Financial Statements
Consolidated Balance Sheet as at 31 December 2021

ASSETS	Notes	31-Dec-21 £	31-Dec-20 £
Non-current assets			
Investment properties	7	484,514,085	428,412,375
Lease incentives	7	8,802,294	5,885,270
Land	8	7,500,000	—
Rental deposits held on behalf of tenants		904,189	855,866
		501,720,568	**435,153,511**
Current assets			
Investment properties held for sale	9	—	4,300,000
Trade and other receivables	11	11,024,100	10,802,197
Cash and Cash equivalents	12	13,818,008	9,383,371
		24,842,108	**24,485,568**
Total Assets		**526,562,676**	**459,639,079**
LIABILITIES			
Current liabilities			
Trade and other payables	13	13,618,457	13,096,054
Interest rate swap	15	546,526	1,472,387
		14,164,983	**14,568,441**
Non-current liabilities			
Bank borrowings	14	109,723,399	109,542,823
Interest rate swap	15	21,510	2,262,867
Obligations under finance leases	16	901,129	902,645
Rent deposits due to tenants		904,189	855,866
		111,550,227	**113,564,201**
Total liabilities		**125,715,210**	**128,132,642**
Net assets		**400,847,466**	**331,506,437**
EQUITY			
Capital and reserves attributable to Company's equity holders			
Share capital	18	228,383,857	228,383,857
Treasury share reserve	18	(5,991,417)	(1,450,787)
Retained earnings	19	8,521,081	7,339,209
Capital reserves	19	72,095,573	(604,214)
Other distributable reserves	19	97,838,372	97,838,372
Total equity		**400,847,466**	**331,506,437**

Approved and authorised for issue by the Board of Directors on 27 April 2022 and signed on their behalf by James Clifton-Brown.
The accompanying notes on pages 72 to 92 are an integral part of these Consolidated Financial Statements. Company Number: 41352 (Guernsey)

Financial Statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

	Notes	Share Capital £	Treasury shares £	Retained Earnings £	Capital Reserves £	Other Distributable Reserves £	Total equity £
Opening balance 1 January 2021		**228,383,857**	**(1,450,787)**	**7,339,209**	**(604,214)**	**97,838,372**	**331,506,437**
Profit for the year		—	—	85,732,820	—	—	85,732,820
Other comprehensive income		—	—	—	3,167,218	—	3,167,218
Total comprehensive income for the period		—	—	85,732,820	3,167,218	—	88,900,038
Ordinary shares placed into treasury net of issue costs	18	—	(4,540,630)	—	—	—	(4,540,630)
Dividends paid	21	—	—	(15,018,379)	—	—	(15,018,379)
Other transfer between reserves		—	—	1,520,063	(1,520,063)	—	—
Valuation gain from investment properties	7	—	—	(72,188,550)	72,188,550	—	—
Valuation loss from land	8	—	—	501,550	(501,550)	—	—
Loss on disposal of investment properties	7	—	—	634,368	(634,368)	—	—
Balance at 31 December 2021		**228,383,857**	**(5,991,417)**	**8,521,081**	**72,095,573**	**97,838,372**	**400,847,466**

Consolidated Statement of Changes in Equity for the year ended 31 December 2020

	Notes	Share Capital £	Treasury shares £	Retained Earnings £	Capital Reserves £	Other Distributable Reserves £	Total equity £
Opening balance 1 January 2020		**227,431,057**	**—**	**6,168,350**	**33,356,785**	**97,838,372**	**364,794,564**
Loss for the year		—	—	(15,782,067)	—	—	(15,782,067)
Other comprehensive income		—	—	—	(1,514,638)	—	(1,514,638)
Total comprehensive loss for the period		—	—	(15,782,067)	(1,514,638)	—	(17,296,705)
Ordinary shares issued net of issue costs	18	952,800	—	—	—	—	952,800
Ordinary shares placed into treasury net of issue costs	18	—	(1,450,787)	—	—	—	(1,450,787)
Dividends paid	21	—	—	(15,493,435)	—	—	(15,493,435)
Valuation loss from investment properties	7	—	—	27,640,224	(27,640,224)	—	—
Loss on disposal of investment properties	7	—	—	4,806,137	(4,806,137)	—	—
Balance at 31 December 2020		**228,383,857**	**(1,450,787)**	**7,339,209**	**(604,214)**	**97,838,372**	**331,506,437**

The notes on pages 72 to 92 are an integral part of these Consolidated Financial Statements.

Financial Statements

Consolidated Cash Flow Statement
for the year ended 31 December 2021

Cash flows from operating activities	Notes	12 months to 31-Dec-21 £	12 months to 31-Dec-20 £
Profit /(loss) for the year before taxation		85,732,820	(15,782,067)
Movement in lease incentives		(2,966,033)	(1,694,642)
Movement in trade and other receivables		(270,226)	(6,446,180)
Movement in trade and other payables		536,404	3,421,484
Finance costs	5	3,506,359	3,744,074
Finance income	5	(763)	(3,896)
Other transfer between reserves		1,520,063	—
Valuation (gain)/loss from investment properties	7	(72,188,550)	27,640,224
Valuation loss from land	8	501,550	—
Loss on disposal of investment properties	7	634,368	4,806,137
Net cash inflow from operating activities		**17,005,992**	**15,685,134**
Cash flows from investing activities			
Interest received	5	763	3,896
Purchase of investment properties	7	(11,741,501)	(21,297,754)
Purchase of land	8	(8,001,550)	—
Capital expenditure on investment properties	7	(1,819,229)	(4,947,828)
Net proceeds from disposal of investment properties	7	31,840,632	50,973,863
Net cash inflow from investing activities		**10,279,115**	**24,732,177**
Cash flows from financing activities			
Proceeds on issue of ordinary shares	18	—	952,800
Shares bought back during the year	18	(4,540,630)	(1,450,787)
Bank borrowing	14	—	27,000,000
Repayment of RCF	14	—	(45,000,000)
Interest paid on bank borrowing		(1,872,545)	(2,479,388)
Payments on interest rate swaps		(1,418,916)	(1,038,749)
Dividends paid to the Company's shareholders	21	(15,018,379)	(15,493,435)
Net cash outflow from financing activities		**(22,850,470)**	**(37,509,559)**
Net increase in cash and cash equivalents		**4,434,637**	**2,907,752**
Cash and cash equivalents at beginning of year	12	9,383,371	6,475,619
Cash and cash equivalents at end of year	**12**	**13,818,008**	**9,383,371**

The notes on pages 72 to 92 are an integral part of these Consolidated Financial Statements.

Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

1 GENERAL INFORMATION

Standard Life Investment Property Income Trust Limited ("the Company") and its subsidiaries (together "the Group") carries on the business of property investment through a portfolio of freehold and leasehold investment properties located in the United Kingdom. The Company is a limited liability company incorporated in Guernsey, Channel Islands. The Company has its listing on the London Stock Exchange.

The address of the registered office is PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey.

These audited Consolidated Financial Statements were approved for issue by the Board of Directors on 27th April 2022.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The audited Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board, and all applicable requirements of The Companies (Guernsey) Law, 2008. The audited Consolidated Financial Statements of the Group have been prepared under the historical cost convention as modified by the measurement of investment property, land and derivative financial instruments at fair value. The Consolidated Financial Statements are presented in pounds sterling and all values are not rounded except when otherwise indicated.

