**Company Name:-** Hercules (Eclipse 2006-4) plc

**Headline:-** Ashbourne Portfolio Whole Loan – Update on the Portfolio

**Date:-** 16 February 2022

**HERCULES (ECLIPSE 2006-4) PLC**

a public limited company incorporated in England and Wales with company registration number 5895593

(the "**Issuer**")

**NOTICE TO THE HOLDERS OF**

**£666,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2018**
**ISIN (Reg S Notes) XS0276410080**

**£43,950,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2018**
**ISIN (Reg S Notes) XS0276410833**

**£25,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2018**
**ISIN (Reg S Notes) XS0276412375**

**£51,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2018**
**ISIN (Reg S Notes) XS0276413183**

**£29,000,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2018**
**ISIN (Reg S Notes) XS0276413340**

(together, the "**Notes**")

The Notes are admitted to the official list of the Irish Stock Exchange plc and to trading on its regulated market.

Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (market abuse regulation) requires disclosure by or on behalf of the Issuer of any inside information concerning the Issuer. The EU Market Abuse Regulation (596/2014) requires disclosure of inside information relating to the Issuer.

The Special Servicer has made the following information available to the Issuer. The Issuer notes that it has not been involved in the preparation of this information and in accordance with normal practice, the Issuer expresses no opinion in respect of the information contained in this Notice. Furthermore, this Notice is issued without prejudice to any and all of the Issuer's rights under the Transaction Documents relating to the Notes, all of which are expressly reserved.

This Notice is solely directed to the holders of the Notes ("**Noteholders**") and should not be relied upon or used by any other person.

Please note that, in accordance with normal practice, neither the Trustee nor any of its advisors has been consulted or involved in the formulation or negotiation of the matters contemplated by this Notice or has verified the information contained in any part of this Notice.

Further neither the Trustee nor any of its advisors expresses any opinion as to the merits or purpose of the matters contemplated by this Notice or as to the action the Noteholders should take in relation to them.

Neither the Trustee nor any of its advisors makes any representation regarding the accuracy, sufficiency, relevance or otherwise of any information contained in this Notice or otherwise disclosed or to be disclosed to the Noteholders in connection with the matters contemplated by this Notice or that all relevant information has been disclosed to Noteholders in this Notice or otherwise. Neither the Trustee nor any of its advisors accepts any liability in relation to the matters contemplated by this Notice. Accordingly, the Trustee urges Noteholders who are in any doubt as to the impact of the matters contemplated by this Notice to seek their own independent financial and/or legal advice.

Capitalised terms used but not defined in this Notice shall have the meanings given to them in the Prospectus dated 5 December 2006 issued by the Issuer (the "**Prospectus**").

**Background**

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 18 November 2021 (the "**18 November Announcement**).

In the 18 November Announcement, the Special Servicer affirmed to Noteholders that, among other things, that fourteen trading care homes are currently being marketed for sale.

**Update on the Strategy for the Portfolio**

To date, since the launch of the piecemeal disposal strategy for the portfolio, sixteen properties marketed as trading care homes have now been sold.

In addition, fourteen properties marketed as closed care homes have now been sold.

Ultimately, it is the intention of the Special Servicer, working with the Asset Manager and the Operator to continue preparing batches of trading homes for future marketing for sale so that eventually the entire portfolio is sold and recoveries made for the Lenders.

**Covid-19**

An update on the effects the current Coronavirus outbreak is having on the UK-mainland and Northern Ireland operations is included in the respective trading updates set out in Schedule 1 of the notice.

In terms of the effects on the disposal strategy, the lock-down of the care home sector and specifically the Larchwood Care business during 2020/21, resulted in any non-essential visits being prohibited.

This in turn meant that no visits by buyers' advisors (e.g. valuers) were permitted and hence, the anticipated timeframes for progressing the sales were elongated as a consequence.

As the restrictions have eased, this has enabled the Operators to permit more widespread, third-party access to the properties and this easing supports the continued intention to market further care homes for sale in the next 12 months.

UK-mainland portfolio

Closed properties

Currently, there are five closed properties remaining namely:

a) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site) and following the receipt of the "pre-app" response from the planners on the site, a data-room has been established for use in the sale of the properties and a sales agent has been engaged to undertake the marketing for sale of the site.

Marketing of the three-property site was completed and an offer accepted. Subsequently, the proximity of Japanese knotweed close to the boundary of the site (& the neighbouring property) precluded the buyer from progressing matters and they withdrew their offer.

Whilst the presence of the knotweed has historically been managed by a specialist contractor, it is now to be aggressively treated and where possible removed, such that it will permit the re-marketing of the site to commence within the next 3 months.

b) a closed care home located in Droitwich that was deemed uneconomic to continue operating and has potential “alternative use” opportunities that could provide enhanced recoveries in a future sale process.

   This property is currently being reviewed for possible residential redevelopment options, in advance of being marketed for sale.

c) a closed care home located in Huddersfield that was deemed uneconomic to continue operating and which is now being marketed for sale.

Below is a summary of the number of closed care homes remaining in the Ashbourne portfolio.

| Status | Location | No of homes | For sale | %age for sale | Offer Accepted | In the legal process | Contracts Exchanged |
|---|---|---|---|---|---|---|---|
| Closed | England | 5 | 1 | 20% | 0 | 0 | 0 |
| | | | | | | | |

Once the marketing processes have been launched and the sale of the closed properties develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Trading care homes

Following the completion of the various sales, currently there are thirteen care homes that having been marketed for sale, are now in legal documentation.

