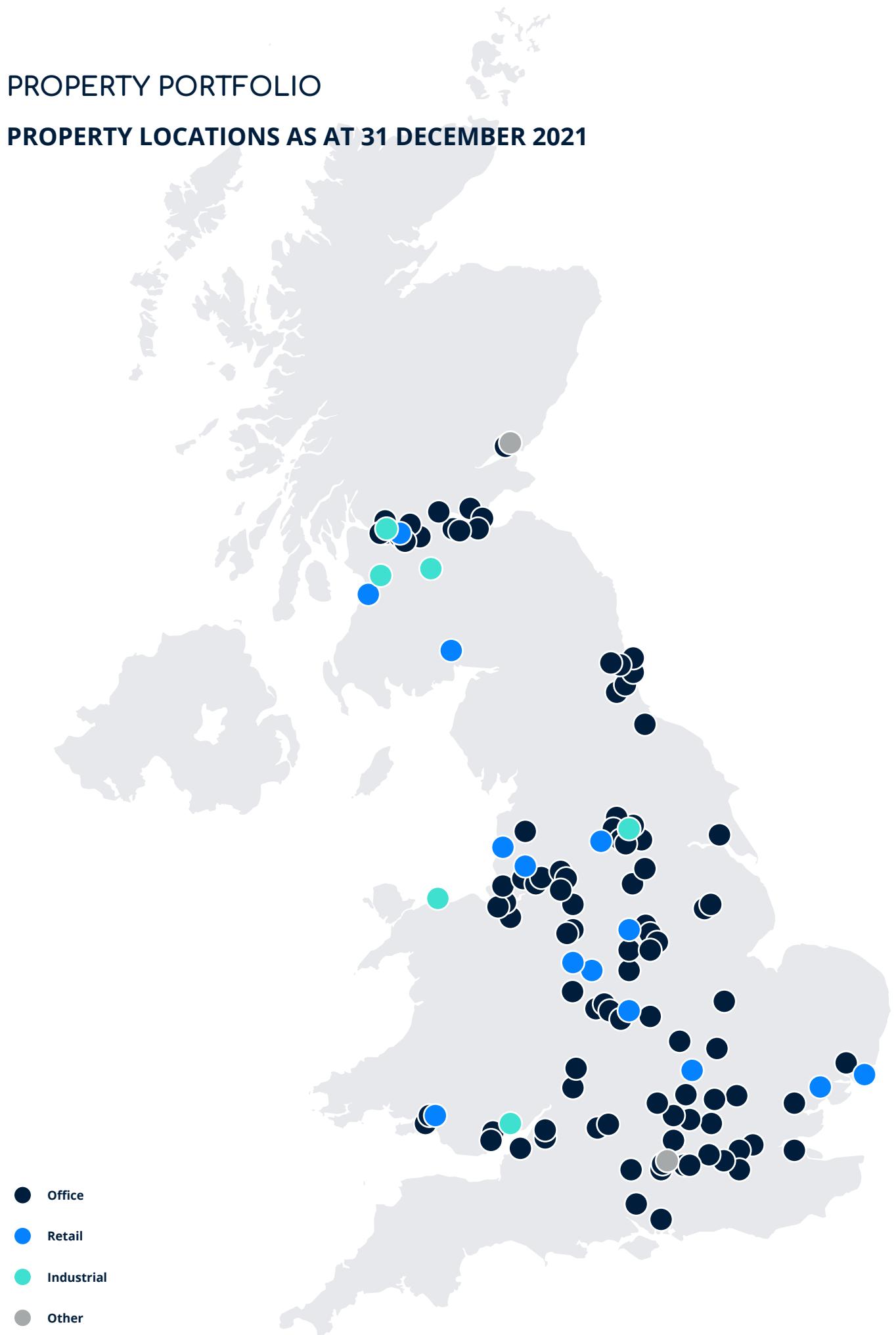


Source: LSPIM
Chart may not sum due to rounding.

* Other – Accommodation and food service activities, activities of extraterritorial organisations and bodies, activities of households as employers; undifferentiated goods, arts, entertainment and recreation, charity, human health and social work activities, mining and quarrying, not specified, other service activities, 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.

PROPERTY PORTFOLIO

PROPERTY LOCATIONS AS AT 31 DECEMBER 2021



PROPERTY PORTFOLIO CONTINUED

Top 15 Properties

1. 300 Bath Street, Glasgow

Market value (£m)	27.2
Sector	Office
Annualised gross rent (£m)	1.2
Lettable area (sq. ft.)	156,853
Anchor tenants	University of Glasgow, Glasgow Tay House Centre Ltd, Eaton Ltd
EPRA Occupancy (%)	99.8
WAULT (years) (to first break)	6.0 (2.9)



2. Buildings 2 & 3, Bear Brook Office Park, Aylesbury

Market value (£m)	22.8
Sector	Office
Annualised gross rent (£m)	0.9
Lettable area (sq. ft.)	140,791
Anchor tenants	Utmost Life and Pensions Ltd, Agria Pet Insurance Ltd
EPRA Occupancy (%)	90.8
WAULT (years) (to first break)	5.7 (3.6)



3. Genesis Business Park, Woking

Market value (£m)	22.7
Sector	Office
Annualised gross rent (£m)	1.4
Lettable area (sq. ft.)	98,151
Anchor tenants	Nuvias (UK & Ireland) Ltd, Fernox Ltd, McCarthy & Stone Retirement Lifestyles Ltd, Walk The Walk Worldwide
EPRA Occupancy (%)	81.3
WAULT (years) (to first break)	5.4 (2.2)



4. Capitol Park, Leeds

Market value (£m)	21.5
Sector	Office
Annualised gross rent (£m)	1.8
Lettable area (sq. ft.)	98,340
Anchor tenants	Hermes European Logistics Ltd, NHS Shared Business Services Ltd
EPRA Occupancy (%)	100.0
WAULT (years) (to first break)	1.7 (1.7)



PROPERTY PORTFOLIO CONTINUED

5. Eagle Court, Coventry Road, Birmingham

Market value (£m)	21.4
Sector	Office
Annualised gross rent (£m)	1.8
Lettable area (sq. ft.)	132,979
Anchor tenants	Virgin Media Ltd, Rexel UK Ltd, Coleshill Retail Ltd
EPRA Occupancy (%)	77.8
WAULT (years) (to first break)	2.3 (1.4)



6. 800 Aztec West, Bristol

Market value (£m)	19.0
Sector	Office
Annualised gross rent (£m)	1.5
Lettable area (sq. ft.)	73,292
Anchor tenants	NNB Generation Company (HPC) Ltd, Edvance SAS
EPRA Occupancy (%)	100.0
WAULT (years) (to first break)	6.8 (1.6)



7. Manchester Green, Manchester

Market value (£m)	18.9
Sector	Office
Annualised gross rent (£m)	1.3
Lettable area (sq. ft.)	106,133
Anchor tenants	Chiesi Ltd, Ingredion UK Ltd, Assetz SME Capital Ltd
EPRA Occupancy (%)	75.9
WAULT (years) (to first break)	5.2 (3.4)



8. Beeston Business Park, Nottingham

Market value (£m)	18.9
Sector	Office/ Industrial
Annualised gross rent (£m)	1.8
Lettable area (sq. ft.)	215,330
Anchor tenants	Metropolitan Housing Trust Ltd, SMS Electronics Ltd, Worldwide Clinical Trials Ltd, Heart Internet Ltd
EPRA Occupancy (%)	100.0
WAULT (years) (to first break)	8.2 (5.4)



PROPERTY PORTFOLIO CONTINUED

9. Hampshire Corporate Park, Eastleigh

Market value (£m)	18.7
Sector	Office
Annualised gross rent (£m)	1.3
Lettable area (sq. ft.)	85,422
Anchor tenants	Aviva Central Services UK Ltd, Utilita Energy Ltd, Digital Wholesale Solutions Ltd
EPRA Occupancy (%)	99.8
WAULT (years) (to first break)	6.8 (2.1)



10. Norfolk House, Smallbrook Queensway, Birmingham

Market value (£m)	18.0
Sector	Office
Annualised gross rent (£m)	0.8
Lettable area (sq. ft.)	114,982
Anchor tenants	Accenture (UK) Ltd, Secretary of State for Communities & Local Government
EPRA Occupancy (%)	49.0
WAULT (years) (to first break)	2.8 (2.3)



11. Portland Street, Manchester

Market value (£m)	15.2
Sector	Office
Annualised gross rent (£m)	0.9
Lettable area (sq. ft.)	55,787
Anchor tenants	Darwin Loan Solutions Ltd, New College Manchester Ltd, Mott MacDonald Ltd
EPRA Occupancy (%)	98.7
WAULT (years) (to first break)	4.5 (2.7)



12. One & Two Newstead Court, Nottingham

Market value (£m)	14.5
Sector	Office
Annualised gross rent (£m)	0.9
Lettable area (sq. ft.)	146,262
Anchor tenants	E.ON UK Plc
EPRA Occupancy (%)	67.8
WAULT (years) (to first break)	3.3 (3.3)



PROPERTY PORTFOLIO CONTINUED

13. Templeton on the Green, Glasgow

Market value (£m)	13.6
Sector	Office
Annualised gross rent (£m)	1.2
Lettable area (sq. ft.)	142,512
Anchor tenants	The Scottish Ministers, The Scottish Sports Council, Noah Beers Ltd
EPRA Occupancy (%)	90.7
WAULT (years) (to first break)	6.2 (4.1)



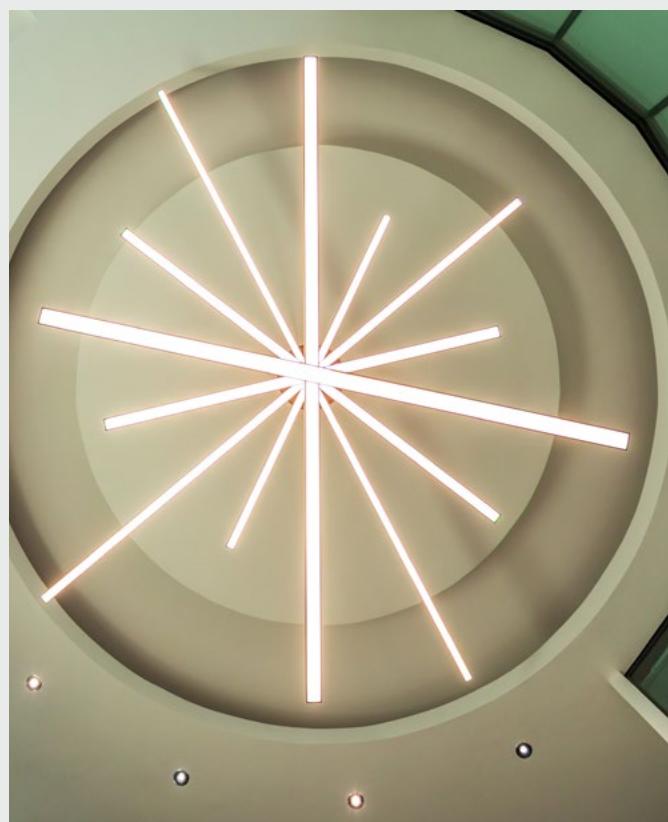
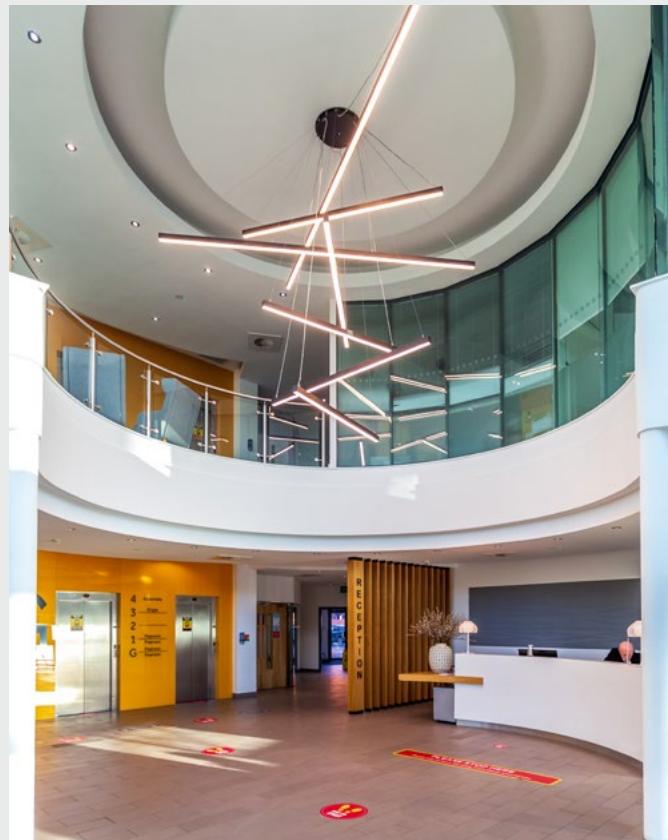
14. Ashby Park, Ashby De La Zouch

Market value (£m)	13.5
Sector	Office
Annualised gross rent (£m)	1.1
Lettable area (sq. ft.)	91,034
Anchor tenants	Ceva Logistics Ltd, Hill Rom UK Ltd, Brush Electrical Machines Ltd
EPRA Occupancy (%)	92.8
WAULT (years) (to first break)	4.0 (3.9)



15. The Lighthouse, Salford Quays, Manchester

Market value (£m)	13.3
Sector	Office
Annualised gross rent (£m)	0.7
Lettable area (sq. ft.)	64,275
Anchor tenants	Pearson Education Ltd, Engie Regeneration Ltd, Assemble Technology Ltd
EPRA Occupancy (%)	56.7
WAULT (years) (to first break)	4.1 (2.7)



FINANCIAL REVIEW

Net Asset Value

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

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

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

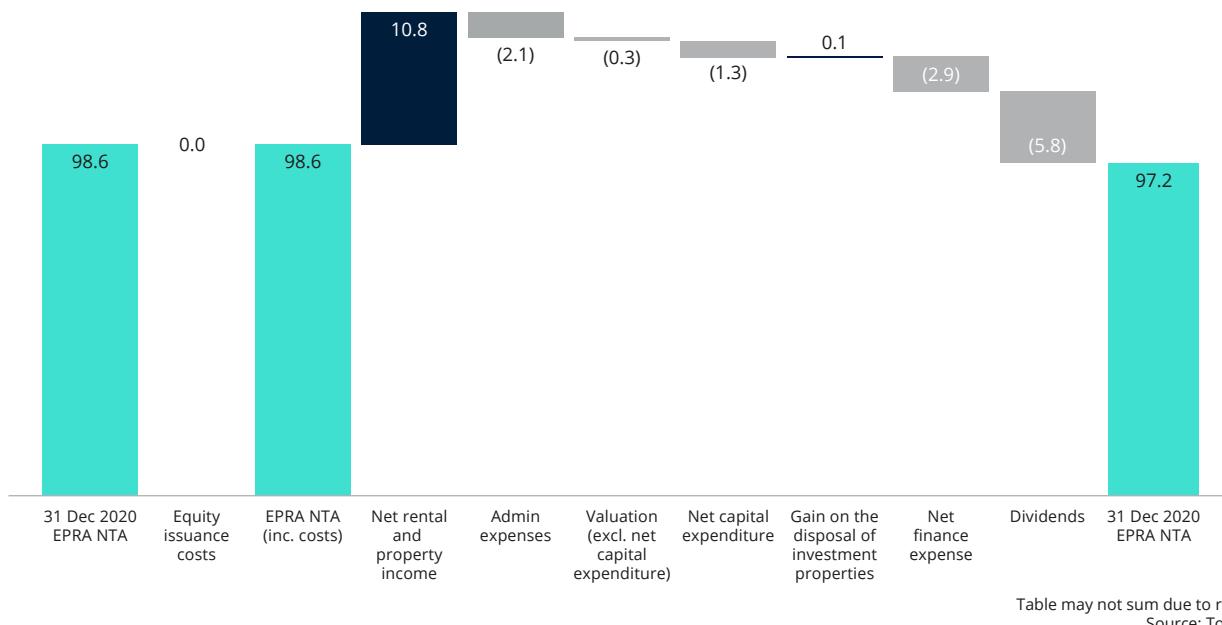
The investment property portfolio valuation as at 31 December 2021 amounted to £906.1 million (2020: £732.4 million). The increase of £173.7 million since the December 2020 year-end is a reflection of property acquisitions and subsequent expenditure of £258.2 million and gains on the disposal of properties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

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

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

* The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure. Further detail on the new EPRA performance measures can be found on pages 161 to 164.

