

CANARY WHARF FINANCE II PLC
29 APRIL 2019

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2018

Pursuant to sections 4.1 and 6.3.5 of 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 2018, which will shortly be available from www.canarywharf.com/Investor Relations.

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 section 6.3.5(2)(b) of the Disclosure and Transparency Rules.

In compliance with the Listing Rule 9.6.1, a copy of the 31 December 2018 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: 29 April 2019

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, the company had £1,472,837,720 (2017 - £1,502,162,920) 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.

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 £154,332,009 (2017 - £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.

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	Aa3	AA	A+
B3	Aa3	AA	A+
C2	A3	A	A
D2	Baa3	BBB	A-

ACCOUNTING MISMATCH

Since the introduction of FRS 26 (which is now the IAS 39 option for the measurement of financial instruments in FRS 102), the company has reported an accounting mismatch whereby the derivative financial instruments are measured at fair value, but the corresponding intercompany debt and loan notes are carried at amortised cost.

Adjusting for the effects of the underlying fair value of financial instruments, the net asset value of the company at 31 December 2018 was as follows:

	2018 £	2017 £
Net liabilities per Statement of Financial Position	(258,130,841)	(280,883,538)
Add back: Effects of fair value of derivative financial instruments	317,338,975	344,569,124
Less: Deferred tax thereon	(53,947,625)	(58,576,751)
Adjusted net asset value	<u>5,260,509</u>	<u>5,108,835</u>

KEY PERFORMANCE INDICATORS

	2018 £	2017 £
Securitised debt	1,472,837,720	1,502,162,920
Financing cost (before adjustment for fair value)	88,467,105	90,292,678
Adjusted profit before tax and fair value adjustments	151,674	141,505
Weighted average maturity of debt	13.1 years	13.8 years
Weighted average interest rate	6.1%	6.1%

The adjusted profit before tax comprises the profit on ordinary activities before tax of £15,665,917 (2017 - £9,341,176) adjusted for the fair value gain on financial instruments shown in Note 4, totalling £15,514,243 (2017 - £9,199,671).

FUTURE DEVELOPMENTS

There have been no significant events since the balance sheet date.

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).

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the business are monitored through continuous assessment, regular formal 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 Group and allocates specific day to day monitoring and control responsibilities as appropriate. As a member of Canary Wharf Group, the current key risks of the company include the cyclical nature of the property market, Brexit, 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 and more recently the implications of Brexit, 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, there is now evidence that demand at the top of the residential market has cooled. Previous government announcements, in particular the changes to stamp duty on the residential property market have also contributed to a slowing of residential land prices. In the meantime, there is increasing uncertainty which is unhelpful to confidence across the whole real estate sector.

Brexit

Following the EU referendum in 2016, considerable uncertainty has been experienced across the whole of the UK economy. In the real estate and construction sectors issues have been raised by currency risk, in particular the 20.0% depreciation in the aftermath of the referendum and now more immediately the prospect of a sudden and sustained drop in the value of sterling from the end of March 2019. Although depreciation may help to maintain overseas demand for UK real estate, in the construction sector it has led to increased cost pressures on materials throughout the supply chain. The Group has been sheltered from this risk by the forward placing of contracts in the course of long running construction projects and where feasible the forward purchasing of some supplies. Partly as a result of the depreciation of sterling, staff working in construction trades are increasingly being attracted to work on projects in Euro denominated countries. Although only about 8.0% of the Group's employees hold EU passports and not UK passports, the availability of labour in the construction industry has been adversely affected by uncertainty over the status of EU nationals who are already working in the UK and of those who may wish to come to work in the UK in the future. The full implications of Brexit are not yet known but in the event it leads to a sudden fall in confidence and demand, there could be a drop in residential values and a sustained weakness of demand.

Obviously the Group can have little impact on how or whether Brexit takes place but notwithstanding the potentially adverse conditions linked to Brexit outlined above the Board believes the Group is relatively well placed to whether the impact of a Brexit linked economic downturn or change in London's competitive environment. Most tenants at Canary Wharf are on relatively long leases and in the Group's portfolio there is a low vacancy rate particularly in retail. The business has diversified into residential sales and lettings and initial sales in residential buildings at Wood Wharf and Southbank Place have been very strong. There has also been a successful move to attract TMT companies to take space at Canary Wharf and in the new Wood Wharf district which has diversified the office portfolio away from financial services.

