



## **CANARY WHARF FINANCE II PLC**

Registered number: 03929593

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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## CANARY WHARF FINANCE II PLC

### 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-

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**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)
<b>Adjusted net asset value</b>	<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 7, totalling £15,514,243 (2017 - £9,199,671).

**FUTURE DEVELOPMENTS**

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

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**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.

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**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.

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**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.

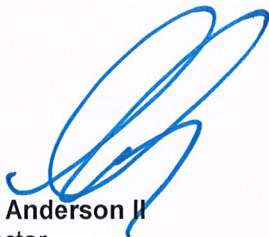
The company's securitisation is subject to a maximum loan minus cash to value ('LMCTV') ratio covenant.

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](http://www.canarywharf.com).

This report was approved by the board on 29 April 2019 and signed on its behalf.



**A P Anderson II**  
Director

## CANARY WHARF FINANCE II PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £13,028,495 (2017 - £7,777,233).

No dividends have been paid or proposed in the year (2017 - £NIL).

#### DIRECTORS

The directors who served during the year were:

K K Al-Thani (appointed 9 August 2018)  
A Aluthman Fakhroo (resigned 9 August 2018)  
A P Anderson II  
B Brown (resigned 26 June 2018)  
J R Garwood (alternate director to Sir George Iacobescu CBE)  
Sir George Iacobescu CBE  
R J J Lyons (alternate director to A P Anderson II)  
Z B Vaughan (appointed 26 June 2018)

The directors are fully aware of their statutory duties under the Companies Act 2006, and in particular the core duty to act in good faith and in a way most likely to promote the success of the company for the benefit of its members as a whole.

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The company also has in place liability insurance covering the directors and officers of the company. Both the indemnity and insurance were in force during the year ended 31 December 2018 and at the time of the approval of this Directors' Report. Neither the indemnity nor the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

#### FUTURE DEVELOPMENTS

Details of the company's future developments are set out in the Strategic Report.

#### FINANCIAL INSTRUMENTS

The financial risk management objectives and policies together with the principal risks and uncertainties of the company are contained within the Strategic Report.

#### DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 29 April 2019 and signed on its behalf.



**J R Garwood**  
Secretary



**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors are responsible for preparing the Strategic Report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the company's financial statements 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;
- 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 to 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board by:



**A P Anderson II**  
Director  
Date: 29 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Canary Wharf Finance II plc:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Canary Wharf Finance II plc (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 17.

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 OF 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 are 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. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

<b>Key audit matter</b>	The key audit matter that we identified in the current year was: Financial instruments: derivative valuations
<b>Materiality</b>	The materiality that we used in the current year was £31.7 million which was determined on the basis of 2% of total assets.
<b>Scoping</b>	A full scope audit was performed on the company and no separate components were identified.
<b>Significant changes in our approach</b>	There were no significant changes in our approach from the prior year.

CONCLUSIONS RELATING TO GOING CONCERN

<p>We are required by ISAs (UK) to report in respect of the following matters where:</p> <ul style="list-style-type: none"> <li>-the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or</li> <li>-the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.</li> </ul>	<p><b>We have nothing to report in respect of these matters.</b></p>
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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

## 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. These matters included 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.

<b>Financial Instruments: Derivative Valuations</b>	
<b>Key audit matter description</b>	<p>The Company holds interest rate swaps to fix interest amounts payable on various floating rate loans it holds. FRS 102 requires that the derivatives must be held at fair value on the balance sheet, including the assessment of credit risk.</p> <p>The valuation of the Company's derivatives is considered a significant risk due to the complexities and judgements taken in arriving at the valuation. Management uses counterparty bank valuations to obtain their fair values and there is a risk of material misstatement that the calculations performed by the banks are incorrect and if the error is not identified by Management, this could result in a material misstatement. Given the degree of judgement involved, we also determined that there was a potential for fraud through possible manipulation of this account balance.</p> <p>The fair value of the derivatives at the year-end was £317 million (2017 - £345 million). This is included as a key source of estimation uncertainty in note 3 and derivative financial instruments in note 13 to the financial statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We evaluated the design and implementation of key controls in the treasury cycle which address the risk of material misstatement for this key audit matter.</p> <p>We engaged our internal financial instrument specialists to perform independent calculations of the fair value of all the Company's interest rate swaps, including credit valuation adjustments using key terms per the original contract documentation.</p>
<b>Key observations</b>	Based on our procedures, we conclude that valuation of financial instruments is reasonable.

## OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Materiality</b>	£31.7 million (2017 - £32.5 million)
<b>Basis of determining materiality</b>	2% of total assets £1,587 million (2017 - £1,624 million)
<b>Rationale for the benchmark applied</b>	This reflects the key balance in the financial statements given the Company's primary purpose is to provide funding to the Group by way of the securitisation structure. The entity is a finance vehicle that has issued securities which are backed by commercial mortgages over properties within the Canary Wharf Group estate.

We agreed with the Board of Directors that we would report to the directors all audit differences in excess of £0.6 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

OTHER INFORMATION

<p>The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report and Directors' Report, other than the financial statements and our auditor's report thereon.</p> <p>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.</p> <p>In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.</p> <p>If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.</p>	<p><b>We have nothing to report in respect of these matters.</b></p>
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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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

### EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the group audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - ◆ Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - ◆ detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged;
  - ◆ the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud relating to management override of controls; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act and Listing Rules.

#### Audit response to risks identified

As a result of performing the above, we identified the valuation of derivative financial instruments as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the group audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charge with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: -we have not received all the information and explanations we require for our audit; or -adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or -the financial statements are not in agreement with the accounting records and returns.	<b>We have nothing to report in respect of these matters.</b>
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	<b>We have nothing to report in respect of this matter.</b>

OTHER MATTERS

**Auditor tenure**

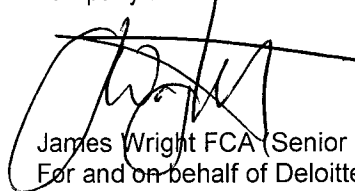
Following the recommendation of the group audit committee, we were appointed by board of directors on its incorporation on 16 February 2000 to audit the financial statements for the year ended 30 June 2001 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ended 30 June 2001 to 31 December 2018.

**Consistency of the audit report with the additional report to the directors**

Our audit opinion is consistent with the additional report to the board of directors we are required to provide in accordance with ISAs (UK).

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.



James Wright FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
29 April 2019

**CANARY WHARF FINANCE II PLC**

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

	Note	2018 £	2017 £
Administrative expenses		(9,949)	(8,244)
<b>OPERATING LOSS</b>		<u>(9,949)</u>	<u>(8,244)</u>
Interest receivable from group companies	6	88,617,570	90,441,919
Bank interest receivable	6	11,158	508
Accrued premium on repayment of loan by fellow subsidiary undertaking	6	-	4,930,426
Release of accrued premium on repayment of loan by fellow subsidiary undertaking	6	-	(50,064,388)
Interest payable on securitised debt	7	(88,467,105)	(90,292,678)
Fair value adjustments on hedging instruments	7	14,945,453	8,596,277
Provision for premium on repayment of class A1 notes	7	-	(4,930,426)
Release of provision for premium on repayment of class A1 notes	7	-	50,064,388
Hedge reserve recycling		568,790	603,394
<b>PROFIT BEFORE TAX</b>		<u>15,665,917</u>	<u>9,341,176</u>
Tax on profit	8	(2,637,422)	(1,563,943)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u><u>13,028,495</u></u>	<u><u>7,777,233</u></u>

The notes on pages 17 to 31 form part of these financial statements.

**CANARY WHARF FINANCE II PLC**

**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
<b>OTHER COMPREHENSIVE INCOME</b>			
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)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>9,724,202</u>	<u>979,937</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>22,752,697</u></u>	<u><u>8,757,170</u></u>

The notes on pages 17 to 31 form part of these financial statements.



STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018

	Note	2018 £	2017 £
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due after more than one year	9	1,534,802,943	1,571,950,445
Debtors: amounts falling due within one year	9	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	10	(46,665,187)	(46,920,451)
<b>NET CURRENT ASSETS</b>		<u>1,540,063,453</u>	<u>1,577,059,282</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,540,063,453</u>	<u>1,577,059,282</u>
Creditors: amounts falling due after more than one year	11	(1,798,194,294)	(1,857,942,820)
<b>NET LIABILITIES</b>		<u>(258,130,841)</u>	<u>(280,883,538)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	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 financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 April 2019.