31 December 2021 EPRA Net Tangible Asset - Bridge



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

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

Table may not sum due to rounding

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

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

FINANCIAL REVIEW CONTINUED

Income Statement

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

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

Currently more than 80% of the rental income is collected within 30 days of the due date and bad debts in the year were £0.6 million (2020: £1.1 million).

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

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

* Alternative Performance Measures. Details are provided in the Glossary of Terms on pages 166 to 168 and the EPRA Performance Measures on pages 161 to 164.

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

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

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

Dividend

In relation to the year from 1 January 2021 to 31 December 2021, the Company declared dividends totalling 6.50pps (2020: 6.40pps). Since the end of the year, the Company has declared a dividend for the fourth quarter of 2021 of 1.70pps. A schedule of dividends can be found on page 172.



Debt Financing and Gearing

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

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

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

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

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

Debt Profile and LTV Ratios as at 31 December 2021

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

Table may not sum due to rounding

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

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

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

* Before unamortised debt issue costs

** Based on Cushman and Wakefield property valuations

FINANCIAL REVIEW CONTINUED

Hedging

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

	31 December 2021 %	31 December 2020 %
Borrowings interest rate hedged	101.3	101.6
Thereof:		
Fixed	57.1	68.6
Swap	24.1	16.5
Cap	20.0	16.5
WACD ¹	3.3	3.3

Table may not sum due to rounding

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

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

Tax

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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



Risk Framework and Approach

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

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

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

Approach to Managing Risk – Identification, Evaluation and Mitigation

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

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

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



Hudson House, Derby

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk Appetite

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

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

Emerging Risks

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

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

Increasing inflation in the UK has also been identified as an emerging risk, as this will have wide reaching effects to the economy, which will, in turn, impact the Company. The Board, through the Audit Committee, continue to monitor inflation levels.

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

COVID-19

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

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

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

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



Templeton on the Green, Glasgow

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 19 to 24, which are listed below:



PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED



1. Strategic

Movement in the period

Link to strategy

Potential Impact	Mitigation	Movement in the period
An inappropriate investment strategy, and/or failure to implement the strategy could result in lower income and capital returns to Shareholders.	<ul style="list-style-type: none"> A clearly defined investment strategy, which is reviewed annually. A defined and rigorous investment appraisal process. Acquire portfolios, which offer Shareholders diversification of investment risk by investing in a range of geographical areas and number of properties. Supply and demand market information is reviewed continuously to assist in acquisitions and disposals. All the above steps are monitored to ensure the strategy is implemented. 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. 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. No more than 20% of the Group's investment property value shall be exposed to any single tenant or group undertaking of that tenant. Speculative development (i.e., properties under construction, but excluding any refurbishment works, which have not been pre-let) is prohibited. The value of the properties is protected as far as possible by an active asset management programme, which is regularly reviewed against the business plan for each property. 	<ul style="list-style-type: none"> The property portfolio remains balanced across a range of geographical areas and large number of investment properties. The Group continues to purchase properties in the UK outside the M25 motorway. 300 Bath Street (2020: 300 Bath Street) is the highest valued property, which equates to 3.0% (2020: 3.8%) of the Group's investment properties. The Group's largest single tenant exposure is 2.5% (2020: 3.5%) of gross rental income, being Virgin Media Ltd (2020: Barclays Execution Services Ltd.). No speculative construction was undertaken during the year under review. The Asset Manager continues to actively manage the investment properties in accordance with market conditions and the individual asset programme.



2. Valuation



Movement in the period



Link to strategy

Potential Impact

The valuation of the Group's portfolio affects its profitability and net assets.

Mitigation

- The Company's external valuer, Cushman & Wakefield, provide independent valuations for all properties on a six-monthly basis in accordance with the RICS Red Book.
- The Audit Committee has the opportunity to discuss the basis of the valuations with the external valuer. The Audit Committee membership includes an experienced chartered surveyor.
- The Asset Manager's experience and extensive knowledge of the property market. The Asset Manager is able to challenge the external valuers' findings.
- The Company's Auditor engages an independent third party to evaluate the Cushman & Wakefield valuation.

Movement in the period

- Cushman & Wakefield independently provides the valuation for the entire portfolio, valuing each individual asset.



3. COVID-19



Movement in the period



Link to strategy

Potential Impact

The economic disruption resulting from the COVID-19 virus could continue to impact rental income; the ability of Valuers to discern valuations; the ability to access funding at competitive rates, adherence to banking covenants, maintain a progressive dividend policy, and adhere to the HMRC REIT regime requirements.

Mitigation

- The Asset Manager continues to adapt and as required, to support tenants.
- The Asset Manager continues to adhere to the respective devolved Government COVID-19 guidelines.
- The property portfolio has been deliberately constituted to ensure a diverse range of tenants by standard industrial classification comprised of 47.0% of government designated essential services.
- Close relationships with lenders ensuring continued dialogue around covenants and ability to access funding as required at competitive rates.
- 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.

Movement in the period

- 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



4. Economic and Political

Movement in the period

Link to strategy

Potential Impact

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.

Mitigation

- The Group operates with a sole focus on the UK regions, with no foreign currency exchange exposure. It remains well positioned with a deliberately diverse standard industry classification of tenants generating 1,077 (2020: 898) income streams which are located in areas of expected economic growth.
- The Board receives advice on macro-economic risks, including Brexit, from the Investment Manager and other advisers and acts accordingly.

Movement in the period

- There remains a risk that property valuations and the occupancy market may be impacted by change in the political landscape.



5. Funding

Movement in the period

Link to strategy

Potential Impact

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.

Mitigation

- The Asset Manager has a Corporate Finance team dedicated to optimising the Group's funding requirements.
- Funding options are constantly reviewed with an emphasis on reducing the weighted average cost of capital and lengthening the weighted average debt to maturity.
- Borrowings are currently provided by a range of institutions with targeted staggered maturities.
- Strong relationships with key long-term lenders.
- Continual monitoring of LTV.

Movement in the period

- Weighted average debt term decreased to 5.5 years from 6.4 years in 2020.
- Weighted average cost of capital, including hedging costs was 3.3% (2020: 3.3%).
- LTV increased to 42.4% from 40.8% as at 31 December 2020.

Bank reference interest rates may be set to rise accompanying higher inflation.

- Policy of hedging at least 90% of variable interest rate borrowings.
- Borrowings are currently provided by a range of institutions with targeted staggered maturities.

- 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.

- The Asset Manager's Corporate Finance team reviews the applicable covenants on a regular basis, and these are considered in future operational decisions.
- Compliance certificates and requested reports are prepared as scheduled.

- The Group continues to have sufficient headroom against the applicable borrowing covenants.



6. Tenant



Movement in the period

Link to strategy

Potential Impact

Type of tenant and concentration of tenant could result in lower income from reduced lettings or defaults.

Mitigation

- An active asset management programme with a focus on the Asset Manager working with individual tenants to assess any occupational issues and to manage any potential bad debts.
- Diversified portfolio of properties let, where possible, to a large number of low-risk tenants across a wide range of standard industrial classifications throughout the UK.
- Potential acquisitions are reviewed for tenant overlap and potential disposals are similarly reviewed for tenant standard industrial classification concentration.

Movement in the period

- This risk remains stable in view of the increasing diversification of properties, tenants and geographies in the portfolio.
- The tenant mix and their underlying activity has continued to increasingly diversify, with the number of tenants amounting to 1,077 at the year end (2020: 898).

A high concentration of lease term maturity and/or break options could result in a more volatile contracted rent roll.

- The portfolio lease and maturity concentrations are monitored by the experienced Asset Manager to minimise concentration.
- There is a focus on securing early renewals and increased lease periods.
- The requirement for suitable tenants and the quality of the tenant is managed by the experienced Asset Manager which maintains close relationships with current tenants and with letting agents.

- The WAULT to first break as at 31 December 2021 was 3.0 years (2020: 3.2 years)
- The largest tenant is 2.5% (2020: 3.5%) of the gross rental income, being Virgin Media Limited.
- The Asset Management team remains vigilant to the financial well-being of our current tenants and continues to liaise with occupiers and agents.

7. Financial and Tax Changes



Movement in the period

Link to strategy

Potential Impact

Changes to the UK REIT and non-REIT regimes tax and financial legislation.

Mitigation

- The Board receives advice on these changes where appropriate and will act accordingly.

Movement in the period

- Advice is received from several corporate advisers, including tax adviser Grant Thornton UK LLP and the Group adapts to changes as required.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED



8. Operational

Movement in the period

Link to strategy

Potential Impact	Mitigation	Movement in the period
Business disruption could impinge on the normal operations of the Group.	<ul style="list-style-type: none"> The Asset and Investment Managers each have contingency plans in place to ensure there are no disruptions to the core infrastructure which would impinge on the normal operations of the Group. These plans have been implemented in adherence to COVID-19 Government guidelines, with limited disruption to operations. An annual due diligence exercise is carried out on all principal third-party service providers. 	<ul style="list-style-type: none"> Both the Asset and Investment Managers annually review their Disaster and Business Continuity Plans. The annual due diligence visits were curtailed due to government restrictions. However, assurances were received as required from third-party service providers. No concerns were identified.
	<ul style="list-style-type: none"> As an externally managed investment company, there is a continued reliance on the Asset and Investment Managers and other third-party service providers. 	<ul style="list-style-type: none"> Both the Asset and Investment Manager are viable going concerns.
	<ul style="list-style-type: none"> All acquisitions undergo a rigorous due diligence process and all multi-let properties undergo an annual comprehensive fire risk. The impact of physical damage and destruction to investment properties is mitigated by ensuring all are covered by a comprehensive building, loss of rent and service charge plus terrorism insurance with the exception of a small number of "self-insure" arrangements covered under leases. 	<ul style="list-style-type: none"> The Asset Manager continues to monitor changes in Health and Safety regulations, including, where required, COVID-19 social distancing measures. The Asset Manager reviews the adequacy of insurance cover on an ongoing basis.
Information security and cyber threat resulting in data loss, or negative regulatory, reputational, operational (including GDPR), or financial impact.	<ul style="list-style-type: none"> The Asset and Investment Manager each has a dedicated Information Technology team which monitors information security, privacy risk and cyber threats ensuring their respective operations are not interrupted. As required the building management systems are reviewed for cyber security risk 	<ul style="list-style-type: none"> The Managers review the respective Information Technology policies and the material third party service suppliers on an as required basis to ensure they reflect current and possible future threats.



9. Accounting, Legal, and Regulatory

Movement in the period

Link to strategy

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED



10. Environmental and Energy Efficiency Standards

Movement in the period

Link to strategy

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.	<ul style="list-style-type: none"> The Board receives regular updates on environmental, social, governance and potential legislation changes (e.g. the Government Green Finance Strategy July 2019) from its advisers. The Group has engaged an environmental consultancy to assist with achieving and improving the Global Real Industry Sustainability Benchmark (GRESB). 	<ul style="list-style-type: none"> Additional attention is currently being devoted to this area to ensure the appropriate approach is applied and embedded in Group activities.
Changes to the environment could impact upon the operations of the Group.	<ul style="list-style-type: none"> Property acquisitions undergo a rigorous due diligence process, including an environmental assessment. The Asset Manager monitors the portfolio for any detrimental environmental impact, by way of frequent inspections of the properties, and the annual insurance review process. 	<ul style="list-style-type: none"> The rigour of the environmental assessments process continues to be reviewed with the aim of enhancing it.
An Energy Performance Rating of E and below may impact the Group's ability to sell or lease an asset.	<ul style="list-style-type: none"> The Group continues to review each property to ensure adherence with Energy Performance Rating requirements. The energy efficiency of investment acquisitions is fully considered as part of the due diligence process for the acquisition of a property. 	<ul style="list-style-type: none"> The Asset Manager is continually reviewing the feasibility of enhancing Energy Performance Ratings to exceed the minimum requirement.

Changes to the Principal Risks and Uncertainties

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

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 £56.1 million of cash and cash equivalents, of which £49.9 million was unrestricted cash. The borrowing facilities remained compliant with all loan covenants, with an LTV of c. 42.4%, based upon the value of the Group's investment properties as at 31 December 2021. Rental income collections remained robust with 99.2% of rent invoiced in the year collected as at 18 March 2022*.

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 2024 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.

Assessment of Review Period

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

- The Group's WAULT of 3.0 years to first break.
- The Group's detailed forecast covering a rolling three-year period.
- The Group's weighted average debt to maturity was 5.5 years as at 31 December 2021.

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.

