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

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

Date:- 18 February 2021

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 20 November 2020 (the "**20 November Announcement**).

In the 20 November Announcement, the Special Servicer affirmed to Noteholders that, among other things, that in addition to the four closed homes presently being marketed (or being prepared for marketing) for sale, that eight trading care homes are currently being marketed for sale.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 22 December 2020 (the "**22 December Announcement**").

In the 22 December Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.9m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 1 February 2021 (the "**1 February Announcement**").

In the 1 February Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.375m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 8 February 2021 (the "**8 February Announcement**").

In the 8 February Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.65m.

Update on the Strategy for the Portfolio

Of the trading care homes initially marketed in the summer of 2019, six homes have now been sold, with a further two homes currently in legal documentation.

The marketing process for the sale of the further fifteen trading care homes which commenced in Autumn 2019 has been concluded and the Propcos and the Special Servicer have reviewed the final offers in conjunction with the agent.

Prior to the Covid-19 pandemic, offers had been accepted on twelve of the fifteen care homes. An offer on one further home has been accepted post the lock-down period commencing.

Subsequently, six of these offers were withdrawn, four homes have been sold, with the remainder in various states of progress, as the buyers have had to focus on their existing care homes, in light of the on-going challenges within the care home sector.

As these offers progress, the Special Servicer will update noteholders accordingly.

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, has resulted in any non-essential visits being prohibited.

This in turn means that no visits by buyers advisors (e.g. valuers) are currently permitted and hence, the anticipated timeframes for progressing the current offers are expected to be elongated as a consequence.

In addition, it is unclear as to the effect the current pandemic will have on the various regulators and their ability to respond to applications from buyers to change the registration of the care homes.

UK-mainland portfolio

Closed properties

Currently, there are four closed properties remaining namely:

a) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site); and

b) one Mountwood situated on a separate site.

Following the receipt of the "pre-app" response from the planners on the three-property 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. Once the internal and external photographs of the site have been completed, together with floor plans and EPC's, marketing of the site will commence.

Similarly, following the receipt of the "pre-app" from the planners for Mountwood, a data-room has been established for use in the sale of the property and a sales agent has been engaged to undertake the marketing for sale of the site.

Marketing of the Mountwood site has now commenced, with initial interest already being received by the agent.

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	4	1	25%	0	0	0

As the sales processes for the remaining 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 eight care homes being marketed for sale or are in legal documentation following a marketing process.

Of these eight, all are currently in the legal process.

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	32	3	9%	3	3	1
"	Scotland	6	0	0%	0	0	0
"	Wales	2	2	100%	2	2	0
"	NI	7	0	0%	0	0	0
	Total	47	5	11%	5	5	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 typically taking between 12 - 24 weeks to conclude.

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

Northern Ireland portfolio

As previously disclosed, the sale of the Northern Ireland business has been placed on hold.

No resolution of the issues preventing the sale has been achieved. Based on the current information available to the Special Servicer, it is now considered unlikely that a sale of the Northern Ireland portfolio will proceed as previously envisaged.

Consequently, the Special Servicer, in conjunction with the Asset Manager started exploring an alternative approach to the disposal of the Northern Ireland homes, likely a combination of individual home sales and the sale of clusters of two or more care homes, depending upon the interest shown during the marketing process.

A process for selecting a sales agent to undertake the alternative strategy has been completed and a sales agent has been engaged to undertake the marketing for sale of the seven homes. Once the internal and external photographs of the homes have been completed, together with floor plans and EPC's, marketing will commence.

As the revised marketing 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	4	1	25%	0	0	0
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	32	3	9%	3	3	1
"	Scotland	6	0	0%	0	0	0
"	Wales	2	2	100%	2	2	0
"	NI	7	0	0%	0	0	0
	Total	47	5	11%	5	5	1
	Total	51	6	12%	5	5	1

Trading Update

Similar to the 20 November Announcement, the Special Servicer requested of the Asset Manager and the Operators (Health Care 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 20 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 18 January 2021 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	327,948.29	327,948.29
(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	120,120,381.99	120,448,330.28
(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	120,448,330.28

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

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: 18 February 2021

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 2020

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 and 20 November 2020.

As detailed previously, two homes closed during the quarter to 31 December 2019, Fleetwood Lodge and Lauriston House.

In addition, Ladyfield House (29 January 2020), Harmony House (20 April 2020), King's Court (22 April 2020), Chaplin Lodge and Memory House (both 17 July 2020) were sold on a going concern basis during 2020.

