

CANARY WHARF FINANCE II PLC
28 APRIL 2021

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Pursuant to sections 4.1 and 6.3.5 of the Disclosure and Transparency Rules, the board of Canary Wharf Finance II plc is pleased to announce the publication of its annual financial report for the year ended 31 December 2020, 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 28 April 2021, does not comprise statutory accounts within the meaning of the Companies Act 2006 and is provided in accordance with section 6.3.5(2)(b) of the Disclosure and Transparency Rules.

In compliance with the Listing Rule 9.6.1, a copy of the 31 December 2020 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: 28 April 2021

Contact for queries:

J J Turner
Company Secretary
Canary Wharf Finance II plc

Telephone: 020 7418 2000

STRATEGIC REPORT

for the year ended 31 December 2020

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 LP.

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

Since March 2020, the UK economy has been significantly impacted by the COVID-19 virus which has caused widespread disruption and economic uncertainty. The crisis had no material impact on the assets, liabilities or performance of the company during the year.

At 31 December 2020, the company had £1,414,187,321 (2019 – £1,443,512,520) 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. At 31 December 2020, AIG has posted £118,730,673 (2019 – £136,586,799) as cash collateral in respect of this obligation.

The company also has the benefit of a £300.0m 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-

KEY PERFORMANCE INDICATORS

The company has adopted the IFRS 9 measurement option and hence the floating rate securitised notes are measured at fair value. Changes in the fair value of derivative financial instruments are recognised in the income statement.

	2020 £	2019 £
Securitised debt	1,414,187,321	1,443,512,520
Financing cost (before adjustment for fair value)	84,909,622	86,643,107
Total comprehensive income	71,060	136,956
Weighted average maturity of debt	11.6 years	12.3 years
Weighted average interest rate	6.1%	6.1%

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 over hedging that may potentially occur and proposals to deal with such events.

Hedging instruments and transaction authorisation

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

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

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

Transaction accounting

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

Credit risk

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

All other debtors are receivable from other group undertakings.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the business are monitored through continuous assessment, regular formal reviews and discussion at the Canary Wharf Group Investment Holdings plc audit committee and board. Such discussion focuses on the risks identified as part of the system of internal control which highlights key risks faced by the Group and allocates specific day to day monitoring and control responsibilities as appropriate. As a member of Canary Wharf Group, the current key risks of the company include COVID-19, the cyclical nature of the property market, concentration risk and financing risk.

The COVID-19 pandemic has had a significant impact on the UK economy. Despite this, the Group has demonstrated the resilience of its office rental income and during the year ended 31 December 2020, the Group collected over 99.0% of the office rents billed.

Cyclical nature of the property market

The valuation of the Company and Group's assets are subject to many external economic and market factors. In recent years, the London real estate market has had to cope with fluctuations in demand caused by events such as uncertainty in the Eurozone, the implications of UK withdrawal from the EU, and renewed turmoil in the financial markets following the spread of the coronavirus. The full impact of the coronavirus is not yet possible to predict. Any long term continuation of the pandemic will however inevitably affect short and medium term economic performance and confidence, with adverse implications for the property market. The real estate market has to date, 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 still viewed as both relatively stable and secure. Property valuations for office properties let on long leases to good covenants have remained relatively strong despite continuing uncertainties which are unhelpful to confidence across the wider real estate sector.

Concentration risk

The majority of the Group's real estate assets are currently located on or adjacent to the Estate. Although a majority of tenants have traditionally been linked to the financial services industry, this proportion has now fallen to around only 50.0% of tenants. Wherever possible steps are still taken to mitigate or avoid material consequences arising from this concentration.

Financing risk

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

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

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

The company is not subject to externally imposed capital requirements.

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

The maximum LMCTV ratio is 100.0%, but there is also a cash trap covenant of 50.0%. Based on the 31 December 2020 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2021 was 42.9%. The securitisation is not subject to a minimum interest coverage ratio. A breach of 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.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

		2020	2019
	Note	£	£
Administrative expenses		(14,007)	(8,952)
OPERATING LOSS		(14,007)	(8,952)
Interest receivable from group companies	3	84,989,312	86,773,071
Bank interest receivable	3	5,377	15,944
Loan interest payable	4	(84,909,622)	(86,643,107)
Hedge reserve recycling	4	(9,948,337)	(4,689,581)
Fair value movements	5	–	14,646,700
(LOSS)/PROFIT BEFORE TAX		(9,877,277)	(10,094,075)
Tax on (loss)/profit/	6	–	–
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(9,877,277)	10,094,075
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Fair value movement on effective hedging instruments	13	–	(14,646,700)
Hedge reserve recycling		9,948,337	4,689,581
OTHER COMPREHENSIVE INCOME FOR THE YEAR		9,948,337	(9,957,119)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		71,060	136,956