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 50.0% 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 2018 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2019 was 44.4%. 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.

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Administrative expenses		(9,949)	(8,244)
OPERATING LOSS		(9,949)	(8,244)
Interest receivable from group companies	3	88,617,570	90,441,919
Bank interest receivable	3	11,158	508
Accrued premium on repayment of loan by fellow subsidiary undertaking	3	-	4,930,426
Release of accrued premium on repayment of loan by fellow subsidiary undertaking	3	-	(50,064,388)
Interest payable on securitised debt	4	(88,467,105)	(90,292,678)
Fair value adjustments on hedging instruments	4	14,945,453	8,596,277
Provision for premium on repayment of class A1 notes	4	-	(4,930,426)
Release of provision for premium on repayment of class A1 notes	4	-	50,064,388
Hedge reserve recycling		568,790	603,394
PROFIT BEFORE TAX		15,665,917	9,341,176
Tax on profit	5	(2,637,422)	(1,563,943)
PROFIT FOR THE FINANCIAL YEAR		<u>13,028,495</u>	<u>7,777,233</u>

The notes numbered 1 to 13 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Profit for the Financial Year		13,028,495	7,777,233
OTHER COMPREHENSIVE INCOME			
Fair value movement on effective hedging instruments		12,284,696	1,784,043
Hedge reserve recycling		(568,790)	(603,394)
Tax relating to components of other comprehensive income		(1,991,704)	(200,712)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>9,724,202</u>	<u>979,937</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>22,752,697</u></u>	<u><u>8,757,170</u></u>

The notes numbered 1 to 13 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Note	2018 £	2017 £
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	6	1,534,802,943	1,571,950,445
Debtors: amounts falling due within one year	6	48,763,858	49,008,215
Cash at bank and in hand		3,161,839	3,021,073
		<u>1,586,728,640</u>	<u>1,623,979,733</u>
Creditors: amounts falling due within one year	7	(46,665,187)	(46,920,451)
NET CURRENT ASSETS		<u>1,540,063,453</u>	<u>1,577,059,282</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,540,063,453</u>	<u>1,577,059,282</u>
Creditors: amounts falling due after more than one year	7	(1,798,194,294)	(1,857,942,820)
NET LIABILITIES		<u>(258,130,841)</u>	<u>(280,883,538)</u>
CAPITAL AND RESERVES			
Called up share capital	12	50,000	50,000
Hedging reserve		(122,050,010)	(131,774,212)
Retained earnings		(136,130,831)	(149,159,326)
		<u>(258,130,841)</u>	<u>(280,883,538)</u>

The notes numbered 1 to 13 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Hedging reserve	Retained earnings	Total equity
	£	£	£	£
At 1 January 2018	50,000	(131,774,212)	(149,159,326)	(280,883,538)
Profit for the year	-	-	13,028,495	13,028,495
Fair value movement on effective hedging instruments	-	12,284,696	-	12,284,696
Hedge reserve recycling	-	(568,790)	-	(568,790)
Tax relating to components of other comprehensive income	-	(1,991,704)	-	(1,991,704)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	9,724,202	13,028,495	22,752,697
AT 31 DECEMBER 2018	<u>50,000</u>	<u>(122,050,010)</u>	<u>(136,130,831)</u>	<u>(258,130,841)</u>

**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
Fair value movement on effective hedging instruments	-	1,784,043	-	1,784,043
Hedge reserve recycling	-	(603,394)	-	(603,394)
Tax relating to components of other comprehensive income	-	(200,712)	-	(200,712)
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>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The notes numbered 1 to 13 form part of these financial statements.

1. GENERAL INFORMATION

Canary Wharf Finance II plc is a Company Limited by shares incorporated in the UK under the Companies Act 2006 and registered in England and Wales 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 2018 but is derived from those accounts. The statutory accounts for the year ended 31 December 2018 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 2018 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 2018 was £13,028,495 (2017 - £7,777,233) and at 31 December 2018 the company had a deficit of £258,130,841 (2017 - £280,883,538) 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 2018**

3. INTEREST RECEIVABLE

	2018 £	2017 £
Interest receivable from group companies	88,617,570	90,441,919
Bank interest receivable	11,158	508
Accrued premium on repayment of loan by fellow subsidiary undertaking	-	4,930,426
Release of accrued premium on repayment of loan by fellow subsidiary undertaking	-	(50,064,388)
	88,628,728	45,308,465

On 20 June 2014, the loan to a fellow subsidiary undertaking was part repaid to fund the cancellation of certain floating rate notes. During the prior year £4,930,426 was 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. 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.

4. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018 £	2017 £
Interest payable on securitised debt (Note 9)	88,467,105	90,292,678
Fair value adjustments on derivative financial instruments	(14,945,453)	(8,596,277)
Provision for premium on repayment of class A1 notes	-	4,930,426
Release provision for premium on repayment of class A1 notes	-	(50,064,388)
Hedge reserve recycling	(568,790)	(603,394)
	72,952,862	35,959,045

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. In June 2017 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 prior year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. TAXATION

	2018 £	2017 £
TOTAL CURRENT TAX	-	-
DEFERRED TAX		
Revaluation of derivatives	2,637,422	1,563,943
TOTAL DEFERRED TAX	2,637,422	1,563,943
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	2,637,422	1,563,943

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 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	15,665,917	9,341,176
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 -19.25%)	2,976,524	1,798,176
EFFECTS OF:		
Changes in tax rate	(310,284)	(206,993)
Group relief	(28,818)	(27,240)
TOTAL TAX CHARGE FOR THE YEAR	2,637,422	1,563,943

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

In the prior year the tax rate of 19.25% was 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 2017.

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 calculated by reference to this enacted corporation tax rate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. DEBTORS

	2018 £	2017 £
DUE AFTER MORE THAN ONE YEAR		
Loan to fellow subsidiary undertaking due after more than one year	1,480,855,318	1,513,373,694
Deferred tax asset	53,947,625	58,576,751
	<u>1,534,802,943</u>	<u>1,571,950,445</u>

	2018 £	2017 £
DUE WITHIN ONE YEAR		
Other amounts owed to fellow subsidiaries	2,150,221	2,139,672
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
Accrued interest on loan to fellow subsidiary undertaking	17,288,437	17,543,343
	48,763,858	49,008,215

	2018 £	2017 £
The loan to a fellow subsidiary undertaking comprises:		
At 1 January	1,542,698,894	1,575,252,154
Repaid in the year	(29,325,200)	(29,325,200)
Amortisation of issue premium	(1,959,964)	(2,055,333)
Movement in accrued financing expenses	(1,233,212)	(1,172,727)
At 31 December	1,510,180,518	1,542,698,894

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Comprising:

	2018 £	2017 £
Loan to fellow subsidiary undertaking due after more than one year	1,480,855,318	1,513,373,694
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
	1,510,180,518	1,542,698,894

The fair value of the loans to group undertakings at 31 December 2018 was £1,911,950,529 (2017 - £2,091,683,237), calculated by reference to the fair values of the Company's financial liabilities.

In the event that the company were to realise the fair value of the securitised debt and 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. As such, the fair value of the loans to group undertakings is calculated to be the sum of the fair value of the securitised debt and the fair value of the derivative financial instruments.

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

	Interest	Effective interest	Repayment	2018 £m	2017 £m
A1	6.465%	6.161%	By instalment 2009-2033	266.5	289.0
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	141.7	148.6
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>1,472.8</u>	<u>1,502.2</u>
Unamortised premium				17.5	19.5
Accrued financing costs				19.8	21.0
				<u><u>1,510.1</u></u>	<u><u>1,542.7</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 carrying value of financial assets represents the Company's maximum exposure to credit risk.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	2018 £	2017 £
Within one year	119,581,394	121,390,852
In one to two years	117,661,677	119,581,394
In two to five years	341,576,988	347,446,396
In five to ten years	509,670,777	525,655,442
In ten to twenty years	1,108,045,114	1,203,852,718
At 31 December	<u>2,196,535,950</u>	<u>2,317,926,802</u>

	2018 £	2017 £
Comprising:		
Principal repayments	1,472,837,720	1,502,162,920
Interest repayments	723,698,230	815,763,882
At 31 December	<u>2,196,535,950</u>	<u>2,317,926,802</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 the group undertakings are interest free and repayable on demand.