The Directors have considered the basis of preparation of the accounts given the COVID-19 pandemic and believe that it is still appropriate for the accounts to be prepared on the going concern basis.

Changes in accounting policy and disclosure

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- 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 – Interest Rate Benchmark Reform (Phase 2).

In the prior year, the Group adopted the Phase 1 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged item or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2021.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures. The application of the amendments impacts the Group's accounting in the following ways.

- The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, LIBOR, may no longer be separately identifiable and there is uncertainty about the replacement of the floating interest rates included in the interest rate swaps. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship will be discontinued.

- The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flow of the alternative benchmark rate are determined including any fixed spread.

- When the contractual terms of the Group's bank borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate.

Annual improvements to IFRS

The Group has made no adjustments to its financial statements in relation to IFRS Standards detailed in the annual Improvements to IFRS 2018–2020 Cycle (effective for annual reporting periods beginning on or after 1 January 2022). The Group will consider these amendments in due course to see if they will have any impact on the Group.

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. The most significant estimates and judgements are set out below. There were no critical accounting judgements.

Fair value of investment properties

Investment properties are stated at fair value as at the Balance Sheet date. Gains or losses arising from changes in fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. The fair value of investment properties is determined by external real estate valuation experts using recognised valuation techniques. The fair values are determined having regard to any recent real estate transactions where available, with similar characteristics and locations to those of the Group's assets.

In most cases however, the determination of the fair value of investment properties requires the use of valuation models which use a number of judgements and assumptions. The only model used was the income capitalisation method. Under the income capitalisation method, a property's fair value is judged based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (discounted by the investor's rate of return). Under the income capitalisation method, over (above market rent) and under-rent situations are separately capitalised (discounted).

The sensitivity analysis on page 85 (note 7) details the decrease in the valuation of investment properties if equivalent yield increases by 50 basis points or rental rates (ERV) decreases by 5% which the Board believes are reasonable sensitivities to apply given historical movements in valuations.

Lease incentive accounting

As set out under Accounting Policy C(ii), rental income from those operating leases which include rent free provisions and stepped rent increases is recognised on a straight line basis over the lease term. During 2021, it was identified that there were historic leases dating back to 2016 where the required rent smoothing adjustments had not been applied. The total of these adjustments up to the end of the prior year (31 December 2020) amounted to £1,520,063.

Having considered the key financial measures of the Group, and the accumulated profile of this balance, the Directors are satisfied that the appropriate correction is a transfer of the identified adjustment from Capital Reserves to Retained Earnings in the current year.

This adjustment has no effect on the previously reported NAVs of the Group.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the Consolidated Balance Sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

The valuation of interest rate swaps used in the Balance Sheet is provided by The Royal Bank of Scotland. These values are validated by comparison to internally generated valuations prepared using the fair value principles outlined above.

The sensitivity analysis on page 78 (note 3) details the increase and decrease in the valuation of interest rate swaps if market rate interest rates had been 100 basis points higher and 100 basis points lower.

Provision for impairment of receivables

Provision for impairment of receivables are also a key estimation uncertainty. These are measured with reference to amounts included as income at the year end but not yet collected. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Due to the impact of COVID-19 and geopolitical risk on collection rates, there remains an elevated assessed credit risk. Each individual rental income debtor is reviewed to assess whether it is believed there is a probability of default and expected credit loss given the knowledge of and intelligence about the individual tenant and an appropriate provision made.

2.3 Summary of significant accounting policies

A Basis of consolidation

The audited Consolidated Financial Statements comprise the financial statements of Standard Life Investments Property Income Trust Limited and its material wholly owned subsidiary undertakings.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with subsidiaries and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- Exposure, or rights, to variable returns from its involvement with the subsidiary
- The ability to use its power over the subsidiary to affect its returns

The Group assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

B Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in pound sterling, which is also the Company's functional currency.

C Revenue Recognition

Revenue is recognised as follows:

i) Bank interest

Bank interest income is recognised on an accruals basis.

ii) Rental income

Rental income from operating leases is net of sales taxes and value added tax ("VAT") recognised on a straight line basis over the lease term including lease agreements with stepped rent increases. The initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income. The cost of any lease incentives provided are recognised over the lease term, on a straight line basis as a reduction of rental income. The resulting asset is reflected as a receivable in the Consolidated Balance Sheet.

Contingent rents, being those payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as income in periods when they are earned. Rent reviews which remain outstanding at the year end are recognised as income, based on estimates, when it is reasonable to assume that they will be received.

iii) Other income

The Group is classified as the principal in its contract with the managing agent. Service charges billed to tenants by the managing agent are therefore recognised gross.

iv) Property disposals

Where revenue is obtained by the sale of properties, it is recognised once the sale transaction has been completed, regardless of when contracts have been exchanged.

D Expenditure

All expenses are accounted for on an accruals basis. The investment management and administration fees, finance and all other revenue expenses are charged through the Consolidated Statement of Comprehensive Income as and when incurred. The Group also incurs capital expenditure which can result in movements in the capital value of the investment properties.

E Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in other comprehensive income or in equity is recognised in other comprehensive income and in equity respectively, and not in the income statement. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, if any, are reviewed periodically and provisions are established where appropriate.

The Group recognises liabilities for current taxes based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

F Investment property

Investment properties comprise completed property and property under construction or re-development that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based upon the market valuation of the properties as provided by the external valuers as described in note 2.2. Gains or losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. For the purposes of these financial statements, in order to avoid double counting, the assessed fair value is:

i) Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.

ii) Increased by the carrying amount of any liability to the superior leaseholder or freeholder (for properties held by the Group under operating leases) that has been recognised in the Balance Sheet as a finance lease obligation.

Acquisitions of investment properties are considered to have taken place on exchange of contracts unless there are significant conditions attached. For conditional exchanges acquisitions are recognised when these conditions are satisfied. Investment properties are derecognised when they have been disposed of and no future economic benefit is expected from their disposal. Any gains or losses on the disposal of investment properties are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or disposal.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

G Investment properties held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value (except for investment property measured using fair value model).

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

H Land

The Group's land is capable of woodland creation and peatland restoration projects which would materially assist the Group's transition to Net Zero.

Land is initially measured at cost including transaction costs. Transaction costs include transfer taxes and professional fees for legal services. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Land is not depreciated but instead, subsequent to initial recognition, recognised at fair value based upon periodic valuations provided by the external valuers. Gains or losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise.

Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

I Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the expected credit loss is recognised in the Consolidated Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Consolidated Statement of Comprehensive Income.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

A provision for impairment of trade receivables is established where the Property Manager has indicated concerns over the recoverability of arrears based upon their individual assessment of all outstanding balances which incorporates forward looking information. Given this detailed approach, a collective assessment methodology applying a provision matrix to determine expected credit losses is not used.

The amount of the provision is recognised in the Consolidated Balance Sheet and any changes in provision recognised in the Statement of Comprehensive Income.

J Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and other short-term highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value.

K Borrowings and interest expense

All loans and borrowings are initially recognised at the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Borrowing costs are recognised within finance costs in the Consolidated Statement of Comprehensive Income as incurred.

