CANARY WHARF
GROUP PLC

CANARY WHARF FINANCE II PLC
19 APRIL 2017

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Pursuant to the Disclosure and Transparency Rules, the board of Canary Wharf Finance II plc is pleased to announce the publication of its annual financial report for the year ended 31 December 2016, 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 18 April 2017, does not comprise statutory accounts within the meaning of the Companies Act 2006 and is provided in accordance with the Disclosure and Transparency Rules.

In compliance with the Listing Rules, a copy of the 31 December 2016 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: 19 April 2017

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Canary Wharf Group Investment Holdings plc (formerly Songbird Estates plc).

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 2016, the company had £1,531,488,120 (2015 - £1,560,813,320) 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. Note 13 contains an update on the court proceedings arising from redemption of the A1 Notes in July 2014

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 £195,909,493 (2015 - £209,448,624) as cash collateral in respect of this obligation.

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

The ratings of the notes are as follows:

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

As shown in the company's income statement, the company's loss before tax for the year was £40,517,294 (2015 - profit of £22,811,846). This loss included an unrealised fair value loss on derivative financial instruments and hedge reserve recycling of £40,564,774 (2015 - gain of £22,640,856). Excluding the fair value loss on derivative financial instruments and hedge reserve recycling, the profit before tax for the year was £47,480 (2015 - £170,989).

The Statement of Financial Position indicates that net liabilities were £289,640,708 (2015 - £226,289,336).

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

Adjusting for the effects of the underlying fair value of financial instruments, the net asset value of the company at 31 December 2016 was as follows:

	2016 £	2015 £
Net liabilities per Statement of Financial Position	(289,640,708)	(226,289,336)
Add back: Effects of fair value of derivative financial instruments	354,949,444	281,962,423
Less: Deferred tax thereon	(60,341,406)	(50,753,236)
	4,967,330	4,919,851

KEY PERFORMANCE INDICATORS

	2016 £	2015 £
Securitised debt	1,531,488,120	1,560,813,320
Financing cost (before adjustment for fair value)	92,194,410	93,928,895
Adjusted profit before tax and fair value adjustment	47,480	170,989
Weighted average maturity of debt	14.6 years	15.3 years
Weighted average interest rate	6.1%	6.2%

The adjusted profit before tax comprises the loss on ordinary activities before tax of £40,517,294 (2015 - profit of £22,811,846) adjusted for the fair value loss on financial instruments shown in Note 4, totalling £40,564,774 (2015 - gain of £22,640,857).

FUTURE DEVELOPMENTS

In July 2016, the company received permission to appeal against the judgement regarding the potential liability to pay a premium to the A1 Noteholders following the redemption of the A1 Notes in July 2014. Procedural steps leading to the hearing are being taken and the hearing has been fixed for 13 and 14 June 2017.

STRATEGY & OBJECTIVES

Exposure Management

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

Hedging Instruments and Transaction Authorisation

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

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

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

Transaction Accounting

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

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

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

• All hedge relationships proposed must be in line with the company's risk management policy stated above.

• All hedge relationships must be documented in advance, stating the purpose, including the nature of the risk being hedged, the type of hedge being undertaken, the item being hedged and the related hedging instrument and the methodology to be adopted to assess and measure the hedge effectiveness.

• Provide supporting documentation to include excerpts from loan or debenture issuance documentation, detailing principal and amortisation schedules and relevant excerpts from hedging derivative documentation.

• Both prospective and retrospective effectiveness testing are undertaken and approved by the Chief Financial Officer.

Credit Risk

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

All other debtors are receivable from other group undertakings.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Cyclical nature of the property market

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

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

Concentration risk

The majority of the Canary Wharf Group's real estate assets are currently located on or adjacent to the Canary Wharf Estate with a majority of tenants linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration and steps to diversify the tenant base have been particularly successful in recent years.

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 2016 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2017 was 46.3%. The securitisation is not subject to a minimum interest coverage ratio. A breach of certain financial covenants can be remedied by depositing eligible investments (including cash).

