

Company registration number 05462494 (England and Wales)

CAPITAL HOSPITALS (ISSUER) PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



CAPITAL HOSPITALS (ISSUER) PLC

COMPANY INFORMATION

Directors	Mr T Pearson Mrs G Birley-Smith Ms J Acred Ms S Sidhu Mr J D Sutcliffe Miss K O'Brien Ms Anand
Secretary	Vercity Social Infrastructure (UK) Limited
Company number	05462494
Registered office	8 White Oak Square London Road Swanley Kent BR8 7AG
Auditor	BDO LLP 55 Baker Street London W1U 7EU
Banker	Lloyds Bank 25 Gresham Street London EC2V 7HN

CAPITAL HOSPITALS (ISSUER) PLC

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CAPITAL HOSPITALS (ISSUER) PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present the strategic report for the year ended 31 December 2022.

Fair Review of the Business

On 27 April 2006 Capital Hospitals (Issuer) Plc (the "Company") issued 1.703% Index Linked Guaranteed Secured Bonds due 2046 at a nominal value of £745,400,000, drew down sums from the European Investment Bank under two £125,000,000 loan facilities and issued 10.5% mezzanine notes at a value of £20,000,000. These sums were immediately on-lent of the same terms to the Company's fellow subsidiary, Capital Hospitals Limited (the "SPV"), pursuant to a proceeds on-loan agreement.

The principal activity of Capital Hospitals Limited is to design, build, finance, maintain and deliver certain non-clinical services to the Barts and Royal London Hospitals in accordance with a forty two year contract (the "Project Agreement") with the Barts and The London NHS Trust. Contract negotiations were successfully completed on 27 April 2006 and construction commenced immediately. Barts and The London NHS Trust merged with Newham University Hospital NHS Trust and Whipps Cross University Hospital NHS Trust on 1 April 2013 to become the Barts Health NHS Trust (the "Trust"). On 29 March 2016 the project reached "Actual Global Completion" when the final construction phase was handed over. From this point 100% of the unitary charge has been invoiced to the Trust.

The directors do not foresee any change in the activities of the Company.

Principal Risks and Uncertainties

The Company has exposure to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the Company's performance. The directors have policies for managing each of these risks and they are summarised below:

Liquidity and Credit Risk

The Company is exposed to risk in respect of the cash flows required to meet its obligations associated with financial instruments and liabilities as they fall due. The Company aims to mitigate these risks by closely monitoring the timing of cash flows of its sole counterparty, a fellow subsidiary company. The directors consider that no significant risk arises from this fellow subsidiary company and its sole counterparty as there are no indications that the Trust will not be able to fulfil their obligations to the fellow subsidiary company and the Secretary of State for Health has underwritten the Trust's obligations.

Interest Rate Risk

The Company is exposed to interest rate risk on interest rate bearing liabilities with floating interest rates. The directors do not consider this exposure to be significant, this is because the secured bonds and bank loan are subject to UK Retail Price Index adjustment calculated on a half yearly basis. Although RPI has significantly increased during the year, the risk is offset by having on-lent the loans to its fellow subsidiary entity on the same terms effectively hedging this risk. There is therefore minimal interest rate risk associated with these financial liabilities. The mezzanine debt and subordinated loan notes both have fixed interest rates until the end of the concession.

Sole client

The Trust is the sole client of Capital Hospitals Limited and the directors consider that no risk arises from a single client base as the Trust's obligations under the Project Agreement are underwritten by the Secretary of State for Health.

During the operational phase the principal source of funds available to the Company's fellow subsidiary, Capital Hospitals Limited, to meet its liabilities under the on-loan agreements has been the unitary charge received from the Trust under the Project Agreement. The Trust is the sole client of Capital Hospitals Limited, but the directors consider that no risk arises from a single client base as the Trust's obligations under the Project Agreement are underwritten by the Secretary of State for Health.

CAPITAL HOSPITALS (ISSUER) PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

War in Ukraine

The Company has assessed its potential exposure to the conflict in the Ukraine and the economic sanctions imposed. The SPV has requested that its subcontractors confirm that they are not contracting with any company that is included within the sanctions. These assessments have not highlighted any concerns. The main risk for the SPV, and therefore the Company is the increase in the cost and supply of Buildings Lifecycle items as it has inflation and availability risk for these works. The Directors continually review the lifecycle programme to ensure the most cost-effective solutions are sourced on a timely basis. No issues have been encountered to date.