L Accounting for derivative financial instruments and hedging activities

Interest rate swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income in the Consolidated Statement of Comprehensive Income. The gains or losses relating to the ineffective portion are recognised in operating profit in the Consolidated Statement of Comprehensive Income.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expenses are recognised.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item.

M Service charge

IFRS15 requires the Group to determine whether it is a principal or an agent when goods or services are transferred to a customer. An entity is a principal if the entity controls the promised good or service before the entity transfers the goods or services to a customer. An entity is an agent if the entity's performance obligation is to arrange for the provision of goods and services by another party.

Any leases entered into between the Group and a tenant require the Group to provide ancillary services to the tenant such as maintenance works etc, therefore these service charge obligations belong to the Group. However, to meet this obligation the Group appoints a managing agent, Jones Lang Lasalle Inc "JLL" and directs it to fulfil the obligation on its behalf. The contract between the Group and the managing agent creates both a right to services and the ability to direct those services. This is a clear indication that the Group operates as a principal and the managing agent operates as an agent. Therefore it is necessary to recognise the gross service charge revenue and expenditure billed to tenants as opposed to recognising the net amount.

N Other financial liabilities

Trade and other payables are recognised and carried at invoiced value as they are considered to have payment terms of 30 days or less and are not interest bearing. The balance of trade and other payables are considered to meet the definition of an accrual and have been expensed through the Income Statement or Balance Sheet depending on classification. VAT payable at the Balance Sheet date will be settled within 31 days of the Balance Sheet date with Her Majesty's Revenue and Customs ("HMRC") and deferred rental income is rent that has been billed to tenants but relates to the period after the Balance Sheet date. Rent deposits recognised in note 13 as current are those that are due within one year as a result of upcoming tenant expiries.

3 FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk, liquidity risk and capital risk. The Group is not exposed to currency risk or price risk. The Group is engaged in a single segment of business, being property investment in one geographical area, the United Kingdom. Therefore the Group only engages in one form of currency being pound sterling.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

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 interest rate swap.

i) Interest Rate risk

As described on page 78 the Group invests cash balances with RBS, Citibank and Barclays. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest. There is considered to be no fair value interest rate risk in regard to these balances.

The bank borrowings as described in note 14 also expose the Group to cash flow interest rate risk. The Group's policy is to manage its cash flow interest rate risk using interest rate swaps, in which the Group has agreed to exchange the difference between fixed and floating interest amounts based on a notional principal amount (see note 15). The Group has floating rate borrowings of £110,000,000. The full £110,000,000 of these borrowings has been fixed via an interest rate swap.

The fair value of the interest rate swap is exposed to changes in the market interest rate as their fair value is calculated as the present value of the estimated future cash flows under the agreements. The accounting policy for recognising the fair value movements in the interest rate swaps is described in note 2.3 L.

Trade and other receivables and trade and other payables are interest free and have settlement dates within one year and therefore are not considered to present a fair value interest rate risk.

The tables below set out the carrying amount of the Group's financial instruments excluding the amortisation of borrowing costs as outlined in note 14 Bank borrowings have been fixed due to an interest rate swap and is detailed further in note 15:

At 31 December 2021	Fixed Rate £	Variable Rate £	Interest Rate £
Cash and cash equivalents	—	13,818,008	0.020%
Bank borrowings	110,000,000	—	2.725%

At 31 December 2020	Fixed Rate £	Variable Rate £	Interest Rate £
Cash and cash equivalents	—	9,383,371	0.020%
Bank borrowings	110,000,000	—	2.725%

At 31 December 2021, if market rate interest rates had been 100 basis points higher, which is deemed appropriate given historical movements in interest rates, with all other variables held constant, the profit for the year would have been £138,180 higher (2020: £93,834 higher) as a result of the higher interest income on cash and cash equivalents. Other Comprehensive Income and the Capital Reserve would have been £1,657,653 higher (2020: £2,507,886 higher) as a result of an increase in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

At 31 December 2021, if market rate interest rates had been 100 basis points lower with all other variables held constant, the profit for the year would have been £138,180 lower (2020: £93,834 lower) as a result of the lower interest income on cash and cash equivalents. Other Comprehensive Income and the Capital Reserve would have been £1,657,731 lower (2020: £2,519,221 lower) as a result of a decrease in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

ii) Real estate risk

The Group has identified the following risk associated with the real estate portfolio. The risks following, in particular b and c and also credit risk have remained high given the ongoing COVID-19 pandemic and the resultant effect on tenants' ability to pay rent:

a) The cost of any development schemes may increase if there are delays in the planning process given the inflationary environment. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to reduce the risks that may arise in the planning process.

b) major tenants may become insolvent causing a significant loss of rental income and a reduction in the value of the associated property (see also credit risk on page 78). To reduce this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees.

c) The exposure of the fair values of the portfolio to market and occupier fundamentals. The Group aims to manage such risks by taking an active approach to asset management (working with tenants to extend leases and minimise voids), capturing profit (selling when the property has delivered a return to the Group that the Group believes has been maximised and the proceeds can be reinvested into more attractive opportunities) and identifying new investments (generally at yields that are accretive to the revenue account and where the Group believes there will be greater investment demand in the medium term).

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

Credit risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the Group. In the event of default by an occupational tenant, the Group will suffer a rental income shortfall and incur additional related costs. The Investment Manager regularly reviews reports produced by Dun and Bradstreet and other sources, including the MSCI IRIS report, to be able to assess the credit worthiness of the Group's tenants and aims to ensure that there are no excessive concentrations of credit risk and that the impact of default by a tenant is minimised. In addition to this, the terms of the Group's bank borrowings require that the largest tenant accounts for less than 20% of the Group's total rental income, that the five largest tenants account for less than 50% of the Group's total rental income and that the ten largest tenants account for less than 75% of the Group's total rental income. The maximum credit risk from the tenant arrears of the Group at the financial year end was £5,418,733 (2020: £6,019,917) as detailed in note 11 on page 86. The Investment Manager also has a detailed process to identify the expected credit loss from tenants who are behind with rental payments.

This involves a review of every tenant who owes money with the Investment Manager using their own knowledge and communications with the tenant to assess whether a provision should be made. This resulted in the provision for bad debts increasing to £2,990,034 at the year end (2020: £2,583,559).

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty bank with a maximum exposure equal to the carrying value of these instruments. As at 31 December 2021 £1,392,240 (2020: £921,920) was placed on deposit with The Royal Bank of Scotland plc ("RBS"), £1,145,830 (2020: £7,749,473) was held with Citibank and £11,279,938 (2020: £711,978) was held with Barclays. The credit risk associated with the cash deposits placed with RBS is mitigated by virtue of the Group having a right to off-set the balance deposited against the amount borrowed from RBS should RBS be unable to return the deposits for any reason. Citibank is rated A-2 Stable by Standard & Poor's and P-2 Stable by Moody's. RBS is rated A-1 Stable by Standard & Poor's and P-1 Stable by Moody's. Barclays is rated A-1 Positive by Standard & Poor's and P-1 Stable by Moody's.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The investment properties in which the Group invests are not traded in an organised public market and may be illiquid.

As a result, the Group may not be able to liquidate its investments in these properties quickly at an amount close to their fair value in order to meet its liquidity requirements.

