

CANARY WHARF FINANCE II PLC
24 APRIL 2018

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2017

Pursuant to the Disclosure and Transparency Rules, the board of Canary Wharf Finance II plc is pleased to announce the publication of its annual financial report for the year ended 31 December 2017, which will shortly be available from [www.canarywharf.com/Investor Relations](http://www.canarywharf.com/InvestorRelations).

The information contained within this announcement, which was approved by the board of directors on 23 April 2018, does not comprise statutory accounts within the meaning of the Companies Act 2006 and is provided in accordance with the Disclosure and Transparency Rules.

In compliance with the Listing Rules, a copy of the 31 December 2017 annual financial report will be submitted to the UK Listing Authority via the National Storage Mechanism and will shortly be available to the public for inspection at www.hemscott.com/nsm.do.

Dated: 24 April 2018

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors, in preparing this Strategic Report, have complied with section 414C of the Companies Act 2006.

This Strategic Report has been prepared for the company and not for the group of which it is a member and therefore focuses only on matters which are significant to the company.

BUSINESS MODEL

The company is a wholly owned subsidiary of Canary Wharf Group plc and its ultimate parent undertaking is Stork HoldCo L.P.

The company is a finance vehicle that issues securities which are backed by commercial mortgages over properties within the Canary Wharf estate. The company is engaged in the provision of finance to the Canary Wharf group, comprising Canary Wharf Group plc and its subsidiaries ('the group'). All activities take place within the United Kingdom.

BUSINESS REVIEW

At 31 December 2017, the company had £1,502,162,920 (2016 - £1,531,488,120) of notes listed on the London Stock Exchange and had lent the proceeds to a fellow subsidiary undertaking, CW Lending II Limited ('the Borrower'), under a loan agreement ('the Intercompany Loan Agreement'). The notes are secured on a pool of properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income therefrom. On 14 June 2017, the premium payable to the holders of the class A1 notes following the sale of 10 Upper Bank Street in June 2014 was agreed and settled as explained in Note 13. The court proceedings relating to this matter have been withdrawn.

The securitisation has the benefit of an agreement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square over the entire term of its lease. AIG has posted £175,318,692 (2016 - £195,909,493) as cash collateral in respect of this obligation.

The company also has the benefit of a £300m liquidity facility provided by Lloyds Bank plc, under which drawings may be made in the event of a cash flow shortage under the securitisation.

The ratings of the notes are as follows:

Class	Moody's	Fitch	S&P
A1	Aaa	AAA	A
A3	Aaa	AAA	A
A7	Aaa	AAA	A
B	A1	AA	A
B3	A1	AA	A
C2	Baa1	A	A
D2	Ba1	BBB	A-

As shown in the company's income statement, the company's profit before tax for the year was £9,341,176 (2016 - loss of £40,517,294). This gain included an unrealised fair value gain on derivative financial instruments and hedge reserve recycling of £9,199,671 (2016 - loss of £40,564,774). Excluding the fair value gain on derivative financial instruments and hedge reserve recycling, the profit before tax for the year was £141,505 (2016 - £47,480).

The Statement of Financial Position indicates that net liabilities were £280,883,538 (2016 - £289,640,708).

The movement in the financial position of the company is primarily due to the impact of the fair value of derivative financial instruments, derived by reference to the market values provided by the relevant counter parties. The corresponding adjustment to fair value of other held to maturity financial instruments are not reflected in the financial statements.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Adjusting for the effects of the underlying fair value of financial instruments, the net asset value of the company at 31 December 2017 was as follows:

	2017 £	2016 £
Net liabilities per Statement of Financial Position	(280,883,538)	(289,640,708)
Add back: Effects of fair value of derivative financial instruments	344,569,124	354,949,444
Less: Deferred tax thereon	(58,576,751)	(60,341,406)
	<u>5,108,835</u>	<u>4,967,330</u>

KEY PERFORMANCE INDICATORS

	2017 £	2016 £
Securitised debt	1,502,162,920	1,531,488,120
Financing cost (before adjustment for fair value)	90,292,678	92,194,410
Adjusted profit before tax and fair value adjustment	141,505	47,480
Weighted average maturity of debt	13.8 years	14.6 years
Weighted average interest rate	6.1%	6.1%

The adjusted profit before tax comprises the profit on ordinary activities before tax of £9,341,176 (2016 - loss of £40,517,294) adjusted for the fair value gain on financial instruments shown in Note 4, totalling £9,199,671 (2016 - loss of £40,564,774).