The results for the seven 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.

In addition, the closure of Willow Brook commenced in September 2020 and was completed during December 2020 following which the home was sold. As the trade from this home occurring in the quarter to 31 December 2020 related entirely to the closure period, we have removed the results from this home in all figures presented.

Therefore, unless otherwise stated, the figures in this update only include the results for the 42 homes ('the Homes') that were open for the full year to 31 December 2020.

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 2020

The trading results and main KPI's for the three months to December 2020 are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	**LFL Adjusted**	Variance to Like For Like quarter in prior year	Variance to prior quarter
	3 months to 31-Dec-19 £'m	3 months to 30-Sep-20 £'m	3 months to 31-Dec-20 £'m	£'m	£'m
Fee Income	16.07	16.40	15.73	(0.34)	(0.67)
Staff Costs	(9.94)	(10.22)	(11.44)	(1.50)	(1.22)
Operating Costs	(0.88)	(0.91)	(0.89)	(0.01)	0.02
Indirect Costs	(1.86)	(2.00)	(2.11)	(0.25)	(0.11)
EBITDARM	**3.39**	**3.27**	**1.29**	**(2.10)**	**(1.98)**
KPIs					
Usable Beds	1,989	1,981	1,979	(10)	(2)
Average occupancy	1,704	1,617	1,604	(100)	(13)
Average occupancy (%)	85.7%	81.6%	81.1%	(4.6%)	(0.5%)
Spot occupancy at period-end	1,671	1,620	1,594	(77)	(26)
Spot occupancy at period-end (%)	84.0%	81.8%	80.5%	(3.5%)	(1.3%)
Average weekly fee	717	772	746	29	(26)
CAPEX	0.97	1.09	0.70	(0.27)	(0.39)
Staff costs as a % of Fee Income	61.9%	62.3%	72.7%	(10.8%)	(10.4%)

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The movements in occupancy and staff costs percentage are expressed on a percentage point basis. The staff costs percentage is based on the underlying figures before rounding for the above table

Note that the quarter to September 2020 was the last quarter of the financial year. In this quarter, adjustments were processed for year-end accounting purposes, an element of which related to prior quarters.

As disclosed in the previous update, in the quarter to September 2020, the principal year-end adjustments made were as follows:

- The accrual made for staff costs was reduced by c.£330,000
- The accrual made for staff holiday pay was reduced by c.£234,000

Before accounting for the above entries, the base EBITDARM from the Homes in the quarter to September 2020 was c.£2.71 million.

The decrease in EBITDARM from the September 2020 quarter to the December 2020 quarter was driven by:

- The decreased level of occupancy as was common with most care home operators in the UK
- A decrease in the average weekly fee from £772 to £746 which was partly driven by income being booked for the quarter to September 2020 which actually related to earlier quarters
- An increase of c.£1.2 million (c.12%) in staff costs albeit before the reduction in accruals detailed above, the quarter-on-quarter increase reduces to £0.67 million (6.2%). As detailed below, an element of the Covid-19 financial assistance received but not included in our figures will be to compensate for higher payroll costs. However, it is difficult to quantify this amount as government financial assistance is extremely difficult to split between compensation for increased staff costs which should theoretically net against the payroll line as opposed to income support which would compensate for reduced occupancy

Whilst State funding had been accounted for by the Group in respect of Covid-19 financial assistance up to 31 December 2020, this funding has been largely excluded from the figures in the table above. The inclusion of these monies in the analysis would distort the LFL nature of the results and lessen the ability to draw meaningful conclusions from the quarter on quarter analysis of the figures.

In addition, an element of the funding 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.

Note that the movement in usable beds between the quarters was driven by a reassessment of the usable beds on a home by home basis rather than any physical works to the Homes.

Covid-19

The pandemic has significantly increased the pressure on the business in a number of ways.

In terms of the impact on clients, the latest strains are much more contagious once in a care home; as such, it is more difficult to manage than the pandemic was in 2020. Based on anecdotal evidence, all operators are reporting similar experiences.

Where the virus can be successfully kept out of a home, client deaths can be avoided however once in a service, the mortality rate is higher than we have previously seen. The first quarter of 2021 has been particularly challenging with a number of serious outbreaks at homes resulting in the closure of these homes to admissions.