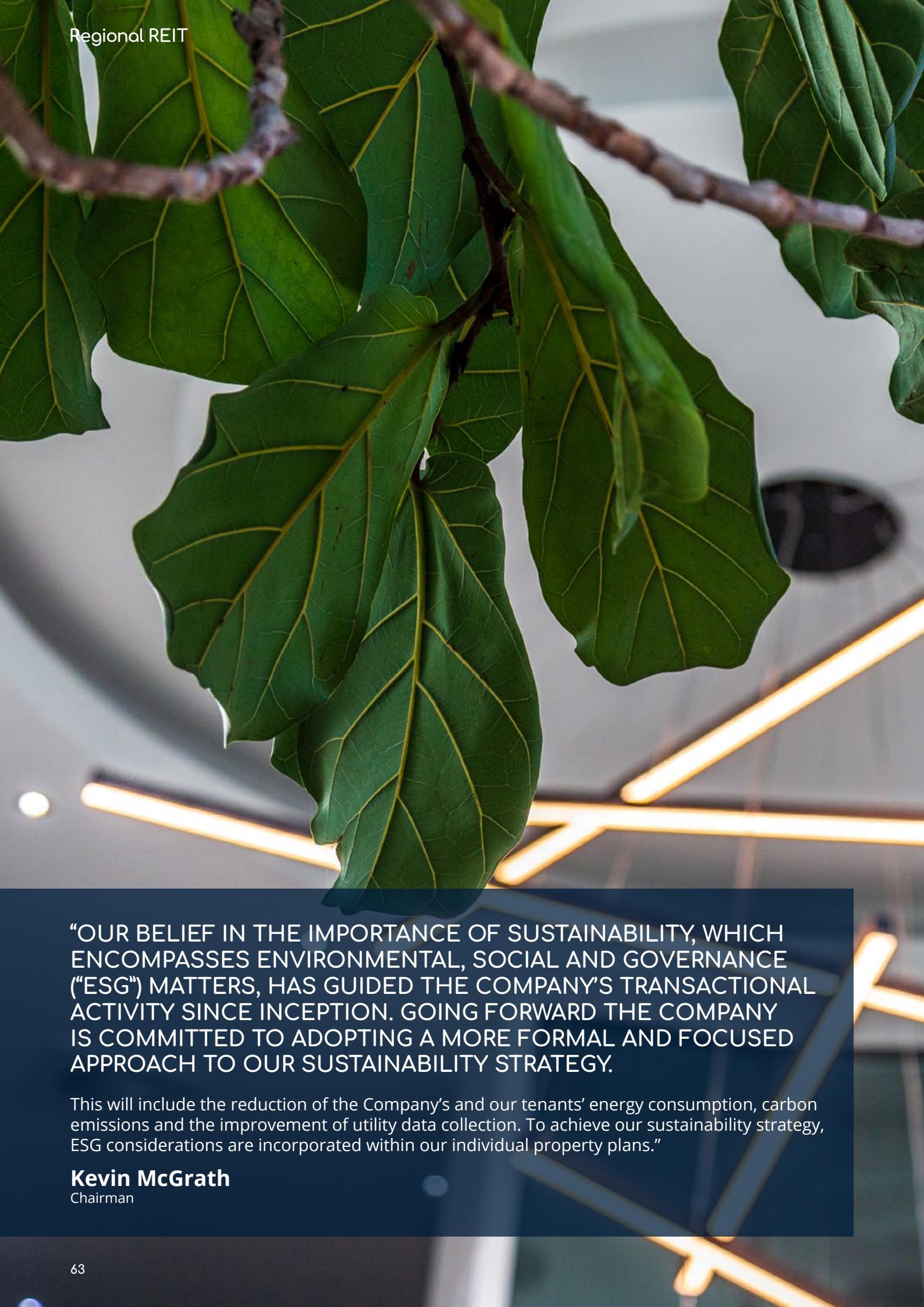
The Board's expectation is further underpinned by the regular briefings provided by each of the Asset Manager and Investment Manager. These briefings consider market conditions, investment opportunities, the Company's ability to raise third-party funds and deploy these promptly, changes in the regulatory 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.

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



“OUR BELIEF IN THE IMPORTANCE OF SUSTAINABILITY, WHICH ENCOMPASSES ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) MATTERS, HAS GUIDED THE COMPANY’S TRANSACTIONAL ACTIVITY SINCE INCEPTION. GOING FORWARD THE COMPANY IS COMMITTED TO ADOPTING A MORE FORMAL AND FOCUSED APPROACH TO OUR SUSTAINABILITY STRATEGY.

This will include the reduction of the Company’s and our tenants’ energy consumption, carbon emissions and the improvement of utility data collection. To achieve our sustainability strategy, ESG considerations are incorporated within our individual property plans.”

Kevin McGrath
Chairman



SUSTAINABILITY REPORT YEAR IN FOCUS

As reported in the last Annual Report, the Company was pleased to make a renewed commitment to its sustainability strategy during 2021. This built on the good work already being undertaken by the Company in adopting a more formal and focused approach to sustainability.

Since then, the Company has continued with a programme of ESG integration across the business, and through its stewardship, in the choices and decisions it makes, and the ways in which it engages with and encourages sustainable practices by others.

Highlights from the year are as follows:

- Established an ESG Working Party comprised of members from the Asset and Investment Managers.
- Established key performance indicators ("KPIs") by which the Company can measure its sustainability performance.
- The Asset Manager issued new and updated policies and procedures, and practices were updated to better reflect sustainability objectives.
- Included ESG criteria within due diligence procedures; in how the Company assesses and manages the performance of its standing assets and prospective investments; and who is chosen to engage and work with.
- Purposefully engaged with our occupiers by promoting sustainable practices and also in the obligations it commits to; for example, by including green lease clauses within its contractual terms.
- Became participant members of the Global Real Estate Sustainability Benchmark (GRESB). Submitted the Company's first GRESB assessment.

SUSTAINABILITY REPORT CONTINUED



Admiral House, Sunderland

Year Ahead

In the year since the last Annual Report, the sustainability agenda has continued at pace with the steady transition from voluntary reporting on sustainability to statutory reporting. With governments publishing disclosure requirements and aligning with reporting standards, such as those currently being formulated by the International Sustainability Standards Board, the relevance and importance of sustainability reporting is clear to see.

The Company is mindful of this and its programme of work for the coming year continues to focus on greater ESG integration across the business, improving its ESG performance, its stewardship and being transparent in how it performs.

Some examples of the programme of work for the year ahead are:

- Tackle areas highlighted for improvement from the inaugural GRESB assessment.
- Continue to integrate ESG criteria into due diligence enquiries, the obligations the Company requires from its key suppliers and associates, and in the measurements used to track performance.
- Undertake a portfolio wide audit of Energy Performance Certificates and alignment with the Minimum Energy Efficiency Standard (MEES).
- Continue with the energy efficiency strategies to reduce energy consumption and support a low carbon portfolio; source renewable energy supplies; install on-site renewables; upgrade to energy efficient plant and machinery through retrofitting, refurbishment and fit-out, and by encouraging occupiers to adopt their own energy efficient mitigations.

- Support occupiers and suppliers to adopt a more sustainable means of travel by installing electric vehicle charging points and priority on-site bicycle lanes and bicycle storage/changing facilities.
- Through the Asset Manager's fit-out guide and asset specifications, the Company promote greater circularity, encouraging recycling and reuse, responsible sourcing, the use of low carbon embodied materials, limiting resource use, avoiding virgin raw material use, and eliminating waste to land fill or incineration where possible.
- Transition standard lease terms on renewals and new leases to green leases which include cooperation and reporting obligations on parties to share environmental performance data; allow landlord access to verify environmental performance; impose sustainability criteria on fit-outs, repairs, maintenance and dilapidations; and encourage reductions in resource use.
- Continue with the Asset and Investment Manager's work in the community through the charities supported and served, while ensuring they remain the best and most closely aligned to the Company's ESG objectives and outcomes.
- Continue with the carbon footprint assessment programme.

ESG Working Party Report

The ESG Working Party was established in 2020. The membership of the Working Party is made up of members of the Asset Manager and the Investment Manager and the Working Party updates the Board. The external ESG consultants are invited to attend and support the ESG Working Party by undertaking specific pieces of work.

The Board has delegated its authorities to the ESG Working Party to:

- Assist the Board in defining and regularly reviewing the Company's strategy relating to ESG and in setting relevant key performance indicators.
- Develop and regularly review the policies, procedures, practices and initiatives relating to ESG matters and ensure they remain effective, relevant and consistent with industry best practice.
- Have oversight of the management of ESG matters and compliance with relevant statutory, regulatory and legal requirements and applicable ESG rules, industry standards and guidelines.
- Have oversight of responses to investor requests on ESG matters.
- Report on these matters to the Board and, where appropriate, make recommendations to them.

In undertaking this role, the ESG Working Party duties include assessing effectiveness in identifying, managing, mitigating or eliminating ESG risks and ensuring compliance with relevant statutory, regulatory and legal requirements as well as applicable ESG rules, industry standards and guidelines.

The ESG Working Party met six times in the year. In its first full year of work the ESG Working Party focused on the processes and steps necessary for ESG integration across the Company and its subsidiaries and the role of the Company in its ESG stewardship through its investments, external relationships and interactions.

The ESG Working Party also oversaw the Company's first GRESB Standing Investments Assessment and its response to the Task Force on Climate-Related Financial Disclosures (TCFD) in improving reporting of climate-related financial information. The Working Party was also responsible for preparing the Company's sustainability policy and relevant KPIs.



Aspect House, Nottingham

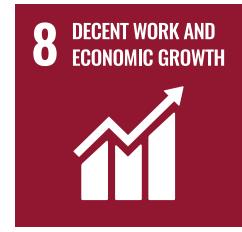


SUSTAINABILITY REPORT CONTINUED

United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals are comprised of 17 interlinked global goals that provide a blueprint for a sustainable future. The Company recognise its role in supporting the global transition to sustainable living as envisioned by the goals and has taken the decision to align the Company with four goals where the Company believes it can make the biggest impact.

These are:



Set out below is a summary of the Company's progress against the goals which are particularly significant to the Company.

3. Good health and well-being

The Company promotes good health and well-being via its services and interactions with its occupiers, suppliers and the communities within which it operates. During the COVID-19 pandemic the Company facilitated access to clean and hygienic places to work, with space to collaborate and work safely. Through the Asset Manager's Occupier Fit-out Guide recommendations and guidance are provided on steps that can be taken for the health and well-being of building users and how they can be achieved.

8. Decent Work and Economic Growth

The Company provides and manages facilities that generate opportunities for enterprises to grow and support job creation. In the Company's acquisitions and refurbishments, it promotes sustainable resource consumption, reuse and recycling, and in its engagements with others, it protects the labour rights of those engaged to work for the Company in safe working environments.

11. Sustainable Cities and Communities

The Company invests in and manages property and real estate assets across identified growth cities and centres across the regions of the UK outside of the M25 motorway. Its investment and management strategy is to ensure that they are sustainable and, through the facilities and opportunity offered, make a beneficial contribution to the communities the Company is part of and serves.

13. Climate Action

The Company is taking action across its portfolio to mitigate the harmful effects of climate change. Energy audits are being undertaken of all assets, implementing energy efficiency strategies to support a low carbon portfolio.

Sustainability in Action

Improving the Energy Performance of the Company's Assets

Through the refurbishment programmes, the Company is continuously improving the amenity of its assets and their environmental and energy performance. Examples include:

800 Aztec West, Bristol – EPC Rating 'B'

Previously rated 'D' this large 1980's commercial office was refurbished internally and externally to 'Cat A' standard with extensive insulation, glazing/cladding and building services upgrades.

Environmental:

The Coach Works, Leeds – EPC Rating 'B'

This city centre asset was previously rated 'C'. An extensive refurbishment saw installation of energy efficient air conditioning and heat recovery systems, replacement of electrical power and service installations, hot water and other building services installations and large-scale insulation upgrades.

Investment Due Diligence

The Company has broadened its investment due diligence to include sustainability criteria which feed into its decision making. This includes:

Social:

The position insofar as the environmental footprint of an investment is concerned. Current usages and impacts; the maturity of systems and mitigations in place to eliminate or reduce those impacts; environmental risks and their severity; and the prospects and opportunities for change.

Governance:

The social impacts and opportunities of an investment. Health and wellness criteria; air quality and its monitoring; physical attributes such as access to daylight, low noise pollution and social space. The availability of local amenities, close public transport and energy efficient means of travel, electric vehicle charging and parking.

The assessment and mitigation of risks, for example environmental and biodiversity risks; physical, natural and social economic risks. Sustainability framework and strategies in place for the investment and their relative performance. Financial, legal and operational obligations and impacts. Environmental classifications and certifications.

Working with the Community

During the year, the Company continued to support and work with a number of charities and not-for-profit organisations who are making an impact in the communities and the regional locations where it operates.

In Manchester the Company is pleased to be supporting three charities by providing each of them with 5,000 square feet of free office space so that they can focus on their core purpose and help those most in need. The services they are providing offer much needed support:

- to local not-for-profit organisations by providing partnership working and shared space;
- in community wellness and mental health support. Delivering a range of primary care mental health services, drop-in support and therapy services for NHS commissioning bodies; and
- safe and culturally familiar environments for women who are at personal risk or escaping violence.

SUSTAINABILITY REPORT CONTINUED

Data Performance

A. Key Performance Indicators ("KPIs")

During the year, the ESG Working Party recommended the following KPIs.

Boundary KPIs

Whole Portfolio Boundary

1. To reduce total portfolio absolute emissions to net zero by 2050 in accordance with the Paris climate agreement and to strive to achieve this in a shorter timescale.
2. To achieve a Minimum Energy Efficiency Standard ('MEES') target of EPC B by 2030. In 2022, the Company is undertaking a portfolio-wide audit of all EPCs as part of the Company's strategic response to MEES. For 2021, the EPC performance data was as follows:

Rating	Rated Area
A-B	9.92%
C-E	83.40%
Other	6.68%



Manchester Green, Manchester

Landlord Controlled Boundary

KPI	2021 Performance
All properties to be serviced by renewable energy sources.	Since April 2020, the substantial majority of supply contracts for electricity supplies have been green. This accounts for 54% of all energy consumption. In 2022, the Company is investigating opportunities for procurement of green gas supplies as part of its mitigation strategies.
All sites to be sourced from renewable energy	The target is to ensure that all sites are sourced by renewable electricity by 2023.
Install electric vehicle charging points across the portfolio or as requested by occupiers.	The target is to provide all multi-let sites with electric vehicle charging points by 2025. By the end of 2021, 22 sites provided 77 charging points. The target for the first six months of 2022 is to install a further 46 charging points over 6 sites.
Eliminate waste to landfill	Data for 2021 shows that, of 742 tonnes of waste generated across sites, 492 tonnes was recycled. The balance was sent for energy recovery either for refuse derived fuel (246 tonnes) or at an anaerobic digestion facility (4 tonnes). No waste went to landfill.
Reduce water consumption	Through the use of the Asset Manager's fit-out guide and refurbishments, the Company is targeting reductions in water consumption. This is primarily through the use of water-saving equipment devices, and by sharing best practice guidance with the Company's users, occupiers and suppliers.
Energy use data coverage	The Company is working to ensure half-hourly energy performance data coverage and that reporting is fully implemented and available for electrical and gas energy supplies by 2025.