Below is a summary of the number of trading care homes remaining in the Ashbourne portfolio.

| Status | Location | No of homes | For sale | %age for sale | Offer Accepted | In the legal process | Contracts Exchanged |
|---|---|---|---|---|---|---|---|
| Trading | England | 26 | 9 | 35% | 5 | 5 | 1 |
| “ | Scotland | 6 | 1 | 17% | 1 | 1 | 0 |
| “ | NI | 7 | 7 | 100% | 7 | 7 | 0 |
| | Total | 39 | 17 | 44% | 13 | 13 | 1 |

The Special Servicer has chosen not to identify such assets so as not to detract from the future trading and marketing for sale of such businesses, however it will update noteholders as the various disposal processes develop.

For those trading homes that are in the course of legal documentation, approval will be required from the relevant regulator for the proposed change of registration to the proposed new owner, with the latter taking up to 26 weeks to conclude.

As the sales processes for the remaining trading care homes develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Going forward, the Special Servicer in conjunction with the Asset Manager and the Operator, will continue to select further batches of care homes to be assessed for possible disposal and thereafter placed with a sales agent for marketing.

Northern Ireland portfolio

Following the conclusion of the marketing process, the primary bidders completed visits to the care homes, to enable them to refine and ultimately finalise their bids.

Following receipt of best & final bids, a preferred bidder was selected to proceed to the second phase of due diligence, toward eventually completing the acquisition of the portfolio.

As the sale process develops, the Special Servicer will update noteholders accordingly.

Larchwood portfolio summary

Below is a summary of the number of care homes remaining in the Ashbourne portfolio, their status (e.g. Closed or Trading) and the number of properties currently being marketed for sale.

| Status | Location | No of homes | For sale | %age for sale | Offer Accepted | In the legal process | Contracts Exchanged |
|---|---|---|---|---|---|---|---|
| Closed | England | 5 | 1 | 20% | 0 | 0 | 0 |
| | | | | | | | |
| | | | | | | | |
| Status | Location | No of homes | For sale | %age for sale | Offer Accepted | In the legal process | Contracts Exchanged |
| Trading | England | 26 | 9 | 35% | 5 | 5 | 1 |
| “ | Scotland | 6 | 1 | 17% | 1 | 1 | 0 |
| “ | NI | 7 | 7 | 100% | 7 | 7 | 0 |
| | Total | 39 | 17 | 44% | 13 | 13 | 1 |
| | | | | | | | |
| | Total | 44 | 18 | 41% | 13 | 13 | 1 |

**Trading Update**

Similar to the 18 November Announcement, the Special Servicer requested of the Asset Manager and the Operators (HealthCare Management Solutions and Care Circle), that updated trading information on the respective businesses be prepared for disclosure to noteholders.

Such data has now been prepared and verified by the Operators and this is outlined in the attached Schedule 1.

**Priority of Payments**

As reported in the 18 November Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

The Special Servicer considers that it is beneficial to Noteholders to re-affirm such priority of payments and to that end (and for ease of understanding), below is a table showing the existing priority of payments waterfall, under the current Material Non-Payment Default of the Ashbourne Portfolio Whole Loan including those items that rank senior to the repayment of the principal amount outstanding of the Priority A Principal Loan.

The following excerpt of the waterfall as set out in the November 2013 Amended and Restatement Facility Agreement provides a description of (and amounts due) to certain creditors and the order in which any amounts received from the Borrower are applied by the Agent or Security Trustee. Payments subject to the waterfall which rank below the categories set out in the excerpt are not expected to be recovered and so are not included.

All the data therein is as at 17 January 2022 and has been reviewed and confirmed by the Agent as correct.

| Rank | Description | Amount Outstanding (£) | Cumulative Amount Outstanding (£) |
|---|---|---|---|
| **1st** | In or towards payment pro-rata of any due & payable Asset Management Fee (provided that no Asset Management Fee Subordination Event has occurred) | Nil | Nil |
| | | | |
| **2nd** | In or towards payment pro-rata of any unpaid fees, costs and expenses of the Agent and Security Trustee under the Finance Documents | Nil | Nil |
| | | | |
| **3rd** | In or towards payment pro-rata of: | | |
| (A) * | any accrued interest or commission which has accrued due after 21 November 2013 (the "Effective Date") but is unpaid to the Priority A Lenders; and | Nil | Nil |
| (B) | any periodic payments (not being as a result of termination or closing out) which have accrued due after the Effective Date but are unpaid to the hedging bank in respect of the Priority A Hedging Liabilities | Nil | Nil |
| | | | |
| **4th** | In or towards payment pro-rata of: | | |
| (A) * | interest due but unpaid on the Outstanding Priority A Interest Advance | Nil | Nil |
| (B) * | interest due but unpaid on the Outstanding Priority A Amortisation Advance | Nil | Nil |
| (C) | interest due but unpaid on the Outstanding Priority A Hedging Advance; and | Nil | Nil |
| (D) | interest due but unpaid on the Outstanding LPI Hedging Advance | Nil | Nil |
| | | | |

| | | | |
|---|---|---|---|
| **5th** | In or towards payment pro-rata of: | | |
| (A) * | the Outstanding Priority A Interest Advance | Nil | Nil |
| (B) | the Outstanding Priority A Hedging Advance; and | Nil | Nil |
| (C) | the Outstanding LPI Hedging Advance | Nil | Nil |
| | | | |
| **6th** | In or towards payment pro-rata of: | | |
| (A) * | the Outstanding Priority A Amortisation Advance | 292,236.60 | 292,236.60 |
| (B) * | the Outstanding Priority A Principal Advance (including for the avoidance of doubt, any unpaid Priority A Amortisation Payments and unpaid Priority A Amortisation Payments deferred pursuant to Clause 5.1.3 of the November 2013 Amended and Restated Facility Agreement; and | 107,039,960.18 | 107,332,196.78 |
| (C) | Any payments due but unpaid to the hedging Bank as a result of the termination or closing out in respect of the Priority A Hedging Liabilities | Nil | 107,332,196.78 |