7. CREDITORS: Amounts falling due within one year

	2018 £	2017 £
Securitised debt (Note 9)	29,325,200	29,325,200
Accrued interest payable	17,339,987	17,595,251
	<u>46,665,187</u>	<u>46,920,451</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

	2018 £	2017 £
Securitised debt (Note 9)	1,480,855,319	1,513,373,696
Derivative financial instruments (Note 10)	317,338,975	344,569,124
	<u>1,798,194,294</u>	<u>1,857,942,820</u>

9. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	2018 £	2017 £
At 1 January	1,542,698,896	1,575,252,156
Repaid in the year	(29,325,200)	(29,325,200)
Amortisation of issue premium	(1,959,965)	(2,055,333)
Movement in accrued financing expenses	(1,233,212)	(1,172,727)
At 31 December	<u>1,510,180,519</u>	<u>1,542,698,896</u>
	2018 £	2017 £
Payable within one year or on demand	29,325,200	29,325,200
Payable after more than one year	1,480,855,319	1,513,373,696
	<u>1,510,180,519</u>	<u>1,542,698,896</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 2018 £17,531,961 (2017 - £19,491,926) remained unamortised.

At 31 December 2018 there were accrued financing costs of £19,810,837 (2017 - £21,044,048) relating to previous contractual increases in margins.

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 2018, AIG had posted £154,332,009 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 2018**

At 31 December 2018 the securitised debt comprised the following:

Tranche	Principal £m	Market value £m	Interest	Effective interest	Repayment
A1	266.5	326.2	6.455%	6.151%	By instalment 2009-2033
A3	400.0	531.2	5.952%	5.814%	By instalment 2032-2037
A7	222.0	194.3	Floating	5.298%	January 2035
B	141.7	173.7	6.800%	6.410%	By instalment 2005-2030
B3	77.9	64.7	Floating	5.435%	January 2035
C2	239.7	198.9	Floating	6.058%	January 2035
D2	125.0	105.6	Floating	6.743%	January 2035
	<u>1,472.8</u>	<u>1,594.6</u>			

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>			

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; B3 notes - 0.7% per annum; 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%; B3 notes - 5.5825%; 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
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The maturity profile of the company's contracted undiscounted cash flows is as follows:

	2018 £	2017 £
Within one year	93,229,006	92,446,416
In one to two years	92,364,070	92,206,430
In two to five years	269,150,550	270,953,547
In five to ten years	394,812,770	409,877,130
In ten to twenty years	967,811,049	1,041,362,162
At 31 December	<u>1,817,367,445</u>	<u>1,906,845,685</u>

	2018 £	2017 £
Comprising:		
Principal repayments	1,472,837,720	1,502,162,920
Interest repayments	344,529,725	404,682,765
At 31 December	<u>1,817,367,445</u>	<u>1,906,845,685</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 2018 was 13.1 years (2017 - 13.8 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 2018 was 6.1% (2017 - 6.1%).

Details of the derivative financial instruments are set out in Note 10.

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 2018**

10. 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 2018 the fair value of these derivatives resulted in the recognition of a net liability of £317,338,975 (2017 - £344,569,124).

At 31 December 2018, the company held the following interest rate swaps:

Hedge type	Swap rate	2018 Fair value £	2017 Fair value £
B3 interest rate swap	4.883%	37,670,113	41,284,861
C2 interest rate swap	4.892%	112,846,199	121,516,149
A7 interest rate swap	4.924%	110,949,857	121,126,293
D2 interest rate swap	4.961%	55,872,806	60,641,821
		317,338,975	344,569,124

The B3 and C2 interest rate swaps qualify for hedge accounting. The A7 and D2 notes 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.

11. DEFERRED TAXATION

	2018 £
At beginning of year	58,576,751
Charged to profit or loss	(2,637,422)
Charged to other comprehensive income	(1,991,704)
AT END OF YEAR	<u><u>53,947,625</u></u>

The deferred tax asset is made up as follows:

	2018 £	2017 £
Derivative financial instruments	53,947,625	58,576,751
	<u><u>53,947,625</u></u>	<u><u>58,576,751</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
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12. SHARE CAPITAL

	2018	2017
	£	£
Allotted, called up and fully paid		
50,000 (2017 -50,000) Ordinary shares of £1.00 each	<u>50,000</u>	<u>50,000</u>

13. OTHER FINANCIAL COMMITMENTS

As at 31 December 2018 and 31 December 2017 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...