Across the homes, c.92% of all clients have received their first Covid-19 vaccination. A significant percentage of staff have also been vaccinated albeit we are seeing some resistance from some staff members mainly due to their perception of the potential side effects of the treatment.

The increased prevalence of new variants of the pandemic has resulted in greater numbers of staff displaying symptoms and hence being absent from work ill rather than simply isolating.

Visiting has been restricted in line with the previous national lockdowns.

From a management perspective, the workload of both the home and head office teams has increased significantly as a result of:

- maintaining adequate staffing levels at the homes
- implementing weekly changes in guidance from central and local government and the devolved Public Health agencies,
- adapting to the different approaches to recording and reporting systems from individual Local Authorities (LAs) and Clinical Commissioning Groups (CCGs)
- driving and achieving increased compliance,
- successfully adapting to remote working and staff management,
- sourcing and distributing PPE,
- providing additional training and auditing,
- regular communication with commissioners, relatives, staff and other stakeholders in order to safeguard the business.

The organisation of appropriate visiting, Lateral Flow Testing and vaccine administration is also reducing bed and staff availability both of which need constant attention and review.

From a business administration/management perspective, work associated with managing payroll, sick pay, furlough, changing staff incentives and managing the various Covid-19 financial support schemes in each of England, Scotland and Wales and implemented by individual local authorities continues to absorb significant amounts of more experienced and knowledgeable management time.

Occupancy

On a LFL basis for the 42 homes in the portfolio as at 31 December 2020, occupancy decreased by 26 clients in the quarter to December 2021.

Occupancy decreased during October, November and early December from 1,620 Service Users at the start of the quarter to a low point of 1,574 Service Users as at 10 December 2020. Some improvement was then seen in the three weeks to the end of the year with quarter end occupancy ending at 1,594 Service Users.

The level of admissions was down c.10% from the previous quarter. This coupled with a 15% increase on the previous quarter in the number of deaths and discharges drove the reduction in occupancy detailed above.

Post quarter-end, occupancy had reduced by c.50 clients by 8 February 2021 (excluding the reductions arising from the sale of Nether Hall on 29 January 2021 and Laureate Court on 8 February 2021).

Occupancy has been impacted by the second wave of the virus which has strains that have proven to be much more infectious than those seen in the first wave. In addition, Commissioners have been reluctant to place residents into homes which have had recent positive tests, except where the home meets very strict conditions for infection containment and management.

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 2020 were £746 compared to the previous quarter average of £772, a decrease of £26 per week (3.4%).

A true-up of income occurred in September 2020, being the end of the financial year, which covered adjustments required to ensure that the year to September 2020 included all income that related to that year. This inflated fee income for the quarter to 30 September 2020 and thus the average weekly fee for this quarter.

Fee increases for all service users generally occur on 1 April each year. The status of the increases for 2020 is as follows:

- English and Welsh LA's – all LA's have now communicated their rate increases. The average increase was c.4.19% (Nursing 4.33% and Residential 4.04%) against the budget of 2.5%. For this year, analysis of these increases has been more difficult as a number of LAs have merged the normal annual increases with the Covid-19 support that they are offering.
- 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 3.51% and residential fee of 3.54%.
- Self-funder fee increases this year have averaged 6% (2019: 7.5%), the number of clients paying top-ups remained broadly constant (131 in the quarter to September 2020 compared to 129 in the quarter to 31 December 2020) whilst in the same period there was a decrease in the number of self-funders from 388 to 376.

Costs

The single largest cost for the Homes is payroll.

Staff costs for the quarter to 31 December 2020 represented 72.7% of income, the highest quarterly percentage that we have reported. This compares to the previous quarter of 62.3% albeit before adjusting for the exceptional write back to accruals in the quarter to 30 September 2020, the staff costs percentage was 65.6%. Therefore, on a LFL basis, staff costs increased quarter-on-quarter by c.7 percentage points.

There are two main drivers for this increase:

- The reduction in occupancy and average weekly fee in the quarter to 31 December 2020 has driven an increase of c.3% percentage points
- The need for additional staffing to manage infection control, visiting and to cover staff absences

The various authority bodies across the UK have recognised the requirement for increased staffing, and a number of schemes have been put in place to provide compensation for increased staff costs such as the Infection Prevention and Control Fund. However, as with the first iteration of this scheme, which ran to September 2020, this income will not be included in our analysis.