For good order and ease of understanding, please note the following definitions:

Asset Management Fee – monthly fee due to the Asset Manager

Agent – The Royal Bank of Scotland PLC

Security Trustee – The Royal Bank of Scotland PLC

Priority A Lenders – Equinox (Eclipse 2006-1) PLC and Hercules (Eclipse 2006-4) PLC

Hedging Advance Lender – The Royal Bank of Scotland

LPI Hedging Advance Lender – The Royal Bank of Scotland

***** - the claims denoted with an asterisk relate to funds that will flow to the Issuer waterfalls

## CESSATION OF CERTAIN LIBOR SETTINGS

Following the cessation of 1-month sterling LIBOR, the Agent has advised the Lenders and the Special Servicer, that it is now using 1-month sterling synthetic LIBOR in the calculation of the interest due on the Ashbourne loan.

## FURTHER UPDATES

The Special Servicer continues to evaluate various options in relation to maximising recoveries under the Priority A Loan. The Special Servicer will continue to update the Issuer as the process develops.

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Date: 16 February 2022

## Schedule 1

## Larchwood Care Trading Update

## Disclaimer

This interim management statement (the "**Update Statement**") has been prepared by Healthcare Management Solutions Limited ("**HCMS**") and Care Circle Management Limited ("**Care Circle**"), managers of the Operators of the Larchwood Care UK-mainland and Larchwood Care Northern Ireland portfolios respectively.

Larchwood Care is the "trading name" of the care home business that comprises the security for the Ashbourne Portfolio Loan.

Further information can be found on the Larchwood Care websites at:

http://www.larchwoodcare.co.uk/ (UK-mainland portfolio); and

http://www.larchwoodni.com/ (Northern Ireland portfolio)

Nothing in this Update Statement constitutes any financial product, investment, tax, accounting or legal advice or promotion in respect of or any inducement, invitation endorsement or offer to invest or deal in any assets, securities or financial instruments in any jurisdiction. Accordingly any person in receipt of this Update Statement should not rely on or use this Update Statement for any purpose, in particular trading any debt or securities issued by any entity.

This Update Statement may include certain projections and forward looking statements. Such projections and forward looking statements reflect various assumptions of Care Circle, HCMS or their advisers concerning future performance and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Care Circle and HCMS. Accordingly, there can be no assurance that such projections or forward looking statements will be realised. Actual results may vary from anticipated results and such variations may be material.

The statements included in this Update Statement have not been audited or independently verified and are management estimates. No responsibility or liability is or will be accepted by Care Circle, HCMS or any other party, or any of their respective officers, affiliates, advisers, agents and representatives, in relation to the accuracy or completeness of this Update Statement or any other written or oral information made available to any person in receipt of these materials and any such liability is expressly disclaimed.

Neither Care Circle, HCMS, nor any of its respective officers, affiliates, advisers, agents or representatives undertakes any obligation to update any of the information contained in this Update Statement or to correct any inaccuracies herein which may become apparent.

**Larchwood (UK Mainland Portfolio)**

**Unaudited trading statement as at 31 December 2021**

## Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020, 20 May 2020, 17 August 2020, 20 November 2020, 18 February 2021, 11 May 2021,12 August 2021 and 18 November 2021.

As detailed previously, eight homes were sold during the 12 months to 30 September 2021 being Willow Brook (22 December 2020), Nether Hall (29 January 2021), Laureate Court (8 February 2021), White Rose (29 March 2021), St Mary's (6 April 2021), Nayland House (25 June 2021), Sowerby (4 August 2021) and Ty Dinas (9 August 2021).

No sales completed in the three months to 31 December 2021.

The closure of three homes (Bryan Wood, Ravenstone and Rose Martha) commenced in August 2021 and had been completed by 31 December 2021.

The results for the eleven homes detailed above have been excluded from the figures in this update, therefore all results and KPIs are presented on a like for like (LFL) basis.

Therefore, unless otherwise stated, the figures in this update only include the results for the 32 homes ('the Homes') that were trading as at 31 December 2021.

As and when further homes are sold or closed, the results from these homes will be excluded from the figures in the future updates with adjustments made to the LFL figures as required.

## Summary Financial Performance – 3 months to December 2021

The trading results and main KPI's for the three months to December 2021 are summarised as follows:

| | **LFL Adjusted** | **LFL Adjusted** | **LFL Adjusted** | Variance to Like For Like quarter in prior year £'m | Variance to prior quarter £'m |
|---|---|---|---|---|---|
| | 3 months to 31-Dec-20 £'m | 3 months to 30-Sep-21 £'m | 3 months to 31-Dec-21 £'m | | |
| Fee Income | 12.70 | 12.90 | 13.03 | 0.33 | 0.13 |
| Staff Costs | (8.82) | (7.80) | (8.86) | (0.04) | (1.06) |
| Operating Costs | (0.69) | (0.66) | (0.69) | - | (0.03) |
| Indirect Costs | (1.57) | (1.55) | (1.91) | (0.34) | (0.36) |
| **EBITDARM** | **1.62** | **2.89** | **1.57** | **(0.05)** | **(1.32)** |
| **KPIs** | | | | | |
| Usable Beds | 1,508 | 1,508 | 1,508 | - | - |
| Average occupancy | 1,265 | 1,186 | 1,208 | (57) | 22 |
| Average occupancy (%) | 83.9% | 78.6% | 80.1% | (3.8%) | 1.5% |
| Spot occupancy at period-end | 1,250 | 1,213 | 1,179 | (71) | (34) |
| Spot occupancy at period-end (%) | 82.9% | 80.4% | 78.2% | (4.7%) | (2.2%) |
| Average weekly fee | 757 | 824 | 820 | 63 | (4) |
| CAPEX | 0.60 | 0.69 | 0.45 | (0.15) | (0.24) |
| Staff costs as a % of Fee Income | 69.4% | 60.5% | 68.0% | 1.4% | (7.5%) |

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The calculation of Average Weekly Fee throughout this update excludes non Covid-19 ‘Other Income’ which is included in the Fee Income figures included in the table above

Note that the quarter to September 2021 was the last quarter of the financial year to 30 September 2021. In this quarter, adjustments were processed for year-end accounting purposes, an element of which related to prior quarters.