CORPORATE & SOCIAL RESPONSIBILITY

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

GOING CONCERN

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

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

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

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	2015 £
Administrative expenses		(7,980)	(7,902)
OPERATING LOSS		(7,980)	(7,902)
Interest receivable from group companies	3	92,285,542	94,070,177
Bank interest receivable	3	39,575	37,609
Accrued premium on repayment of loan by fellow subsidiary undertaking	3	10,892,606	10,892,606
Loan interest payable	4	(132,759,184)	(71,288,038)
Other interest payable	4	(75,247)	-
Provision for premium on repayment of class A1 notes	4	(10,892,606)	(10,892,606)
(LOSS)/PROFIT BEFORE TAX		(40,517,294)	22,811,846
Tax on (loss)/profit	5	5,351,613	(7,616,970)
(LOSS)/PROFIT FOR THE YEAR		(35,165,681)	15,194,876

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £	2015 £
(Loss)/profit for the financial year	(35,165,681)	15,194,876
OTHER COMPREHENSIVE INCOME		
Fair value movement on effective hedging instruments	(31,784,530)	21,647,135
Hedge reserve recycling	(637,718)	(671,805)
Tax relating to components of other comprehensive items	4,236,557	(6,745,517)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	(28,185,691)	14,229,813
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(63,351,372)	29,424,689

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 £	2015 £
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	6	1,606,268,360	1,628,429,560
Debtors: amounts falling due within one year	6	244,205,832	234,089,432
Cash at bank and in hand	7	25,109,170	25,073,661
		1,875,583,362	1,887,592,653
Creditors: amounts falling due within one year	8	(69,020,544)	(69,808,719)
NET CURRENT ASSETS		1,806,562,818	1,817,783,934
TOTAL ASSETS LESS CURRENT LIABILITIES		1,806,562,818	1,817,783,934
Creditors: amounts falling due after more than one year	9	(1,900,876,400)	(1,859,638,750)
PROVISIONS FOR LIABILITIES			
Other provisions	13	(195,327,126)	(184,434,520)
NET LIABILITIES		(289,640,708)	(226,289,336)
CAPITAL AND RESERVES			
Called up share capital	14	50,000	50,000
Hedging reserve	15	(132,754,149)	(104,568,458)
Retained earnings	15	(156,936,559)	(121,770,878)
		(289,640,708)	(226,289,336)

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

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

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Called up share capital	Hedging reserve	Retained earnings	Total equity
	£	£	£	£
At 1 January 2015	50,000	(118,798,271)	(136,965,754)	(255,714,025)
Profit for the year	-	-	15,194,876	15,194,876
Movement in deferred tax asset on derivatives	-	(6,745,517)	-	(6,745,517)
Fair value movement on effective hedging instruments	-	21,647,135	-	21,647,135
Hedge reserve recycling	-	(671,805)	-	(671,805)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	14,229,813	-	14,229,813
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	14,229,813	15,194,876	29,424,689
AT 31 DECEMBER 2015	50,000	(104,568,458)	(121,770,878)	(226,289,336)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

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

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

This announcement does not constitute the company's statutory accounts for the year ended 31 December 2016 but is derived from those accounts. The statutory accounts for the year ended 31 December 2016 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 2016 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 loss for the year ended 31 December 2016 was £35,165,681 and at 31 December 2016 the company had a deficit of £289,640,708 attributable solely to the fair value of its derivative financial instruments and deferred tax thereon. The company recognises the fair value of its derivative financial instruments in the balance sheet. 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.

3. INTEREST RECEIVABLE

	2016 £	2015 £
Interest receivable from group companies	92,285,542	94,070,177
Bank interest receivable	39,575	37,609
Accrued premium on repayment of loan by fellow subsidiary undertaking	10,892,606	10,892,606
	103,217,723	105,000,392

On 20 June 2014, the loan to a fellow subsidiary undertaking was part repaid to fund the cancellation of certain floating rate notes. A net repayment premium of £8.4m was charged to cover the net cost of cancelling the debt.