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

The disclosed amounts for interest-bearing loans and interest rate swaps in the below table are the estimated net undiscounted cash flows.

The Group's liquidity position is regularly monitored by management and is reviewed quarterly by the Board of Directors.

Financial Liabilities

Year ended 31 December 2021	On demand £	12 months £	1 to 5 years £	> 5 years £	Total £
Interest-bearing loans	—	1,744,875	110,436,219	—	112,181,094
Interest rate swaps	—	1,252,625	313,156	—	1,565,781
Trade and other payables	8,187,362	26,068	104,271	2,606,785	10,924,486
Rental deposits due to tenants	—	65,720	550,084	354,105	969,909
	8,187,362	**3,089,288**	**111,403,730**	**2,960,890**	**125,641,270**

Year ended 31 December 2020	On demand £	12 months £	1 to 5 years £	> 5 years £	Total £
Interest-bearing loans	—	1,565,575	112,168,436	—	113,734,011
Interest rate swaps	—	1,431,925	1,789,906	—	3,221,831
Trade and other payables	4,986,275	26,068	104,271	2,632,853	7,749,467
Rental deposits due to tenants	—	736,793	521,194	334,673	1,592,660
	4,986,275	**3,760,361**	**114,583,807**	**2,967,526**	**126,297,969**

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, increase or decrease borrowings or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by gross assets and has a limit of 65% set by the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

The gearing ratios at 31 December 2021 and at 31 December 2020 were as follows:

	2021 £	2020 £
Total borrowings (excluding unamortised arrangement fees)	110,000,000	110,000,000
Gross assets	526,562,676	459,639,079
Gearing ratio (must not exceed 65%)	20.89%	23.93%

The Group also monitors the Loan-to-value ratio which is calculated as gross borrowings less cash divided by portfolio valuation. As at 31 December 2021 this was 19.2% (2020: 23.0%).

Fair values

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

	Carrying Amount		Fair Value	
Financial Assets	2021 £	2020 £	2021 £	2020 £
Cash and cash equivalents	13,818,008	9,383,371	13,818,008	9,383,371
Trade and other receivables	11,024,100	10,802,197	11,024,100	10,802,197
Financial Liabilities				
Bank borrowings	109,723,399	109,542,823	110,119,830	113,000,998
Interest rate swaps	568,036	3,735,254	568,036	3,735,254
Trade and other payables	8,359,405	5,797,386	8,359,405	5,797,386

The fair value of trade receivables and payables are materially equivalent to their amortised cost.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

The fair value of the financial assets and liabilities are included at an estimate of the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair value:

- Cash and cash equivalents, trade and other receivables and trade and other payables are the same as fair value due to the short-term maturities of these instruments.
- The fair value of bank borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2020.
- The fair value of the interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2020. The definition of the valuation techniques are explained in the significant accounting judgements, estimates and assumptions on page 73.

The adjacent table shows an analysis of the fair values of financial assets and liabilities recognised in the Balance Sheet by the level of the fair value hierarchy:

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.

Please see note 7 for details on the valuation of Investment properties.

Year ended 31 December 2021	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Trade and other receivables	—	11,024,100	—	11,024,100
Cash and cash equivalents	13,818,008	—	—	13,818,008
Rental deposits held on behalf of tenants	904,189	—	—	904,189
Right of use asset	—	901,129	—	901,129
	14,722,197	**11,925,229**	**—**	**26,647,426**
Financial liabilities				
Trade and other payables	—	6,554,087	—	6,554,087
Interest rate swap	—	568,036	—	568,036
Bank borrowings	—	110,119,830	—	110,119,830
Obligations under finance leases	—	901,129	—	901,129
Rental deposits held on behalf of tenants	904,189	—	—	904,189
	904,189	**118,143,082**	**—**	**119,047,271**

Year ended 31 December 2020	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Trade and other receivables	—	10,802,197	—	10,802,197
Cash and cash equivalents	9,383,371	—	—	9,383,371
Rental deposits held on behalf of tenants	855,866	—	—	855,866
Right of use asset	—	902,645	—	902,645
	10,239,237	**11,704,842**	**—**	**21,944,079**
Financial liabilities				
Trade and other payables	—	4,038,874	—	4,038,874
Interest rate swap	—	3,735,254	—	3,735,254
Bank borrowings	—	113,000,998	—	113,000,998
Obligations under finance leases	—	902,645	—	902,645
Rental deposits held on behalf of tenants	855,866	—	—	855,866
	855,866	**121,677,771**	**—**	**122,533,637**

4 FEES

Investment management fees

On 19 December 2003 Standard Life Investments (Corporate Funds) Limited ("the Investment Manager") was appointed as Investment Manager to manage the property assets of the Group. A new Investment Management Agreement ("IMA") was entered into on 7 July 2014, appointing the Investment Manager as the AIFM ("Alternative Investment Fund Manager"). On 10 December 2018, the Investment Manager's contract was novated on the same commercial terms to Aberdeen Standard Fund Managers Limited.

From 1 July 2019, under the terms of the IMA the Investment Manager is entitled to investment management fees 0.70% of total assets up to £500 million; and 0.60% of total assets in excess of £500 million. The total fees charged for the year amounted to £3,301,074 (2020: £3,198,519). The amount due and payable at the year end amounted to £893,048 excluding VAT (2020: £779,737 excluding VAT). In addition the Company paid the Investment Manager a sum of £160,250 excluding VAT (2020: £131,000 excluding VAT) to participate in the Manager's marketing programme and Investment Trust share plan.

Administration, secretarial fees

On 19 December 2003 Northern Trust International Fund Administration Services (Guernsey) Limited ("Northern Trust") was appointed administrator and secretary to the Group. Northern Trust is entitled to an annual fee, payable quarterly in arrears, of £65,000. Northern Trust is also entitled to reimbursement of reasonable out of pocket expenses. Total fees and expenses charged for the year amounted to £65,000 (2020: £65,000). The amount due and payable at the year end amounted to £16,250 (2020: £16,250).

Valuer's fee

Knight Frank LLP ("the Valuers"), external international real estate consultants, was appointed as valuers in respect of the assets comprising the property portfolio. The total valuation fees charged for the year amounted to £77,457 (2020: £84,638). The total valuation fee comprises a base fee for the ongoing quarterly valuation, and a one off fee on acquisition of an asset. The amount due and payable at the year end amounted to £21,246 excluding VAT (2020: £18,602 excluding VAT).

The annual fee is equal to 0.017 percent of the aggregate value of property portfolio paid quarterly.

Auditor's fee

At the year end date Deloitte LLP continued as independent auditor of the Group. The audit fees for the year amounted to £111,540 (2020: £118,400) and relate to audit services provided for the 2021 financial year. Deloitte LLP did not provide any non-audit services in the year (2020: nil).

5 FINANCE INCOME AND COSTS

	2021 £	2020 £
Interest income on cash and cash equivalents	763	3,896
Finance income	763	3,896
Interest expense on bank borrowings	1,613,050	2,202,152
Non-utilisation charges on facilities	329,186	277,236
Payments on interest rate swap	1,383,547	1,038,749
Amortisation of arrangement costs (see note 14)	180,576	225,937
Finance costs	3,506,359	3,744,074

Of the finance costs above, £409,487 of the interest expense on bank borrowings and £247,093 of payments on interest rate swaps were accruals at 31 December 2021 and included in Trade and other payables.