FUTURE DEVELOPMENTS

On 29 March 2018, Stork Holdings Limited, a direct subsidiary of Stork HoldCo L.P., listed its shares on The International Stock Exchange in Jersey and the group headed by Stork Holdings Limited, which includes the company, converted to a REIT. As a consequence of the conversion, it is anticipated that the deferred tax asset will be released.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

STRATEGY & OBJECTIVES

Exposure Management

The mark-to-market positions of all the company's derivatives are reported to the Group Treasurer on a monthly basis and to the directors on a quarterly basis. The Group Treasurer monitors hedging activity on an ongoing basis, in order to notify the directors of any overhedging that may potentially occur and proposals to deal with such events.

Hedging Instruments and Transaction Authorisation

Instruments that may be used for hedging interest rate exposure include:

- Interest rate swaps
- Interest rate caps, collars and floors
- Gilt locks

No hedging activity is undertaken without explicit authority of the board.

Transaction Accounting

All derivatives are required to be measured on balance sheet at fair value (mark-to-market).

Certain derivatives may be designated as part of a hedge relationship, whereby the derivative and the underlying hedged item (financial instrument) are accounted for in a manner in order to reduce income statement volatility ("hedge accounting").

In order to apply hedge accounting, the company must comply with the following procedures:

- All hedge relationships proposed must be in line with the company's risk management policy stated above.
- All hedge relationships must be documented in advance, stating the purpose, including the nature of the risk being hedged, the type of hedge being undertaken, the item being hedged and the related hedging instrument and the methodology to be adopted to assess and measure the hedge effectiveness.
- Provide supporting documentation to include excerpts from loan or debenture issuance documentation, detailing principal and amortisation schedules and relevant excerpts from hedging derivative documentation.
- Both prospective and retrospective effectiveness testing are undertaken and approved by the Chief Financial Officer.

Credit Risk

The group's policies restrict the counterparties with which derivative transactions can be contracted and cash balances deposited. This ensures that exposure is spread across a number of approved financial institutions with high credit ratings.

All other debtors are receivable from other group undertakings.

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the business are monitored through continuous assessment, regular formal quarterly reviews and discussion at the Canary Wharf Group Investment Holdings plc audit committee and board. Such discussion focuses on the risks identified as part of the system of internal control which highlights key risks faced by the company and allocates specific day to day monitoring and control responsibilities to management. As a member of Canary Wharf Group, the current key risks of the company include the cyclical nature of the property market, concentration risk and financing risk.

Cyclical nature of the property market

The valuation of the Canary Wharf Group's assets is subject to many external economic and market factors. Following the turmoil in the financial markets and uncertainty in the Eurozone experienced in recent years, the London real estate market has had to cope with fluctuations in demand. The market has, however, been assisted by the depreciation of sterling since the EU referendum and the continuing presence of overseas investors attracted by the relative transparency of the real estate market in London which is viewed as both stable and secure. Although the residential market has also been underpinned by continuing demand for sites capable of incorporating residential development, there have recently been signs that demand at the top of the residential market has cooled. Government announcements, in particular the changes to stamp duty on the residential property market have also contributed to a slowing of residential land prices. The full implications of the EU referendum held in June 2016 are not yet clear. In the meantime, there is uncertainty which is unhelpful to confidence across the whole real estate sector.

Changes in financial and property markets are kept under constant review so that the Group can react appropriately and tailor the business plans of the Group accordingly.

Concentration risk

The majority of the Canary Wharf Group's real estate assets and all of the company's notes are secured on real estate assets which are currently located on or adjacent to the Canary Wharf Estate. Although a majority of tenants are linked to the financial services industry this proportion has now fallen to around 55% of tenants. Wherever possible steps are still taken to mitigate or avoid material consequences arising from this concentration.