The principal year-end adjustment made was the write back of an accrual for £589,000 made for accrued holiday pay relating to staff at the Homes as at 30 September 2021.

Before accounting for this adjustment, the base EBITDARM from the Homes in the quarter to September 2021 was c.£2.30 million.

Before the year end adjustment detailed above, EBITDARM decreased c.£0.73 million (32%) quarter-on-quarter despite an increase in average occupancy across the two quarters of 22 clients. The reasons for the reduction in EBITDARM being an increase in staff costs of c.£0.5 million (excluding the impact of the above year end adjustment) and a quarter-on-quarter increase in indirect costs of c.£360,000.

Whilst State funding had been accounted for by the Group in respect of Covid-19 financial assistance in all the quarters presented, this funding has been excluded from the figures in the table above. The impact of Covid-19 has meant that meaningful comparisons with prior periods are almost impossible to draw.

The increases in staffing costs associated with managing these unprecedented challenges, the increased costs of supplies, reductions in occupancy and compensatory support payments all add to these difficulties. In addition, an element of the funding received is being used to invest into capital projects that have been initiated in respect of infection control; the recognition of this element of the funding as income would be misleading.

We have therefore taken a simplistic view and excluded Covid-19 financial assistance from the results and whilst this does not eradicate the distortion, it is seen as a practical way of allowing some comparisons to be made between quarters. However, we would urge caution in drawing any firm conclusions for the reasons set out above.

**Covid-19**

Covid-19 continued to have an impact on the Homes during the quarter to 31 December 2021.

As the Omicron variant of the virus began to take hold in December 2021, the numbers of resident infections rose slightly however hospital admissions were not required in the main as the high level of vaccination in the resident population helped keep serious illness largely at bay.

However, community transmission of Omicron significantly impacted the staff team. As an example, in the third week of December 2021, there were over 6,000 working hours lost because of mandated isolation.

The number of staff who had received the double vaccination improved from 89.0% at the start of the quarter to 94.4% at 31 December 2021.

By the end of the quarter, the number of staff that had refused vaccination for non-medical reasons was zero (66 at the end of the previous quarter); this was because of our legal obligation to release any staff in November 2021 who were not vaccinated. 47% of staff have, so far, received their Covid booster jab.

Regrettably, restrictions on the numbers of visitors to the Homes had to be reintroduced due to the significant increase in transmission rates and relatives were made aware of the changes by individual letters, phone calls and a range of social media platforms. Whilst there was general disappointment, the significant majority of the relatives and friends of the clients accepted that this was a reasonable step to take given what was known about the new variant at that time.

The management of key suppliers and contractors to maintain essential supplies and competitive pricing has been a major focus requiring daily input from the management team. Maintenance of food and medical supplies (excluding PPE) continued to be problematic as has securing provision of planned preventative maintenance checks.

PPE supplies in Scotland are not free of charge as they are in England. All homes in Scotland saw an increase in PPE costs in this period.

**Occupancy**

On a LFL basis for the 32 homes in the portfolio as at 31 December 2021, average occupancy for the quarter increased by 22 clients compared to the quarter to 30 September 2021.

Occupancy began the quarter at 1,213 clients and remained broadly consistent throughout October and November. It then dipped during December ending the quarter at 1,179 clients on 31 December 2021 representing occupancy on useable beds of 78.4%.

The average level of admissions for the quarter on a weekly basis was down c.19.5% on the previous quarter which we consider is reflective of the market as a whole. During December, a significant number of homes were closed to admissions on the instruction of the Director of Public Health in their locality. This was due to an outbreak of the virus.

It should be noted that even one positive case within the resident or staff populations can, in some areas lead to a 28-day closure that was often extended further if additional cases were identified. Rolling closures were not uncommon throughout the period. Positive cases surged initially in the South of the country spreading North as we moved through the final weeks of 2021 and into 2022.

By the end of January 2022, occupancy for the homes had reduced to 1,159 clients principally due to the low level of admissions for the reasons detailed above. An improvement was however seen in the first two weeks of February 2022 with 1,173 clients at the Homes on 14 February 2022.

We consider that admissions will continue on an upwards trajectory as more homes become open to admissions.

The Carehome.co.uk score for the group remains strong at 9.4.

**Average Weekly Fees**

Average weekly fees for the quarter to 31 December 2021 were £820 compared to the previous quarter average of £824, a small decrease of £4 per week (0.5%). This decrease was driven by a change in the client mix with a marginal increase in the percentage of residential clients compared to nursing clients over the quarter.

Fee increases for all clients generally occur on 1 April each year. The status of the increases for 2021 is as follows:

- English LA's – these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. To date, 30 out of 48 English Local Authorities (LAs) have communicated their rate increase; these rates apply to c.75% of Larchwood's LA residents. The average increase to date has been c.2.66% against the budget of 3%.

Note that of the 48 LAs included in the above analysis, a significant number relate to ‘out of area’ placements and only cover a small number of clients.

- Scottish LA’s – One rate covers the whole of Scotland and is agreed centrally. In this regard, members of the providers group (Scottish Care) voted to accept an increase in the annual nursing fee of 3.24% and the residential fee of 2.80%.