6 TAXATION

UK REIT Status

The Group migrated tax residence to the UK and elected to be treated as a UK REIT with effect from 1 January 2015. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading or sold within three years of completion of development. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the period and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future.

Accordingly, deferred tax is not recognised on temporary differences relating to the property rental business.

The Company and its Guernsey subsidiary have obtained exempt company status in Guernsey so that they are exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey.

A reconciliation between the tax charge and the product of accounting profit multiplied by the applicable tax rate for the year ended 31 December 2021 and 2020 is as follows:

	2021 £	2020 £
Profit/(loss) before tax	85,732,820	(15,782,067)
Tax calculated at UK statutory corporation tax rate of 19% (2020: 19%)	16,289,236	(2,998,593)
UK REIT exemption on net income	(2,789,236)	(3,166,216)
Valuation (gain)/loss in respect of investment properties and land not subject to tax	(13,500,000)	6,164,809
Current income tax charge	—	—

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7 INVESTMENT PROPERTIES

	UK Industrial 2021 £	UK Office 2021 £	UK Retail 2021 £	UK Other 2021 £	Total 2021 £
Market value at 1 January	211,200,000	142,695,000	51,150,000	32,650,000	437,695,000
Purchase of investment properties	11,690,631	—	50,870	—	11,741,501
Capital expenditure on investment properties	125,634	1,712,322	(35,227)	16,500	1,819,229
Opening market value of disposed investment properties	(9,400,000)	(20,425,000)	(2,650,000)	—	(32,475,000)
Valuation gain from investment properties	58,043,007	1,580,786	7,762,099	3,282,595	70,668,487
Movement in lease incentives receivable	1,905,978	711,892	247,258	100,905	2,966,033
Market value at 31 December	273,565,250	126,275,000	56,525,000	36,050,000	492,415,250
Investment property recognised as held for sale	—	—	—	—	—
Market value net of held for sale at 31 December	273,565,250	126,275,000	56,525,000	36,050,000	492,415,250
Right of use asset recognised on leasehold properties	—	901,129	—	—	901,129
Adjustment for lease incentives	(4,405,288)	(2,921,649)	(808,188)	(667,169)	(8,802,294)
Carrying value at 31 December	269,159,962	124,254,480	55,716,812	35,382,831	484,514,085

The valuation gain on investment properties in the Statement of Comprehensive Income & Statement of Changes in Equity is adjusted by the lease incentive adjustment disclosed under Accounting Policies 2.2. in arriving at the £70,668,487 presented in the table within this note.

	UK Industrial 2020 £	UK Office 2020 £	UK Retail 2020 £	UK Other 2020 £	Total 2020 £
Market value at 1 January	252,800,000	163,305,000	42,270,000	34,800,000	493,175,000
Purchase of investment properties	5,099	623,074	20,669,581	—	21,297,754
Capital expenditure on investment properties	727,680	4,051,295	168,853	—	4,947,828
Opening market value of disposed investment properties	(41,100,000)	(10,700,000)	(3,980,000)	—	(55,780,000)
Valuation loss from investment properties	(2,093,045)	(15,149,700)	(8,286,927)	(2,110,552)	(27,640,224)
Movement in lease incentives receivable	860,266	565,331	308,493	(39,448)	1,694,642
Market value at 31 December	211,200,000	142,695,000	51,150,000	32,650,000	437,695,000
Investment property recognised as held for sale	—	(4,300,000)	—	—	(4,300,000)
Market value net of held for sale at 31 December	211,200,000	138,395,000	51,150,000	32,650,000	433,395,000
Right of use asset recognised on leasehold properties	—	902,645	—	—	902,645
Adjustment for lease incentives	(2,499,310)	(2,209,756)	(609,940)	(566,264)	(5,885,270)
Carrying value at 31 December	208,700,690	137,087,889	50,540,060	32,083,736	428,412,375

The valuations of investment properties were performed by Knight Frank LLP, accredited external valuers with recognised and relevant professional qualifications and recent experience of the location and category of the investment properties being valued. The valuation models used by Knight Frank are in accordance with Royal Institute of Chartered Surveyors ('RICS') requirements on disclosure for Regulated Purpose Valuations (RICS Valuation – Professional Standards January 2014 published by the Royal Institution of Chartered Surveyors) and are consistent with the principles in IFRS 13. The market value provided by Knight Frank at the year end was £492,415,250 (2020: £437,695,000) however an adjustment has been made for lease incentives of £8,802,294 (2020: £5,885,270) that are already accounted for as an asset. In addition, as required under IFRS 16, a right of use asset of £901,129 (2020: £902,645) has been recognised in respect of the present value of future ground rents and an amount of £901,129 (2020: £902,645) has also been recognised as an obligation under finance leases in the balance sheet, as explained in note 16.

In the Consolidated Cash Flow Statement, proceeds from disposal of investment properties comprise:

	2021 £	2020 £
Opening market value of disposed investment properties	32,475,000	55,780,000
Loss on disposal of investment properties	(634,368)	(4,806,137)
Net proceeds from disposal of investment properties	31,840,632	50,973,863

Valuation methodology

The fair values of completed investment properties are determined using the income capitalisation method.

The income capitalisation method is based on capitalising the net income stream at an appropriate yield. In establishing the net income stream the valuers have reflected the current rent (the gross rent) payable to lease expiry, at which point the valuer has assumed that each unit will be re-let at their opinion of ERV. The valuers have made allowances for voids where appropriate, as well as deducting non recoverable costs where applicable. The appropriate yield is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

No properties have changed valuation technique during the year. At the Balance Sheet date the income capitalisation method is appropriate for valuing all investment properties.

The Investment Manager meets with the valuers on a quarterly basis to ensure the valuers are aware of all relevant information for the valuation and any change in the investment over the quarter. The Investment Manager then reviews and discusses the draft valuations with the valuers to ensure correct factual assumptions are made.

The management group that determines the Company's valuation policies and procedures for property valuations is the Property Valuation Committee as detailed on page 49. The Committee reviews the quarterly property valuation reports produced by the valuers before they are submitted to the Board, focusing in particular on:

- Significant adjustments from the previous property valuation report;
- Reviewing the individual valuations of each property;
- Compliance with applicable standards and guidelines including those issued by RICS and the UKLA Listing Rules;
- Reviewing the findings and any recommendations or statements made by the valuer;
- Considering any further matters relating to the valuation of the properties.

The Chair of the Committee makes a brief report of the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of the Committee meetings are circulated to the Board. The Chair submits an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.

The table on page 84 outlines the valuation techniques and inputs used to derive Level 3 fair values for each class of investment properties. The table includes:

- The fair value measurements at the end of the reporting period.
- The level of the fair value hierarchy (e.g. Level 3) within which the fair value measurements are categorised in their entirety.
- A description of the valuation techniques applied.
- Fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.
- The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building.