Going Concern

The directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the directors' assessment including the consideration of the impact of the current economic climate is contained within note 1.2.

Analysis of Development and Performance

Financial covenants have been met during the year and having considered the anticipated future performance and position of the Company, the directors are of the opinion that the covenants will continue to be met in the future.

During the year, the Company has received all scheduled receipts in respect of its on-loan to Capital Hospitals Limited and has repaid £32,280,000 in respect of the Index Linked Secured Guaranteed Bonds (the "Bonds") and £14,180,000 of the bank debt. In the previous financial year, the Company repaid £31,039,000 in respect of the Bonds and £13,145,000 of the bank debt.

Section 172 Companies Act 2006 Statement

The directors have a duty to promote the success of the Company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in section 172 of the Companies Act 2006 ("section 172").

The directors have identified the Company's main stakeholders as the following:

i. The Company's shareholders, bondholders and credit provider

Principal considerations of the board are whether the investment objective of the Company is meeting shareholder, other credit providers and bondholder expectations and how the manager implements the objective. These are discussed at all board meetings, which are held regularly throughout the year. The board also attends regular shareholder, credit provider and bondholder briefing meetings to ensure that shareholder and bondholder engagement is optimized.

The bonds are secured by an irrevocable financial guarantee policy issued by Assured Guaranty (UK) Limited (50%) and Ambac Assurance UK Limited (50%). The index-linked bank loan, provided by European Investment Bank, is secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (UK) Limited (50%) and Ambac Assurance UK Limited (50%) respectively. The board regularly discusses the obligations under this policy and how the manager is fulfilling these at board meetings and through engagement with the senior management of the manager. The board frequently engages with all credit providers and keeps them updated on matters as required.

ii. The client

The board recognises the importance of working in partnership with its fellow subsidiary company and its public sector client to successfully deliver a key public infrastructure asset. On behalf of the Company, the manager fosters this partnership through regular meetings with all representative parties in respect of the contractual obligations held under the lending facilities.

iii. The manager

The delivery by the manager of its services is fundamental to the long term success of the Company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

CAPITAL HOSPITALS (ISSUER) PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Section 172 Companies Act 2006 Statement (continued)

Throughout the year the board has made due consideration during its discussions and decision-making of the matters set out in section 172 and below is a description of how the directors have had regards to these matters when performing their duties:

(a) The likely consequences of any decision in the long term

The Company has outsourced the management of the Company to Vercity Social Infrastructure (UK) Limited ("Vercity"), the manager. The delivery by the manager of its services is fundamental to the long term success of the Company. The board seeks to engage regularly with the manager through a number of forums, including at board meetings, portfolio briefings and through engagement with the manager's senior leadership team. Regular reporting is provided to the board by the manager, which will alert the board to changes to regulation or market practice, which will inform the board's decision making.

(b) The interests of the Company's employees

As an externally managed Company, the Company's activities are all outsourced and therefore it does not have any employees. The Company does however, pay due regard to the interests and safety of all those engaged by contractors to the company to perform services on its behalf.

The safety of all day to day staff associated with the delivery of services to the Company are mainly governed by the Management Services Agreement with Vercity. Employees of Vercity are required to maintain general competencies and training in health and safety as appropriate to delivery of their duties. Vercity regularly communicate these competencies to all the investor groups related to projects under its management. Specific on-site training needs for project engaged staff are also sponsored directly by the Company as required.

(c) The need to foster the Company's business relationships with suppliers, customers and others

The Company is committed to upholding the underlying principle of Public Finance Initiative ("PFI") of working in partnerships with all parties to the arrangement. As noted above, the Company has policies and procedures to ensure regular communication is maintained between the parties and ensure that the supply chain is managed effectively in order that Company obligations to its public sector client and service providers can be upheld.

(d) The impact of the Company's operations on the community and the environment

The Company has very limited direct impact on the environment as it has no greenhouse gas emissions. Notwithstanding that the Company is committed to minimising environmental disruption from its activities. The board upholds the Company's environmental policy in all its activities and requires all parties to the arrangement to do the same.

