CANARY WHARF
GROUP PLC

CANARY WHARF FINANCE II PLC
28 MAY 2020

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 May 2020, 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 2019 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 May 2020

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STRATEGIC REPORT
for the year ended 31 December 2019

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

At 31 December 2019, the company had £1,443,512,520 (2018 – £1,472,837,720) 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 £136,586,799 (2018 – £154,332,009) 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

Following the adoption of the IFRS 9 measurement option (see Note 15), the floating rate securitised notes are measured at fair value and so no hedging relationships are possible. The changes in the fair value of the derivative instruments are recognised in the income statement.

	2019	2018
	£	£
Securitised debt	**1,443,512,520**	1,472,837,720
Financing cost (before adjustment for fair value)	**86,643,107**	88,467,105
Total comprehensive income	**136,956**	151,674
Weighted average maturity of debt	**12.3 years**	13.1 years
Weighted average interest rate	**6.1%**	6.1%

FUTURE DEVELOPMENTS

Since 31 December 2019, the UK economy has been significantly impacted by the Covid–19 virus which has caused widespread disruption and economic uncertainty. This is considered to be a non adjusting post balance sheet event and accordingly the valuation of assets and liabilities at the balance sheet date have not been adjusted for the subsequent uncertainty caused by these events.

This does however create uncertainty around the future valuation of investment property and the impact on the company's loan to value covenant. At the date of approval of the financial statements however, the directors do not consider that this is likely to give rise to a breach of covenant within the next 12 months.

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 going concern basis in preparing the financial statements.

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 the cyclical nature of the property market, Brexit, concentration risk and financing risk.

Cyclical nature of the property market

The valuation of the Company and Group's assets are subject to many external economic and market factors. Following, uncertainty in the Eurozone experienced in recent years, the implications of UK withdrawal from the EU, a General Election and renewed turmoil in the financial markets following the spread of the coronavirus, the London real estate market has had to cope with fluctuations in demand. The full impact of the coronavirus is not yet possible to predict. A sustained global epidemic will however inevitably effect 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. Although previous Government announcements, in particular the changes to stamp duty in the residential property market, have contributed to a slowing of residential land prices the residential market has been underpinned by continuing demand. Sales in the residential buildings at Wood Wharf and Southbank Place have accordingly remained relatively strong despite continuing uncertainties which are unhelpful to confidence across the wider real estate sector.

Departure from the EU

Since the EU referendum in 2016, considerable uncertainty has been experienced across the whole of the UK economy. Although the UK has now formally withdrawn from the EU the impact of this withdrawal on trade and immigration is currently being negotiated and considerable uncertainty therefore remains. In the real estate and construction sectors issues arising from withdrawal from the EU have been experienced through currency risk, in particular the 20.0% depreciation in the aftermath of the EU referendum which has been followed by continued relatively low levels of sterling against most currencies. Although depreciation has helped to maintain overseas demand for UK real estate, in the construction sector it has also led to increased cost pressures on materials throughout the supply chain. The Company and Group have been relatively 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. As a result of the depreciation of sterling and also as a result of change in the perceived attraction of the UK as a destination for workers from the EU, 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, the availability of labour in the construction industry is likely to be adversely affected by uncertainty over the status of EU nationals and recent Government proposals for the introduction of a points based system of immigration. The final terms for the departure of the UK from the EU 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.

The Board believes the Company is relatively well placed to weather the impact of an EU departure linked economic downturn or change in London's competitive environment. Most tenants at Canary Wharf are on relatively long lease 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 further diversified the office portfolio away from financial services.

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. Although the focus of the Group has been on and around the Estate, where value can be added the Group will also consider opportunities elsewhere. The Group is involved as construction manager and joint development manager in the joint venture with Qatari Diar to redevelop the Shell Centre in London's South Bank. The Group has also reviewed current consents for development to react to changes in the market. This review has led to an increased focus on residential development as reflected in the revised composition of the proposed master plan for the mixed use development on land immediately east of the Estate known as Wood Wharf.