Agency hours used decreased from an average of 3,390 per week in the September 2020 quarter to 3,170 in the December 2020 quarter, a decrease of c.6.5%. This decrease resulted from a combination of reduced occupancy, meaning fewer staff were required, and increased overtime rates encouraging full time staff to pick up additional shifts.

Recruitment remains patchy with no hitherto discernible pattern to shortages. Management has been very proactive in the area of recruitment with dedicated central resources providing support to homes, running jobs fairs, drafting and placing advertisements, sourcing and selecting candidates and arranging interviews. The reduction in occupancy resulting from the second wave of the virus has reduced the dependency on agency in some services and eased the pressure on staffing.

Operating Costs reduced marginally quarter on quarter from c.£6.07 per resident day in the quarter to September 2020 to c.£6.05 per resident day in the quarter to December 2020. Whilst the usage of PPE is necessarily high, the majority of homes are benefitting from the Government's supply of free PPE which is available in England until 31 March 2021. Whilst initial supplies of certain products were intermittent, Larchwood has reserve stocks to ensure that no service has had to operate with restricted supplies.

Indirect Costs increased c.£110,000 quarter on quarter driven by the seasonal fluctuations in utility costs.

Compliance

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

England:

Grade	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20	9-Feb-21
Outstanding	1	1	1	1	1	1
Good	34	32	29	26	26	25
Requires Improvement	7	6	7	6	6	6
Inadequate	-	-	-	2	2	-
Total	42	39	37	35	35	32
Compliant %	83.3%	84.6%	81.1%	77.1%	77.1%	81.2%
Note: Homes are removed from the above analysis as and when they are closed or sold. As such this table excludes Laureate Court and Nether Hall for the final column						

Scotland:

Average Grade	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20	9-Feb-21
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.						

Wales:

Average Grade	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20	31-Oct-20	9-Feb-21
Compliant	2	1	1	1	1	1
Non-compliant	-	1	1	1	1	1
Note: Welsh homes are not given grades, it is only noted if they are compliant or not.						

As at 9 February 2021, 26 (81.2%) of the 32 English homes (those regulated by the CQC) were rated 'Outstanding' or 'Good'.

It is pleasing to note that, since our last update, the two homes with Inadequate ratings, Rose Martha Court and Stambridge Meadows, have been upgraded to 'Requires Improvement'.

Whilst very few homes have had full inspections by the CQC since the start of the pandemic, all homes have been assessed for their response to the Covid-19 pandemic. All homes inspected have been found to compliant in this regard.

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

In respect of the Scottish homes, no full inspections have occurred since our last update. However, the homes continue to have had focussed visits from the Care Inspectorate to review the quality of the home's care and support during the Covid-19 pandemic.

In terms of the Welsh homes, no full home inspections have been conducted since our previous update.

Capex

During the quarter to December 2020, total Capex of c.£0.70 million was invested into the portfolio. For the twelve months to 31 December 2020, Capex on the 42 homes totalled £2.9 million.

Based upon the average number of usable beds in the year (1,980) this equates to a run-rate of £1,465 per usable bed per annum (slightly above the norms for the industry but in line with the industry spend on older assets).

The Capex spend in the quarter was down c.35% on the previous quarter as access to the homes tightened following the second wave of the Covid-19 pandemic. As such, limited non-essential capex was undertaken in the quarter.

The Capex detailed above was in addition to the c.£1,065 per usable bed spent on planned and preventative maintenance and general repairs in the year to 31 December 2020.

Closed and Sold Homes

At the start of the quarter to 31 December 2019, the portfolio stood at 50 trading homes.

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

- The closure of Lauriston House was announced in September 2019 and this closure was completed in November 2019 following which the home was sold in January 2020
- The closure of Fleetwood Lodge was announced in October 2019 and this closure was completed in December 2019 following which the home was sold in February 2020
- Ladyfield was sold as a going concern in January 2020
- Harmony House and King's Court were sold as going concerns in April 2020
- Chaplin Lodge and Memory House were sold as going concerns in July 2020
- The closure of Willow Brook was announced in September 2020 and this closure was completed in December 2020 following which the home was sold later that month

Therefore, as at 31 December 2020, the number of trading homes open was 42.

Nether Hall was sold as a going concern on 29 January 2021 and Laureate Court as a going concern on 8 February 2021.

As these homes traded for the full year to 31 December 2020, we have included these homes in the figures contained in this update (aside from the figures in the Compliance section above where they are excluded).

However, they will be removed from all figures (together with the LFL comparatives) when we provide the next update in respect of the quarter to 31 March 2021.