The board recognises that the Company is a key partner in the delivery of public infrastructure and encourages its partners in considering and delivering Environmental, Social and Governance (ESG) values and initiatives to achieve socially responsible investing.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company is committed, in its day to day operations and dealings with all affiliates, to uphold the highest standard of business conduct and integrity. The directors are not responsible for setting a "business culture" in the traditional sense, but are committed to understanding the culture of the manager and service providers and raise any concerns in this regard if necessary.

CAPITAL HOSPITALS (ISSUER) PLC

STRATEGIC REPORT (CONTINUED)

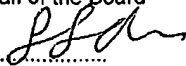
FOR THE YEAR ENDED 31 DECEMBER 2022

(f) The need to act fairly between members of the Company

The members of the Company are represented at board meetings by their appointed director(s). Conflicts on matters to be discussed are identified at each meeting of the board. Directors representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regards to it.

The directors are cognisant of their duty under s172 in their deliberation as a board on all matters. Decisions made by the board take into account the interests of all the company's key stakeholders and reflect the board's belief that the long term sustainable success of the company is linked directly to its key stakeholders.

On behalf of the Board



.....
Ms S Sidhu
Director
.....

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and audited financial statements for the year ended 31 December 2022.

Results and dividends

The results for the year are set out on page 16.

No interim dividends were paid (2021: £nil). The directors do not recommend payment of a final dividend (2021: £nil).

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr T Pearson

Mrs G Birley-Smith

Ms J Acred

Mr L J Falero

(Resigned 13 October 2022)

Ms S Sidhu

Mr J D Sutcliffe

Miss K O'Brien

Mrs M Dardi

(Appointed 13 October 2022 and resigned 23 February 2023)

Ms Anand

(Appointed 23 February 2023)

Ms J Acred is a non-executive director.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.2 in the notes to the financial statements.

Financial risk management objectives and policies

The Company has outsourced the financial reporting function to Vercity Social Infrastructure (UK) Limited (Vercity). Authorities remain vested in the board members of the Company. Vercity reports regularly to the board of the Company. The Board receives regular reports from Vercity which specifically summarise and address the financial, contractual and commercial risks that the Company is exposed and are pertinent to the industry in which the Company operates.

The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the Company and outlines its ability to comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, Vercity evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

The Company's principal financial instruments comprise: Index Linked Guaranteed Secured Bonds, subordinated unsecured loan stock and bank loans. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match the expected revenues. The Company does not undertake financial instrument transactions that are speculative or unrelated to the Company's trading activities. The directors only approve the use of financial instruments that do not contravene the covenant restrictions in its existing funding agreements.

The Company's financial instruments result in the Company's exposure to liquidity, credit and interest rate risks. Further information on the financial instruments employed by the Company can be seen in the notes to these financial statements.

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Audit Committee

The Company has constituted an Audit Committee. The Audit Committee is responsible for satisfying itself that the financial affairs of the Company is conducted with openness, integrity and accountability and in accordance with statutory and regulatory requirements. The primary duties of the Audit Committee are to monitor the integrity of the financial statements of the Company and to review significant judgements contained therein; to monitor the level and effectiveness of internal financial control; to assess the scope and effectiveness of systems; to identify, assess, manage and monitor financial and non-financial risk; to make recommendations concerning the appointment and terms of engagement of external auditors; to review and monitor the independence of the statutory auditor, and in particular the provision of additional services by the auditor to the Company.

Financial instruments

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and operating needs of the business. The Company aims to mitigate liquidity risk by closely monitoring the timing of cash flows within the Company and fellow subsidiary.

Interest rate risk

The Company is exposed to interest rate risk on interest bearing assets with floating interest rates. The directors do not consider this exposure to be significant.

The mezzanine debt and subordinated loan notes both have fixed interest rates until the end of the concession. The Secured Bonds and bank debt are subject to UK Retail Price Index adjustment calculated on a half year basis. This is offset by having on-lent the loans on the same terms effectively hedging this risk. There is therefore no overall interest rate risk associated with these financial liabilities.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Capital Hospitals Limited is the sole client of the Company. Capital Hospitals Limited has a forty two year contract with the Barts and The London NHS Trust. The directors consider that no significant risk arises from such a small client base since there are no indications that the Trust will not be able to fulfil their obligations. In addition the Secretary of State for Health has underwritten the Trust's obligations. The carrying value of the Company's financial asset of £1,502,169,000 (2021: £1,414,773,000) is the maximum credit exposure.