- Self-funder fee increases averaged 7%. The number of clients paying top-ups has fallen from 80 to 75 over the quarter to 31 December 2021 whilst in the same period there was no change in the number of self-funders (361).

The next increases in fees are due on 1 April 2022 and an update on the initial status of these will be provided in our next trading update.

**Costs**

Overall staff costs increased c.13.6% quarter on quarter in absolute terms. However, as detailed above, September is the financial year-end for the Group and a material year-end adjustment was made to the accounts which is reflected in the figures disclosed.

Before the inclusion of this year-end adjustment, staff costs increased by c.6.0% in absolute terms quarter-on-quarter.

The principal reasons for this increase were:

- The significant increase in the number of staff having to isolate in the quarter following the rise in the Omicron variant of Covid-19 in the quarter.
- A 16% increase in the number of agency hours in the quarter principally driven by the above.
- The decision to implement the increase to the National Living Wage of £9.50 per hour (which was scheduled to occur on 1 April 2022) on 1 December 2021. On this date, all staff (irrespective of the salary level) were awarded an increase of 59p an hour being the increase from the current National Living Wage level of £8.91 to the level from 1 April 2022 being £9.50. This decision was taken to recognise the efforts that the staff had made during the pandemic and to assist in staff retention and recruitment.

Staff recruitment continues to be challenging. Payrates and differentials have been reviewed in all homes and increased in line with local markets wherever possible. A programme of staff events has been implemented along with other initiatives including welcome bonuses, a refer a friend scheme, employee recognition schemes, staff videos for our website and social media platforms. Travel allowances, weekend and night enhancements and flexible contracts have all been used where our intelligence indicates that these would have a positive impact.

Operating Costs remained stable quarter on quarter at c.£6 per resident day.

Indirect Costs increased c.£360,000 quarter on quarter driven by increased marketing activity, inflationary price rises and seasonal issues. Light and heat costs increased by c.£200,000.

**Compliance**

A summary of the compliance grades for the Homes (on a country-by-country basis) is detailed below:

**England:**

| Grade | 31-Oct-20 | 9-Feb-21 | 30-Apr-21 | 9-Aug-21 | 31-Oct-21 | 31-Jan-22 |
|---|---|---|---|---|---|---|
| Outstanding | 1 | 1 | 1 | 1 | 1 | 1 |
| Good | 26 | 25 | 22 | 21 | 19 | 20 |
| Requires Improvement | 6 | 6 | 8 | 7 | 6 | 5 |
| Inadequate | 2 | - | - | - | - | - |
| Total | 35 | 32 | 31 | 29 | 26 | 26 |
| Compliant % | 77.1% | 81.2% | 74.2% | 75.9% | 76.9% | 80.8% |
| Note: Homes are removed from the above analysis as and when they are closed or sold. | | | | | | |

**Scotland:**

| Average Grade | 31-Oct-20 | 9-Feb-21 | 30-Apr-21 | 9-Aug-21 | 31-Oct-21 | 31-Jan-22 |
|---|---|---|---|---|---|---|
| 6 | - | - | - | - | - | - |
| 5 | 1 | 1 | 1 | 1 | 1 | 1 |
| 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| 3 | 1 | 1 | 1 | 1 | 1 | 1 |
| 2 | - | - | - | - | - | - |
| 1 | - | - | - | - | - | - |
| Note: Homes are inspected across five areas, each being awarded a grade as follows: 1–Unsatisfactory, 2–Weak, 3–Adequate, 4–Good, 5–Very Good, 6–Excellent. The Average Grade is the mean average of the five scores. | | | | | | |

As at 31 January 2022, 21 (80.8%) of the 26 English homes (those regulated by the CQC) were rated 'Outstanding' or 'Good'.

During the period, Hillcrest was inspected by the CQC and moved from 'Requires Improvement' to 'Good'.

HCMS continues to hold regular planned meetings with the CQC national provider relationship team and these meetings continue to be positive.

In respect of the Scottish homes, no full inspections have occurred since our last update. Two homes were inspected for how good the care and support at the home had been during the Covid-19 pandemic and both homes received a score of 3 (Adequate).

**Capex**

During the quarter to December 2021, total Capex of c.£450,000 was invested into the Homes. For the twelve months to 31 December 2021, Capex on the 32 homes totalled £2.89 million.

Based upon the average number of usable beds in the year (1,508) this equates to a run-rate of £1,916 Capex per usable bed per annum; this includes an element of catch-up Capex following the low level of Capex investment during the initial period of the Covid-19 pandemic.

As part of the budgeting procedures for the year to September 2022, a full assessment of the Capex needs of the Homes was carried out which indicated a Capex budget for the full year of c.£4.4 million.

The Capex detailed above was in addition to the c.£1,325 per usable bed spent on planned and preventative maintenance and general repairs in the year to 31 December 2021.

**Closed and Sold Homes**

At the start of the quarter to 31 December 2020, the portfolio stood at 43 trading homes.

Since that date, the following homes have closed and/or been sold:

- Willow Brook closed in December 2020 following which the home was sold later that month
- Nether Hall was sold as a going concern in January 2021
- Laureate Court was sold as a going concern in February 2021
- White Rose was sold as a going concern in March 2021
- St Mary's was sold as a going concern in April 2021
- Nayland House was sold as a going concern in June 2021
- Sowerby House and Ty Dinas were sold as going concerns in August 2021
- The closure of Rose Martha Court completed in September 2021 and the home was sold in October 2021
- The closures of Bryan Wood and Ravenstone completed in October 2021

Therefore, as at 31 December 2021, the number of homes that were open and trading normally was 32. Unless stated otherwise, the figures in this update, only cover these 32 homes; they don't include any of the sold or closing homes.