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 2019 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2020 was 43.0%. 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.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	**2019**	2018
		£	£
Administrative expenses		**(8,952)**	(9,949)
OPERATING LOSS		**(8,952)**	(9,949)
Interest receivable from group companies	3	**86,773,071**	88,617,570
Bank interest receivable	3	**15,944**	11,158
Loan interest payable	4	**(86,643,107)**	(88,467,105)
Hedge reserve recycling	4	**(4,689,581)**	568,790
Fair value movements	5	**14,646,700**	(12,284,696)
PROFIT/(LOSS) BEFORE TAX		**10,094,075**	(11,564,232)
Tax on profit/(loss)	6	**–**	–
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		**10,094,075**	(11,564,232)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Fair value movement on effective hedging instruments		**(14,646,700)**	12,284,696
Hedge reserve recycling		**4,689,581**	(568,790)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(9,957,119)**	11,715,906
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**136,956**	151,674

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Note	**2019**	As restated 2018
		£	£
CURRENT ASSETS			
Debtors:			
Amounts falling due after more than one year	7	**1,680,875,352**	1,677,273,086
Amounts falling due within one year	7	**48,215,880**	48,763,858
Cash at bank and in hand		**3,366,239**	3,161,839
		1,732,457,471	1,729,198,783
Creditors:			
Amounts falling due within one year	8	**(46,184,654)**	(46,665,187)
NET CURRENT ASSETS		**1,686,272,817**	1,682,533,596
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,686,272,817**	1,682,533,596
Creditors:			
Amounts falling due after more than one year	9	**(1,680,875,352)**	(1,682,533,596)
NET ASSETS		**5,397,465**	5,260,509
CAPITAL AND RESERVES			
Called up share capital	12	**50,000**	50,000
Hedging reserve		**(157,005,324)**	(147,048,205)
Retained earnings		**162,352,789**	152,258,714
		5,397,465	5,260,509

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

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 (as restated)	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**

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 (as previously stated)	50,000	(131,774,212)	(149,159,326)	(280,883,538)
Prior year adjustment	–	(26,989,899)	312,982,272	285,992,373
At 1 January 2018 (as restated)	50,000	(158,764,111)	163,822,946	5,108,835
Loss for the year	–	–	(11,564,232)	(11,564,232)
Fair value movement on effective hedging instruments	–	12,284,696	–	12,284,696
Hedge reserve recycling	–	(568,790)	–	(568,790)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	11,715,906	(11,564,232)	151,674
AT 31 DECEMBER 2018	50,000	(147,048,205)	152,258,714	5,260,509

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

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 2019 but is derived from those accounts. The statutory accounts for the year ended 31 December 2019 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 2019 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 is 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 Note 16.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 **£**	2018 £
Interest receivable from group companies	**86,773,071**	88,617,570

Bank interest receivable	**15,944**	11,158
	86,789,015	88,628,728

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2019	As restated 2018
	£	£
Interest payable on securitised debt (Note 10)	**86,643,107**	88,467,105
Fair value adjustments	**(14,646,700)**	12,284,696
Hedge reserve recycling	**4,689,581**	(568,790)
	76,685,988	100,183,011

5. FAIR VALUE ADJUSTMENTS

	2019	As restated 2018
	£	£
Derivative financial instruments	**17,109,613**	(14,945,454)
Securitised debt	**4,268,326**	(30,101,910)
Loan to fellow subsidiary undertaking	**(36,024,639)**	57,332,060
	(14,646,700)	12,284,695

Unrealised fair value gains or losses on derivative financial instruments which do not qualify for hedge accounting are recognised in the Income Statement (Note 10).

6. TAXATION

	2019	As restated 2018
	£	£
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% (2018 – 19.0%). The differences are explained below:

	2019	2018
	£	£
Profit/(loss) on ordinary activities before tax	**10,094,075**	(11,564,232)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2018 – 19.0%)	**1,917,874**	(2,197,204)
EFFECTS OF:		
Fair value movements not subject to tax	**(1,891,852)**	2,226,022
Group relief	**(26,022)**	(28,818)
TOTAL TAX CHARGE FOR THE YEAR	**–**	–

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Enacted in the Finance Act (No.2) 2015 is a reduction in the corporation tax rate for 17.0% on 1 April 2020.

Following the year end, in 2020 Budget, HM Treasury have set their intention not to cut corporation tax beyond 19.0% on 1 April 2020.