Future developments

The directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

Auditor

In accordance with the company's articles, a resolution proposing that BDO LLP be reappointed as auditor of the company will be put at a General Meeting.

Energy and carbon report

As the company has not consumed more than 40,000 kWh of energy in this reporting period, it qualifies as a low energy user under these regulations and is not required to report on its emissions, energy consumption or energy efficiency activities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Directors Appointment and Replacement, Allotments of Shares and Control Provisions

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time. The powers of the directors and authority to issue and allot ordinary shares are determined by UK legislation and the Memorandum and Articles of Association of the Company in force from time to time. Subject to UK legislation the directors are empowered by the Articles to authorise the Company to purchase its own shares.


The Company does not have agreements with any director that would provide compensation for loss of office or employment following a takeover.

The directors confirm that:

(a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principle risks and uncertainties that they face.

On behalf of the board



Ms S Sidhu

Director

Date: 26/10/23

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Capital Hospitals (Issuer) Plc (the 'Company') for the year ended 31 December 2022 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Directors on 18 February 2021 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is three years, covering the years ended 31 December 2020 to 31 December 2022. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

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

- We obtained a copy of the counterparty's (the intra-group related party) Directors' cash flow forecast and agreed the inputs, including future lifecycle costs, to the reports from managements expert, externally sourced data, and signed contractual agreements. The forecast was then recalculated to check the mathematical accuracy of the forecast.
- We compared the counterparty's previous forecasts to actual performance to assess the Directors forecasting abilities.
- We inspected the counterparty's forecast to check that sufficient cash reserves were maintained to settle obligations by the counterparty, after which headroom exists. Furthermore, we recalculated the applicable debt ratios to assess if the debt covenants will continue to be met.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

- We evaluated the achievability of the actions the Directors consider they would take to improve the position should risks materialise in relation to the counterparty. This evaluation considered the potential impact of the current economic conditions on the counterparty's contract performance, subcontractor performance and compliance with borrowing covenants.
- We assessed the adequacy of the going concern disclosure to check that it gives a complete and accurate description of the Directors' assessment of going concern and is consistent with our understanding obtained from audit procedures performed.

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

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

Overview

Key audit matter	2022	2021
Recoverability of intra-group receivables	✓	✓
Materiality	Company financial statements as a whole £ 15 million (2021: £ 14.15 million) based on 1% (2021: 1%) of total assets.	

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

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

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Recoverability of intra-group receivables</p> <p>(Note 1.3 Financial instruments and Note 10 Debtors)</p>	<p>The carrying amount of the Company's intra-group receivables balances, held at amortised cost less impairment represents 100% of the Company's total assets.</p> <p>The recoverability of amounts due is directly linked to the ability of the counterparty to continue generating cash flows which can be used to repay this balance.</p> <p>The recoverability of the balance is a key audit matter given the magnitude of the balance and judgement involved in assessing the recoverability.</p>	<p>Our audit work included the following:</p> <ul style="list-style-type: none"> We obtained a copy of the counterparty (the intra-group related party) cash flow forecast and agreed the inputs to reports from managements expert, externally sourced data and signed contractual agreements. The forecast was then recalculated to test its mathematical accuracy. We challenged management over the estimates of future lifecycle costs, which we identified as the key assumption in the counterparty forecast. In particular, this included assessing the reasonability of the long-term lifecycle plan, reviewing lifecycle budgets with reference to costs incurred to date and the condition level of the assets. We reviewed the counterparty forecasts to identify whether sufficient cash will be generated to allow the repayment of the debt, when it falls due. We compared the carrying amount of the intra-group receivable with the respective net asset value of the counterparty to identify whether the net asset values of the counterparty are sufficient to repay the intra-group receivables. <p>Key observations:</p> <p>Based on the work performed we found the judgements made in the assessment of the recoverability of the intra-group receivable to be reasonable.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2022	2021
Materiality	£ 15 million	£ 14.15 million
Basis for determining materiality	1% of Total assets	1% of Total assets
Rationale for the benchmark applied	Given the principal activities of the Company, our judgement was that the users of the financial statements would be most concerned with the recoverability of the intra-group receivables. We therefore considered the Company to be asset driven and total assets to be the most appropriate basis for determining materiality.	
Performance materiality	£ 11.25 million	£ 10.61 million
Basis for determining performance materiality	75% of Materiality	75% of Materiality
Rationale for the percentage applied to performance materiality	The level of performance materiality applied was set after having considered a number of factors including expected level of likely misstatements based on past experience and management's attitude towards proposed adjustments.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £231,000 (2021: £222,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; andthe Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none">adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; orthe financial statements are not in agreement with the accounting records and returns; orcertain disclosures of Directors' remuneration specified by law are not made; orwe have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on our understanding of the Company and the industry in which it operates, discussion with management and those charged with governance and obtaining an understanding of the Company's policies and procedures regarding compliance with laws and regulations, we considered the significant laws and regulations to be the applicable accounting framework and the Companies Act 2006.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