Financing risk

The broader economic cycle inevitably leads to movement in inflation, interest rates and bond yields.

The company has issued debenture finance in sterling at both fixed and floating rates and uses interest rate swaps to modify its exposure to interest rate fluctuations. All of the company's borrowings are fixed after taking account of interest rate hedges. All borrowings are denominated in sterling and the Company has no intention to borrow amounts in currencies other than sterling.

The company enters into derivative financial instruments solely for the purposes of hedging its financial liabilities. No derivatives are entered into for speculative purposes.

The company is not subject to externally imposed capital requirements.

The company's securitisation is subject to a maximum loan minus cash to value ('LMCTV') ratio covenant.

The maximum LMCTV ratio is 100.0%. Based on the 31 December 2017 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2018 was 45.7%. The securitisation is not subject to a minimum interest coverage ratio. A breach of certain financial covenants can be remedied by depositing eligible investments (including cash).

CORPORATE & SOCIAL RESPONSIBILITY

Canary Wharf Group plc has adopted a formal corporate responsibility policy including environmental and social issues which extends to all of its wholly owned subsidiary undertakings, including the Company. Full details of this policy together with a copy of the latest Canary Wharf Group plc Corporate Responsibility Report can be obtained from www.canarywharf.com.

GOING CONCERN

The directors are required to prepare the financial statements for each financial year on a going concern basis, unless to do so would not be appropriate. Having made the requisite enquiries, the directors have a reasonable expectation that the company has adequate resources to continue its operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

The company's profit for the year ended 31 December 2017 was £7,777,233 (2016 - loss of £35,165,681) and at 31 December 2017 the company had a deficit of £280,883,538 (2016 - £289,640,708) attributable solely to the fair value of its derivative financial instruments and deferred tax thereon. The company recognises the fair value of its derivative financial instruments in the Statement of Financial Position. In the event that the company were to realise the fair value of the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. The standard does not permit this potential asset to be accounted for in conjunction with the hedges.

Notwithstanding the deficit in net assets resulting from the treatment of derivative financial instruments, the directors have prepared the financial statements on a going concern basis on the grounds that the Company will be able to meet its obligations as they fall due for a period of not less than 12 months from the date of the financial statements.

The directors have also reached the view that the value of the company's assets at the balance sheet date was not less than the amount of its liabilities for the purposes of Section 123(2) of the Insolvency Act 1986.

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Administrative expenses		(8,244)	(7,980)
OPERATING LOSS		(8,244)	(7,980)
Interest receivable from group companies	3	90,441,919	92,285,542
Bank interest receivable	3	508	39,575
Accrued premium on repayment of loan by fellow subsidiary undertaking	3	4,930,426	10,892,606
Release of accrued premium on repayment of loan by fellow subsidiary undertaking	3	(50,064,388)	-
Loan interest payable	4	(81,093,007)	(132,759,184)
Other interest payable	4	-	(75,247)
Provision for premium on repayment of class A1 notes	4	(4,930,426)	(10,892,606)
Release of provision for premium on repayment of class A1 notes	4	50,064,388	-
PROFIT/(LOSS) BEFORE TAX		9,341,176	(40,517,294)
Tax on profit/(loss)	5	(1,563,943)	5,351,613
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>7,777,233</u>	<u>(35,165,681)</u>

The numbered 1 to 16 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Profit/(loss) for the financial year		7,777,233	(35,165,681)
OTHER COMPREHENSIVE INCOME			
Fair value movement on effective hedging instruments		1,784,043	(31,784,530)
Hedge reserve recycling		(603,394)	(637,718)
Tax relating to components of other comprehensive items		(200,712)	4,236,557
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>979,937</u>	<u>(28,185,691)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>8,757,170</u>	<u>(63,351,372)</u>