Summary Financial Performance – 12 months to December 2020

The trading results and main KPI's for the twelve months to December 2020 for the 42 Homes open in the year to 31 December 2020 (compared to the year to September 2020) are summarised as follows:

	LFL Adjusted 12 months to 30-Sep-20 £'m	**LFL Adjusted** 12 months to 31-Dec-20 £'m	Variance £'m
Fee Income	64.80	64.46	(0.34)
Staff Costs	(41.48)	(42.98)	(1.50)
Operating Costs	(4.04)	(4.05)	(0.01)
Indirect Costs	(7.69)	(7.94)	(0.25)
EBITDARM	**11.59**	**9.49**	**(2.10)**
KPIs			
Usable Beds	1,982	1,980	(2)
Average occupancy	1,676	1,651	(25)
Average occupancy (%)	84.6%	83.4%	(1.2%)
Spot occupancy at period-end	1,620	1,594	(26)
Spot occupancy at period-end (%)	81.8%	80.5%	(1.3%)
Average weekly fee	739	747	8
CAPEX	3.17	2.90	(0.27)
Staff costs as a % of Fee Income	64.0%	66.7%	(2.7%)

As with the table on page ten, while State funding has been accounted for by the Group in respect of Covid-19 financial assistance up to 31 December 2020, this funding has been excluded from the figures in the table above.

Eight homes in the 42 home portfolio were loss making in the twelve months to December 2020 before accounting for any Covid-19 financial assistance; across these eight facilities, the gross annual EBITDARM loss was c.£550,000.

Excluding these loss-making homes, the EBITDARM for the remaining 34 homes was c.£10.05 million (pre Covid-19 funding) for the twelve months to December 2020.

Of the two homes sold post quarter-end, Nether Hall and Laureate Court, the former was marginally profitable in the year to 31 December 2020 whilst the latter was marginally loss making for the same period (both before accounting for any Covid-19 financial assistance).

Overall Outlook

The impact of the Covid-19 pandemic on the care home sector continues and whilst the roll-out of the vaccination is positive news for the sector, it is likely to be a number of months before the Homes return to any form of normality.

In the short to medium term, it seems unlikely that occupancy will recover quickly. The Knight Frank UK Care Home Trading Performance Review released in November 2020 indicated that market occupancy fell c.7.5% during the six months post lockdown in 2020 with an average occupancy of around 80% as at the end of September 2020.

Given our experience, together with feedback from other operators, this market occupancy percentage will have reduced further since then.

In terms of building occupancy back up, the sad reality is that many of the elderly that would ordinarily be looking for residential care have been taken by the virus. As such, the level of demand for care home places is likely to see a gradual increase across the market rather than a more rapid rise.

Given the low market level of occupancy, it is clear that competition for the reduced number of individuals seeking care home places will be strong. The Larchwood homes do have a strong reputation and overall, the quality is better than many of its nearest competitors which means that it's well placed to take advantage of the greater opportunities resulting from the vaccine roll-out and the return to normality of the sector.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 31 December 2020

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 and 20 November 2020.

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 the previous update, Greenhaw Lodge was closed at the start of November 2020 in order to undertake some urgent remedial works to the property. It is anticipated that the home will re-open during the second quarter of 2021.

The results in the table below include the full results for the quarter for Greenhaw Lodge even though the home was only trading for October 2020. The 'Other Income' included in the table below represents the on-account payment for loss of income to 31 December 2020 that has been received from the business interruption insurers in respect of the claim for the closure of Greenhaw Lodge.

Summary Financial Performance – 3 months to December 2020

The trading results and main KPIs for the three months to December 2020 are summarised as follows:

	3 mths to 31-Dec-19 £'m	3 mths to 30-Sep-20 £'m	3 mths to 31-Dec-20 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.37	3.60	3.13	(0.24)	(0.47)
Other Income	-	-	0.15	0.15	0.15
Staff Costs	(2.31)	(2.38)	(2.32)	(0.01)	0.06
Operating Costs	(0.18)	(0.21)	(0.19)	(0.01)	0.02
Indirect Costs	(0.21)	(0.18)	(0.21)	-	(0.03)
EBITDARM	**0.67**	**0.83**	**0.56**	**(0.11)**	**(0.27)**
KPIs					
Usable Beds	323	323	295	(28)	(28)
Average Occupancy	307	307	264	(43)	(43)
Average Occupancy %	95.0%	95.0%	89.5%	(5.5%)	(5.5%)
Spot occupancy at quarter-end	302	307	248	(54)	(59)
Spot occupancy at quarter-end %	93.5%	95.0%	88.3%	(5.2%)	(6.7%)
Average weekly fee	£842	£892	£906	£64	£14
CAPEX (£'m)	0.10	0.08	0.18	0.08	0.10
Staff costs as a % of Fee Income	68.5%	66.1%	74.1%	(5.6%)	(8.0%)