Irregularities including fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud;
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's assets (management override of controls).

Our procedures in respect of the above included:

- Challenging assumptions and judgements made by management in areas involving significant estimates, with the key source of estimation identified as the recoverability of intra-group receivable balances (refer to the key audit matters section above); and
- We agreed journals posted in the year that met specific fraud risk criteria to supporting documentation and assessed the appropriateness of the journals posted.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:



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Cassie Forman-Kotsapa (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

27 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CAPITAL HOSPITALS (ISSUER) PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Interest receivable from group undertakings	6	165,273	68,573
Interest payable and similar expenses	7	(165,273)	(68,573)
Profit before taxation		-	-
Taxation	8	(159)	17
(Loss)/profit for the financial year		<u>(159)</u>	<u>17</u>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The accompanying notes on pages 19-27 form an integral part of the financial statements.

There is no other comprehensive income in the period.

CAPITAL HOSPITALS (ISSUER) PLC

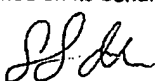
BALANCE SHEET

AS AT 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Current assets			
Debtors falling due after more than one year	10	1,432,017	1,354,424
Debtors falling due within one year	10	70,152	60,349
		1,502,169	1,414,773
Creditors: amounts falling due within one year	11	(70,249)	(60,349)
Net current assets		1,431,920	1,354,424
Creditors: amounts falling due after more than one year	12	(1,432,047)	(1,354,392)
Net (liabilities)/assets		(127)	32
Capital and reserves			
Share capital	14	50	50
Profit and loss account		(177)	(18)
Total equity		(127)	32

The accompanying notes on pages 19-27 form an integral part of the financial statements.

The financial statements were approved by the board of directors and authorised for issue on 26/06/2023 and are signed on its behalf by:



Ms S Sidhu
Director

Company Registration No. 05462494

CAPITAL HOSPITALS (ISSUER) PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Balance at 1 January 2021	50	(35)	15
Year ended 31 December 2021:			
Profit and total comprehensive income for the year	-	17	17
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021	50	(18)	32
Year ended 31 December 2022:			
Loss and total comprehensive income for the year	-	(159)	(159)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2022	<u>50</u>	<u>(177)</u>	<u>(127)</u>

The accompanying notes on pages 19-27 form an integral part of the financial statements.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

The Company is a public company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income; and
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Capital Hospitals (Holdings) Limited. These consolidated financial statements are available from Companies House.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The going concern of the Company is dependent on the going concern of the Company's fellow subsidiary with common directors, Capital Hospitals Limited. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Capital Hospitals Limited, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. The directors have prepared cash flow forecasts for Capital Hospitals Limited covering a period of at least 12 months from the date of approval of these financial statements, through to the end of the concession, which indicate that, taking account of severe but plausible downsides, that company and therefore the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on Capital Hospitals Limited's underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health.

In making this assessment the directors have considered the ongoing impact of the current economic climate. Capital Hospitals Limited's operating cash inflows are largely dependent on unitary charge receipts receivable from Barts Health NHS Trust and the directors expect these amounts to be received even in severe but plausible downside scenarios. Capital Hospitals Limited continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary charge payment.