An additional amount of £10,892,606 (2015 - £10,892,606) has been accrued as recoverable from the fellow subsidiary undertaking to cover the potential premium payable to the holders of the class A1 notes which were redeemed in part on 22 July 2014.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £	2015 £
Loan interest payable	132,759,184	71,288,038
Other interest payable	75,247	-
Provision for premium on repayment of class A1 notes	10,892,606	10,892,606
	143,727,037	82,180,644

Loan interest payable consists of the following:

	2016 £	2015 £
Interest payable on securitised debt	92,194,410	93,928,895
Fair value adjustments on derivative financial instruments	41,202,492	(21,969,052)
Hedge reserve recycling	(637,718)	(671,805)
	132,759,184	71,288,038

The company has provided for £10,892,606 (2015 - £10,892,606) in respect of the potential premium payable to the holders of the class A1 notes following the partial redemption on 22 July 2014.

5. TAXATION

	2016 £	2015 £
Current tax on profits for the year	-	-
TOTAL CURRENT TAX	-	-
DEFERRED TAX		
Revaluation of derivatives	(5,351,613)	7,616,970
TOTAL DEFERRED TAX	(5,351,613)	7,616,970
TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	(5,351,613)	7,616,970

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 20% (2015 -20.25%). The differences are explained below:

	2016 £	2015 £
(Loss)/profit on ordinary activities before tax	(40,517,294)	22,811,846
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 -20.25%)	(8,103,459)	4,619,399
EFFECTS OF:		
Utilisation of tax losses	(137,040)	(329,657)
Adjustments to tax charge in respect of prior periods	-	158,991
Other differences leading to an increase in the tax charge	127,544	136,041
Changes in tax rate	2,761,342	3,032,196
TOTAL TAX (CREDIT)/CHARGE FOR THE YEAR	(5,351,613)	7,616,970

At 31 December 2016, there was an unprovided deferred tax asset of £878,789 (2015 - £1,114,136), calculated by reference to losses of £5,169,347 (2015 - £6,189,645) at the future tax rate of 17% (2015 - 18%).

6. DEBTORS

	2016 £	2015 £
DUE AFTER MORE THAN ONE YEAR		
Amounts owed by group undertakings	1,545,926,954	1,577,676,324
Deferred tax asset	60,341,406	50,753,236
	1,606,268,360	1,628,429,560

	2016 £	2015 £
DUE WITHIN ONE YEAR		
Amounts owed by group undertakings	48,221,592	48,881,941
Other debtors	195,984,240	185,207,491
	244,205,832	234,089,432

Amounts owed by group undertakings comprise:

	2016 £	2015 £
Loan to fellow subsidiary undertaking due after more than one year	1,545,926,954	1,577,676,324
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
	1,575,252,154	1,607,001,524
Accrued interest on loan to fellow subsidiary undertaking	17,404,166	18,179,257
Other amounts owed by fellow subsidiaries	1,492,226	1,377,484
	1,594,148,546	1,626,558,265

	2016 £	2015 £
At 1 January	1,607,001,524	1,638,845,984
Amortisation of issue premium	(2,150,700)	(2,246,067)
Accrued financing expenses	(273,470)	(273,193)
Repaid in the year	(29,325,200)	(29,325,200)
	1,575,252,154	1,607,001,524

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

	Interest	Effective interest	Repayment	2016 £m	2015 £m
A1	6.465%	6.160%	By instalment 2009-2033	311.4	333.8
A3	5.962%	5.824%	By instalment 2032-2037	400.0	400.0
A7	5.124%	5.321%	January 2035	222.0	222.0
B	6.810%	6.419%	By instalment 2005-2033	155.5	162.4
B3	5.173%	5.457%	January 2035	77.9	77.9
C2	6.276%	6.081%	January 2035	239.7	239.7
D2	7.071%	6.766%	January 2035	125.0	125.0
				1,531.5	1,560.8
Unamortised premium				21.6	23.7
Accrued financing costs				22.2	22.5
				1,575.3	1,607.0

The carrying values of debtors due within one year also represent their fair values. The fair value of the loans to group undertakings at 31 December 2016 was £2,005,031,244 (2015 - £1,961,369,423), calculated by reference to the fair values of the Company's financial liabilities. The carrying value of financial assets represents the Company's maximum exposure to credit risk.