7. DEBTORS

	2019	As restated 2018
	£	£
DUE AFTER MORE THAN ONE YEAR		
Loan to fellow subsidiary undertaking due after more than one year	**1,680,875,352**	1,677,273,086
	1,680,875,352	1,677,273,086

	2019 £	2018 £
DUE WITHIN ONE YEAR		
Other amounts owed to fellow subsidiaries	**2,098,450**	2,150,221
Loan to fellow subsidiary undertaking due within one year	**29,325,200**	29,325,200
Accrued interest on loan to fellow subsidiary undertaking	**16,792,230**	17,288,437
	48,215,880	48,763,858

	2019 £	As restated 2018 £
The loan to a fellow subsidiary undertaking comprises:		
At 1 January	**1,706,598,286**	1,796,448,722
Repaid in the year	**(29,325,200)**	(29,325,200)
Amortisation of issue premium	**(1,864,598)**	(1,959,964)
Movement in accrued financing expenses	**(1,232,575)**	(1,233,212)
Fair value adjustment	**36,024,639**	(57,332,060)
At 31 December	**1,710,200,552**	1,706,598,286

Comprising:

	2019 £	As restated 2018 £
Loan to fellow subsidiary undertaking due after more than one year	**1,680,875,352**	1,677,273,086
Loan to fellow subsidiary undertaking due within one year	**29,325,200**	29,325,200
	1,710,200,552	1,706,598,286

The fair value of the loans to group undertakings at 31 December 2019 was £1,988,296,841 (2018 – £1,911,950,530), 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	2019 £m	2018 £m
A1	6.465%	6.161%	By instalment 2009 – 2033	**244.2**	266.5
A3	5.962%	5.824%	By instalment 2032 – 2037	**400.0**	400.0
A7	5.409%	5.308%	January 2035	**220.0**	222.0
B	6.810%	6.420%	By instalment 2005 – 2030	**134.8**	141.7
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
				1,443.6	1,472.8
Unamortised premium				**15.7**	17.5
Accrued financing costs				**18.6**	19.8
				1,477.9	1,510.1

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 £1,710,200,552.

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:

	2019 £	2018 £
Within one year	**117,551,720**	119,581,394

	2019	2018
In one to 2 years	**115,741,960**	117,661,677
In 2 to 5 years	**335,707,881**	341,576,988
In 5 to 10 years	**494,901,669**	509,670,777
In 10 to 20 years	**1,484,484,940**	1,579,588,685
At 31 December	**2,548,388,170**	2,668,079,521

	2019	2018
	£	£
Comprising:		
Principal repayments	**1,443,512,520**	1,472,837,720
Interest repayments	**1,104,875,650**	1,195,241,801
At 31 December	**2,548,388,170**	2,668,079,521

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

	2019	2018
	£	£
Securitised debt (Note 10)	**29,325,200**	29,325,200
Accruals and deferred income	**16,859,454**	17,339,987
	46,184,654	46,665,187

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

	2019	As restated 2018
	£	£
Securitised debt (Note 10)	**1,331,780,063**	1,359,934,112
Derivative financial instruments (Note 11)	**349,095,289**	317,338,975
	1,680,875,352	1,677,273,087

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	2019	As restated 2018
	£	£
At 1 January	**1,389,259,312**	1,451,879,599
Repaid in the year	**(29,325,200)**	(29,325,200)
Amortisation of issue premium	**(1,864,598)**	(1,959,965)
Movement in accrued financing expenses	**(1,232,577)**	(1,233,212)
Fair value adjustment	**4,268,326**	(30,101,910)
At 31 December	**1,361,105,263**	1,389,259,312

	2019	As restated 2018
	£	£
Payable within one year or on demand	**29,325,200**	29,325,200
Payable after more than one year	**1,331,780,063**	1,359,934,112
	1,361,105,263	1,389,259,312

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 2019 £15,667,363 (2018 – £17,531,961) remained unamortised.

At 31 December 2019 there were accrued financing costs of £18,578,262 (2018 – £19,810,837) 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 2019, AIG had posted £136,586,799 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 2019 the securitised debt comprised the following:

Tranche	Principal £m	Market 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**			

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
	1,472.8	1,594.6			

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 £1,639,201,552.