**<u>Summary Financial Performance – 12 months to December 2021</u>**

The trading results and main KPI's for the twelve months to December 2021 for the 32 homes open in the year to 31 December 2021 (compared to the year to September 2021) are summarised as follows:

| | **LFL Adjusted** | **LFL Adjusted** | |
|---|---|---|---|
| | 12 months to 30-Sep-21 £'m | 12 months to 31-Dec-21 £'m | Variance £'m |
| Fee Income | 50.40 | 50.73 | 0.33 |
| Staff Costs | (33.56) | (33.60) | (0.04) |
| Operating Costs | (2.63) | (2.63) | - |
| Indirect Costs | (6.18) | (6.52) | (0.34) |
| **EBITDARM** | **8.03** | **7.98** | **(0.05)** |
| **KPIs** | | | |
| Usable Beds | 1,508 | 1,508 | - |
| Average occupancy | 1,210 | 1,195 | (15) |
| Average occupancy (%) | 80.2% | 79.2% | (1.0%) |
| Spot occupancy at period-end | 1,213 | 1,179 | (34) |
| Spot occupancy at period-end (%) | 80.4% | 78.1% | (2.3%) |
| Average weekly fee | 791 | 809 | 18 |
| CAPEX | 3.04 | 2.89 | (0.15) |
| Staff costs as a % of Fee Income | 66.6% | 66.2% | 0.4% |

As with the table on page one, while State funding has been received by the Group in respect of Covid-19 financial assistance up to 31 December 2021, this funding has been excluded from the figures in the table above.

Six homes in the 32-home portfolio were loss-making in the twelve months to December 2021 before accounting for any Covid-19 financial assistance; across these six facilities, the gross annual EBITDARM loss was c.£0.68 million.

Excluding these loss-making homes, the EBITDARM for the remaining 26 homes was c.£8.65 million (pre Covid-19 funding) for the twelve months to December 2021.

**Overall Outlook**

As reported last quarter, we continue to be of the view that occupancy rates will return to pre-pandemic levels but that this is unlikely to be before the end of 2022.

Pressure on recruitment and retention of staff continues to be a daily pressure on the business. The recent announcements about reductions in the length of isolation periods for staff will improve absence rates, however in many localities we are having to make decisions about the timing of admissions in line with the availability of staff. We expect that pressures on staff recruitment and wage inflation will continue into the autumn.

Bringing forward the implementation of the rise in National Living Wage to 1 December 2021 from the scheduled date of 1 April 2022 was very well received by staff and there are early signs that this is having a positive impact on staff retention.

Pressure on both direct and indirect costs are of serious concern. Detailed analysis of self-funder fee structures indicate that we will need to significantly increase fees for those who are self-paying to cover the increase in costs that are expected during 2022.

A breakdown and analysis of a similar increase will be presented to public funders in February and March. Early indications from authorities that have declared their 2022 fee increases indicates that they are aware of the significant cost pressures on Providers.

The strategy of the CQC (England) and Care Inspectorate (Scotland) in respect of home inspections is to focus on high-risk and newly registered services only and not on time specific routine reviews. Whilst there is merit in this from the Regulators perspective at Provider level, it will mean that the inspections that take place are more likely to result in a deterioration in grading (given the service has already been deemed to be high risk) and the opportunity to improve a home with a ‘Requires Improvement’ or ‘Good’ rating will be severely limited.

**Larchwood (Northern Ireland Portfolio)**

**Unaudited trading statement as at 31 December 2021**

**Introduction**

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020, 20 May 2020, 17 August 2020, 20 November 2020, 18 February 2021, 11 May 2021, 12 August 2021 and 18 November 2021.

Unless otherwise stated, the figures in this update are presented on a Like For Like ('LFL') basis. Over the period covering the results presented below, seven homes ('the Homes') were in the portfolio which is consistent with our previous updates.

As detailed in previous updates, Greenhaw Lodge was closed at the start of November 2020 in order to undertake some urgent remedial works to the property. The home re-opened on 16 June 2021 under the name Oakleaves Care Centre. This home is referred to as 'Oakleaves' throughout this update.

The results in the table below include the full results for each of the quarters for Oakleaves even though the home didn't trade between the end of October 2020 and the 16 June 2021. The impact of this closure on certain of the KPIs is detailed throughout this update.

The 'Other Income' included in the table below represents the amounts received for loss of income to 31 December 2021 that have been paid by the business interruption insurers in respect of the claim for the closure of Oakleaves.

**Summary Financial Performance – 3 months to December 2021**

The trading results and main KPIs for the three months to December 2021 are summarised as follows:

| | 3 mths to 31-Dec-20 £'m | 3 mths to 30-Sep-21 £'m | 3 mths to 31-Dec-21 £'m | Variance to LFL quarter in prior year £'m | Variance to prior quarter £'m |
|---|---|---|---|---|---|
| Fee Income | 3.13 | 3.67 | 3.83 | 0.70 | 0.16 |
| Other Income | 0.15 | 0.25 | - | (0.15) | (0.25) |
| Staff Costs | (2.32) | (2.46) | (2.62) | (0.30) | (0.16) |
| Operating Costs | (0.19) | (0.20) | (0.23) | (0.04) | (0.03) |
| Indirect Costs | (0.21) | (0.26) | (0.32) | (0.11) | (0.06) |
| **EBITDARM** | **0.56** | **1.00** | **0.66** | **0.10** | **(0.34)** |
| **KPIs** | | | | | |
| Usable Beds – average for quarter | 295 | 323 | 323 | 28 | - |
| Usable Beds – at quarter-end | 281 | 323 | 323 | 42 | - |
| Average Occupancy for quarter | 264 | 287 | 305 | 41 | 18 |
| Average Occupancy for quarter % | 89.5% | 88.9% | 94.4% | 4.9% | 5.5% |
| Spot occupancy at quarter-end | 248 | 303 | 304 | 56 | 1 |
| Spot occupancy at quarter-end % | 88.3% | 93.8% | 94.1% | 5.8% | 0.3% |
| Average weekly fee | £902 | £972 | £955 | £53 | (£17) |
| CAPEX (£'m) | 0.18 | 0.23 | 0.27 | 0.09 | 0.04 |
| Staff costs as a % of Fee Income | 74.1% | 67.0% | 68.4% | 5.7% | (1.4%) |