The notes numbered 1 to 14 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

	Note	2020 £	2019 £
CURRENT ASSETS			
Debtors:			
Amounts falling due after more than one year	7	1,677,350,801	1,680,875,352
Amounts falling due within one year	7	49,463,641	48,215,880
Cash at bank and in hand		3,601,415	3,366,239
		1,730,415,857	1,732,457,471
Creditors:			
Amounts falling due within one year	8	(47,596,531)	(46,184,654)
NET CURRENT ASSETS		1,682,819,326	1,686,272,817
TOTAL ASSETS LESS CURRENT LIABILITIES		1,682,819,326	1,686,272,817
Creditors:			
Amounts falling due after more than one year	9	(1,677,350,801)	(1,680,875,352)
NET ASSETS		5,468,525	5,397,465
CAPITAL AND RESERVES			
Called up share capital	12	50,000	50,000
Hedging reserve	13	(147,056,987)	(157,005,324)
Retained earnings	13	152,475,512	162,352,789
		5,468,525	5,397,465

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Called up share capital £	Hedging reserve £	Retained earnings £	Total equity £
At 1 January 2020	50,000	(157,005,324)	162,352,789	5,397,465
Loss for the year	–	–	(9,877,277)	(9,877,277)
Hedge reserve recycling (Note 13)	–	9,948,337	–	9,948,337
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	9,948,337	(9,877,277)	71,060
AT 31 DECEMBER 2020	50,000	(147,056,987)	152,475,512	5,468,525

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Called up share capital £	Hedging reserve £	Retained earnings £	Total equity £
At 1 January 2019	50,000	(147,048,205)	152,258,714	5,260,509
Profit for the year	–	–	10,094,075	10,094,075
Fair value movement on effective hedging instruments	–	(14,646,700)	–	(14,646,700)
Hedge reserve recycling	–	4,689,581	–	4,689,581
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	(9,957,119)	10,094,075	136,956
AT 31 DECEMBER 2019	50,000	(157,005,324)	162,352,789	5,397,465

The notes numbered 1 to 14 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. GENERAL INFORMATION

Canary Wharf Finance II plc is a public company limited by shares incorporated in the UK under the Companies Act 2006 and registered in England and Wales at One Canada Square, Canary Wharf, London, E14 5AB.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

This announcement does not constitute the company's statutory accounts for the year ended 31 December 2020 but is derived from those accounts. The statutory accounts for the year ended 31 December 2020 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 2020 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

At the year end, the company was in a net asset position.

Having made the requisite enquiries and assessed the resources at the disposal of the company, the directors have a reasonable expectation that the company will have adequate resources to continue its operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The impact of the COVID-19 virus is disclosed in the Strategic Report.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020	2019
	£	£
Interest receivable from group companies	84,989,312	86,773,071
Bank interest receivable	5,377	15,944
	<u>84,994,689</u>	<u>86,789,015</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2020	2019
	£	£
Interest payable on securitised debt (Note 10)	84,909,622	86,643,107
Hedge reserve recycling	9,948,337	4,689,581
	<u>94,857,959</u>	<u>91,332,688</u>

5. FAIR VALUE ADJUSTMENTS

	2020	2019
	£	£
Derivative financial instruments	45,779,026	17,109,613
Securitised debt	(18,209,165)	4,268,326
Loan to fellow subsidiary undertaking	(27,569,861)	(36,024,639)
	<u>-</u>	<u>(14,646,700)</u>

6. TAXATION

	2020 £	2019 £
Current tax on profits for the year	–	–
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	–	–

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 19.0% (2019 – 19.0%). The differences are explained below:

	2020 £	2019 £
(Loss)/profit on ordinary activities before tax	(9,877,277)	10,094,075
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2019 – 19.0%)	(1,876,683)	1,917,874
EFFECTS OF:		
Fair value movements not subject to tax	1,890,184	(1,891,852)
Group relief	(13,501)	(26,022)
TOTAL TAX CHARGE FOR THE YEAR	–	–

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Enacted in the Finance Act 2020 is a provision to hold the rate of corporation tax rate at 19.0% on 1 April 2020.