Occupier Boundary

KPI	2021 Performance
Engage with occupiers during lease negotiations to incorporate green clauses into new leases	The Company is promoting incorporating green lease clauses into lease agreements. These include cooperation and reporting obligations to share and obtain environmental performance data and impose sustainability criteria.
Engage with all occupiers annually on ESG issues	The Company regularly engages with its occupiers, at least annually, and is now including ESG as part of that engagement.

B. Task Force for Climate-related Financial Disclosures ("TCFD")

The Company is pleased to have joined many other organisations around the world by becoming a supporter of TCFD and to work towards creating a more resilient financial system and help safeguard against climate risk through better disclosures. The Company has voluntarily complied with the TCFD recommended disclosures and disclosure requirements.

This is the first year the Company is making disclosures in line with the TCFD. As with other sustainability disclosures, the Company expects them to evolve in accordance with increased understanding around climate change risks.

SUSTAINABILITY REPORT

CONTINUED

Governance

Recommendation	Commentary
The Board's oversight of climate-related risks and opportunities	<p>The Board has ultimate responsibility for oversight of risks and opportunities. This includes those that are climate related.</p>
	<p>In undertaking its work, the Board has delegated its authorities on climate-related risk identification to the Audit Committee. The Audit Committee is responsible for overseeing the maintenance of the Group's Principal risk and Uncertainties register. These are set out in the report of current principal risks and uncertainties on pages 52 to 61.</p>
	<p>The Audit Committee reports on its activity to the Board after each meeting.</p>
	<p>The Audit Committee has similarly delegated its authorities on climate-related risk to the ESG Working Party.</p>
Board's role in assessing and managing climate-related risks and opportunities	<p>The Board has ultimate responsibility for assessing and managing climate-related oversight of risks and opportunities.</p>
	<p>The Board has delegated its authorities on climate-related risk to the Audit Committee, which assesses and evaluates risk against the risk appetite established by the Board. The risk assessment is undertaken through risk profiling and scoring prior to and post risk mitigation, whether those risks are improving, worsening or static and the appropriateness of the mitigation strategies in any particular case.</p>
	<p>The Audit Committee shares its assessments and findings with the Board for the Board's consideration.</p>
	<p>The Audit Committee meets at least twice annually. The ESG Working Party met six times in 2021 and is made up of members of the Asset Manager and Investment Manager teams.</p>

Strategy

Recommendation	Commentary
<p>Climate-related risks and opportunities identified over the short, medium and long term.</p>	<p>Climate-related risks are considered over the short, medium and long term as set out below.</p> <p>Short term (0-5 years):</p> <ul style="list-style-type: none"> Increasing ESG legislation and compliance Integration of ESG into business model Implementation of new Minimum Energy Efficiency Standards Portfolio climate adaption and retrofitting <p>Medium term (5-10 years):</p> <ul style="list-style-type: none"> Asset Portfolio occupier demand for buildings with higher levels of efficiency, climate resilience, and lower carbon footprints Increased legislation requiring adherence <p>Long term (10+ years):</p> <ul style="list-style-type: none"> Continued legislation requirements Climate change which may impact the portfolio
<p>Identify impact of climate-related risks and opportunities upon the Company's strategy, operations and financial planning.</p>	<p>The Board has identified that climate-related risks could impact the Company by:</p> <ul style="list-style-type: none"> Properties becoming unfit for purpose and asset stranding Income and expenditure impacts arising from climate-related mitigation strategies Lessened or improved desirability of its properties Pricing of properties Ability to access funds Cost of capital Reputation in the context of climate-related aspects <p>The Company's rolling capital expenditure and refurbishment programme aims to improve and adapt the portfolio of properties as necessary.</p>
<p>Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>The climate-related strategy is to: reduce energy consumption and increase energy efficiencies; source renewable energy supplies; support a low carbon portfolio; install on-site renewables, improve efficiencies through retrofitting, refurbishment and fit-out; and, where carbon emissions cannot be eliminated, investigate the possible use of verified carbon offsetting strategies.</p> <p>The Board tests the resilience of its strategies through regular performance updates and adjusts its strategies where it determines change is needed.</p>

SUSTAINABILITY REPORT CONTINUED

Risk Management

Recommendation	Commentary
Integrate processes for identifying, assessing, and managing climate-related risks into the Company's overall risk management.	<p>Climate-related risk is assessed on an on-going basis. The Board, through the Audit Committee reviews the Group's principal risks and uncertainties, including climate-related risks, in the normal course of business conducted at Board and Committee meetings. Board meetings are held at least quarterly and Audit Committee meetings at least bi-annually, with ad hoc meetings called as circumstances demand.</p> <p>Any identified climate-related risk would be managed appropriately by the Board in the future as the need arises.</p>

Metrics and Targets

Recommendation	Commentary
Metrics used by the Company to assess climate-related risks and opportunities are in line with its strategy and risk management process.	<p>The Company reports in line with:</p> <ul style="list-style-type: none"> • The GRESB Standing Investments Benchmark; and • EPRA Sustainability Best Practices Recommendations for sustainability reporting. <p>EPRA performance tables are detailed later in this Sustainability Report.</p>
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	<p>The Company reports Scope 1 and Scope 2 emissions in accordance with EPRA recommendations and as set out for the years 2019 and 2020 separately in this Report. The GHG assessment for the year to 31 December 2021 will be published separately to this Report.</p>
Targets used by the Company to manage climate-related risks and opportunities and performance against targets.	<p>Through the ESG Working Party, the Company has established key performance indicators and targets as set out elsewhere in this report. The ESG Working Party measures performance against the targets and will report its findings to the Board.</p>

C. EPRA Sustainability Best Practices Recommendations

The Company has chosen to report its material, environmental, social and governance data in accordance with the third edition of the European Public Real Estate Association ('EPRA') Best Practices Recommendations ("sBPR"), September 2017.

EPRA is a non-profit association representing Europe's publicly listed property companies. By responding to EPRA, the Company is promoting sustainability within the property portfolio, while also identifying opportunities for further improvements relating to sustainability regulations and initiatives.

This EPRA report is over three sections:

1. Overarching recommendations;
2. Environmental performance measures; and
3. Social and Governance performance measures.

1. Overarching Recommendations

Organisational boundaries

The Company's EPRA sustainability reporting covers properties held as at 31 December 2021. At the date of this report, the Company is finalising the collection of performance data to report on the environmental performance measures to 31 December 2021. The Company expects this to be published and made available in the second half of 2022. For the purposes of this report, environmental performance data is restricted to that for 2020 against a 2019 base year.

Coverage

The coverage of absolute performance measures amounts to 50% of all property assets held at 31 December 2020. The remaining assets are single or multiple occupancy assets with no landlord-obtained electricity, gas and water ("Utilities").

The absolute performance measures relate to electricity, fuels and associated greenhouse gas ("GHG") emissions where the Company procures Utilities for common areas, shared services, occupier areas and those properties that are vacant.

Like-for-like performance measures include properties for which the Company has collected two years' worth of consistent data – and excludes properties sold, acquired or under development during the period: 1 January 2019 to 31 December 2020. The like-for-like portfolio therefore represents 50% of the assets covered in the organisational boundaries, and data coverage is 100% of these properties. Data collected was during the COVID-19 pandemic at which time properties were not fully occupied or utilised.

The Company aims to complete annual health and safety assessments for 100% of the assets, excluding those where the responsibility for health and safety assessments is with the occupier.

Boundaries – Reporting on Landlord and Occupier Consumption

The energy and associated GHG emissions data reported includes:

- Electricity and fuel consumption which the Company purchases as landlord covers common areas, shared services and occupier areas where this consumption is not sub-metered but recharged via the service charge;
- Utilities procured directly by occupiers is excluded as it falls outside the Company's operational control.

Estimation of landlord-obtained Utility Consumption

All data is based on invoices and/or meter readings where available. Estimations have been applied where invoices were not available at the time of publication. In these instances, the Company has estimated the consumption data based on the most recent invoice or reading for the corresponding period.

Analysis – Normalisation

Energy and emissions intensity indicators are calculated using floor area sq. ft. for whole buildings.

The Company is aware of a mismatch between the numerator and denominator, as in some properties the utilities consumption relates to common areas only, and in others it covers both shared services, outside space and occupier areas where there are no sub-meters.

Analysis – Segmental Analysis (by Property Type, Geography)

Sector analysis is organised by the property classification as set out in the Asset Management section of the Company's financial reporting. Additional segmental analysis by geography is not applicable as all assets are in the United Kingdom.

Reporting Period

- Absolute performance measures and intensity metrics are reported for the most recent reporting year for which the Company holds full reporting data at the date of this report (year ending 31 December 2020).
- Like-for-like performance measures are reported for the two most recent reporting years that the Company can collect consumption data for (years ending 31 December 2019 and 31 December 2020).

Disclosure on Manager's Offices

Utilities associated with the Manager's office consumption and the Manager's employee-related performance measures are excluded, apart from where the Manager's space is leased from the Company, as they fall outside the scope of the organisational boundaries.

Data Verification and Assurance

All data is reviewed for consistency and coherence prior to disclosure.

Materiality

The following EPRA sustainability performance measures were not considered material and have therefore been excluded from reporting:

- District heating or cooling ("DH&C"); absolute & DH&C-like for like: No DH&C is procured across the portfolio.
- Diversity-Emp; Diversity-Pay; Emp-Training; Emp-Dev; Emp-Turnover & H&S-Emp: The Group has no direct employees. All administrative functions associated with the management of the portfolio are conducted by the Managers, which are separate legal entities and therefore outside the organisational boundaries of this report.
- Waste-absolute & Waste-like for like: Operational waste is generated solely by the occupiers and is therefore outside of the Company's control. Waste generated through the Company's [refurbishment/development] activities is excluded from the scope of the EPRA sBPR.

SUSTAINABILITY REPORT CONTINUED

2. Environmental Performance Measures

EPRA Code	Performance Measures	Unit	Scope	Absolute 2019	Absolute 2020	LfL 2019/2020
Elec-Abs Assets	Total electricity consumption	kWh	Total landlord obtained	28,564,703	23,880,550	(16%)
Elec-LfL						
DH&C-Abs Assets	Total district heating & cooling consumption	kWh	Total landlord obtained	-	-	n/a
DH&C-LfL Assets						
Fuels-Abs Asset	Total fuel consumption	kWh	Total landlord obtained	22,516,976	19,878,876	(12%)
Fuels-LfL Asset						
Energy-Int Asse	Building energy intensity	kWh/m ² /year	Building energy intensity	223	123	-
GHG-Dir-Abs Ass	Total direct GHG emissions	tonnes CO ² e	Scope 1 – direct emissions	6,835	6,740	(1%)
GHG-Indir-Abs A	Total indirect GHG emissions	tonnes CO ² e	Scope 2 – indirect emissions (location-based)	4,584	4,495	(2%)
GHG-Int Assets	Greenhouse gas (GHG) emissions intensity from building energy consumption	kg CO ² e/m ² /year	Scope 1 and 2 (location based) intensity	41	32	(22%)

3. Social and Governance Performance Measures

EPRA Code	Performance Metric	Unit of Measurement	2020	2021
Diversity-Emp Corporate	Employee gender diversity	% female: male	The organisation has no employees	The organisation has no employees
Diversity-Pay Corporate	Ratio of the basic salary and/or remuneration of men to women	Ratio per GRI guidelines	The organisation has no employees	The organisation has no employees
Emp-Training Corporate	The average hours of training that the organisation's employees have undertaken	Average hours	The organisation has no direct employees	The organisation has no direct employees
Emp-Dev Corporate	The percentage of total employees who received regular performance and career development reviews	Percentage of total employees	The organisation has no employees	The organisation has no employees
Emp-Turnover Corporate	The total number and rate of new employee hires and employee turnover	Total number and rate	The organisation has no employees	The organisation has no employees
H&S-Emp Corporate	The occupational health and safety performance of the reporting organisation with relation to its direct employees	Injury rate, lost day rate, absentee rate and work-related fatalities	The organisation has no employees	The organisation has no employees
H&S-Asset Assets	Proportion of assets for which health and safety impacts have been reviewed or assessed for compliance or improvement	Percentage of assets	100%	100%
H&S-Comp Assets	Incidents of non-compliance with regulations and/or voluntary standard concerning the health and safety impacts of assets assessed during the reporting period	Description of non-compliance	The organisation has not identified any non-compliance with regulations and/or voluntary codes	The organisation has not identified any non-compliance with regulations and/or voluntary codes
Comty-Eng Assets	Assets under operational control that have implemented local community engagement, impact assessments and/or development programmes	Percentage of assets	n/a	n/a

Governance Performance Measures

EPRA Code	Description	Disclosure
Gov-Board	Composition of highest governance body	Refer to pages 85 to 86 of this report
Gov-Selec	Process for selection of highest governance body	Refer to pages 87 to 104 of this report
Gov-COI	Process for management of conflicts of interest	Refer to page 101 of this report

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 2006¹⁷ 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 13 to 17 and below. In addition, the Investment Strategy and Business Model set out on pages 19 to 24 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 out, 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 Occupiers, 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.

Occupiers

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 occupier 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 visits properties and communicates with existing occupiers to understand their needs and improve their satisfaction. This improves retention rates and also attracts prospective tenants.

During the year, the Asset Manager continued to engage with occupiers to understand their needs during the crisis. The Board firmly believes that, by supporting occupiers 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 occupiers 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 63 to 70.

¹⁷ 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.

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 Shareholders' 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 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 page 101.

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.

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 170.

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, which are also available on the Company's website. Following the announcement of the Company's full 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 are set out on page 110.

SECTION 172 STATEMENT CONTINUED

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 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 pages 102 to 107. The MERC formally assesses the performance of third-party service providers, 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 110.

Lenders

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

The Company maintains strong relationships with current lenders, providing regular updates on at least a quarterly basis, and also maintains regular contact with prospective lenders to ensure it is well placed to secure additional funding when required.