The directors have assessed the viability of Capital Hospitals Limited's main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to Capital Hospitals Limited, even in downside scenarios, due to the underlying contractual terms. However, in the unlikely event of a subcontractor failure, Capital Hospitals Limited has its own business continuity plans to ensure that service provision will continue.

The directors believe Capital Hospitals Limited has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

The directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include interest bearing loans and receivables, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Interest-bearing loans classified as basic financial instruments

Interest-bearing loans are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Amounts owed to group undertakings that have fixed or determinable payments that are not quoted in an active market are classified as such. Amounts owed to group undertakings are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including bank loans, Bonds and unsecured subordinated and mezzanine loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.4 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.5 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

(Continued)

1.6 Interest Receivable and Payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees. Interest payable and similar charges is recognised under the effective interest rate method.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Other than the recoverability of amounts receivable from the company's fellow subsidiary management are not aware of any sources of estimation uncertainty which affect these financial statements not already disclosed.

Impairment of debtors

Management makes an estimate of the likely recoverable value of amounts owed by group undertakings by considering factors including the current credit rating, the ageing profile and the historic experience of the respective debtor. Management estimate that the group loan will be satisfied in full on each calculation date. See note 10 for the carrying value of the debtor.

3 Auditor's remuneration

	2022	2021
	£'000	£'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	10	10

These costs have been borne on the Company's behalf by a related company, for which no recharge has been made during the current or previous year.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

4 Employees

The company had no employees during the year (2021: nil).

5 Directors' remuneration

Directors remuneration (including directors fees) is paid by Capital Hospitals Limited for the group as a whole. The portion attributable to qualifying services of directors for the Company is £20,500 (2021: £20,500).

6 Interest receivable and similar income

	2022 £'000	2021 £'000
Interest income		
Interest receivable from group undertakings	165,273	68,573

7 Interest payable and similar expenses

	2022 £'000	2021 £'000
Interest on financial liabilities measured at amortised cost:		
Bond Interest	116,399	42,912
Mezzanine Interest	1,970	2,045
Loan Interest	36,831	13,394
Sub-debt Interest	10,073	10,222
	165,273	68,573

8 Taxation

	2022 £'000	2021 £'000
Current tax		
UK corporation tax on profits for the current period	159	(17)

The actual charge/(credit) for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2022 £'000	2021 £'000
Loss before taxation	-	-
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2020: 19%)	-	-
Adjustment in respect of prior periods	159	(17)
Taxation charge/(credit) for the year	159	(17)

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Taxation

(Continued)

For the year ended 31 December 2022, the UK Corporation tax rate of 19% is applied.

9 Financial instruments

The Company's principal financial instruments comprise the intra-group loan with Capital Hospitals Limited, index-linked Bonds, index-linked bank loans, mezzanine notes and subordinated loan notes. The main purpose of these financial instruments is to secure funding for the PFI project entered into between Capital Hospitals Limited and the Trust and to ensure, via the terms of the financial instruments that the profile of the debt service costs is tailored to match the profile of the intra-group loan, which is in turn serviced by expected revenues arising from the project. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk/Inflation risk

The Company's exposure to adverse movements in interest costs and inflation on its borrowings is matched by an equal but opposite exposure on amounts owing from Capital Hospitals Limited with the same maturity.

Credit risk

The Company's principle financial assets are amounts owed by fellow group undertakings. The Company's credit risk is attributable to the loan due from Capital Hospitals Limited. Capital Hospitals Limited's main income stream is from the Barts and The London NHS Trust, therefore Capital Hospital (Issuer) Plc considers the probability of not recovering this loan to be minimal.

Liquidity risk

The company's policy has throughout the year been that, to ensure continuity of funding, all of its borrowings should be matched by amounts owing from Capital Hospitals Limited, with the same maturity.

Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises of equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings.

10 Debtors

	2022 £'000	2021 £'000
Amounts falling due within one year:		
Amounts owed by fellow group undertakings	70,152	60,349
Amounts falling due after more than one year:		
Amounts owed by fellow group undertakings	1,432,017	1,354,424
Total debtors	1,502,169	1,414,773

Amounts owed by fellow group undertakings disclosed above are measured at amortised cost.