Following the year end, in 2021 Budget, HM Treasury announced its intention to raise corporation tax to 25.0% in 2023.

7. DEBTORS

	2020 £	2019 £
DUE AFTER MORE THAN ONE YEAR		
Loan to fellow subsidiary undertaking due after more than one year	1,677,350,801	1,680,875,352
	1,677,350,801	1,680,875,352

	2020 £	2019 £
DUE WITHIN ONE YEAR		
Other amounts owed to fellow subsidiaries	3,580,353	2,098,450
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
Accrued interest on loan to fellow subsidiary undertaking	16,558,088	16,792,230
	49,463,641	48,215,880

	2020 £	2019 £
The loan to a fellow subsidiary undertaking comprises:		
At 1 January	1,710,200,552	1,706,598,286
Repaid in the year	(29,325,200)	(29,325,200)
Amortisation of issue premium	(1,769,231)	(1,864,598)
Movement in accrued financing expenses	(1,233,839)	(1,232,575)
Fair value adjustment	28,803,719	36,024,639
At 31 December	1,706,676,001	1,710,200,552

Comprising:

	2020 £	2019 £
Loan to fellow subsidiary undertaking due after more than one year	1,677,350,801	1,680,875,352
Loan to fellow subsidiary undertaking due within one year	29,325,200	29,325,200
	<u>1,706,676,001</u>	<u>1,710,200,552</u>

The fair value of the loans to group undertakings at 31 December 2020 was £1,969,316 (2019 – £1,988,296,841), calculated by reference to the fair values of the Company's financial liabilities. In the event that the company were to realise the fair value of the securitised debt and the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. As such, the fair value of the loans to group undertakings is calculated to be the sum of the fair value of the securitised debt and the fair value of the derivative financial instruments.

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

Class	Interest	Effective interest	Repayment	2020 £m	2019 £m
A1	6.465%	6.161%	By instalment 2009-2033	221.7	244.2
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 2005-2030	127.9	134.8
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
				1,414.2	1,443.6
Unamortised premium				13.9	15.7
Accrued financing costs				17.3	18.6
				<u>1,445.4</u>	<u>1,477.9</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 A7, B3 and C2 tranches of the intercompany loan are carried at fair value. The A1, A3, B and D2 tranches are carried at amortised cost. The total fair value of the intercompany loan was £1,969,316,124.

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:

	2020 £	2019 £
Within one year	115,602,313	117,551,720
In one to 2 years	113,903,740	115,741,960
In 2 to 5 years	329,421,776	335,707,881
In 5 to 10 years	569,539,291	494,901,669
In 10 to 20 years	1,300,950,484	1,484,484,940
At 31 December	<u>2,429,417,604</u>	<u>2,548,388,170</u>

	2020 £	2019 £
Comprising:		
Principal repayments	1,414,187,320	1,443,512,520
Interest repayments	1,015,230,284	1,104,875,650
At 31 December	<u>2,429,417,604</u>	<u>2,548,388,170</u>

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

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

8. CREDITORS: Amounts falling due within one year

	2020 £	2019 £
Securitised debt (Note 10)	<u>29,325,200</u>	29,325,200
Amounts owed to group undertakings	1,660,594	–
Accruals and deferred income	<u>16,610,737</u>	16,859,454
	<u>47,596,531</u>	<u>46,184,654</u>

Amount owed to the group undertakings are interest free and repayable on demand.

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

	2020 £	2019 £
Securitised debt (Note 10)	<u>1,282,476,486</u>	1,331,780,063
Derivative financial instruments (Note 11)	<u>394,874,315</u>	349,095,289
	<u>1,677,350,801</u>	<u>1,680,875,352</u>

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	2020 £	2019 £
At 1 January	<u>1,361,105,263</u>	1,389,259,312
Repaid in the year	<u>(29,325,200)</u>	(29,325,200)
Amortisation of issue premium	<u>(1,769,231)</u>	(1,864,598)
Movement in accrued financing expenses	<u>(1,233,839)</u>	(1,232,577)
Fair value adjustment	<u>(16,975,307)</u>	4,268,326
At 31 December	<u>1,311,801,686</u>	<u>1,361,105,263</u>

	2020 £	2019 £
Payable within one year or on demand	<u>29,325,200</u>	29,325,200
Payable after more than one year	<u>1,282,476,486</u>	1,331,780,063
	<u>1,311,801,686</u>	<u>1,361,105,263</u>

The company's securitised debt was issued in tranches, with notes of classes A1, A3, A7, B, B3, C2 and D2 remaining outstanding. The A1, A3 and B notes were issued at a premium which is being amortised to the income statement over the life of the relevant notes. At 31 December 2020 £13,898,133 (2019 – £15,667,363) remained unamortised.