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

	2016 £	2015 £
Within one year	122,856,002	124,595,336
In one to two years	121,390,852	123,071,258
In two to five years	352,985,031	358,633,923
In five to ten years	544,606,733	559,512,935
In ten to twenty years	1,298,944,186	1,399,779,944
	2,440,782,804	2,565,593,396
Comprising:		
Principal repayments	1,531,488,120	1,560,813,320
Interest repayments	909,294,684	1,004,780,076
	2,440,782,804	2,565,593,396

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

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

7. CASH AND CASH EQUIVALENTS

	2016 £	2015 £
Unrestricted cash balances	2,869,170	2,833,661
Held as collateral for derivatives	22,240,000	22,240,000
	25,109,170	25,073,661

The cash at bank is held as cash collateral for the company's borrowings, earns interest at floating rates linked to bank deposit rates and has a term of one month or less.

8. CREDITORS: Amounts falling due within one year

	2016 £	2015 £
Securitised debt	46,780,544	47,568,719
Other creditors	22,240,000	22,240,000
	69,020,544	69,808,719

The amount of the securitised debt due within one year comprises £17,455,344 (2015 - £18,243,519) of interest and £29,325,200 (2015 - £29,325,200) of capital.

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

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

	2016 £	2015 £
Securitised debt	1,545,926,956	1,577,676,327
Derivative financial instruments	354,949,444	281,962,423
	1,900,876,400	1,859,638,750

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	2016 £	2015 £
Brought forward	1,607,001,527	1,638,845,987
Repaid in the year	(29,325,200)	(29,325,200)
Amortisation of issue premium	(2,150,700)	(2,246,067)
Accrued financing expenses	(273,471)	(273,193)
	1,575,252,156	1,607,001,527

	2016 £	2015 £
Payable within one year or on demand	29,325,200	29,325,200
Payable after more than one year	1,545,926,956	1,577,676,327
	1,575,252,156	1,607,001,527

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 2016 £21,547,259 (2015 - £23,697,959) remained unamortised.

At 31 December 2016 there were accrued financing costs of £22,216,775 (2015 - £22,490,246) relating to future increases in margins as described below.

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

The securitisation continues to have the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square over the entire term of the lease. At 31 December 2016, AIG had posted £195,909,493 as cash collateral in respect of this obligation.

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

At 31 December 2016 the securitised debt comprised the following:

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

At 31 December 2015 the securitised debt comprised the following:

Tranche	Principal £m	Market value £m	Interest	Effective interest	Repayment
A1	333.8	405.6	6.455%	6.151%	By instalment 2009-2033
A3	400.0	479.8	5.952%	5.814%	By instalment 2032-2037
A7	222.0	194.3	Floating	5.298%	January 2035
B	162.4	201.7	6.800%	6.409%	By instalment 2005-2033
B3	77.9	68.9	Floating	5.435%	January 2035
C2	239.7	215.7	Floating	6.058%	January 2035
D2	125.0	113.4	Floating	6.743%	January 2035
	1,560.8	1,679.4			

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 - 0.19% per annum increasing to 0.475% per annum in January 2017; B3 notes - 0.28% per annum, increasing to 0.7% per annum in January 2017; C2 notes - 1.375% per annum; and D2 notes - 2.1% per annum.

All of the notes are hedged by means of interest rate swaps and the hedged rates plus the margin are: A7 notes - 5.1135%; B3 notes - 5.1625%; C2 notes - 6.2666%; and D2 notes - 7.0605%.