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Sector 2021	Fair Value 2021 £	Key Unobservable Input 2021	Range 2021	(Weighted average)
Industrial	273,565,250	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	0.00% to 7.49% 0.00% to 7.72% 0.00% to 7.00% £4.00 to £9.50	(4.48%) (5.11%) (5.07%) (£6.19)
Office	126,275,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	2.71% to 6.28% 5.25% to 9.23% 5.16% to 8.17% £17.00 to £46.09	(4.77%) (7.28%) (6.84%) (£26.19)
Retail	56,525,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	4.56% to 8.43% 5.25% to 7.48% 5.52% to 8.12% £8.74 to £29.32	(6.18%) (5.83%) (6.40%) (£15.31)
Other	36,050,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	4.57% to 8.10% 4.39% to 7.90% 4.62% to 7.90% £9.24 to £18.68	(5.40%) (5.22%) (5.35%) (£15.09)
	492,415,250			

Descriptions and definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key observable inputs made in determining the fair values.

Estimated rental value (ERV)

The rent at which space could be let in the market conditions prevailing at the date of valuation.

Equivalent yield

The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise or fall to ERV at the next review or lease termination, but with no further rental change.

Initial yield

Initial yield is the annualised rents of a property expressed as a percentage of the property value.

Reversionary yield

Reversionary yield is the anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.

Sector 2020	Fair Value 2020 £	Key Unobservable Input 2020	Range 2020	(Weighted average)
Industrial	211,200,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	0.00% to 8.08% 4.29% to 10.29% 4.26% to 8.55% £2.75 to £8.50	(5.54%) (6.26%) (6.21%) (£5.70)
Office	142,695,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	0.00% to 13.36% 5.32% to 10.01% 5.23% to 8.55% £10.25 to £111.00	(5.24%) (7.66%) (7.11%) (£25.54)
Retail	51,150,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	4.79% to 8.49% 5.12% to 7.84% 5.63% to 8.05% £8.35 to £90.00	(7.99%) (6.83%) (7.43%) (£15.53)
Other	32,650,000	▸ Initial Yield ▸ Reversionary Yield ▸ Equivalent Yield ▸ Estimated rental value per sq ft	4.91% to 6.89% 5.03% to 6.90% 5.01% to 6.91% £7.50 to £30.00	(5.90%) (5.80%) (5.87%) (£19.75)
	437,695,000			

The table below shows the overall ERV per annum, area per square foot, average ERV per square foot, initial yield and reversionary yield as at the Balance Sheet date.

	2021	2020
ERV p.a.	£31,542,350	£32,180,024
Area sq ft	3,517,993	3,825,017
Average ERV per sq ft	£8.97	£8.41
Initial Yield	4.8%	5.8%
Reversionary Yield	4.8%	6.9%

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of completed investment property. The Board believes these are reasonable sensitivities given historic movements in valuations.

	2021 £	2020 £
Increase in equivalent yield of 50 bps	(41,659,430)	(34,483,590)
Decrease of 5% in ERV	(19,561,811)	(17,437,618)

Below is a list of how the interrelationships in the sensitivity analysis above can be explained. In both cases outlined in the sensitivity table the estimated fair value would increase (decrease) if:

- The ERV is higher (lower)
- Void periods were shorter (longer)
- The occupancy rate was higher (lower)
- Rent free periods were shorter (longer)
- The capitalisation rates were lower (higher)

8 LAND

During the year, the Group acquired 1,471 hectares of the Ralia Estate. The land is capable of woodland creation and peatland restoration, projects which would materially assist the Group's transition to Net Zero. The acquisition of this site is unlike the existing portfolio in that it is not being held to create income or primarily for capital return.

Valuation methodology

The Land is held at fair value.

The Group appoints suitable valuers (such appointment is reviewed on a periodic basis) to undertake a valuation of the land on a quarterly basis. The valuation is undertaken in accordance with the current RICS guidelines by Knight Frank LLP whose credentials are set out in note 7.

Reconciliation of carrying amount	**2021**	**2020**
Cost		
Balance at the beginning of the year	—	—
Additions	8,001,550	—
Balance at the end of the year	8,001,550	—
Unrealised fair value gains/(losses)		
Balance at the beginning of the year	—	—
Valuation loss from land	(501,550)	—
Balance at the end of the year	(501,550)	—
Carrying amount as at 31 December	7,500,000	—

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9 INVESTMENT PROPERTIES HELD FOR SALE

As at 31 December 2021, the Group was not actively seeking a buyer for any of the Investment Properties.

As at 31 December 2020, the Group was actively seeking a buyer for Interfleet House, Derby. The Group both exchanged contracts and completed this sale on 8 January 2021 for a price of £4,346,000.

10 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Company owns 100 per cent of the issued ordinary share capital of Standard Life Investments Property Holdings Limited, a company with limited liability incorporated and domiciled in Guernsey, Channel Islands, whose principal business is property investment.

The Group undertakings consist of the following 100% owned subsidiaries at the Balance Sheet date:

- Standard Life Investments Property Holdings Limited, a company with limited liability incorporated in Guernsey, Channel Islands.
- Standard Life Investments (SLIPIT) Limited Partnership, a limited partnership established in England.
- Standard Life Investments SLIPIT (General Partner) Limited, a company with limited liability incorporated in England.
- Standard Life Investments SLIPIT (Nominee) Limited, a company with limited liability incorporated and domiciled in England.
- Hagley Road Limited, a company with limited liability incorporated in Jersey, Channel Islands.

11 TRADE AND OTHER RECEIVABLES

	2021 £	2020 £
Trade receivables	8,408,767	8,603,476
Less: provision for impairment of trade receivables	(2,990,034)	(2,583,559)
Trade receivables (net)	5,418,733	6,019,917
Rental deposits held on behalf of tenants	65,720	736,793
Other receivables	5,539,647	4,045,487
Total trade and other receivables	11,024,100	10,802,197

Reconciliation for changes in the provision for impairment of trade receivables:

	2021 £	2020 £
Opening balance	(2,583,559)	(138,593)
Charge for the year	(406,475)	(2,444,966)
Closing balance	(2,990,034)	(2,583,559)

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and approximate their carrying amounts.

The trade receivables above relate to rental income receivable from tenants of the investment properties. When a new lease is agreed with a tenant the Investment Manager performs various money laundering checks and makes a financial assessment to determine the tenant's ability to fulfil its obligations under the lease agreement for the foreseeable future. The majority of tenants are invoiced for rental income quarterly in advance and are issued with invoices at least 21 days before the relevant quarter starts. Invoices become due on the first day of the quarter and are considered past due if payment is not received by this date. Other receivables are considered past due when the given terms of credit expire.

Amounts are considered impaired when it becomes unlikely that the full value of a receivable will be recovered. Movement in the balance considered to be impaired has been included in other direct property costs in the Consolidated Statement of Comprehensive Income. As at 31 December 2021, trade receivables of £2,990,034 (2020: £2,583,559) were considered impaired and provided for.

If the provision for impairment of trade receivables increased by £1 million then the Company's earnings and net asset value would decrease by £1 million. If it decreased by £1 million then the Company's earnings and net asset value would increase by £1 million.

The ageing of these receivables is as follows:

	2021 £	2020 £
0 to 3 months	(162,132)	(252,550)
3 to 6 months	(451,417)	(705,740)
Over 6 months	(2,376,485)	(1,625,269)
Closing balance	(2,990,034)	(2,583,559)

As of 31 December 2021, trade receivables of £5,418,733 (2020: £6,019,917) were less than 3 months past due but considered not impaired.