Notes:
Other Income represents the monies received from insurers in respect of the Business Interruption claim in respect of Oakleaves
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
Spot occupancy at quarter-end % is based on the number of usable beds at the quarter end, not the average number for the quarter

Overall, EBITDARM for the quarter to 31 December 2021 represented a decrease of c.£340,000 from the previous quarter despite an increase of 18 clients in terms of the average level of occupancy of the Homes as a result of:

- A £17 per week reduction in the level of average weekly fee caused by a reduction in the level of Covid-19 support income from c.£160,000 in the quarter to September 2021 to c.£75,000 in the quarter to December 2021. Before accounting for these monies, the average weekly fee improved c.£5 quarter-on-quarter.
- An increase of c.£160,000 in staff costs quarter on quarter as a result of Covid-19 staffing issues and an increase in staff pay rates from 1 November 2021.
- An increase of c.£60,000 in indirect costs as a result of the seasonal fluctuations in utility costs and inflationary cost pressures on utilities and other items.

As indicated above, Covid-19 financial assistance of c.£75,000 was received in the quarter, a decrease from the figure of c.£160,000 received in the prior quarter. These monies (for both quarters) are included in Fee Income in the above table. Covid-19 financial assistance monies of c.£14,000 were received in the quarter to 31 December 2020.

Before accounting for Covid-19 financial assistance, LFL EBITDARM decreased by c.£255,000 from the September 2021 quarter to the December 2021 quarter.

Note that Oakleaves was closed for a significant part of the quarter to December 2020 and thus the results presented for that quarter in the table above are not comparable to the results for the quarters to September 2021 and December 2021. The closure of Oakleaves is the reason why there is a difference between the number of usable beds for the quarter to 31 December 2020 compared to the number in use as at 31 December 2020.

**Covid-19**

During the period October to December 2021 the Homes continued to be challenged by the spread of Covid-19 among the general population. The month of December saw an unrelenting rise in cases as the spread of the Omicron variant led to the highest levels of community transmission since the pandemic began. Within the month of December, over 50% of the Homes moved into ‘Outbreak’ status as defined by the Public Health Agency.

The impact of Covid-19 on staff absences continued within the Homes, with significant impact particularly felt in December 2021.

In the same period, changes in isolation procedures, testing practices and the definitions of outbreaks were revised on a number of occasions in line with changes to public restrictions. The Homes enacted additional testing for all staff on a daily basis to provide additional safeguards for residents.

The ongoing pressures felt within the sector throughout the pandemic have impacted upon recruitment of health and social care staff, particularly in Care Assistant and Ancillary positions. This impact has increased as hospitality sectors reopened and competed for National Living Wage jobs.

**Occupancy**

Across the quarter, occupancy increased by 1 client, ending the quarter at 304 clients equivalent to 94.1% of effective beds.

There were no major fluctuations in terms of occupancy throughout the quarter either on a portfolio basis or on a home-by-home basis.

Following its reopening in June 2021, occupancy at Oakleaves continued to improve in the quarter, increasing from 31 clients at 30 September to 35 clients at 31 December.

Overall enquiries for nursing beds have been steady, as the availability of care-at-home packages have been impacted by sector staffing shortages in the community. The demand for complex care beds has seen an increase with commissioners prepared to relocate clients to other Trust areas to receive specialised care. This has benefited homes where enhanced or complex care provision is offered.

Post quarter end, occupancy initially reduced as a result of the Omicron outbreak resulting in a number of the homes being closed to admissions. However, occupancy improved during the end of January and the beginning of February, standing at 310 clients (96.0%) as at 7 February 2022.

The current average rating for the Homes on the CareHome.co.uk website is 9.5.

**Average Weekly Fees**

The overall average weekly fee for the quarter was £955 which was a decrease of £17 (1.7%) on the previous quarter.

As detailed earlier in this update, the figures for both quarters are inflated by the Covid-19 financial assistance monies which were included in Fee Income in each of the quarters. Before accounting for these monies, average weekly fees for the quarter to 31 December 2021 were £936, an increase of £5 on the figure reported for the previous quarter (also adjusted for Covid-19 funding).

Pre any Covid-19 funding, the average weekly fee for nursing clients was £995 for the quarter (previous quarter £999) whilst for residential clients the average weekly fee was £662 (previous quarter £641).

Fee increases are normally implemented on 1 April each year. In December 2021, an additional increase was announced, which is effective for the period from 1 November 2021 to 31 March 2022, of 3.2% for nursing care fees and 4.6% for residential care fees.

These additional fees were paid on the proviso that care home operators uplift their employees' pay to a minimum of £9.50 per hour from 1 November 2021. This, in effect, brought forward the National Living Wage rate uplift which is scheduled to occur on 1 April 2022.

There is currently no visibility on whether any additional fee increases will be awarded on 1 April 2022 in addition to the increases detailed above.

The proportion of self-funded clients remains the same with approximately 7% of beds across the Group being self-funded.