**A P Anderson II**  
Director

The notes on pages 17 to 31 form part of these financial statements.

CANARY WHARF FINANCE II PLC

**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)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>-</u>	<u>9,724,202</u>	<u>13,028,495</u>	<u>22,752,697</u>
<b>AT 31 DECEMBER 2018</b>	<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)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>-</u>	<u>979,937</u>	<u>7,777,233</u>	<u>8,757,170</u>
<b>AT 31 DECEMBER 2017</b>	<u>50,000</u>	<u>(131,774,212)</u>	<u>(149,159,326)</u>	<u>(280,883,538)</u>

The notes on pages 17 to 31 form part of these financial statements.

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

**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**

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and 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").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see Note 3).

The principal accounting policies have been applied consistently throughout the year and the preceding year and are summarised below:

**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**

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.3 Cash flow statement**

The company has taken the exemption from preparing the cash flow statement under Section 1.12(b) as it is a member of a group where the parent of the group prepares publicly available consolidated financial statements which are intended to give a true and fair view.

**2.4 Taxation**

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

**2.5 Financial instruments**

The directors have taken advantage of the exemption in paragraph 1.12c of FRS 102 allowing the company not to disclose the summary of financial instruments by the categories specified in paragraph 11.41.

**Trade and other receivables**

Trade and other receivables are recognised initially at fair value. A provision for impairment is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtor concerned.

**Loans receivable**

Loans receivable are recognised initially at the transaction price including transaction costs. Subsequent to initial recognition, loans receivable are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the Income Statement over the period of the loan, using the effective interest method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, deposits held with banks and other short term highly liquid investments with original maturities of 3 months or less, which are held for the purpose of meeting short term cash commitments.

**Trade and other payables**

Trade and other creditors are stated at cost.

**Borrowings**

Loans payable are recognised initially at the transaction price including transaction costs. Subsequent to initial recognition, loans payable are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the Income Statement over the period of the loan, using the effective interest method.

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

2. ACCOUNTING POLICIES (CONTINUED)

**Derivative instruments**

The company uses interest rate derivatives to help manage its risks of changes in interest rates. The company does not hold or issue derivatives for trading purposes.

In order for a derivative to qualify for hedge accounting, the company is required to document the relationship between the item being hedged and the hedging instrument. The company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument for its economic relationship, effects of credit risk and hedge ratio. This shows that the hedge will be effective on an on-going basis. The effectiveness testing is re-performed at each balance sheet date to ensure that the hedge remains effective.

The changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income. The changes in the fair value of derivative financial instruments that are designated and effective as fair value hedges are recognised against the item being hedged. The changes in the fair value of any ineffective portions of hedges or undesignated financial instruments are recognised in the income statement.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained until the forecast transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

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

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

**Derivative Financial instruments**

The fair values of derivative financial instruments are provided by counter party financial institutions. Consistent with International Accounting Standards, the value provided is then reduced for the company's own credit risk, in the case of credit balances, and for the counterparty's credit risk, in the case of debit balances. These adjustments are calculated by using a calculation tool provided by Bloomberg.

At 31 December 2018 the fair value of derivative financial instruments totalled £317,338,975 (2017 - £344,569,124).

**4. AUDITOR'S REMUNERATION**

	2018 £	2017 £
Fees to the auditor for other services	7,230	6,870
	<u>7,230</u>	<u>6,870</u>

Auditor's remuneration of £9,500 (2017 - £9,000) for the audit of the company has been borne by another group undertaking.

**5. EMPLOYEES**

The Company has no employees other than the directors, who did not receive any remuneration (2017 - £NIL).

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

**6. 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)
	<u>88,628,728</u>	<u>45,308,465</u>

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.