Debtors consist of the proceeds of the debt drawn and on-lent to Capital Hospitals Limited on exactly the same terms as in note 11 and 12.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

11 Creditors: amounts falling due within one year

	Note	2022 £'000	2021 £'000
Loans	13	70,152	60,349
Corporation tax		97	-
		<u>70,249</u>	<u>60,349</u>

12 Creditors: amounts falling due after more than one year

	Note	2022 £'000	2021 £'000
Loans	13	<u>1,432,047</u>	<u>1,354,392</u>

13 Loans

	2022 £'000	2021 £'000
Bank loans	335,475	317,899
Bonds	1,049,102	982,289
Subordinated loans	98,955	95,279
Mezzanine loans	18,667	19,274
	<u>1,502,199</u>	<u>1,414,741</u>
Payable within one year	70,152	60,349
Payable after one year	<u>1,432,047</u>	<u>1,354,392</u>
	<u>1,502,199</u>	<u>1,414,741</u>
Amounts included above which fall due after 5 years:	<u>1,201,132</u>	<u>1,152,556</u>

The Bonds are secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (UK) Limited (50%) and Ambac Assurance UK Limited (50%) respectively.

The bank loan is secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (UK) Limited (50%) and Ambac Assurance UK Limited (50%) respectively.

The subordinated loan and mezzanine notes are unsecured.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

13 Loans

(Continued)

The Bonds are repayable in half-yearly instalments which commenced 30 September 2016 and are subject to an interest rate of 1.703% subject to UK Retail Price Index adjustment calculated on a half yearly basis. The Company has released its right to retain £275,000,000 of Bonds as a result of the project reaching Actual Global Completion at which point the project was not required to retain the ability to access the funds.

The bank loan is repayable in half-yearly instalments which commenced 30 September 2016 and is subject to an interest rate of 1.550% subject to UK Retail Price Index adjustment calculated on a half yearly basis.

The subordinated loan notes are repayable in half yearly instalments commencing March 2026 and subject to an interest rate of 11%.

Mezzanine Notes are unsecured and are repayable in half yearly instalments which commenced March 2020 and are subject to an interest rate of 10.5%.

14 Share capital

	2022	2021	2022	2021
	Number	Number	£'000	£'000
Ordinary share capital				
Issued and fully paid				
Ordinary shares of £1 each	50,000	50,000	50	50

15 Controlling party

The Company is a wholly owned subsidiary undertaking of Capital Hospitals (Holdings) Limited incorporated in the United Kingdom. The registered office is 8 White Oak Square, London Road, Swanley, BR8 7AG.

The smallest and largest Group in which the financial statements of the Company are consolidated is Capital Hospitals (Holdings) Limited. The consolidated accounts of the Group are available to the public and may be obtained from 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

16 Related party transactions

The immediate Parent company, Capital Hospitals (Holdings) Limited, is owned by Equitix Noble Bidco Limited (37.5%), Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund 2 LP (25.5%), Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund (12%) and Healthcare (Barts) Ltd (25%). Healthcare (Barts) Ltd is owned by Innisfree Nominees Ltd (50%) acting in its capacity as nominee for Innisfree PFI Secondary Fund and DIF Infra Yield 1 finance B.V (50%). Equitix Noble Bidco Limited together with Innisfree Limited, in its capacity as manager of Innisfree PFI Secondary Fund 2 LP and Innisfree PFI Secondary Fund, have interests in contracts placed by the parent company for the financing, construction and management of the Barts & The Royal London Hospitals project.

None of the Company's ordinary shares carry any special rights with regard to the control of the Company. There are no known arrangements under which financial rights are held by a person other than the beneficial owner of the shares and no known agreements on restrictions on share transfers (other than pre-emption rights between existing shareholders) or on voting rights.

Equitix Noble Bidco Limited and Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund and Innisfree PFI Secondary Fund 2 LP and DIF Infra Yield 1 Finance B.V hold Mezzanine Notes in proportion to their shareholdings and interest paid on these notes during the year totalled £1,970,000 (2021: £2,042,000). As at 31 December 2022 accruals included £486,000 in respect of Mezzanine Note interest (2021: £507,000).

Subordinated debt is held based upon the ownership split and interest paid on the subordinated debt during the year totalled £10,073,000 (2021: £9,631,000). As at 31 December 2022 accruals included £11,028,000 (2021: £7,292,000).