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:

	2019 £	2018 £
Within one year	**89,809,309**	93,229,006
In one to 2 years	**87,713,767**	92,364,070

	2019	2018
In 2 to 5 years	**254,209,302**	269,150,550
In 5 to 10 years	**365,735,335**	394,812,770
In 10 to 20 years	**1,350,476,115**	1,439,235,049
At 31 December	**2,147,943,828**	2,288,791,445

	2019	2018
	£	£
Comprising:		
Principal repayments	**1,443,512,520**	1,472,837,720
Interest repayments	**704,431,308**	815,953,725
At 31 December	**2,147,943,828**	2,288,791,445

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 2019 was 12.4 years (2018 – 13.1 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 2019 was 6.1% (2018 – 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 2019 the fair value of these derivatives resulted in the recognition of a net liability of £349,095,289 (2018 – £317,338,975).

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

	2019	2018
	£	£
Allotted, called up and fully paid		
50,000 (2018 – 50,000) Ordinary shares of £1.00 each	**50,000**	50,000

13. RESERVES

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

	2019	As restated 2018
	£	£
Retained earnings	**162,352,789**	152,258,714
Hedging reserve	**(157,005,324)**	(147,048,205)
Distributable reserves	**5,347,465**	5,210,509

14. OTHER FINANCIAL COMMITMENTS

As at 31 December 2019 and 31 December 2018 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.

15. PRIOR YEAR ADJUSTMENT

In previous years the company has noted within its Strategic Report a mismatch in the accounting treatment applied to its financial instruments, whereby derivatives were measured at fair value with securitised debt and intercompany loans measured at amortised cost.

FRS 102 allows financial instruments to be measured in accordance with IFRS 9 – Financial Instruments. Following the adoption of IFRS 9, in the EU, the company has, on 1 July 2019, changed its accounting policy for financial instruments to that of the measurement criteria of IFRS 9.

The interest swaps, securitised debt and loans to a fellow subsidiary undertaking have been designated as Fair Value through Profit or Loss to eliminate the accounting mismatch, so providing more reliable and relevant information.

The fixed rate securitised debt and the associated tranches of the loan to a fellow subsidiary undertaking continue to be carried at amortised cost as this does not cause an accounting mismatch. IFRS 9 does not permit a designation as FVTPL under these circumstances.

Prior to 1 July 2019, financial instruments were carried under the measurement criteria of IAS 39. The A7 and D2 derivative financial instruments were carried at FVTPL. The B3 and C2 derivatives financial instruments were designated as effective hedges of the corresponding notes and carried at Fair Value through Other Comprehensive Income. All other financial instruments were carried at amortised cost. 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 will be amortised to the income statement over the remaining life of the corresponding notes.

Under the previous accounting policy, the fair value adjustment resulted in the recognition of a deferred tax asset. Under the new accounting policy, the deferred tax on the fair value movements nets to nil.

This change in accounting policy has been applied retrospectively and the following line items of the accounts have been restated accordingly:

	Previously reported 2018 £	Adjustment 2018 £	As restated 2018 £
Fair value adjustments	14,945,453	(27,230,149)	(12,284,696)
Other profits and losses	720,464	–	720,464
Profit before tax	15,665,917	(27,230,149)	(11,564,232)
Tax on profit	(2,637,422)	2,637,422	–
Profit for the financial year	(13,028,495)	(24,592,727)	(11,564,232)
Debtors:			
Amounts falling due after more than one year	1,534,802,943	142,470,143	1,677,273,086
Creditors:			
Amounts falling due after more than one year	(1798,194,294)	120,921,207	(1,677,273,087)
Other assets and liabilities	5,260,510	–	5,260,510
NET ASSETS/(LIABILITIES)	(258,130,841)	263,391,350	5,260,509
CAPITAL AND RESERVES			
Retained earnings	127,260,519	288,389,545	152,258,714
Other reserves	(122,000,010)	(24,998,195)	(146,998,205)
	(258,130,841)	263,391,350	5,260,509

16. POST BALANCE SHEET EVENTS

Since 31 December 2019 the UK economy has been significantly impacted by the Covid–19 virus which has caused widespread disruption and economic uncertainty. This is considered to be a non adjusting post balance sheet event and accordingly the valuation of assets and liabilities at the balance sheet date have not been adjusted for the subsequent uncertainty caused by these events.

This does however create uncertainty around the future valuation of investment property and the impact on the company's loan to value covenant. At the date of approval of the financial statements however, the directors do not consider that this is likely to give rise to a breach of covenant within the next 12 months.