The notes numbered 1 to 16 form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	2017 £	2016 £
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	6	1,571,950,445	1,606,268,360
Debtors: amounts falling due within one year	6	49,008,215	244,205,832
Cash at bank and in hand	7	3,021,073	25,109,170
		<u>1,623,979,733</u>	<u>1,875,583,362</u>
Creditors: amounts falling due within one year	8	(46,920,451)	(69,020,544)
NET CURRENT ASSETS		<u>1,577,059,282</u>	<u>1,806,562,818</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,577,059,282</u>	<u>1,806,562,818</u>
Creditors: amounts falling due after more than one year	9	(1,857,942,820)	(1,900,876,400)
PROVISIONS FOR LIABILITIES			
Other provisions	13	-	(195,327,126)
NET LIABILITIES		<u>(280,883,538)</u>	<u>(289,640,708)</u>
CAPITAL AND RESERVES			
Called up share capital	14	50,000	50,000
Hedging reserve	15	(131,774,212)	(132,754,149)
Retained earnings	15	(149,159,326)	(156,936,559)
		<u>(280,883,538)</u>	<u>(289,640,708)</u>

The notes numbered 1 to 16 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Hedging reserve	Retained earnings	Total equity
	£	£	£	£
At 1 January 2017	50,000	(132,754,149)	(156,936,559)	(289,640,708)
Profit for the year	-	-	7,777,233	7,777,233
Movement in deferred tax asset on derivatives	-	(200,712)	-	(200,712)
Fair value movement on effective hedging instruments	-	1,784,043	-	1,784,043
Hedge reserve recycling	-	(603,394)	-	(603,394)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	979,937	-	979,937
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	979,937	7,777,233	8,757,170
AT 31 DECEMBER 2017	<u>50,000</u>	<u>(131,774,212)</u>	<u>(149,159,326)</u>	<u>(280,883,538)</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital	Hedging reserve	Retained earnings	Total equity
	£	£	£	£
At 1 January 2016	50,000	(104,568,458)	(121,770,878)	(226,289,336)
Loss for the year	-	-	(35,165,681)	(35,165,681)
Movement in deferred tax asset on derivatives	-	4,236,557	-	4,236,557
Fair value movement on effective hedging instruments	-	(31,784,530)	-	(31,784,530)
Hedge reserve recycling	-	(637,718)	-	(637,718)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(28,185,691)	-	(28,185,691)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	(28,185,691)	(35,165,681)	(63,351,372)
AT 31 DECEMBER 2016	<u>50,000</u>	<u>(132,754,149)</u>	<u>(156,936,559)</u>	<u>(289,640,708)</u>

The notes numbered 1 to 16 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Canary Wharf Finance II plc is an English Limited Company registered at One Canada Square, Canary Wharf, London, E14 5AB.

The nature of the company's operations and its principal activities are set out in the Strategic Report.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

This announcement does not constitute the company's statutory accounts for the year ended 31 December 2017 but is derived from those accounts. The statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on those accounts and their report was unqualified, did not contain a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the company's financial statements for the year ended 31 December 2017 which are prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland").

2.2 Going concern

The directors are required to prepare the financial statements for each financial year on a going concern basis, unless to do so would not be appropriate. Having made the requisite enquiries, the directors have a reasonable expectation that the company has adequate resources to continue its operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

The company's profit for the year ended 31 December 2017 was £7,777,233 (2016 – loss of £35,165,681) and at 31 December 2017 the company had a deficit of £280,883,538 (2016 - £289,640,708) attributable solely to the fair value of its derivative financial instruments and deferred tax thereon. The company recognises the fair value of its derivative financial instruments in the Statement of Financial Position. In the event that the company were to realise the fair value of the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. The standard does not permit this potential asset to be accounted for in conjunction with the hedges.

Notwithstanding the deficit in net assets resulting from the treatment of derivative financial instruments, the directors have prepared the financial statements on a going concern basis on the grounds that the company will be able to meet its obligations as they fall due for a period of not less than 12 months from the date of the financial statements.