12 CASH AND CASH EQUIVALENTS

	2021 £	2020 £
Cash held at bank	12,425,768	8,461,451
Cash held on deposit with RBS	1,392,240	921,920
	13,818,008	9,383,371

Cash held at banks earns interest at floating rates based on daily bank deposit rates. Deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the applicable short-term deposit rates.

13 TRADE AND OTHER PAYABLES

	2021 £	2020 £
Trade and other payables	6,488,367	3,302,081
VAT payable	1,698,995	1,684,195
Deferred rental income	5,365,375	7,372,985
Rental deposits due to tenants	65,720	736,793
	13,618,457	13,096,054

Trade payables are non-interest bearing and are normally settled on 30-day terms.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

14 BANK BORROWINGS

	2021 £	2020 £
Loan facility and drawn down outstanding balance	110,000,000	110,000,000
Opening carrying value	109,542,823	127,316,886
Borrowings during the year	—	27,000,000
Repayment of RCF	—	(45,000,000)
Amortisation of arrangement costs	180,576	225,937
Closing carrying value	109,723,399	109,542,823

On 28 April 2016 the Group entered into an agreement to extend £145 million of its existing £155 million debt facility with Royal Bank of Scotland ("RBS"), now Royal Bank of Scotland International ("RBSI"). The debt facility consisted of a £110 million seven year term loan facility and a £35 million five year Revolving Credit Facility ("RCF") which was extended by two years in May 2018 with the margin on the RCF reset to LIBOR plus 1.45%. Interest was payable on the Term Loan at 3 month LIBOR plus 1.375% which equates to a fixed rate of 2.725% on the Term Loan.

In June 2019, the Group also entered into a new arrangement with RBSI to extend its RCF by £20 million. This facility had a margin of 1.60% above LIBOR. As at 31 December 2021 none of the RCF was drawn (2020: £nil).

The London Interbank Offer Rate (LIBOR) was one of the main interest rate benchmarks used in financial markets to determine interest rates for financial contracts globally. The low volume of underlying transactions since the global financial crisis in 2008/2009 made LIBOR unsustainable and as a result, and in line with announcements from the Financial Conduct Authority (FCA), 24 of the 35 LIBOR settings ceased from 1 January 2022. Various risk free rates are available as an alternative to LIBOR including the Sterling Overnight Index Average (SONIA) benchmark.

The Group has taken steps, before the date of transition, to ensure that any exposure to LIBOR was identified with actions taken to rebase and redocument any financial contracts where LIBOR was previously used. This led to minor amendments to operational processes to cater for this change but there is not expected to be a material impact on the assets and liabilities of the Group as a result of the phase out of LIBOR. The switch to SONIA took effect from the first interest payment date following cessation of LIBOR (20th January 2022).

Under the terms of the loan facility there are certain events which would entitle RBSI to terminate the loan facility and demand repayment of all sums due. Included in these events of default is the financial undertaking relating to the LTV percentage. The loan agreement notes that the LTV percentage is calculated as the loan amount less the amount of any sterling cash deposited within the security of RBSI divided by the gross secured property value, and that this percentage should not exceed 60% for the period to and including 27 April 2021 and should not exceed 55% after 27 April 2021 to maturity.

	2021 £	2020 £
Loan amount	110,000,000	110,000,000
Cash	(13,818,008)	(9,383,371)
	96,181,992	100,616,629
Portfolio valuation	499,915,250	437,695,000
LTV percentage	19.2%	23.0%

Other loan covenants that the Group is obliged to meet include the following:

- that the net rental income is not less than 150% of the finance costs for any three month period;
- that the largest single asset accounts for less than 15% of the Gross Secured Asset Value;
- that the largest ten assets accounts for less than 75% of the Gross Secured Asset Value;
- that sector weightings are restricted to 55%, 45% and 55% for the Office, Retail and Industrial sectors respectively;
- that the largest tenant accounts for less than 20% of the Group's annual net rental income;
- that the five largest tenants account for less than 50% of the Group's annual net rental income;
- that the ten largest tenants account for less than 75% of the Group's annual net rental income.

During the year, the Group complied with its obligations and loan covenants under its loan agreement.

The loan facility is secured by fixed and floating charges over the assets of the Company and its wholly owned subsidiaries, Standard Life Investments Property Holdings Limited and Standard Life Investments (SLIPIT) Limited Partnership.

15 INTEREST RATE SWAP

As part of the refinancing of loans (see note 14), on 28 April 2016 the Group completed an interest rate swap of a notional amount of £110,000,000 with RBS, now RBSI. The interest rate swap effective date is 28 April 2016 and it has a maturity date of 27 April 2023. Under the swap the Company has agreed to receive a floating interest rate linked to 3 month LIBOR and pay a fixed interest rate of 1.35%.

The interest rate swap is the Group's only hedging instrument and the "interest rate benchmark reform" amendments have been applied to it. The switch to SONIA took effect from the first interest payment date following cessation of LIBOR (20th January 2022).

	2021 £	2020 £
Opening fair value of interest rate swap at 1 January	(3,735,254)	(2,220,616)
Valuation gain/(loss) on interest rate swap	3,167,218	(1,514,638)
Closing fair value of interest rate swap at 31 December	(568,036)	(3,735,254)

The split of swap liability is listed below:

	2021 £	2020 £
Current liabilities	(546,526)	(1,472,387)
Non-current liabilities	(21,510)	(2,262,867)
Total fair value	(568,036)	(3,735,254)

16 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments 2021 £	Interest 2021 £	Present value of minimum lease payments 2021 £
Less than one year	26,068	(24,511)	1,557
Between two and five years	104,271	(97,607)	6,664
More than five years	2,606,785	(1,713,877)	892,908
Total	2,737,124	(1,835,995)	901,129

	Minimum lease payments 2020 £	Interest 2020 £	Present value of minimum lease payments 2020 £
Less than one year	26,068	(24,552)	1,516
Between two and five years	104,271	(97,784)	6,487
More than five years	2,632,853	(1,738,211)	894,642
Total	2,763,192	(1,860,547)	902,645

The above table shows the present value of future lease payments in relation to the ground lease payable at Hagley Road, Birmingham as required under IFRS 16. A corresponding asset has been recognised and is part of Investment properties as shown in note 7.

Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

17 LEASE ANALYSIS

The Group has granted leases on its property portfolio. This property portfolio as at 31 December 2021 had an average lease expiry of six years and one month. Leases include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2021 £	2020 £
Within one year	24,857,300	26,667,702
Between one and two years	22,613,540	24,233,138
Between two and three years	19,869,754	21,755,932
Between three and four years	14,371,388	17,825,125
Between four and five years	10,352,802	12,404,878
More than five years	44,233,215	60,572,038
Total	136,297,999	163,458,813

The largest single tenant at the year end accounts for 6.1% (2020: 5.6%) of the current annual passing rent.

18 SHARE CAPITAL

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of ordinary shares of 1 pence each, subject to issuance limits set at the AGM each year. As at 31 December 2021 there were 396,922,386 ordinary shares of 1p each in issue (2020: 404,316,422). All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of ordinary shares in the Company, no special rights with regard to control attached to the ordinary shares, no agreements between holders of ordinary shares regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid.