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.

Board Decision-Making

The major decisions taken by the Board during 2021 are summarised below and show how the Board had regard to its stakeholders and the longer-term success of the Company:

Principal Decision – Acquisition of Regional Office Portfolio

Further to the Board's decision that the Company will focus its investment solely on properties in the office sector, the Board acquired a large portfolio of regional office assets, funded through issuance of 84,230,000 new ordinary shares in the Company, £76.7 million of existing cash resources and by additional borrowings of £76.2 million. This was a significant acquisition for the Company, adding scale and diversification to the Company's portfolio to the benefit of all Shareholders.

The Company will continue to 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 – 2021 Dividend

The Board is committed to paying a full year dividend of 6.50pps, conscious of its commitment to Shareholders to maintain an uninterrupted quarterly dividend.

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 19) 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 ARRANGEMENTS CONTINUED

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 consist 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 157 to 158 of the Company's Prospectus, published on 24 June 2019.

Performance Fee

A performance fee was not crystallised for the performance fee period from 1 January 2021 to 31 December 2021.

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 110.

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 £138,340 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 page 4. 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 of thought. All Directors act with integrity, lead by example and seek to promote the Company's culture through ongoing dialogue and engagement with its stakeholders.

The Board seeks to appoint appropriate service providers and, through the MERC, evaluates their service on a regular basis as described on page 110. 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.

The Strategic Report has been approved by the Board at its meeting held on 28 March 2022 and signed on its behalf.

On behalf of the Board

Kevin McGrath

Chairman

28 March 2022

CORPORATE GOVERNANCE

Board of Directors	85
Report of the Directors	87
Statement of Directors' Responsibilities	93
Corporate Governance Statement	95
Audit Committee Report	105
Nomination Committee Report	109
Management Engagement and Remuneration Committee Report	110
Directors' Remuneration Report	111
Independent Auditor's Report	113
Appendix 1: Auditor's responsibilities for the audit of the financial Statements	118

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.

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 of Doctor of the University from the University of Surrey in 2017 in recognition of an outstanding contribution to the Arts.

He is a founder Trustee of The Clink Prison Restaurant Charity; Trustee Designate of the Moorfields Eye Hospital Charity and Vice Chair of the QPR Sport in The Community Trust and Chair of QPR Women's Football Club.



**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 Limited. 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 Group Limited, a serviced office business based in London, in which Westchester Capital is a principal investor. From 2011 to 2015, Dan was chairman 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 media financier Grosvenor Park Media, Inc. for whom he managed a US\$400m investment joint venture with Fortress Investment Group LLC. 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 First Boston Inc.

Dan has held directorships for various private and listed companies involving investment management, corporate finance and corporate governance roles. Dan is currently a non-executive director of Queen's Club. 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 were spent 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 2021.

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, such as the future developments of the Group, have instead been included in the Strategic Report (pages 14 to 82) 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 85 to 86. 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) and 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 2022 AGM in accordance with the Company's Articles and the AIC Code.

The Directors ensure that they maintain their continuing professional development 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 and ethnic 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.

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 2021		At 28 March 2022	
	Number of Ordinary Shares	% Interest in share capital	Number of Ordinary Shares	% Interest in share capital
Kevin McGrath*	384,100	0.07	384,100	0.07
William Eason	225,000	0.04	225,000	0.04
Daniel Taylor**	700,098	0.14	700,098	0.14
Frances Daley	147,257	0.03	147,257	0.03
Stephen Inglis***	2,266,299	0.44	2,266,299	0.44
Timothy Bee****	232,031	0.04	232,031	0.04

* Held by himself, his spouse and children.

** Held by himself, his spouse and children.

*** Held by himself, spouse and family trust.

**** Held beneficially by his spouse.



REPORT OF THE DIRECTORS CONTINUED

Share Capital

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

All of the Company's Ordinary Shares are listed on the premium segment of the London Stock Exchange and each Ordinary Share carries one vote.

There is only one class of Ordinary Shares in issue for the Company, in adherence to the REIT requirements. The only other shares the Company may issue are particular types of non-voting restricted preference shares, of which none (2020: none) are currently in issue.

Share Issues

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

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

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

Purchase of Own Shares

At the AGM held on 21 September 2021, 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 9 August 2021).

No Shares have been purchased under this authority during the year under review, which will expire at the Company's 2022 AGM where a resolution for its renewal will be sought, or, if sooner, on 21 December 2022.

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 their 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 them 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 their 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 their 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 with information 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 2021		At 28 March 2022	
	Number of Ordinary Shares notified	% Interest in Share capital	Number of Ordinary Shares notified	% Interest in Share capital
OMP-SS5	35,525,698	6.89	35,525,698	6.89
Majik Property Holdings Ltd	47,108,719	9.13	47,108,719	9.13

The Company has not been informed of any other changes to the notifiable interests between 31 December 2021 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.

Under Guernsey law, Shareholders are not required to vote on the payment of a dividend 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.

REPORT OF THE DIRECTORS CONTINUED

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 25 to 31, respectively.

During 2021, the Company declared three quarterly dividends of 1.60pps. A fourth quarterly dividend of 1.70pps for the year ended 31 December 2021 was declared on 24 February 2022. This dividend will be paid on 8 April 2022 to Shareholders on the register at the close of business on 4 March 2022. The ex-dividend date was 3 March 2022 (during 2020, the Company declared three quarterly dividends, one of 1.90pps and three of 1.50pps).

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 95 to 104 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.

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 77 to 79.

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.

The Company also encourages investors and analysts to utilise its online 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. 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 52 to 61.

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 sustainability report is set out on pages 63 to 76. Whilst the Group has no direct social or community responsibilities, the Company is supportive of the Managers' philanthropic activities.

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 9.8.4R, 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 111, Mr Bee and Mr Inglis do not receive any remuneration from the Company. Furthermore, Mr Inglis is the Chief Executive Officer of London & Scottish Property Investment Management, the Company's Asset Manager and Mr Bee is the Chief Legal Counsel at Toscafund Asset Management LLP, the Company's Investment Manager. The details of the Agreements with the Asset Manager and Investment Manager are set out on page 80 and in note 34.

Future Developments

Information on future developments is detailed within the Strategic Report on pages 14 to 82.

Annual General Meeting

The Company's 2022 AGM is due to be held on 25 May 2022.

For and on behalf of the Board

Kevin McGrath

Chairman

28 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions; disclose with reasonable accuracy at any time the financial position of the Group; enable them to ensure that the financial statements comply with the requirements of The Companies (Guernsey) Law 2008 and, as regards the Group financial statements, the IFRS and IFRIC as contained in UK-adopted International Accounting Standards. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Each of the Directors, whose names and functions are listed on pages 85 to 86, confirms that to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS and IFRIC as contained in UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, including the Asset and Investment Managers' Report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Group's position, performance, business model and strategy.

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

Kevin McGrath

Chairman

28 March 2022

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 93, 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 2021, 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 page 111.

BOARD LEADERSHIP AND PURPOSE

AIC Code Principle

A. A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society.

Compliance statement

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.

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.

Details regarding the principal risk and uncertainties and the sustainability of the business model can be found in the Strategic Report on pages 17 to 82.

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.

The purpose of the Company, as set out on page 4, 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 19 to 24.

As outlined on page 4, 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.

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.

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 on which all decisions are based.

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.

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.

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.

The Audit Committee is responsible for assessing and managing risks. The Company's principal risks and uncertainties can be found on pages 52 to 61. 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 105.

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.

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.

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.

Further details can be found on pages 78 to 79.

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.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

DIVISION OF RESPONSIBILITIES

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.	There is a clear division of responsibility between the Chairman, the Directors, the Asset Manager, the Investment Manager and the Company's other third-party service providers.
	The 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.
	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.
	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.
	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. All Directors have timely access to all relevant management financial and regulatory information.
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.	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).
	A majority of the Board will at all times be independent of the Asset and Investment Managers.
	The Chairman, Mr McGrath, was independent of the Asset Manager and Investment Manager at the time of his appointment. The Board considers that he remains independent.
	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 exceptions of Mr Inglis and Mr Bee).
	The Board evaluation concluded that each Director provides a valuable contribution to Board meeting discussions and exercises appropriate levels of challenge and debate.
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.	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 by the Nomination Committee. 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.
	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 page 110.
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.	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.

COMPOSITION, SUCCESSION AND EVALUATION

<p>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>	<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>During the year, the Board established a Nomination Committee, which is comprised of the independent non-executive Directors.</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; and • long lists of potential non-executive Directors should include diverse candidates of appropriate merit. <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. More details on the Director appointment process and on succession planning can be found on page 109.</p>
<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>	<p>Directors' biographical details are set out on pages 85 to 86 of this report. These demonstrate the wide range of skills and experience that the Directors bring to the Board including 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, through the Nomination Committee 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 87.</p>
<p>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>	<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 2021. However, this will be kept under review.</p> <p>During the year, the Company undertook an internal Board Evaluation exercise 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 Evaluation was conducted, following the year end, by way of the Directors completing tailored questionnaires.</p>
	<p>The performance of the Chairman was similarly evaluated by the other Directors, led by the Senior Independent Director, Mr Eason. The results of the Evaluation, which were discussed collectively by the Nomination Committee at its March meeting 2022, were positive and are set out on page 101.</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

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 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 105 to 108.</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. Details in respect of the Company's principal risks and uncertainties and the appropriate measures taken to mitigate each risk can be found on pages 52 to 61.</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 111, the Company's approach to non-executive Directors' 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 111 to 112. 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>

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 85 to 86.

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 page 4. The values of the Company are set out on page 4. These values are considered in Board decision making. The purpose of the Company is the investment objective, which can be found on page 19. The strategy that the Board follows to meet this objective is outlined in the Strategic Report on page 20. The business model that the Company operates is set out on pages 19 to 24.

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 47 to 51 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 52 to 76.

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 the 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 under review, the Directors opted to undertake an internal performance evaluation specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its committees. The evaluation was conducted using tailored questionnaires and was structured to analyse the focus of Board composition and effectiveness, the efficiency of Board and Committee meetings, and to assess whether the operation of such meetings was appropriate, as well as whether any additional information may be required to facilitate better Board discussions. The Board was also asked to consider Board support, strategic operational oversight, culture, Shareholder engagement and succession planning. The evaluation identifies any areas for improvement and areas of knowledge and expertise which would be considered as part of succession planning.

The evaluation process was carried out post year end and responses were collated by the Company Secretary. The independence of the Directors and their ability to commit sufficient time to the Company's activities was considered as part of the evaluation process. The performance of the Chairman was similarly evaluated by the other Directors, led by the Senior Independent Director.

Overall, the results of the evaluation were positive, with Director engagement and preparation for meetings, and combined knowledge of the property sector viewed as strengths. There were no significant concerns raised by the Directors relating to the effectiveness of the Board.

The results of the appraisal process, which were discussed collectively by the Nomination Committee, 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. Succession planning remains an area of attention, with focus on developing a diverse pipeline for succession and the Board is keen to increase its engagement with 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. All 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 believe this is in the interest of the Company, having taken into account the independence of the Director.

During the year, the Board had agreed to extend the appointment periods 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.

The Nomination Committee, which consists entirely of the Company's 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.

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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board Committees

The Board has three Committees in operation and has delegated certain responsibilities to the Audit Committee, the Management Engagement and Remuneration Committee ("MERC") and the 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 will meet 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 102 to 107.

Management Engagement and Remuneration Committee ("MERC")

The MERC comprises the four Independent Directors and is chaired by Mr Eason. It will meet 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 page 110.

Nomination Committee

The Nomination Committee comprises the four Independent Directors and is chaired by Mr Eason. The Nomination Committee held its first meeting in December 2021. It will meet at least once a year, or more often if required. The Chairman of the Company is a member of the Nomination Committee but does not act as Committee chairman.

Although an individual who is not a member of the Nomination Committee is not entitled to attend and vote on matters at its meetings, the Committee may invite anyone to attend at its discretion. The Nomination Committee Report is set out on page 109.

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.

Details of the Company's internal control and risk management systems in relation to the financial consolidation reporting process can be found on page 105.

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 52 to 61.

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 the Asset Manager and Investment Manager, provides 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 the Asset Manager and Investment Manager 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 52 to 61 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

28 March 2022

AUDIT COMMITTEE REPORT

I am pleased to present the Audit Committee Report for the year ended 31 December 2021, 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.

Frances Daley
Chairman of the Audit Committee

As set out on pages 105 to 108, 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" of the Company's accounting policies and significant financial judgements.

We are pleased to advise the Board that the 2021 Annual Report and the audited Financial Statements taken as a whole are fair, balanced and understandable and provide 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 52 to 61. During the year, the Committee reviewed the impact of climate change, and this was added as a risk to the Company's risk matrix. The Committee continues to monitor inflation.

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. The Board and I 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 of meetings 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 the Company and its 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 62);
- 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;
- made recommendations to the Board regarding the re-appointment of the Auditor; and
- reviewed the Group's Financial Statements and advised the Board accordingly.

The Administrator and the Investment Manager update the Audit Committee on changes to accounting policies, legislation and best practice and areas of significant judgement 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:

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, carries 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 materially 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.



AUDIT COMMITTEE REPORT CONTINUED

The Committee reviewed the half-year valuation as at 30 June 2021 and, since the year end, the Committee has considered the year-end valuation report. It discussed the year-end report with representatives at Cushman & Wakefield and 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 110.

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 2021, 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 62.

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. Mr Alan Aitchison is the Audit Partner. 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 2021 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 £88,400 was agreed in respect of the audit of the Company for the year ended 31 December 2021 (2020: £84,500). The Group's audit fees for the year ended 31 December 2021 totalled £205,400 (2020: £197,000).

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 2021. The fee charged for this service was £27,100 (2020: £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 (2020: £nil).

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, as outlined in its terms of reference, 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 twelve 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

28 March 2022

NOMINATION COMMITTEE REPORT

I am pleased to present our first Nomination Committee Report following its formation in October 2021.

William Eason
Chairman of the Nomination Committee

Composition and Meetings

The Nomination Committee, whose membership consists solely of the independent non-executive Directors and myself as Chairman, was established in late 2021. It met once during the year, with all Committee members attending. The Nomination Committee is required to meet at least once annually, and its quorum is two members.

Matters Considered by the Nomination Committee in the Year

Succession Planning

An important aspect of the Nomination Committee's role is to consider succession planning processes to ensure the orderly replacement of Board members. Succession planning is a key focus of the Committee for 2022 following its assessment of the tenure of current Board members. The Committee has formulated a succession plan following a review of the current Board structure, size, composition, skills, effectiveness and expertise. It has commenced the process for the appointment of a new non-executive Director to the Board, which has included the engagement of Nurole Limited, an independent external search consultancy with no connection to the Company, in January 2022. The Nomination Committee will shortlist and interview potential candidates, with the aim to identify and recommend a candidate to the Board in due course. Details of the recruitment process will be shared in next year's Annual Report.