The directors have also reached the view that the value of the company's assets at the balance sheet date was not less than the amount of its liabilities for the purposes of Section 123(2) of the Insolvency Act 1986.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. INTEREST RECEIVABLE

	2017 £	2016 £
Interest receivable from group companies	90,441,919	92,285,542
Bank interest receivable	508	39,575
Accrued premium on repayment of loan by fellow subsidiary undertaking	4,930,426	10,892,606
Release of accrued premium on repayment of loan by fellow subsidiary undertaking	(50,064,388)	-
	<u>45,308,465</u>	<u>103,217,723</u>

On 20 June 2014, the loan to a fellow subsidiary undertaking was part repaid to fund the cancellation of certain floating rate notes. An amount for the period of £4,930,426 (31 December 2016 - £10,892,606) has been accrued as recoverable from the fellow subsidiary undertaking to cover the potential premium payable to the holders of the class A1 notes which were redeemed in part on 22 July 2014. As explained in Note 13, on 14 June 2017, the premium payable to the holders of the class A1 notes was agreed and settled and an amount of £50,064,388 of previously accrued premium was released to the Income Statement in the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £	2016 £
Loan interest payable	81,093,007	132,759,184
Other interest payable	-	75,247
Provision for premium on repayment of class A1 notes	4,930,426	10,892,606
Release of provision for premium on repayment of class A1 notes	(50,064,388)	-
	<u>35,959,045</u>	<u>143,727,037</u>

Loan interest payable consists of the following:

	2017 £	2016 £
Interest payable on securitised debt (Note 10)	90,292,678	92,194,410
Fair value adjustments on derivative financial instruments	(8,596,277)	41,202,492
Hedge reserve recycling	(603,394)	(637,718)
	<u>81,093,007</u>	<u>132,759,184</u>

As explained in Note 13, at 14 June 2017, the company had provided for £200,257,552 in respect of the potential premium payable to the holders of the class A1 notes following the partial redemption on 22 July 2014, being an amount of £168,746,800, plus interest at 6.455% per annum. An amount of £150,193,164 was agreed and settled to the holders of the Class A1 notes, representing 75% of the balance held in escrow. The remaining provision balance of £50,064,388 was released to the Income Statement in the period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. TAXATION

	2017 £	2016 £
Current tax on profits for the year	-	-
TOTAL CURRENT TAX	<u>-</u>	<u>-</u>
DEFERRED TAX		
Revaluation of derivatives	1,563,943	(5,351,613)
TOTAL DEFERRED TAX	<u>1,563,943</u>	<u>(5,351,613)</u>
TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	<u><u>1,563,943</u></u>	<u><u>(5,351,613)</u></u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Profit/(loss) on ordinary activities before tax	<u>9,341,176</u>	<u>(40,517,294)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	1,798,176	(8,103,459)
EFFECTS OF:		
Changes in tax rate	(206,993)	2,761,342
Group relief	(27,240)	(9,496)
TOTAL TAX CHARGE/(CREDIT) FOR THE YEAR	<u><u>1,563,943</u></u>	<u><u>(5,351,613)</u></u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The tax rate of 19.25% has been calculated by reference to the current corporation tax rate of 19% which was in effect for the final three quarters of the year and the previous rate of 20% which was in effect for the first quarter of the year.

Enacted in the Finance Act (No.2) 2015 is a reduction in the corporation tax rate to 17.0% on 1 April 2020. Deferred tax has been provided by reference to this enacted corporation tax rate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6. DEBTORS

	2017 £	2016 £
DUE AFTER MORE THAN ONE YEAR		
Amounts owed by group undertakings	1,513,373,694	1,545,926,954
Deferred tax asset (Note 12)	58,576,751	60,341,406
	<u>1,571,950,445</u>	<u>1,606,268,360</u>

	2017 £	2016 £
DUE WITHIN ONE YEAR		
Amounts owed by group undertakings	49,008,215	48,221,592
Other debtors	-	195,984,240
	<u>49,008,215</u>	<u>244,205,832</u>

Amounts owed by group undertakings comprise:

	2017 £	2016 £
Loan to fellow subsidiary undertaking due after more than one year	1,513,373,694	1,545,926,954
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
	<u>1,542,698,894</u>	<u>1,575,252,154</u>
Accrued interest on loan to fellow subsidiary undertaking	17,543,343	17,404,166
Other amounts owed by fellow subsidiaries	2,139,672	1,492,226
	<u>1,562,381,909</u>	<u>1,594,148,546</u>