At 31 December 2020 there were accrued financing costs of £17,344,422 (2019 – £18,578,262) relating to previous contractual increases in margins.

The notes are secured on 6 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 2020, AIG had posted £118,730,673 as cash collateral in respect of this obligation.

The company also has the benefit of a £300.0m 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 2020 the securitised debt comprised the following:

Tranche	Principal £m	Fair value £m	Interest	Effective interest	Repayment
A1	221.7	276.5	6.455%	6.149%	By instalment 2009 – 2033
A3	400.0	586.1	5.952%	5.814%	By instalment 2032 – 2037
A7	222.0	187.6	Floating	5.311%	January 2035
B	127.9	163.5	6.800%	6.410%	By instalment 2005 – 2030
B3	77.9	63.5	Floating	5.435%	January 2035
C2	239.7	195.3	Floating	6.071%	January 2035
D2	125.0	101.9	Floating	6.756%	January 2035
	1,414.2	1,574.4			

At 31 December 2019 the securitised debt comprised the following:

Tranche	Principal £m	Fair value £m	Interest	Effective interest	Repayment
A1	244.2	308.1	6.455%	6.151%	By instalment 2009 – 2033
A3	400.0	590.3	5.952%	5.814%	By instalment 2032 – 2037
A7	222.0	192.0	Floating	5.298%	January 2035
B	134.8	174.4	6.800%	6.410%	By instalment 2005 – 2030
B3	77.9	66.6	Floating	5.435%	January 2035
C2	239.7	201.9	Floating	6.058%	January 2035
D2	125.0	105.9	Floating	6.743%	January 2035
	1,443.6	1,639.2			

Interest on the A1 notes, A3 notes and B notes is fixed until maturity. Interest on the floating notes is repriced every 3 months.

Interest on the floating rate notes is at 3 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 floating rate notes are carried at FVTPL. The fixed rate notes are carried at amortised cost. The total fair value of the debt is £1,574,441,809.

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:

	2020 £	2019 £
Within one year	82,952,422	89,809,309
In one to 2 years	81,019,851	87,713,767
In 2 to 5 years	234,041,879	254,209,302
In 5 to 10 years	420,336,390	365,735,335
In 10 to 20 years	1,176,109,117	1,350,476,115
At 31 December	1,994,459,659	2,147,943,828
	2020 £	2019 £
Comprising:		
Principal repayments	1,414,187,320	1,443,512,520
Interest repayments	580,272,339	704,431,308
At 31 December	1,994,459,659	2,147,943,828

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

The weighted average maturity of the debentures at 31 December 2020 was 11.6 years (2019 – 12.3 years). The debentures may be redeemed at the option of the company in an aggregate amount of not less than £1.0m 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 2020 was 6.1% (2019 – 6.1%).

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

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

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 2020 the fair value of these derivatives resulted in the recognition of a net liability of £394,874,315 (2019 – £349,095,289).

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. SHARE CAPITAL

	2020 £	2019 £
Allotted, called up and fully paid	<u>50,000</u>	<u>50,000</u>
50,000 (2018 – 50,000) Ordinary shares of £1.00 each		

13. RESERVES

Prior to 1 July 2019, financial instruments were carried under the measurement criteria of IAS 39. The B3 and C2 financial instruments were designated as effective hedges of the corresponding notes and carried at Fair Value through Other Comprehensive Income. The hedging relationships were terminated on 1 July 2019 with the adoption of fair value accounting for the floating rate securitised debt. The balance in the hedging reserve is being amortised over the remaining life of the corresponding notes.

Distributable reserves

The distributable reserves of the company differ from its retained earnings as follows:

	2020 £	2019 £
Retained earnings	<u>152,475,512</u>	<u>162,352,789</u>
Hedging reserve	<u>(147,056,987)</u>	<u>(157,005,324)</u>
Distributable reserves	<u>5,418,525</u>	<u>5,347,465</u>

14. OTHER FINANCIAL COMMITMENTS

As at 31 December 2020 and 31 December 2019 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.