Board Diversity

The Board's policy on diversity is to ensure that the Directors on the Board have a broad range of experience, skills and knowledge, with diversity of thinking, background and perspective. Appointments to the Board are made on merit against objective criteria, having regard to the benefits of diversity and the current and future needs of the business and the other factors set out in the AIC Code.

Board Evaluation

As detailed on page 101, the Committee reviewed the results of the Board evaluation.

Election and Re-election of Directors

All Board members will stand for election and re-election at the 2022 AGM. The Committee and the Board have concluded that each Director standing for election and re-election at the AGM continues to demonstrate the necessary skills, experience and commitment to contribute effectively and add value to the Board.

Biographies of each Director are available on pages 85 and 86. It is the Committee's and the Board's view that the Directors' biographies illustrate why each Director's contribution is, and continues to be, important to the Company's long-term sustainable success.

Details of the Board evaluation and effectiveness process can be found on pages 101 and 102.

Role of the Nomination Committee

The principal duties of the Nomination Committee, as outlined in its terms of reference, are:

- to keep under review the structure, size and composition of the Board (including a review of the scope to further promote skills, knowledge, experience and diversity) and the membership of its Committees;
- to consider and formulate succession planning for the Board;
- identify suitable candidates for the role of Senior Independent Director; and
- lead and manage the process for the appointment of new Directors, including the Chairman to the Board.

Committee Effectiveness

As a newly formed committee of the Board, the Nomination Committee has not participated in the evaluation of its performance and effectiveness. For 2022, the Nomination Committee will continue to focus on succession planning for the Board, with consideration being given to the diversity of the Board. The Committee will also monitor the actions arising out of this year's performance evaluation exercise.

William Eason

Chairman

Nomination Committee

28 March 2022

MANAGEMENT ENGAGEMENT AND REMUNERATION COMMITTEE REPORT

I am pleased to present the Management Engagement and Remuneration Committee ("MERC") Report for the year ended 31 December 2021.

William Eason

Chairman of the Management Engagement and Remuneration Committee

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 of meetings entitled to attend	Number attended
William 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 provides 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 2021 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 111 to 112. 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 2021 and the date of this report can be found on page 88.

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 advises 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

28 March 2022

DIRECTORS' REMUNERATION REPORT



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 2021.

William Eason
Chairman of the Management Engagement and Remuneration Committee

Statement from the Chairman

This report has been prepared in accordance with the relevant requirements of the Listing Rules. The MERC comprises only the non-executive Directors of the Company.

As at 31 December 2021 and the date of this report, the Board consists entirely of non-executive Directors and the Company has no employees. The MERC reviews Directors' fees on an annual basis. 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. As a result of this review, with effect from 1 April 2022, fees will be increased by 4.75% to £77,000 (previously £73,500) per annum for the Chairman and £55,000 (previously £52,500) per annum for other Directors. The Committee agreed that an additional fee of £2,500 be paid to the Chairman of the Audit Committee in recognition of the extra responsibilities and accountabilities associated with the role.

Each Director abstained from voting on their own individual remuneration. The annual fee for the Directors were last increased on 1 April 2019. The increase in Directors' fees remain within the approved maximum aggregate set out in the Company's Articles of Incorporation of £300,000 per annum. 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 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.

Directors' Remuneration

The level of remuneration has been set to reflect the experience and expertise 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 a general meeting shall from time to time determine) as determined within the limits stated in the Company's articles of incorporation. 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 and Nomination Committee or as Senior Independent Non-Executive Director. Ms Daley receives additional remuneration for her role as chairman of the Audit Committee to reflect the more onerous role.

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.

At the forthcoming AGM, the Board is proposing an Ordinary Resolution to increase the cap on the aggregate amount of fees that can be paid to Directors from £300,000 per annum to £400,000 per annum. The proposed increase will provide the Board with the flexibility to make further appointments to the Board as the Company continues to grow and to ensure that Directors fees are sufficient to ensure that candidates of a high calibre are recruited to the Board. Further details can be found in the 2022 Notice of AGM.

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 are not eligible for bonuses and do not receive pension benefits, long-term incentive schemes or Share options or any other non-statutory benefits or incentives. 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. The same principles will apply to any new appointments.

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 (2020: none). There were no payments for past Directors in the year ended 31 December 2021 (2020: none).

Remuneration Consultants

The Group did not engage the services of an external remuneration consultant during the period under review. The MERC 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 2021	Fees paid to 31 December 2020
Kevin McGrath	£73,500	£73,500
William Eason	£52,500	£52,500
Daniel Taylor	£52,500	£52,500
Frances Daley	£52,500	£52,500
Stephen Inglis	-	-
Tim Bee	-	-
Aggregate:	£231,000	£231,000

None of the Directors has 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 2021 and the expected fees payable in respect of the year ending 31 December 2022 are set out in the table below:

	Expected annual fees for the year to 31 December 2022	Annual fees for the year to 31 December 2021
Chairman	£77,000	£73,500
Non-executive Director	£55,000	£52,500
Chairman of the Audit Committee	£57,500	£52,500
Total remuneration paid to Directors	£244,500	£231,000

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 88.

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

28 March 2022

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

Opinion

We have audited the financial statements of Regional REIT Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 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 UK-adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- are in accordance with UK-adopted International Accounting Standards; and
- comply with the requirements of The Companies (Guernsey) Law, 2008.

Summary of our audit approach

Key audit matters	Group
	<ul style="list-style-type: none"> • Valuation of Investment Property
Materiality	<ul style="list-style-type: none"> • Overall materiality: £10,600,000 (2020: £9,570,000) • Performance materiality: £7,990,000 (2020: £7,170,000)
Scope	Our audit procedures covered 79% of revenue, 96% of total assets and 77% of profit 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.

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.

Investment Properties

Key audit matter description	<p>This is detailed in the Audit Committee report on pages 106 to 107; Note 3.1.1 of the significant accounting judgements and estimates on page 127; Note 4.4 of the significant accounting policies to the financial statements on page 129.</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 2021 was £906.1 million (2020: £732.4 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. We specifically enquired of any challenge that had been made on their valuation report from parties related to the Group.</p> <p>We engaged a property valuation specialist, as our auditor's expert, and based on our initial discussions we identified 49 properties for detailed testing, where the current year valuation movement fell outside their current market expectations, or where the property was either individually material or had produced a yield outwith expectations from our overall review of the portfolio.</p> <p>We discussed and challenged the valuation of 30 of these properties with the valuer directly. The valuer 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 tested the inputs used by the valuer and ensured these reflected the correct inputs for a sample of properties</p>
Key observations	We concluded that the fair values of the investment properties being adopted by the group were appropriate.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. 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:

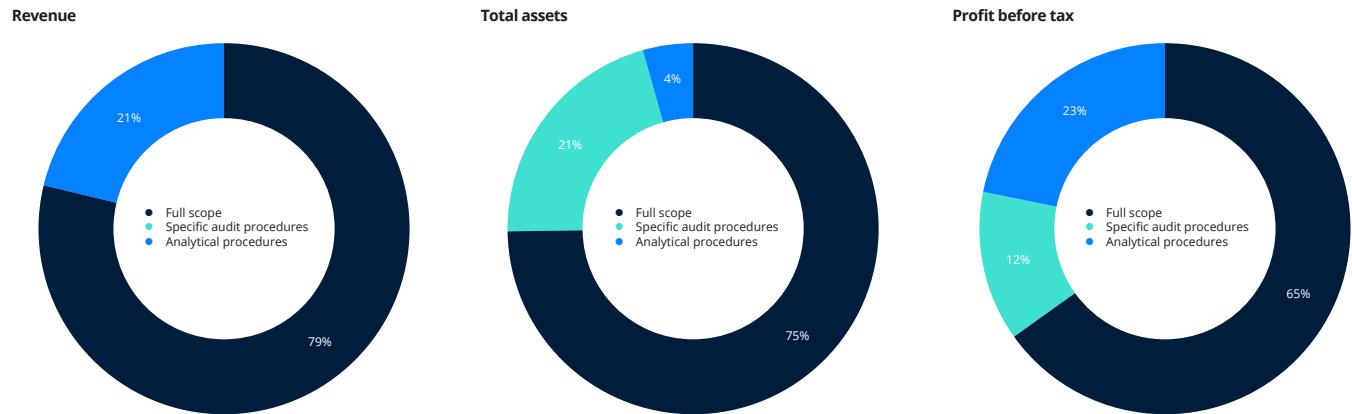
Group	
Overall materiality	£10,600,000 (2020: £9,570,000)
Basis for determining overall materiality	1.0% (2020: 1.1%) of Total Assets
Rationale for benchmark applied	Total assets was used as a benchmark as it was assessed that the shareholders will be primarily interested in the growth in the value of property, represented by the property valuation.
Performance materiality	£8,010,000 (2020: £7,170,000)
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 £1,800,000 (2020: £1,680,000 to ensure adequate coverage of these values. This has been calculated as 4.0% (2020: 4.0%) of Operating profit before gains and losses on property assets and other investments.
Reporting of misstatements to the Audit Committee	Misstatements in excess of £534,000 (2020: £478,000) and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REGIONAL REIT LIMITED CONTINUED

An overview of the scope of our audit

The group consists of 65 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 8 components, specific audit procedures for 23 components and analytical procedures at group level for the remaining 34 components.

The specific audit procedures for 21 components include the review of the investment properties held by those components. The specific audit procedures for the remaining 2 components included procedures on cash and cash equivalents and interest payable.

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

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 going concern.

We have no key observations to make.

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.

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

We have reviewed 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 62;
- 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 62;
- Directors' statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 62;
- Directors' statement on fair, balanced and understandable set out on page 94;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 104;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 104; and,
- The section describing the work of the audit committee set out on pages 106 to 107.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 93, 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REGIONAL REIT LIMITED CONTINUED

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:
IFRS; The Companies (Guernsey) Law 2008; AIC Code of Corporate Governance; and Listing and Transparency Rules	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklist to identify areas of non-compliance.
Tax compliance; and UK REIT regulations	Inspection of advice received from external tax advisors; Input from an internal auditor's expert was obtained regarding compliance with the UK REIT regulations.
Land and Building Regulations	Inspection of technical due diligence report and legal due diligence report.
Environmental Policies and Regulations	Inspection of environmental due diligence report.
Health and Safety Regulations	Inspection of health and safety risk report.

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

Risk	Audit procedures performed by the Group audit engagement team and component auditors:
Management override of internal controls	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.
Revenue recognition	Perform substantive analytical review to test the rental income that is recognised and assess whether this is recognised in accordance with the latest signed tenancy agreements; and Test the accuracy of disclosures made in the financial statements in respect of revenue.

A further description of our responsibilities for the audit of the financial statements is included in appendix 1 of this auditor's report. This description, which is located at page 118, 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 6 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 seven years, covering the years ending 31 December 2015 to 31 December 2021.

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

28 March 2022

APPENDIX 1: 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.

We are required to include in the auditor's report an explanation of how we evaluated management's assessment of the group's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income	121
Consolidated Statement of Financial Position	122
Consolidated Statement of Changes in Equity	123
Consolidated Statement of Cash Flows	124
Notes to the Consolidated Financial Statements	125

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Continuing Operations			
Revenue			
Rental and property income	5	79,899	75,941
Property costs	6	(24,075)	(22,662)
Net rental and property income		55,824	53,279
Administrative and other expenses	7	(10,583)	(11,329)
Operating profit before gains and losses on property assets and other investments		45,241	41,950
Gain/(loss) on disposal of investment properties	14	679	(1,073)
Change in fair value of investment properties	14	(8,296)	(54,793)
Gain on the disposal of right of use assets	26	167	–
Change in fair value of right of use assets	26	(206)	(195)
Operating profit/(loss)	9	37,585	(14,111)
Finance income	10	14	99
Finance expenses	16	(14,872)	(14,108)
Impairment of goodwill		–	(558)
Net movement in fair value of derivative financial instruments	25	6,045	(2,523)
Profit/(loss) before tax		28,772	(31,201)
Taxation	11	(15)	203
Total comprehensive income/(loss) for the year (attributable to owners of the parent company)		28,757	(30,998)
Earnings/(losses)/ per Share – basic and diluted	12	6.3p	(7.2)p

The notes on pages 125 to 158 are an integral part of these consolidated financial statements.

Total comprehensive income arises from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

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

The notes on pages 125 to 158 are an integral part of these consolidated financial statements.

These consolidated group financial statements were approved by the Board of Directors and authorised for issue on 28 March 2022 and signed on its behalf by:

Kevin McGrath

Chairman

28 March 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

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

For the year ended 31 December 2020

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

The notes on pages 125 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

The notes on pages 125 to 158 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Corporate information

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

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

The Company was incorporated on 22 June 2015 and is registered with the Guernsey Financial Services Commission as a Registered Closed-Ended Collective Investment Scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Registered Collective Investment Schemes Rules 2018.

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

The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 14 to 82.

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 as contained in UK-adopted International Accounting Standards.

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 62 and within principal and emerging risks on pages 52 to 61.

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

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

2.3. Business combinations

At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. For an acquisition of a business where an integrated set of activities are acquired in addition to the property, the Group accounts for the acquisition as a business combination under IFRS 3 Business Combinations ("IFRS 3").

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

2.4. New standards, amendments and interpretations

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2021 and which have had an impact on the financial statements are as follows:

Interest Rate Benchmark Reform – Phase 2:

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

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

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

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

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2022 and have not been applied in preparing these financial statements. These are:

Amendments to IFRS 3 'Business Combinations'

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

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

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

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

Amendments to IAS 1 'Presentation of Financial Statements'

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

Amendments to IAS 1 'Presentation of Financial Statements'

(effective for periods beginning on or after 1 January 2023) – are intended to help entities in deciding which accounting policies to disclose in their financial statements. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

3. Significant accounting judgements, estimates and assumptions

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

3.1. Critical accounting estimates and assumptions

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

3.1.1. Valuation of investment property

The fair value of investment property, which has a carrying value at the reporting date of £906,149,000 (31 December 2020: £732,380,000), is determined by independent property valuation experts to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques applying the principles of both IAS 40 and IFRS 13.