	2017 £	2016 £
At 1 January	1,575,252,154	1,607,001,524
Amortisation of issue premium	(2,055,333)	(2,150,700)
Accrued financing expenses	(1,172,727)	(273,470)
Repaid in the year	(29,325,200)	(29,325,200)
	<u>1,542,698,894</u>	<u>1,575,252,154</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

The loan to the company's fellow subsidiary undertaking was made in tranches, the principal terms of which are:

	Interest	Effective interest	Repayment	2017 £m	2016 £m
A1	6.465%	6.161%	By instalment 2009-2033	289.0	311.4
A3	5.962%	5.824%	By instalment 2032-2037	400.0	400.0
A7	5.409%	5.308%	January 2035	222.0	222.0
B	6.810%	6.420%	By instalment 2005-203	148.6	155.5
B3	5.593%	5.445%	January 2035	77.9	77.9
C2	6.276%	6.068%	January 2035	239.7	239.7
D2	7.071%	6.753%	January 2035	125.0	125.0
				<u>1,502.2</u>	<u>1,531.5</u>
Unamortised premium				19.5	21.6
Accrued financing costs				<u>21.0</u>	<u>22.2</u>
				<u><u>1,542.7</u></u>	<u><u>1,575.3</u></u>

In January 2017, interest on the tranche A7 loan increased to 5.409% from 5.124% and interest on the tranche B3 loan increased to 5.593% from 5.173%.

The carrying values of debtors due within one year also represent their fair values. The fair value of the loans to group undertakings at 31 December 2017 was £2,091,683,237 (2016 - £2,005,031,244), calculated by reference to the fair values of the Company's financial liabilities. The carrying value of financial assets represents the Company's maximum exposure to credit risk.

The maturity profile of the Company's contracted undiscounted cash flows is as follows:

	2017 £	2016 £
Within one year	121,390,852	122,856,002
In one to two years	119,581,394	121,390,852
In two to five years	347,446,396	352,985,031
In five to ten years	525,655,442	544,606,733
In ten to twenty years	1,203,852,718	1,298,944,186
	<u>2,317,926,802</u>	<u>2,440,782,804</u>

Comprising:

Principal repayments	1,502,162,920	1,531,488,120
Interest repayments	815,763,882	909,294,684
	<u>2,317,926,802</u>	<u>2,440,782,804</u>

The above table contains undiscounted cash flows (including interest) and therefore results in a higher balance than the carrying values or fair values of the intercompany debt.

Other amounts owed by group undertakings are interest free and repayable on demand.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. CASH AND CASH EQUIVALENTS

	2017 £	2016 £
Unrestricted cash balances	3,021,073	2,869,170
Held as collateral for derivatives (Note 8)	-	22,240,000
	<u>3,021,073</u>	<u>25,109,170</u>

The cash at bank held as cash collateral for the company's borrowings earned interest at floating rates linked to bank deposit rates. The amount held as cash collateral was released in the year following novation of the B3 and C2 interest rate swaps from Barclays to HSBC.

8. CREDITORS: Amounts falling due within one year

	2017 £	2016 £
Securitised debt (Note 10)	46,920,451	46,780,544
Other creditors	-	22,240,000
	<u>46,920,451</u>	<u>69,020,544</u>

The amount of the securitised debt due within one year comprises £17,595,251 (2016 - £17,455,344) of interest and £29,325,200 (2016 - £29,325,200) of capital.

On 23 June 2015, the Company received £22,240,000 from Barclays Capital as cash collateral for its obligations as swap provider under the B3 and C2 interest rate swaps, following the downgrade of the bank's credit rating from A to A-. In 2017, following Barclays Capital's novation of the B3 and C2 interest rate swaps to HSBC, the Company released the cash collateral of £22,240,000 to Barclays Capital.