**7. INTEREST PAYABLE AND SIMILAR EXPENSES**

	2018 £	2017 £
Interest payable on securitised debt (Note 13)	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)
	<u>72,952,862</u>	<u>35,959,045</u>

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

## 8. TAXATION

	2018 £	2017 £
<b>TOTAL CURRENT TAX</b>	-	-
<b>DEFERRED TAX</b>		
Revaluation of derivatives	2,637,422	1,563,943
<b>TOTAL DEFERRED TAX</b>	2,637,422	1,563,943
<b>TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>	<u>2,637,422</u>	<u>1,563,943</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 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	<u>15,665,917</u>	<u>9,341,176</u>
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
<b>EFFECTS OF:</b>		
Changes in tax rate	(310,284)	(206,993)
Group relief	(28,818)	(27,240)
<b>TOTAL TAX CHARGE FOR THE YEAR</b>	<u>2,637,422</u>	<u>1,563,943</u>

**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

## 9. DEBTORS

	2018 £	2017 £
<b>DUE AFTER MORE THAN ONE YEAR</b>		
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 £
<b>DUE WITHIN ONE YEAR</b>		
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
	<u>48,763,858</u>	<u>49,008,215</u>

	2018 £	2017 £
<b>The loan to a fellow subsidiary undertaking comprises:</b>		
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)
<b>At 31 December</b>	<u>1,510,180,518</u>	<u>1,542,698,894</u>

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
	<u>1,510,180,518</u>	<u>1,542,698,894</u>

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.

## CANARY WHARF FINANCE II PLC

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

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>1,510.1</u>	<u>1,542.7</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.

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
<b>At 31 December</b>	<u>2,196,535,950</u>	<u>2,317,926,802</u>
	2018 £	2017 £
<b>Comprising:</b>		
Principal repayments	1,472,837,720	1,502,162,920
Interest repayments	723,698,230	815,763,882
<b>At 31 December</b>	<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.

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

10. CREDITORS: Amounts falling due within one year

	2018 £	2017 £
Securitised debt (Note 13)	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>

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

	2018 £	2017 £
Securitised debt (Note 13)	1,480,855,319	1,513,373,696
Derivative financial instruments (Note 14)	317,338,975	344,569,124
	<u>1,798,194,294</u>	<u>1,857,942,820</u>

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

**12. 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)
<b>At 31 December</b>	<b>1,510,180,519</b>	<b>1,542,698,896</b>
	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
	<b>1,510,180,519</b>	<b>1,542,698,896</b>

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  
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	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
<b>At 31 December</b>	<u><u>1,817,367,445</u></u>	<u><u>1,906,845,685</u></u>

	2018 £	2017 £
<b>Comprising:</b>		
Principal repayments	1,472,837,720	1,502,162,920
Interest repayments	344,529,725	404,682,765
<b>At 31 December</b>	<u><u>1,817,367,445</u></u>	<u><u>1,906,845,685</u></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 14.

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**

**13. 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
		<u>317,338,975</u>	<u>344,569,124</u>

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.

The following table shows the undiscounted cash outflows in relation to the company's derivative financial instruments based on the company's prediction of future movements in interest rates.

	2018 £	2017 £
Within one year	26,207,026	28,794,376
In one to two years	25,222,035	27,229,476
In two to five years	72,014,155	76,141,077
In five to ten years	114,353,283	115,198,377
In ten to twenty years	139,788,086	161,987,635
	<u>377,584,585</u>	<u>409,350,941</u>

Changes in interest rates would primarily affect the market value of derivative financial instruments. As 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, any movement in the fair value of the derivatives would be offset by a corresponding movement in the fair value of the loans from fellow subsidiary undertaking in the Statement of Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS  
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**14. 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)
<b>AT END OF YEAR</b>	<b><u>53,947,625</u></b>

The deferred tax asset is made up as follows:

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

**15. SHARE CAPITAL**

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

**16. 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 13.



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**17. CONTROLLING PARTY**

The Company's immediate parent undertaking is Canary Wharf Finance Holdings Limited.

As at 31 December 2018, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of Canary Wharf Group Investment Holdings plc. Copies of the financial statements may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

The largest group of which the company is a member for which group financial statements are drawn up is the consolidated financial statements of Stork HoldCo LP, an entity registered in Bermuda and the ultimate parent undertaking and controlling party. Stork HoldCo LP is registered at 73 Front Street, 5th Floor, Hamilton, HM12, Bermuda.

Stork HoldCo LP is controlled as to 50% by Brookfield Property Partners LP and as to 50% by Qatar Investment Authority.

The directors have taken advantage of the exemption in paragraph 33.1A of FRS 102 allowing the Company not to disclose related party transactions with respect to other wholly-owned group companies.