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

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

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

3.1.2. Fair valuation of interest rate derivatives

In accordance with IFRS 13, the Group values its interest rate derivatives at fair value. The fair values are estimated by the respective counterparties with revaluation occurring on a quarterly basis. The counterparties will use a number of assumptions in determining the fair values, including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate. The carrying value of the derivatives at the reporting date was £1,706,000 asset (31 December 2020: £4,339,000 liability). The significant methods and assumptions used in estimating the fair value of the interest rate derivatives are set out in note 25.

3.1.3. Leases – the Group as lessee

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

3.1.4. Dilapidation income

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

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

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

3.2.1. Operating lease contracts – the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all of the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

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

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

3.2.3. Acquisitions of subsidiary companies

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

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

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

3.2.4. Recognition of income

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

4. Summary of significant accounting policies

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

4.1. Basis of consolidation

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

4.2. Subsidiaries

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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

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

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

4.2.1. Disposal of subsidiaries

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

4.3. Segmental information

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

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

4.4. Investment property

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

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

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

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

4.5. Goodwill

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

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

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

4.6. Derivative financial instruments

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

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

4.7. Financial assets

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

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

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

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

4.8. Trade and other receivables

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

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

Lease premiums and other lease incentives provided to tenants are recognised as an asset and amortised over the period from date of lease commencement to termination date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

4.9. Cash and cash equivalents

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

4.10. Trade and other payables

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

4.11. Bank and other borrowings

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

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

4.12. Dividends payable to Shareholders

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

4.13. Rental and property income

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

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

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

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

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

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

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

4.14. Property costs

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

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

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

4.15. Interest income

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

4.16. Dividend income

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

4.17. Finance costs

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

4.18. Taxation

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

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

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

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

4.19. Deferred tax

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

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

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

The current rate of UK Corporation Tax is 19%.

4.20. Stated capital

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

4.21. Share-based payments

The Group has entered into performance fee arrangements with the Asset Manager and Investment Manager which depend on the growth in the net asset value of the Group exceeding a hurdle rate of return over a performance period. The fee will be partly settled in cash and partly in equity and the equity portion is therefore a Share-based payment arrangement. The fair value of the obligation is measured at each reporting period, and the cost recognised as an expense. The part of the obligation to be settled in Shares is credited to equity reserves. If circumstances change and the fee is no longer settled by the issue of Shares, then the amounts previously credited to equity reserves are reversed. In the year ending 31 December 2021 no cash or equity rewards have been made.

4.22. Leased assets

The Group has a number of leases concerning the long-term lease of land associated with its long leasehold investment properties. These leased assets are capitalised as "right of use assets" by recognising the present value of the lease payments as an asset and a financial liability representing the obligation to make future lease payments.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

5. Rental and property income

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

6. Property costs

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

7. Administrative and other expenses

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

Services provided by the Company's Auditor and its associates

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts*	88	105
Fees payable to the Group's Auditor and its associates for the audit of the Company's subsidiaries	117	105
Total fees payable for audit services	205	210
Fees payable to the Group's Auditor and its associates for other services:		
Audit-related services	27	26
Total fees payable to the Group's Auditor and its associates	232	236

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

8. Directors' remuneration

Key management comprises the Directors of the Company. A summary of the Directors' emoluments is set out in the Directors' Remuneration Report on page 112.

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

9. Finance income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

10. Finance expense

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

11. Taxation

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Corporation tax charge/(credit)	-	(157)
Increase/(decrease) in deferred tax creditor	15	(46)
Total	15	(203)

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

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

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

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

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

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

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

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

12. Earnings per Share

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

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Calculation of earnings per Share		
Net profit/(loss) attributable to Ordinary Shareholders	28,757	(30,998)
Adjustments to remove:		
Changes in value of investment properties	8,296	54,793
Changes in fair value of right of use assets	206	195
(Gain)/loss on disposal of investment property	(679)	1,073
Gain on the disposal of right of use assets	(167)	-
Changes in fair value of interest rate derivatives and financial assets	(6,045)	2,523
Impairment of goodwill	-	558
Deferred tax charge/(credit)	15	(46)
EPRA net profit attributable to Ordinary Shareholders	30,383	28,098
Weighted average number of Ordinary Shares	459,660,172	431,506,583
Earnings/(loss) per Share – basic and diluted	6.3p	(7.2)p
EPRA earnings per Share – basic and diluted	6.6p	6.5p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

13. Dividends

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

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

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

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

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

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

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

14. Investment properties

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

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

"The outbreak of Novel Coronavirus (COVID-19), which was declared by the World Health Organisation as a "Global

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

The valuations are the ultimate responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

All corporate acquisitions during the year have been treated as properties purchased rather than business combinations (see note 3.2.3).

Group Movement in investment properties for the year ended 31 December 2021	Freehold Property £'000	Long Leasehold Property £'000	Total £'000
Valuation at 1 January 2021	659,432	72,948	732,380
Property additions – acquisitions	155,806	95,625	251,431
Property additions – subsequent expenditure	3,329	3,487	6,816
Property disposals	(60,304)	(16,557)	(76,861)
Gain/(loss) on the disposal of investment properties	(1,256)	1,935	679
Change in fair value during the year	(5,567)	(2,729)	(8,296)
Valuation at 31 December 2021	751,440	154,709	906,149

Movement in investment properties for the year ended 31 December 2020			
Valuation at 1 January 2020	697,908	90,007	787,915
Property additions- acquisitions	44,956	-	44,956
Property additions – subsequent expenditure	8,446	357	8,803
Property disposals	(47,035)	(6,393)	(53,428)
Gain/(loss) on the disposal of investment properties	(1,128)	55	(1,073)
Change in fair value during the year	(43,715)	(11,078)	(54,793)
Valuation at 31 December 2020	659,432	72,948	732,380

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

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

Bank borrowings are secured by charges over investment properties held by certain asset-holding subsidiaries. The banks also hold charges over the Shares of certain subsidiaries and any intermediary holding companies of those subsidiaries. The value of investment properties secured at 31 December 2021 was £896,149,000 (31 December 2020: £705,130,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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

Date of valuation:	Total £'000	Quoted active prices (level 1) £'000	Significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000
31 December 2021	906,149	–	–	906,149
31 December 2020	732,380	–	–	732,380

The hierarchy levels are defined in note 30.

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

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

The determination of the fair value of the investment properties held by each consolidated subsidiary requires the use of estimates such as future cash flows from investment properties, which take into consideration lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, any environmental matters and the overall repair and condition of the property, and discount rates applicable to those assets. Future revenue streams comprise contracted rent (passing rent) and estimated rental value after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

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

Techniques used for valuing investment properties

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

Valuation technique: market comparable method

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

Observable input: market rental

The rent at which space could be let in the market conditions prevailing at the date of valuation range: £9,000 – £3,125,246 per annum (2020: £9,000 – £3,092,291 per annum).

Observable input: rental growth

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

Observable input: net initial yield

The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase range: 0.00% – 60.37% (2020: 0.00% – 25.64%).

Unobservable inputs:

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

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

15. Investment in subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

Toscafund Bennett House Ltd	Jersey	100%
Toscafund Bishopgate Street Ltd	Jersey	100%
Toscafund Blythswood Ltd	Jersey	100%
Toscafund Brand Street Ltd	Jersey	100%
Toscafund Chancellor Court Ltd	Jersey	100%
Toscafund Crompton Way Ltd	Jersey	100%
RR Falcon Ltd	Jersey	100%
Toscafund Glasgow Ltd	Jersey	100%
Toscafund Harvest Ltd	Jersey	100%
Toscafund Milburn House Ltd	Jersey	100%
Toscafund Minton Place Ltd	Jersey	100%
Toscafund Newstead Court Ltd	Jersey	100%
Toscafund Portland Street Ltd	Jersey	100%
Toscafund St Georges House Ltd	Jersey	100%
Toscafund St James Court Ltd	Jersey	100%
Toscafund Strathclyde BP Ltd	Jersey	100%
Toscafund Wallington Ltd	Jersey	100%
Toscafund Westminster House Ltd	Jersey	100%
Toscafund Sheldon Court Ltd	Jersey	100%

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

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

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

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

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

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

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

Business Combinations

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

16. Goodwill

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

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 Consolidated Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

17. Non-current receivables

Non-current receivables on tenant loans

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

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

18. Trade and other receivables

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

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

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

	31 December 2021 £'000	31 December 2020 £'000
< 30 days	4,605	6,000
30–60 days	1,160	915
> 60 days	5,070	4,853
	10,835	11,768
Less provision for impairment	(1,615)	(1,458)
	9,220	10,310

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

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

Provision for impairment of trade receivables movement as follows:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

19. Cash and cash equivalents

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

Restricted cash balances of the Group comprise:

- £4,149,000 (2020: £10,752,000) of funds held in blocked bank accounts which are controlled by the Group's lenders and are released to free cash once certain loan conditions are met. The restricted funds arose on net proceeds from investment property disposals and were released after the year end.
- £2,060,000 (2020: £1,663,000) of funds which represent tenants' rental deposits.

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

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

20. Trade and other payables

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

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

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

21. Deferred income

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

22. Deferred tax liabilities

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

23. Bank and loan borrowings

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

The table below lists the Group's borrowings.

Lender	Original facility £'000	Outstanding debt* £'000	Maturity date	Gross loan to value**	Annual interest rate	Amortisation
Royal Bank of Scotland, Bank of Scotland and Barclays	128,000	127,220	Aug-26	43.4%	2.40% over 3mth £ SONIA	Mandatory prepayment
Scottish Widows Ltd & Aviva Investors Real Estate Finance	165,000	165,000	Dec-27	46.4%	3.28% Fixed	None
Scottish Widows Ltd	36,000	36,000	Dec-28	38.7%	3.37% Fixed	None
Santander UK	65,870	61,717	Jun-29	39.0%	2.20% over 3mth £ LIBOR Moving to SONIA 01/01/22	Mandatory prepayment
Total bank borrowings	394,870	389,937				
Retail eligible bond	50,000	50,000				
Total	444,870	439,937				

SONIA = Sterling Over Night Indexed Average

LIBOR = London Interbank Offered Rate (Sterling)

* Before unamortised debt issue costs

** Based upon Cushman & Wakefield property valuations

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

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

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

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

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

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

24. Retail Eligible Bonds

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

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

25. Derivative financial instruments

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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

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

SONIA = Sterling Over Night Indexed Average
LIBOR = London Interbank Offered Rate (Sterling)

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

The Group weighted average effective interest rate was 3.3% (31 December 2020: 3.3%) inclusive of hedging costs.

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

It is the Group's target to hedge at least 90% of the total debt portfolio using interest rate derivatives and fixed-rate facilities. As at the year end, the total proportion of hedged debt equated to 101.3% (31 December 2020: 101.8%), as shown below. The over-hedged position has arisen as a result of the full RBS and Santander facilities (including headroom) being hedged but the excess relates to Interest Rate Caps which have no ongoing cost for the Group.

	31 December 2021 £'000	31 December 2020 £'000
Total bank borrowings	389,937	316,171
Notional value of interest rate caps and swaps	193,870	120,870
Value of fixed rate debts	201,000	201,000
	394,870	321,870
Proportion of hedged debt	101.3%	101.8%

The Group has not adopted hedge accounting in either year.

26. Leases

	31 December 2021 £'000	31 December 2020 £'000
Right of use asset		
At start of year	16,156	16,351
Right of use asset acquired	6,438	–
Derecognition of right of use asset	(5,906)	–
Fair value movement	(206)	(195)
At end of year	16,482	16,156

	31 December 2021 £'000	31 December 2020 £'000
Lease liability		
At start of year	16,473	16,510
Finance lease liability acquired	6,438	–
Derecognition of finance lease liability	(6,073)	–
Lease payments	(640)	(618)
Interest charges	597	581
At end of year	16,795	16,473

The derecognition of right of use assets and liabilities during the year gave rise to a realised gain of £167,000 (2020: £nil). The Group's lease commitments which are now represented by the right of use asset and lease liability are spread across 12 separate leases with the two largest leases at Mountbatten Court Basingstoke and Northern Cross Basingstoke making up 35% of the balance. Total commitments on leases in respect of land and buildings are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

27. Stated capital

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

	31 December 2021 £'000	31 December 2020 £'000
Group		
Issued and fully paid Shares of no par value		
At start of the year	430,819	430,819
Shares issued	83,051	-
Share issue costs	(108)	-
At end of the year	513,762	430,819
Number of Shares in issue		
At start of the year	431,506,583	431,506,583
Shares issued	84,230,000	-
At end of the year	515,736,583	431,506,583

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

28. Net asset value per Share (NAV)

Basic NAV per Share is calculated by dividing the net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year.

In October 2019, EPRA issued new best practice recommendations that replaced EPRA net asset value (NAV) with three new measures of net asset value. The Group has determined that EPRA net tangible assets (NTA) is the most relevant measure, hence this is now reported in place of EPRA NAV. Further detail of the new EPRA performance measures can be found in the appendix on pages 161 to 164.

Net asset values have been calculated as follows:

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

29. Notes to the Statement of Cash Flows

29.1. Non-Cash Transactions

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

30. Financial risk management

30.1. Financial instruments

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents. The Group's other principal financial liabilities are bank and other loan borrowings, amounts due to interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio.

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

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

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

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

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

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

Fair value hierarchy

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

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

The different levels are defined as follows.

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

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

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

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

There have been no transfers between levels during the year.

30.2. Risk management

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

30.3. Market risk

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

The Group's interest rate risk arises from long-term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps, interest rate caps and interest rate swaps. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Interest rate caps limit the exposure to a known level.

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

Interest rate increase	Increase to the annual interest charge	
	31 December	
	2021 £'000	2020 £'000
0.00%	-	-
0.25%	208	137
0.50%	415	274
0.75%	559	411
1.00%	671	547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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

30.4. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from both its leasing activities and financing activities, including deposits with banks and financial institutions. Credit risk is mitigated by tenants being required to pay rentals in advance under their lease obligations. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

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

30.5. Credit risk related to trade receivables

Trade receivables, primarily tenant rentals, are presented in the Group's Statement of Financial Position net of provisions for impairment. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition.