9. CREDITORS: Amounts falling due after more than one year

	2017 £	2016 £
Securitised debt (Note 10)	1,513,373,696	1,545,926,956
Derivative financial instruments (Note 11)	344,569,124	354,949,444
	<u>1,857,942,820</u>	<u>1,900,876,400</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	2017 £	2016 £
Brought forward	1,575,252,156	1,607,001,527
Repaid in the year	(29,325,200)	(29,325,200)
Amortisation of issue premium	(2,055,333)	(2,150,700)
Accrued financing expenses	(1,172,727)	(273,471)
	<u>1,542,698,896</u>	<u>1,575,252,156</u>
	2017 £	2016 £
Payable within one year or on demand	29,325,200	29,325,200
Payable after more than one year	1,513,373,696	1,545,926,956
	<u>1,542,698,896</u>	<u>1,575,252,156</u>

The company's securitised debt was issued in tranches, with notes of classes A1, A3, A7, B, B3, C2 and D2 remaining outstanding. The A1, A3 and B notes were issued at a premium which is being amortised to the income statement over the life of the relevant notes. At 31 December 2017 £19,491,926 (2016 - £21,547,259) remained unamortised.

At 31 December 2017 there were accrued financing costs of £21,044,048 (2016 - £22,216,775) relating to future increases in margins as described below.

The notes are secured on six properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income stream therefrom.

The securitisation continues to have the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square over the entire term of the lease. At 31 December 2017, AIG had posted £175,318,692 as cash collateral in respect of this obligation.

The company also has the benefit of a £300m liquidity facility provided by Lloyds Bank plc, under which drawings may be made in the event of a cash flow shortage under the securitisation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

At 31 December 2017 the securitised debt comprised the following:

Tranche	Principal £m	Market value £m	Interest	Effective interest	Repayment
A1	289.0	374.2	6.455%	6.151%	By instalment 2009-2033
A3	400.0	578.1	5.952%	5.814%	By instalment 2032-2037
A7	222.0	204.8	Floating	5.298%	January 2035
B	148.6	200.0	6.800%	6.410%	By instalment 2005-2030
B3	77.9	67.6	Floating	5.435%	January 2035
C2	239.7	212.1	Floating	6.058%	January 2035
D2	125.0	110.3	Floating	6.743%	January 2035
	<u>1,502.2</u>	<u>1,747.1</u>			

At 31 December 2016 the securitised debt comprised the following:

Tranche	Principal £m	Market value £m	Interest	Effective interest	Repayment
A1	311.4	383.2	6.455%	6.151%	By instalment 2009-2033
A3	400.0	479.8	5.952%	5.814%	By instalment 2032-2037
A7	222.0	194.3	Floating	5.311%	January 2035
B	155.5	194.8	6.800%	6.409%	By instalment 2005-2030
B3	77.9	68.9	Floating	5.447%	January 2035
C2	239.7	215.7	Floating	6.071%	January 2035
D2	125.0	113.4	Floating	6.756%	January 2035
	<u>1,531.5</u>	<u>1,650.1</u>			

Interest on the A1 notes, A3 notes and B notes is fixed until maturity. Interest on the floating notes is repriced every three months.

Interest on the floating rate notes is at three month LIBOR plus a margin. The margins on the notes are: A7 notes - 0.475% per annum (increased from 0.19% per annum in January 2017); B3 notes - 0.7% per annum (increased from 0.28% per annum in January 2017); C2 notes - 1.375% per annum; and D2 notes - 2.1% per annum.

All of the notes are hedged by means of interest rate swaps and the hedged rates plus the margins are: A7 notes - 5.3985% (increased from 5.1135% in January 2017); B3 notes - 5.5825% (increased from 5.1625% in January 2017); C2 notes - 6.2666%; and D2 notes - 7.0605%.

The effective interest rates include adjustments for the hedges and the issue premium.

The fair values of the sterling denominated notes have been determined by reference to prices available on the markets on which they are traded.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

The maturity profile of the company's contracted undiscounted cash flows is as follows:

	2017 £	2016 £
Within one year	92,446,416	92,988,950
In one to two years	92,206,430	92,074,898
In two to five years	270,953,547	272,388,208
In five to ten years	409,877,130	431,455,357
In ten to twenty years	1,041,362,162	1,120,434,234
	<u>1,906,845,685</u>	<u>2,009,341,647</u>
Comprising		
Principal repayments	1,502,162,920	1,531,488,120
Interest repayments	404,682,765	477,853,527
	<u>1,906,845,685</u>	<u>2,009,341,647</u>

The above table contains undiscounted cash flows (including interest) and therefore results in a higher balance than the carrying values or fair values of the borrowings.