**Costs**

Staff costs increased by c.£160,000 (c.6.5%) on the previous quarter, partly driven by the early adoption of the increase in the National Living Wage from £8.91 an hour to £9.50 an hour. A decision was made to award all staff an increase of 59p an hour as opposed to only those earning the National Living Wage.

During the quarter to December 2021, agency costs were c.£196,000, a material increase on the cost of £140,000 incurred in the previous quarter. This increase was principally driven by the number of staff isolating following the various outbreaks that occurred in the Omicron wave of the virus in Northern Ireland (especially in December) compounded by the normal level of staffing stretch over the Christmas period.

In addition to staff isolation, several staff were on maternity leave earlier than normal in line with Covid-19 guidelines and a number of staff were either off on suspension or on long term sick leave. With the number of outbreaks in the Homes in this quarter, domestic hours were increased as a result to assist with terminal cleans and enhanced cleaning practices.

Furthermore, a few staff resigned in the Northwest area of the province as a new recruitment agency was set up in the local area. This affected both Culmore Manor and Oakleaves and, to a slightly lesser extent, Melmount Manor. It is difficult for the independent sector to compete with the higher rates of pay on offer from such recruitment agencies.

Recruitment of all grades of staff continues to be challenging. All Providers in the sector are facing similar issues. We have been discussing for some time the effects of Brexit and the shortage of nursing talent in Northern Ireland especially the challenge in recruiting the required calibre of nurses for specialised units. New nurses that complete their preceptorship with Larchwood, often relocate to the Health Trusts for maternity and ill health benefits which are difficult to compete with.

Despite the early adoption of the National Living Wage scheduled for 1 April 2022, pay rates for those employed in Health and Social care continue to be a subject of high scrutiny across the sector especially in light of the current inflationary pressures that are impacting the costs of living for employees.

Operating Costs were c.£8.16 per resident day in the quarter to December 2021 (a 6.3% increase on the quarter to September 2021) due to increased spend on medical supplies due to the number of outbreaks across the Homes in the Group. There were other additional increased costs for offensive waste collection, PPE and cleaning products.

Overheads were c.£60,000 higher than the previous quarter driven entirely by the cost of utilities with both usage and underlying cost increasing in the quarter.

**Compliance and Quality**

Two care inspections were undertaken by the RQIA in the period October to December 2021.

The first unannounced care inspection of Oakleaves was undertaken since reopening and the inspector praised the staff in respect of their compassionate interactions with residents who were noted to be settled within the new environment. Two minor areas for improvement were noted and new processes were embedded to improve on these elements within the home.

The second care inspection was at Culmore Manor where the inspector assessed all previous areas for improvement as compliant. The inspector also evidenced that care at the home was delivered in a safe, effective and compassionate manner with good leadership provided by the Manager. Only two areas for improvement were noted and are being managed through quality improvement processes.

**Capex**

In the quarter to December 2021, c.£270,000 was spent on Capex.

This includes c.£155,000 on further replumbing works at Melmount Manor including the replacement of boilers, hot water cylinders and water tanks.

Over the past 12 months, c.£2,050 has been spent on average per effective bed across the Homes (excluding the Capex detailed in previous reports which was spent on the repair and refurbishment of Oakleaves during the period that the home was closed).

This is in addition to the c.£575 spent per effective bed in the past 12 months on repairs and maintenance to the Homes.

**Summary Financial Performance – 12 months to December 2021**

The trading results and main KPI's for the twelve months to December 2021 for the Homes (compared to the twelve months to September 2021) are summarised as follows:

| | 12 mths to 30-Sep-21 £'m | 12 mths to 31-Dec-21 £'m | Variance £'m |
|---|---|---|---|
| Fee Income | 13.08 | 13.78 | 0.70 |
| Other Income | 0.78 | 0.63 | (0.15) |
| Staff Costs | (9.25) | (9.55) | (0.30) |
| Operating Costs | (0.73) | (0.77) | (0.04) |
| Indirect Costs | (1.03) | (1.14) | (0.11) |
| **EBITDARM** | **2.85** | **2.95** | **0.10** |
| **KPIs** | | | |
| Usable Beds – average for year | 297 | 304 | 7 |
| Usable Beds – at year-end | 323 | 323 | - |
| Average Occupancy for year | 265 | 275 | 10 |
| Average Occupancy for year % | 89.2% | 90.5% | 1.3% |
| Spot occupancy at year-end | 303 | 304 | 1 |
| Spot occupancy at year-end % | 93.8% | 94.1% | 0.3% |
| Average weekly fee | £946 | £961 | £15 |
| CAPEX (£'m) | 0.82 | 0.91 | 0.09 |
| Staff costs as a % of revenue | 70.7% | 69.3% | 1.4% |

The EBITDARM generation in the twelve months to December 2021 represents c.21.4% of turnover (a decrease of 0.4 percentage points when compared to the twelve months to September 2021). On a home-by-home basis (excluding Oakleaves), EBITDARM generation ranged from 15.9% to 35.9% in the twelve months to December 2021.

**Overall Outlook**

Offering additional training to staff at all levels will be key moving forward for recruitment. Presenting a career path to individuals and offering additional employee benefits where possible will be areas of focus to assist with differentiating Larchwood from other healthcare providers.

Inflationary pressures on food will have an impact on costs in the short term. Costs are rising on all items so looking for economies of scales from suppliers will be important. Increased utility costs will also be an area of focus.

The increase in National Insurance rates which is to take effect from April 2022, will affect all staff throughout the Homes and particularly those on lower incomes. Everyone will feel the effect of this increase.

Increased scrutiny from the Regulator will continue to drive standards, which will assist in renewing confidence across the sector post Covid-19. There continues to be demand for beds in well run homes that achieve ‘Best in Class’ within communities.