30.6. Credit risk related to financial instruments and cash deposits

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

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

Bankers	Fitch Ratings
Barclays	A positive
Royal Bank of Scotland	A+ Stable
Bank of Scotland plc	A+ Stable
Santander UK	A+ Stable
Aviva	A+ Stable
Scottish Widows	A Stable

30.7. Liquidity risk

Liquidity risk arises from the Group's management of working capital and, going forward, the finance charges and principal repayments on its borrowings. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are investment properties and are therefore not readily realisable. The Group's objective is to ensure that it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

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

Group at 31 December 2021	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(38,391)	-	-	-	(38,391)
Bank borrowings	(11,333)	(11,333)	(160,167)	(274,447)	(457,280)
Interest rate derivatives	(1,076)	(1,076)	(3,010)	(1,048)	(6,210)
Retail eligible bonds	(2,250)	(2,250)	(52,250)	-	(56,750)
Lease liability	(648)	(648)	(1,943)	(47,668)	(50,907)
	(53,698)	(15,307)	(217,370)	(323,163)	(609,538)

Group at 31 December 2020	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	After 5 years £'000	Total £'000
Trade and other payables	(29,575)	--	-	-	(29,575)
Bank borrowings	(9,262)	(9,262)	(79,509)	(283,232)	(381,265)
Interest rate derivatives	(805)	(805)	(1,898)	(1,611)	(5,119)
Retail eligible bonds	(2,250)	(2,250)	(54,500)	-	(59,000)
Lease liability	(618)	(618)	(1,854)	(50,346)	(53,436)
	(42,510)	(12,935)	(137,761)	(335,189)	(528,395)

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

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

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

31. Capital management

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

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

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

Based on current market conditions, the Board will target Group net borrowings of 40% of Investment Property Values at any time. However, the Board may modify the Group's borrowing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities or other factors the Board deems appropriate. The Group's net borrowings may not exceed 50% of the Investment Property Values at any time without the prior approval of Ordinary Shareholders in a General Meeting.

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

32. Operating leases

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

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

The Group has in excess of 1,030 operating leases.

The number of years remaining on these operating leases varies between 1 and 87 years. The amounts disclosed above represent total rental income receivable up to the next lease break point on each lease. If a tenant wishes to end a lease prior to the break point, a surrender premium will be charged to cover the shortfall in rental income received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

33. Segmental information

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

34. Transactions with related parties

Transactions with the Directors

Directors' remuneration is disclosed within the Remuneration Report on page 112 and note 8 to the financial statements. Directors' beneficial interests in the Ordinary Shares of the Company are disclosed within the Directors' Report.

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

Stephen Inglis is a non-executive Director of Regional REIT Limited, as well as being the chief executive officer of London & Scottish Property Investment Management Limited ("LSPIM") and a director of London & Scottish Property Asset Management Limited. The former company has been contracted to act as the Asset Manager of the Group and the latter as the Property Manager.

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

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

The Asset Manager is also entitled to a performance fee. Details of the performance fee are given below.

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Asset management fees charged*	2,326	2,579
Property management fees charged*	2,495	2,266
Performance fees charged	-	-
Total	4,821	4,845
	31 December 2021 £'000	31 December 2020 £'000
Total fees outstanding	1,350	1,190

* Including irrecoverable VAT charged where appropriate.

Transactions with the Investment Manager, Toscafund Asset Management LLP

Tim Bee is a non-executive Director of the Company, as well as being Chief Legal Counsel of the Investment Manager. In consideration for the provision of services provided, the Investment Manager is entitled in each financial year (or part thereof) to 50% of an annual management fee on a scaled rate of 1.1% of the EPRA net asset value, reducing to 0.9% on net assets over £500,000,000. The fee is payable in cash quarterly in arrears.

The Investment Manager is also entitled to a performance fee. Details of the performance fee are given below.

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Investment management fees charged	2,326	2,577
Total	2,326	2,577
	31 December 2021 £'000	31 December 2020 £'000
Total fees outstanding	593	612

Performance Fee

The Asset Manager and the Investment Manager are each entitled to 50% of a performance fee. The fee is calculated at a rate of 15% of the total Shareholder return in excess of the hurdle rate of 8% per annum for the relevant performance period. Total Shareholder return for any financial year consists of the sum of any increase or decrease in EPRA NAV per Ordinary Share and the total dividends per Ordinary Share declared in the financial year. A performance fee is only payable in respect of a performance period where the EPRA NAV per Ordinary Share exceeds the high-water mark which is equal to the greater of the highest year-end EPRA NAV Ordinary Share in any previous performance period. The performance fee was calculated initially on 31 December 2018 and is assessed annually thereafter.

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

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

35. Subsequent Events

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

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

ADDITIONAL INFORMATION

EPRA Performance Measures	161
Notes to the Calculation of EPRA Performance Measures	162
Property Related Capital Expenditure Analysis	165
Glossary of Terms	166
AIFMD Disclosures	169
Company Information	170
Forthcoming Events	171
Shareholder Information	171
Dividend History	172

EPRA PERFORMANCE MEASURES

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	Year ended	Year ended
			31 December 2021	31 December 2020
EPRA EARNINGS	Earnings from operational activities.	EPRA Earnings EPRA Earnings per Share (basic and diluted)	£30,383,000 6.6p	£27,903,000 6.5p
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)	£501,400,000 97.2p	£425,611,000 98.6p
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)	£501,400,000 97.2p	£425,611,000 98.6p
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)	£497,312,000 96.4p	£404,365,000 93.7p
EPRA Net Initial Yield (NIY)	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	5.7%	6.9%
EPRA 'Topped-up' NIY	This measure incorporates an adjustment to the EPRA 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	6.2%	7.4%
EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacancy space divided by ERV of the whole portfolio.	EPRA Vacancy Rate	18.2%	10.6%
EPRA Costs Ratio	Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	EPRA Costs Ratio EPRA Costs Ratio (excluding direct vacancy costs)	31.2% 16.8%	32.4% 19.6%

EPRA BPR Awards

2021

The Company was pleased to be recognised by EPRA for a fourth consecutive year and be granted an EPRA BPR Silver Award in respect of the Company's compliance with EPRA's Best Practices Recommendations for financial reporting of listed property companies.



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 2021	31 December 2020
NAV per the financial statements	502,401	420,582
Fair value of derivative financial instruments	(1,706)	4,339
Deferred tax liability	705	690
EPRA Net Reinstatement Value	501,400	425,611
Dilutive number of Shares	515,736,583	431,506,583
EPRA Net Reinstatement Value per Share	97.2p	98.6p

3. EPRA Net Tangible Assets

	31 December 2021	31 December 2020
NAV per the financial statements	502,401	420,582
Fair value of derivative financial instruments	(1,706)	4,339
Deferred tax liability	705	690
EPRA Net Tangible Assets	501,400	425,611
Dilutive number of Shares	515,736,583	431,506,583
EPRA Net Tangible Assets per Share	97.2p	98.6p

NOTES TO THE CALCULATION OF EPRA PERFORMANCE MEASURES CONTINUED

4. EPRA Net Disposal Value

	31 December 2021	31 December 2020
NAV per the financial statements	502,401	420,582
Adjustment for the fair value of bank borrowings	(3,899)	(16,717)
Adjustment for the fair value of retail eligible bonds	(1,190)	500
EPRA Net Disposal Value	497,312	404,365
Dilutive number of Shares	515,736,583	431,506,583
EPRA Net Disposal Value per Share	96.4p	93.7p

5. EPRA Net Initial Yield

Calculated as the value of investment properties divided by annualised net rents:

	31 December 2021	31 December 2020
Investment properties	906,149	732,380
Purchaser costs	59,973	48,068
	966,122	780,448
Annualised cash passing rental income	67,095	59,754
Property outgoings	(11,822)	(5,586)
Annualised net rents	55,273	54,168
Add notional rent expiration of rent-free periods or other lease incentives	4,961	3,198
Topped-up net annualised rent	60,234	57,366
EPRA NIY	5.7%	6.9%
EPRA topped up NIY	6.2%	7.4%

6. EPRA Vacancy Rate

	31 December 2021	31 December 2020
Estimated Market Rental Value (ERV) of vacant space	16,095	7,733
Estimated Market Rental Value (ERV) of whole portfolio	88,375	72,874
EPRA Vacancy Rate	18.2%	10.6%

7. EPRA Cost Ratios

	Year ended 31 December 2021	Year ended 31 December 2020
Property costs	24,075	22,662
Less recoverable service charge income and other similar costs	(14,145)	(13,864)
Add administrative and other expenses	10,583	11,329
EPRA costs (including direct vacancy costs)	20,513	20,127
Direct vacancy costs	(9,468)	(7,967)
EPRA costs (excluding direct vacancy costs)	11,045	12,160
Gross rental income	79,899	75,941
Less recoverable service charge income and other similar items	(14,145)	(13,864)
Gross rental income less ground rents	65,754	62,077
EPRA Cost Ratio (including direct vacancy costs)	31.2%	32.4%
EPRA Cost Ratio (excluding direct vacancy costs)	16.8%	19.6%

The Group has not capitalised any overhead or operating expenses in the accounting years disclosed above.

PROPERTY RELATED CAPITAL EXPENDITURE ANALYSIS

	31 December 2021	31 December 2020
Acquisitions	251,431	44,956
Development	-	-
Investment properties	-	-
Incremental lettable space	-	-
No incremental lettable space	6,816	8,803
Tenant incentives	-	-
Other material non-allocated types of expenditure	-	-
Capitalised interest	-	-
Total capital expenditure	258,247	53,759
Conversion from accruals to cash basis	-	-
Total capital expenditure on cash basis	258,247	53,759

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).

Core Plus Property – growth and income properties with the ability to increase cash flows through asset management initiatives.

Core Property – stable income properties with low risk.

Directors – the Directors of the Company whose names are set out on pages 85 and 86.

EPC – Energy Performance Certificate.

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 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 Dividend Cover – EPRA earnings per Share divided by the dividend per Share.

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 Net Initial Yield (EPRA NIY) – 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 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 Occupancy Like for Like – the like-for-like movement in EPRA Occupancy against the same period in the prior year, on properties owned throughout both comparable periods.

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.

EPRA "Topped Up" Net Initial Yield – this measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

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 Triple NAV (EPRA NNNAV) – EPRA net assets adjusted to include deferred tax liabilities and the fair values of financial instruments and debt.

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.

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.

GLOSSARY OF TERMS CONTINUED

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

Gross Rental Income – see Rent Roll.

Group – Regional REIT Limited and its subsidiaries.

IAS – an international accounting standard established by the International Accounting Standards Board.

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

ISA – Individual Savings Account.

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.

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.

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

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 / Net Borrowings – (Borrowings (before debt issuance costs) – less cash)/(Investment Properties Value) expressed as percentage.

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

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.

Ordinary Resolution – a resolution passed by more than 50 per cent. majority in accordance with the Companies Law.

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

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 predominately 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.

Shareholder – a holder of Shares in the Company.

Shares – Ordinary Shares issued by the Company.

SIPP – self-invested personal pension.

SONIA – Sterling Overnight Index Average.

SSAS – small self-administered scheme.

TCFD – Task Force on Climate-Related Financial Disclosures created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

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).

UN SDG – the Sustainable Development Goals or Global Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

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.

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 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).

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

AIFMD DISCLOSURES

The Alternative Investment Fund Managers' Directive ("AIFMD") requires certain information to be made available to investors before they invest in Alternative Investment Funds 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.

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 30 on pages 153 to 156.

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 2021, this gives the following figures:

Leverage Exposure	Gross Method	Commitment Method
Maximum	400	400
Actual	219	230

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, Nomination Committee Chairman, Management Engagement and Remuneration Committee Chairman)

Daniel Taylor (Independent Non-Executive Director)

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

Stephen Inglis (Non-Executive Director)

Timothy Bee (Non-Executive Director)

Registered office	Legal Adviser to the Company	Depository
Regional REIT Limited Mont Crevelt House Bulwer Avenue St. Sampson Guernsey GY2 4LH	Macfarlanes LLP 20 Cursitor Street London EC4A 1LT	Ocorian Depositary (UK) Limited 20 Fenchurch Street London EC3M 3BY
Company Secretary Link Company Matters Limited Beaufort House 51 New North Road Exeter Devon EX4 4EP	Administrator Jupiter Fund Services Limited Mont Crevelt House Bulwer Avenue St. Sampson Guernsey GY2 4LH	Public Relations Buchanan Communications Limited 107 Cheapside London EC2V 6DN
Asset Manager London & Scottish Property Investment Management Limited 300 Bath Street Glasgow G2 4JR	Sub-Administrator Link Alternative Fund Administrators Limited Beaufort House 51 New North Road Exeter Devon EX4 4EP	Property Valuer Cushman & Wakefield Debenham Tie Leung Limited (trading as Cushman & Wakefield) 125 Old Broad Street London EC2N 1AR
Investment Manager Toscafund Asset Management LLP 5th Floor 15 Marylebone Road London NW1 5SD	Independent Auditor RSM UK Audit LLP Third Floor Centenary House 69 Wellington Street Glasgow G2 6HG	Tax Adviser Grant Thornton UK LLP 110 Queen Street Glasgow G1 3BX
Financial Adviser and Joint Broker Peel Hunt LLP 7th Floor 100 Liverpool Street London EC2M 2AT	Registrar Link Market Services (Guernsey) Limited 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL	Regional REIT Limited ISIN: GG00BYV2ZQ34 SEDOL: BYV2ZQ3 Legal Entity Identifier: 549300D8G4NKLRIKBX73
Joint Broker Panmure Gordon 1 New Change London EC4M 9AF		Company website www.regionalreit.com

FORTHCOMING EVENTS IN 2022



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

.....

Shareholder Information

Share Register enquiries: Link Group

Please phone: **0371 664 0300** for any questions about:

- changing your address or other details;
- your Shares;
- buying and selling Shares.

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 and 17:30, Monday to Friday, excluding public holidays in England and Wales. For Shareholder enquiries, please email: enquiries@linkgroup.co.uk.

DIVIDEND HISTORY

Year	Period	Announcement date	Ex-date	Record date	Payment date	PID	Non-PID	Total dividend Pence per share
2021	Q4 2021	24/02/2022	03/03/2022	04/03/2022	08/04/2022	1.70	-	1.70
	Q3 2021	11/11/2021	18/11/2021	19/11/2021	12/01/2022	1.60	-	1.60
	Q2 2021	26/08/2021	09/09/2021	10/09/2021	15/10/2021	1.60	-	1.60
	Q1 2021	19/05/2021	27/05/2021	28/05/2021	16/07/2021	1.60	-	1.60
							6.50	6.50
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
							6.40	6.40
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	1.90	-	1.90
							8.25	8.25
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	1.85	-	1.85
							8.05	8.05
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	1.26	0.54	1.80
							6.17	1.69
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	1.36	0.39	1.75
							6.65	1.00
2015	FY 2015*	07/03/2016	17/03/2016	18/03/2016	15/04/2016	0.66	0.34	1.00
						0.66	0.34	1.00

* 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

NOTES



Mont Crevelt House, Bulwer Avenue,
St. Sampson, Guernsey GY2 4LH

www.regionalreit.com