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The movements in occupancy and staff costs are expressed on a percentage points basis. The occupancy and staff costs percentages are based on the underlying figures before rounding for the above table

Overall, EBITDARM for the quarter to 31 December 2020 represented a reduction of c.£270,000 from the previous quarter; of this reduction, c.£55,000 arose from the closure of Greenhaw Lodge with the remaining c.£215,000 arising from the remaining 6 homes principally driven by the lower occupancy in the quarter to December 2020.

The reduction in usable beds for the quarter to 31 December 2020 is driven by the fact that Greenhaw Lodge was closed for November and December 2020.

Covid-19

Further to the comments noted in the last trading report in relation to the North West Homes, the community transmission rates were particularly high in Strabane and therefore impacted Melmount Manor in both October and November. During this second surge of the virus, other Homes had small outbreaks which were closed out in October 2020.

The roll out of the Pfizer vaccine for both residents and staff commenced in mid-December 2020 by Trust staff administering the vaccines in each of the Homes. Unfortunately, following this first dose of vaccination, outbreaks then occurred in three Homes. This third surge of the virus had a major impact across these three Homes within the Group in December 2020, despite all of the Homes having been Covid-19 free with the exception of Melmount from October to December 2020.

At this time, decisions taken by the Northern Ireland Executive to relax restrictions in the hospitality sector over the period leading up to Christmas saw an increase in the R rate across the Province. Simultaneously, the directive issued by the Department of Health was that despite R numbers rising, Care Homes in Northern Ireland were to continue offering visiting for families to see their loved ones prior to Christmas. The introduction of Care Partners within the Homes by the Department of Health was also advised to be rolled out at this time and commissioned funding for beds was also linked to the successful implementation of the Care Partner approach.

Despite these challenges, the commitment and effort from all the staff teams on the front line during this unprecedented time has been superb. Unfortunately, during this third surge we lost 12 residents across the full resident population of the Group. Many of the staff teams became infected by the virus, some requiring hospitalisation. Thankfully all staff have since recovered well.

Each of the three affected homes in December are now out of outbreak and all Homes across the Group are currently Covid-19 free.

The residents and staff in all Homes have now received the second dose of the Pfizer vaccine which is very positive. Weekly testing of staff across the Group is continuing while the residents continue to be tested on a four-weekly basis moving forward.

Occupancy

Occupancy for the quarter as a whole averaged 264 clients, a decrease of 43 clients on the previous quarter. Aside from the closure of Greenhaw Lodge, the decrease in occupancy in this quarter was linked to the impact of Covid-19 in affected Homes coupled with expected unrelated Covid-19 deaths and a continued decrease in nursing placement demand across the region.

Occupancy reduced by 59 clients in the quarter to 31 December 2020 reducing from 307 clients at 30 September 2020 to 248 clients at 31 December 2020. Of this decrease, a reduction of 40 clients arose following the closure of Greenhaw Lodge. Of the remaining reduction of 19 clients, the largest fall was at Melmount Manor which declined by 13 clients in the quarter.

Occupancy at Melmount Manor was chiefly impacted in this quarter by the impact of Covid-19 deaths together with the voluntary cessation of admissions, agreed with the RQIA and the Western Health and Social Care Trust (WHSCT), to enable the home to focus on the improvement plan following the Failure to Comply (FTC) Notices detailed in our previous update.

Intelligence from commissioned Health Trusts reports that there is reluctance from prospective residents to enter into nursing or residential care. This has impacted disproportionately on general nursing and residential placements in the portfolio.

Post quarter end, occupancy initially continued to fall reaching a low point of 237 clients as at 18 January 2021. Since then, some recovery has been seen with the number of clients at the end of January 2021 being 252.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.4.

Average Weekly Fees

The overall average weekly fee for the quarter was £906 which was an increase of £14 (1.6%) on the previous quarter. Historically, the average weekly fee for Greenhaw has been in excess of the portfolio average, and thus the true LFL increase excluding the closure of Greenhaw for two months would be higher than this figure.