The weighted average maturity of the debentures at 31 December 2017 was 13.8 years (2016 - 14.6 years). The debentures may be redeemed at the option of the company in an aggregate amount of not less than £1m on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

After taking into account the interest rate hedging arrangements, the weighted average interest rate of the company at 31 December 2017 was 6.1% (2016 - 6.1%).

Details of the derivative financial instruments are set out in Note 11.

Details of the company's risk management policy are set out in the Strategic Report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. DERIVATIVE FINANCIAL INSTRUMENTS

The company uses interest rate swaps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. At 31 December 2017 the fair value of these derivatives resulted in the recognition of a net liability of £344,569,124 (2016 - £354,949,444). Of this net liability £162,801,010 (2016 - £164,585,053) was in respect of interest rate swaps which qualify for hedge accounting and £181,768,114 (2016 - £190,364,391) was in respect of interest rate swaps which do not qualify for hedge accounting.

The fair values of derivative financial instruments have been determined by reference to market values provided by the relevant counter party.

The terms of the derivative financial instruments correlate with the terms of the financial instruments to which they relate. Consequently the cash flows and effect on profit or loss are expected to arise over the term of the financial instrument set out above.

12. DEFERRED TAXATION

	2017 £
At 1 January	60,341,406
Charged to the profit or loss	(1,563,943)
Charged to other comprehensive income	(200,712)
AT 31 DECEMBER	<u><u>58,576,751</u></u>

The deferred tax asset is made up as follows:

	2017 £	2016 £
Derivative financial instruments	58,576,751	60,341,406
	<u><u>58,576,751</u></u>	<u><u>60,341,406</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. PROVISIONS

	Redemption premium £
At 1 January 2017	195,327,126
Charged to profit or loss	4,930,426
Released to profit or loss	(50,064,388)
Utilised in year	(150,193,164)
AT 31 DECEMBER 2017	<u><u>-</u></u>

Following the disposal of 10 Upper Bank Street and related partial redemption of the A1 Notes in June 2014, a dispute arose as to whether the company as issuer was entitled to redeem the notes without payment of any premium ('SPENS'). The Trustee dealt with this by requiring the issuer to lodge an amount equivalent to SPENS of £168,746,800 in an escrow account pending resolution of the issue by a court declaration. In the meantime interest of 6.455% per annum accrued on the escrow account. Following an initial hearing in July 2015, judgment at first instance was eventually delivered in favour of the noteholders in January 2016. The company successfully applied for leave to appeal this decision and a hearing date in the Court of Appeal was set for 13/14 June 2017.

Contact was however maintained with noteholder representatives and in June 2017 settlement was approved, comprising:

1. a principal and interest split of 25% for the company and 75% for the noteholders; and
2. payment of a premium on future redemptions at a rate of gilts plus 20bps (or gilts flat in relation to voluntary redemptions of bonds not associated with the sale and release of properties)

As at 14 June 2017, the company had provided for £200,257,552 in respect of the potential premium payable to the holders of the class A1 notes, being an amount of £168,746,800, plus interest at 6.455% per annum. On settlement, 75% of the total provision was utilised in settling the amount payable to the noteholders and the remaining provision balance of £50,064,388 was released to the Income Statement in the year. The court proceedings were withdrawn.

14. SHARE CAPITAL

	2017 £	2016 £
Allotted, called up and fully paid		
50,000- Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

15. RESERVES

The hedging reserve contains the accumulated fair value movements of derivative financial instruments while they are part of an effective cashflow hedge.

The hedge reserve recycling relates to the B2 and C1 interest rate swaps, for which the hedging instruments have been novated but the forecast transactions to which they relate are still expected to occur.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. OTHER FINANCIAL COMMITMENTS

As at 31 December 2017 and 31 December 2016 the company had given security over all its assets, including security expressed as a first fixed charge over its bank accounts, to secure the notes referred to in Note 10.