The effective interest rates include adjustments for the hedges, the issue premium and the step up in rates in 2017.

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

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

	2016 £	2015 £
Within one year	92,988,950	96,087,006
In one to two years	92,074,898	97,976,275
In two to five years	272,388,208	294,906,314
In five to ten years	431,455,357	471,998,779
In ten to twenty years	1,120,434,234	1,245,574,143
	2,009,341,647	2,206,542,517
Comprising		
Principal repayments	1,531,488,120	1,560,813,320
Interest repayments	477,853,527	645,729,197
	2,009,341,647	2,206,542,517

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 2016 was 14.6 years (2015 - 15.3 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 2016 was 6.1% (2015 - 6.2%).

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

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

The company uses interest rate swaps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. At 31 December 2016 the fair value of these derivatives resulted in the recognition of a net liability of £354,949,444 (2015 - £281,962,423). Of this net liability £164,585,053 (2015 - £132,800,523) was in respect of interest rate swaps which qualify for hedge accounting and £190,364,391 (2015 - £149,161,900) was in respect of interest rate swaps which do not qualify for hedge accounting.

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

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

12. DEFERRED TAXATION

	£
At 1 January 2016	50,753,236
Charged to the profit or loss	5,351,613
Charged to other comprehensive income	4,236,557
At 31 December 2016	60,341,406

The deferred tax asset is made up as follows:

	2016 £	2015 £
Derivative financial instruments	60,341,406	50,753,236
	60,341,406	50,753,236

13. PROVISIONS

	Redemption premium £
At 1 January 2016	184,434,520
Charged to profit or loss	10,892,606
AT 31 DECEMBER 2016	195,327,126

The company has provided £195,327,126 at 31 December 2016 for the potential liability to pay a premium to the A1 Noteholders following the redemption of the A1 Notes in July 2014.

On 22 July 2014, the company redeemed £577,900,000 in aggregate principal amount of the class A1 notes. The Securitisation Trustee indicated to the Company that it was unclear to the Securitisation Trustee as to whether or not a premium of £168,746,800 (being an amount equivalent to any spens which might be payable on redemption under the Note conditions) should have been paid to the holders of the A1 Notes in connection with the redemption. The company as issuer made an application to the Court for a declaration as to whether or not, on a true construction of the Note conditions and other relevant contractual documentation, the premium is payable to the noteholders.

The court hearing was in July 2015. On 28 January 2016 judgement was delivered which held that an amount equivalent to spens was payable on redemption under the Note conditions and should therefore be paid to the holders of the A1 Notes. Following a further decision by the Judge not to allow an appeal, the company applied to the Court of Appeal for leave to appeal against this decision. In July 2016, the company received permission to appeal on the basis that there is a real prospect of success. Procedural steps leading to the hearing are being taken and the hearing has been fixed for 13 and 14 June 2017.

The company agreed to place on deposit with the Escrow Agent an amount equal to the premium. The Escrow Agent will hold the premium in escrow (together with interest thereon) until either:

(i) a final court order is made in relation to whether or not the premium is payable in relation to the redemption;
(ii) the company and the Securitisation Trustee agree on an amount payable in relation to the redemption; or
(iii) the company and the noteholders agree on an amount payable in relation to the redemption.

Depending on which of these conditions is satisfied, the Escrow Agent will release funds back to the company for payment to the A1 noteholders.

A provision for the premium of £168,746,800, together with aggregate interest of £26,580,326 to 31 December 2016, has been recognised in the Income Statement as interest payable. The amount provided for the premium is recharged to a fellow subsidiary undertaking and £26,580,326 has been recognised in the Income Statement as interest receivable.

14. SHARE CAPITAL

	2016	2015
	£	£
Shares classified as equity		
Allotted, called up and fully paid		
50,000 - Ordinary shares of £1 each	50,000	50,000

15. RESERVES

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

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

16. OTHER FINANCIAL COMMITMENTS

As at 31 December 2016 and 31 December 2015 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.