The average weekly fee for nursing clients was £975 for the quarter (previous quarter £949) whilst for residential clients the average weekly fee was £628 (previous quarter £626).

The increase in average weekly fees this quarter was partly due to the Homes receiving approximately £14,000 of extra Covid-19 funding from the Health Trusts in relation to the Financial Support package announced by the Minister for Health.

The proportion of self-funded clients remains the same with approximately 9% of beds across the Group being self-funded.

Costs

Staff costs reduced by c.£60,000 (2.5%) on the previous quarter. Note that no staff have been made redundant following the closure of Greenhaw Lodge, they have either been seconded to the care homes which are currently housing the former clients of the home or they are being redeployed in other homes across the portfolio.

During the quarter to December 2020, agency costs were c.£88,000 compared to the figure of £18,000 in the previous quarter. The increase was driven by the required agency usage during the Covid outbreaks which affected the staff teams at Melmount in October and November. Melmount has minimal agency generally.

This was also the case for the outbreaks in December at Culmore, Glebe and Kingsland. In addition, whilst residents were being transitioned from Greenhaw Lodge during October 2020, the WHSCT and RQIA had requested that staffing levels be increased which required some additional agency usage.

As well as additional agency costs, increased staff costs also occurred at Greenhaw Lodge in October as extra members of the Greenhaw Team were required on the floor at the request of WHSCT and RQIA. Furthermore, Covid-19 related sickness costs for those staff self-isolating and those that tested positive was a further contributory factor in increased staff costs for the quarter.

Recruitment for care assistants has improved with only a few vacancies across the Group currently. The recruitment of nurses remains challenging, as it has been noticed that staff nurses seem reluctant to change from a home during the current environment. The effect of Brexit will have a further detrimental effect in this regard as the deadline is looming.

Employment of any staff from outside the UK and Republic of Ireland (ROI) will require Larchwood Care (NI) Ltd. to be able to provide sponsorship by way of Tier 2 Visas. In order to perform that type of recruitment, the company will be required to apply to the Home Office for a licence to do so. There are a number of companies who will guide an employer through the process of attaining such a licence which is understood to be both time consuming and bureaucratic.

The availability of home grown candidates for nursing roles in Northern Ireland (NI) is low and the ease with which European nurses can transfer from NI to the ROI presents employers in NI with additional challenges. The impact of Brexit has gradually reduced the availability of European candidates for roles in NI. In discussions with employment agencies who deal with recruitment of nursing staff from Europe, it is clear that not only is there now a shortage of candidates interested in moving to UK but a noticeable number transferred from UK to European countries before the Brexit deadline.

Operating Costs were c.£8.00 per resident day in the quarter to December 2020 (a 6.4% increase on the quarter to September 2020).

Overheads were marginally higher than the prior quarter driven mainly by the seasonal impact on utility costs.

Compliance and Quality

A total of 8 inspections took place in the period October to December 2020. Six of these inspections focused on Care and two were Estates Inspections.

Each of the care inspections in Dunanney, Culmore and Glebe had shown improvements in previously stated areas. The inspectors reported that culture, ethos and care interactions were very positive. Some areas for improvement were noted, however, processes have already been implemented to address these issues.

As noted in the previous trading report, an inspection at Melmount Manor raised 4 FTC notices. The required actions stated in these notices were met within the 60-day timescale and are no longer in place. The home was assessed as being fully compliant in mid-December 2020.

The estates inspection in Melmount Manor provided evidence that all necessary measures were in place and issued no areas for improvement.

An inspection in Sperrins Residential Home (part of Melmount Manor) provided enhanced feedback of areas for improvement which were action planned by the home and addressed quickly with the establishment of focused management oversight.

Greenhaw Lodge Capex

As detailed in our previous update, the issue that has caused the closure of the Greenhaw Lodge home is similar to the issue experienced at Melmount Manor between 2017 and 2019; the underground water pipes laid at the time of the construction of the home were leaking bringing significant water damage throughout the home. As at Melmount, these pipes have to be decommissioned with new plumbing being laid in the roof space which is then connected to all rooms.

Of the Capex spend in the quarter, c.£125,000 was spent at Greenhaw Lodge, the vast majority of which related to the Phase One decommissioning of the existing pipes and the re-plumbing of the home as detailed above. These works are not covered by insurance.