Allotted, called up and fully paid:	2021 £	2020 £
Opening balance	228,383,857	227,431,057
Shares issued	—	960,000
Issue costs associated with new ordinary shares	—	(7,200)
Closing balance	228,383,857	228,383,857

Treasury Shares

From November 2020,, the Company undertook a share buyback programme at various levels of discount to the prevailing NAV. In the period to 31 December 2021 7,394,036 shares had been bought back (2020: 2,548,997) for £4,540,630 after costs (2020: £1,450,787) and are included in the Treasury share reserve.

	2021 £	2020 £
Opening balance	1,450,787	—
Bought back during the year	4,540,630	1,450,787
Closing balance	5,991,417	1,450,787

The number of shares in issue as at 31 December 2021/2020 are as follows:

	2021 Number of shares	2020 Number of shares
Opening balance	404,316,422	405,865,419
Issued during the year	—	1,000,000
Bought back during the year and put into Treasury	(7,394,036)	(2,548,997)
Closing balance	396,922,386	404,316,422

19 RESERVES

The detailed movement of the below reserves for the years to 31 December 2021 and 31 December 2020 can be found in the Consolidated Statement of Changes in Equity on page 70.

Retained earnings

This is a distributable reserve and represents the cumulative revenue earnings of the Group less dividends paid to the Company's shareholders.

Capital reserves

This reserve represents realised gains and losses on disposed investment properties and unrealised valuation gains and losses on investment properties and cash flow hedges since the Company's launch.

Other distributable reserves

This reserve represents the share premium raised on launch of the Company which was subsequently converted to a distributable reserve by special resolution dated 4 December 2003.

20 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year net of tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The earnings per share for the year is set out in the table below. In addition one of the key metrics the Board considers is dividend cover.

This is calculated by dividing the net revenue earnings in the year (profit for the year net of tax excluding all capital items and the swaps breakage costs) divided by the dividends payable in relation to the financial year. For 2021 this equated to a figure of 98% (2020: 108%).

The following reflects the income and share data used in the basic earnings per share computations:

	2021 £	2020 £
Profit for the year net of tax	85,732,820	(15,782,067)

	2021 £	2020 £
Weighted average number of ordinary shares outstanding during the year	398,041,380	406,650,268
Earnings per ordinary share (p)	21.54	(3.88)
Profit for the year excluding capital items	14,680,188	16,664,294
EPRA earnings per share (p)	3.69	4.10

21. DIVIDENDS AND PROPERTY INCOME DISTRIBUTIONS GROSS OF INCOME TAX

	2021					2020				
Dividends	**PID pence**	**Non-PID pence**	**Total pence**	**PID £**	**Non-PID £**	**PID pence**	**Non-PID pence**	**Total pence**	**PID £**	**Non-PID £**
Quarter to 31 December of prior year (paid in February)	0.7140	—	0.7140	2,878,508	—	0.6290	0.5610	1.1900	2,557,687	2,284,011
Top-up for 2020 (paid in May)	0.3810	—	0.3810	1,512,274	—	—	—	—	—	—
Quarter to 31 March (paid in May)	0.8925	—	0.8925	3,542,532	—	0.9520	0.2380	1.1900	3,873,359	968,340
Quarter to 30 June (paid in August)	0.8925	—	0.8925	3,542,532	—	0.7140	—	0.7140	2,905,019	—
Quarter to 30 September (paid in November)	0.2519	0.6406	0.8925	999,848	2,542,685	0.7140	—	0.7140	2,905,019	—
Total dividends paid	3.1319	0.6406	3.7725	12,475,694	2,542,685	3.0090	0.7990	3.8080	12,241,084	3,252,351
Quarter to 31 December of current year (paid after year end)	0.7910	0.2090	1.0000	3,138,371	—	0.7140	—	0.7140	2,878,508	—
Prior year dividends (per above)	(0.7140)	—	(0.7140)	(2,878,508)	—	(0.6290)	(0.5610)	(1.1900)	(2,557,687)	(2,284,011)
Total dividend for year	3.2089	0.8496	4.0585	12,735,557	2,542,685	3.0940	0.2380	3.3320	12,561,905	968,340

On 25 February 2022 a dividend in respect of the quarter to 31 December 2021 of 1.0 pence per share was paid split as 0.791p Property Income Distribution, and 0.209p Non Property Income Distribution.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2021 continued

22 RECONCILIATION OF CONSOLIDATED NAV TO PUBLISHED NAV

The NAV attributable to ordinary shares is published quarterly and is based on the most recent valuation of the investment properties.

	2021	2020
Number of ordinary shares at the reporting date	396,922,386	404,316,422

	2021 £	2020 £
Total equity per audited consolidated financial statements	400,847,466	331,506,437
NAV per share (p)	101.0	82.0

23 RELATED PARTY DISCLOSURES

Directors' remuneration

The Directors of the Company are deemed as key management personnel and received fees for their services. Further details are provided in the Directors' Remuneration Report (unaudited) on pages 56 and 57. Total fees for the year were £221,742 (2020: £236,953) none of which remained payable at the year end (2020: nil).

Aberdeen Standard Fund Managers Limited, as the Manager of the Group from 10 December 2018, (previously Standard Life Investments (Corporate Funds) Limited), received fees for their services as Investment Managers. Further details are provided in note 4.

	2021	2020
Robert Peto*	—	30,077
Huw Evans	36,000	36,000
Mike Balfour	40,000	40,000
James Clifton-Brown**	47,000	39,638
Jill May	36,000	36,000
Sarah Slater	36,000	36,000
Employers national insurance contributions	17,338	18,737
	212,338	236,452
Directors expenses	9,404	501
	221,742	236,953

* Retired from the Board on 25 August 2020.
** Appointed as Chairman from 25 August 2020.

24 SEGMENTAL INFORMATION

The Board has considered the requirements of IFRS 8 'operating segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom.

25 CAPITAL COMMITMENTS

The Group had contracted capital commitments as at 31 December 2021 of £11.9 million (31 December 2020: £nil). The commitment is to forward fund a new industrial development in St Helens.

26 EVENTS AFTER THE BALANCE SHEET DATE

On 25 February 2022 a dividend in respect of the quarter to 31 December 2021 of 1.0 pence per share was paid split as 0.791p Property Income Distribution, and 0.209p Non Property Income Distribution.

On 14 April 2022, the Company completed the purchase of the Motorpoint car showroom in Stockton-on-Tees for £5m.

Events in Russia/Ukraine

Post the Balance Sheet date, on 24th February 2022, Russia launched a military offensive against Ukraine resulting in widespread sanctions on Russia and heightened security and cyber threats.

As at the date of the report the Company did not hold any assets in Ukraine or Russia. The Company's key suppliers also do not have operations pertaining to the Company in Ukraine or Russia.

The situation in the region is rapidly evolving and the Board and Investment Manager continue to monitor the situation carefully and will take whatever steps are necessary and in the best interests of the Company's Stakeholders. This includes but is not limited to ensuring that the requirements of all international sanctions are adhered to, managing the assets of the Company proactively to best mitigate risk and ensuring that the Investment Manager and other key suppliers continue to operate all protections, protocols and monitoring of heightened cyber threats.