The Phase Two element of the works (the drying of the home) is almost complete, and it is anticipated that the Phase Three works (being the repairs and make good of the home) will commence shortly.

Whilst the timetable for the work remains somewhat fluid, we anticipate that the works will be completed during the early part of the second quarter of 2021 with the home re-opening in late April/early May 2021.

The cost of the Phase One works is not covered by insurance and will have to be met from Group funds. In addition to the £125,000 already spent, further expenditure of c.£60,000 is expected in respect of these works.

It is expected that the majority of costs in respect of the Phase Two and Phase Three works will be covered by insurance. This claim has been submitted and has been approved to a large extent. Planned works totalling £100,000 are not covered by the insurance claim and it is likely that these costs will also have to be met from Group funds; an element of these works are improvement works to the home not directly linked to the water issue.

In addition to a claim under the property insurance, an initial claim has been made under the business interruption insurance and an initial on-account payment of £150,000 was received in the quarter to 31 December 2020. Discussions are on course to finalise this figure; any increase secured over and above the £150,000 received to date will increase the EBITDARM reported for the quarter to 31 December 2020.

Other Capex

In the quarter to December 2020, c.£50,000 was spent on 'non Greenhaw' Capex.

As with the previous quarter, Capex spend on the Homes continues to be limited as non-essential projects are deferred to limit the footfall to the Homes.

Over the past 12 months, c.£800 has been spent on average per effective bed across the Homes (excluding the Greenhaw Lodge Capex detailed above).

Summary Financial Performance – 12 months to December 2020

The trading results and main KPI's for the twelve months to December 2020 for the Homes (compared to the twelve months to September 2020) are summarised as follows:

	12 mths to 30-Sep-20 £'m	12 mths to 31-Dec-20 £'m	Variance £'m
Fee Income	13.94	13.70	(0.24)
Other Income	-	0.15	0.15
Staff Costs	(9.39)	(9.40)	(0.01)
Operating Costs	(0.77)	(0.78)	(0.01)
Indirect Costs	(0.80)	(0.80)	-
EBITDARM	**2.98**	**2.87**	**(0.11)**
KPIs			
Usable Beds	323	316	(7)
Average Occupancy	306	295	(11)
Average Occupancy %	94.7%	93.4%	(1.3%)
Spot occupancy at year-end	307	248	(59)
Spot occupancy at year-end %	95.0%	88.3%	(6.7%)
Average weekly fee	£873	£888	£15
CAPEX (£'m)	0.30	0.38	0.08
Staff costs as a % of revenue	67.4%	68.6%	(1.2%)

The EBITDARM generation in the twelve months to December 2020 represents 20.9% of turnover (a decrease of 0.5 percentage points when compared to the twelve months to September 2020). On a home-by-home basis (excluding Greenhaw Lodge), EBITDARM generation ranged from 12.7% to 34.7% in the twelve months to December 2020.

Overall Outlook

It has been confirmed by the Health Trusts that there will be a full investigation into the handling of this pandemic across the Health and Social Care Sector in NI so that any learning can be applied for the future. It is expected that lower occupancy levels are likely to occur over the short to medium term across the sector, until public confidence rises. Scrutiny from the Regulator will continue as more intense questions arising from the handling of this pandemic come to the fore.

Brexit is affecting NI in terms of supplies for parts and the transportation of goods which has been highlighted in the media. This will greatly affect the recruitment of European nurses as has been touched on earlier in this report. This increased shortage of nurses will add further costs to the recruitment process with time delays of additional documentation needing to be factored into the equation. This will also have a knock-on effect inflating current nurse pay rates due to the greater shortages of supply.

The increase to the National Living Wage to £10.50 per hour by 2021 will increase staff costs by 5% per annum from now to 2024. As stated previously, this affects 65% of the workforce across the Group.

The additional training costs for staff, plus health and well-being support costs for all staff teams needs to be factored in, moving forward. We are not just out of the third surge at the moment, however it is clear to see the effect this virus has had on all levels of staff within the Homes, throughout the Group. On a positive note, we are hopeful that with the introduction of the vaccine, the likes of this pandemic will be able to be avoided moving forward.

Lastly, the Government has indicated for a number of years that they intend to overhaul the entire Social Care System. Given the impact of the last 12 months, where Covid-19 has highlighted the weaknesses (and investment required) within the healthcare system, it is imperative that progress is seen in respect of developing the future strategy for the sector and providing confidence to future users of the services.