CANARY WHARF
GROUP PLC

CANARY WHARF RETAIL FUNDING LIMITED

Registered number: 8302481

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CANARY WHARF RETAIL FUNDING LIMITED

CONTENTS

CANARY WHARF RETAIL FUNDING LIMITED

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 acts as a financing company for the retail areas at Canary Wharf.

BUSINESS REVIEW

As shown in the company's income statement, the company's profit after tax for the year was £239,237 (2018 - loss after tax of £665,148).

The balance sheet shows the company's financial position at the year end and indicates that net assets were £22,845,964 (2018 - £28,338,550).

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 has not been adjusted for the subsequent uncertainty caused by these events.

There is an increased risk of a breach of the loan covenants in relation to the company's £700.0m retail facility as a result of a shortfall in contracted rents and falling valuations. The loan is secured by fixed and floating charges over the group subsidiaries which have interests in the retail properties included in the facility. The retail loan also has the benefit of a £100.0m corporate guarantee provided by Canary Wharf Group plc, but is otherwise non recourse. Of the 1 April 2020 retail rents billed, the group collected around 39.0% which was sufficient to service the Q2 interest obligation under the loan. Of the 1 July retail rents billed, the group has so far collected 37.0% of rents billed and this, combined with rent deposits, was sufficient to service the Q3 interest obligation.

The company negotiated a waiver of covenant breaches under the retail loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020 and the first date on which the ICR covenant can be tested is January 2021. In accordance with UK Government announcements, non-essential retail reopened on 15 June 2020 and food and beverage outlets are reopening on a phased basis from 4 July 2020. Nevertheless, it is anticipated that it will take some months for footfall to recover. Dependent on how retail recovers, it is possible that the company may need to request a further extension to the waiver of covenant testing beyond November 2020 for the LTV covenant and January 2021 for the ICR covenant.

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. Further details regarding the going concern basis of accounting, including a material uncertainty relating to going concern, are in Note 2.2 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the business are monitored through regular assessment, 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 the group, the current key risks of the company include the cyclical nature of the property market particularly following the impact of the Covid-19 virus, 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, the dramatic impact of Covid-19 across all sectors of the UK and Global economies and the consequent renewed turmoil in the financial markets following, the London real estate market has had to cope with fluctuations in demand.

Although the impact of Covid-19 has been felt acutely across the whole Real Estate sector, the impact has been most pronounced on the Retail and Hospitality sectors where the national lockdown and continued social distancing requirements have dramatically reduced footfall and turnover. Demand in both the residential and office leasing markets has also been significantly affected by the virus. Although restrictions are currently being eased there is no certainty of a return to the pre-Covid-19 conditions and continuing uncertainty has led to further suppression of demand.

Delays are also being experienced in the delivery of new projects as a result of Covid-19 related problems in supply chains and the attendance of workers on site.

The real estate market has been assisted by the depreciation of sterling and the continuing, if diminished, 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.

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 are 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 rate and bond yields.

The company holds loan finance, in sterling at floating rates and uses interest rate swaps to modify exposure to interest rate fluctuations. The company enters into derivative financial instruments solely for the purposes of hedging its financial assets and liabilities. No derivatives are entered into for speculative purposes.

SECTION 172(1) STATEMENT COMPANIES ACT 2006

Section 172 (1) of the Companies Act 2006 requires that a director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term

The Board meets to discuss and make decisions on matters of strategic importance to the business, to promote the long term success of the Company and to consider the likely long term impact of any such decisions.

(b) the interest of the Company's employees

The Company has no employees other than the directors, who did not receive remuneration from the Company during the year.

(c) the need to foster the Company's business relationships with suppliers, customers and others

The Company holds a lease interest and therefore in its normal course of business has no engagement with suppliers or customers.

(d) the impact of the Company's operations on the community and the environment

The Company is committed to having a strong and positive impact and enhancing the lives of those in the communities in which we work.

(e) the desirability of the Company maintaining a reputation for high standards of business conduct

The Company expects the highest standards of conduct from business partners and suppliers with which it engages and complies with all relevant legislation and ethical policies established by Group companies.

(f) the need to act fairly between the members of the Company

The Company's Articles of Association may be amended by special resolution of the Company's shareholder. The Company is a wholly owned subsidiary within the Canary Wharf group of companies and is a single member company under section 123 (1) of the Companies Act 2006.

Throughout 2020 the Board will continue to review how the Company can improve engagement with its stakeholders.

KEY PERFORMANCE INDICATORS

The Canary Wharf Group (comprising Canary Wharf Group plc and its subsidiaries) manages its operations on a unified basis. For this reason, the company's directors believe that key performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of its business. The performance of the Canary Wharf Group, which includes the company, is discussed in the Annual Report of Canary Wharf Group plc, which does not form part of this report.

This report was approved by the board on 21 September 2020 and signed on its behalf.

R J J Lyons
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £239,237 (2018 - loss £665,148).

No dividends have been paid or proposed in the year (2018 - £Nil).

DIRECTORS

The directors who served during the year were:

A P Anderson II (resigned 31 December 2019)
Sir George Iacobescu CBE
R J J Lyons
S Z Khan (appointed 31 December 2019)

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The company also has in place liability insurance covering the directors and officers of the company. Both the indemnity and insurance were in force during the year ended 31 December 2019 and at the time of the approval of this Directors' Report. Neither the indemnity nor the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

FINANCIAL INSTRUMENTS

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

FUTURE DEVELOPMENTS

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

This report was approved by the board on 21 September 2020 and signed on its behalf.

CEHillsdon

C E Hillsdon
Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF RETAIL FUNDING LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Canary Wharf Retail Funding Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to Note 2.2 in the financial statements, which indicates that a material uncertainty exists which may cast significant doubt on the company's ability to continue as a going concern.

The company is funded by a retail loan facility with the group's retail properties charged as security; this retail loan is subject to a minimum Interest Coverage Ratio (ICR) covenant of 175%. The loan also contains a maximum Loan to Value (LTV) covenant of 70%, above which a pay down of the loan is triggered, and an LTV covenant of 65%, above which there is a cash trap such that surplus rents are used to amortise the loan. On the basis of the last valuation addressed to the lenders in November 2019 the LTV ratio was 64.5%.

As explained in Note 2.2, the lenders have waived covenant testing under the loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020. Given the ongoing impact of COVID-19 on valuations, it is likely that the company may need to request a waiver of covenant testing beyond November 2020 but there can be no assurance that such waiver will be agreed and in those circumstances a partial repayment of the loan would be required. This could take the form of a call under the parent company guarantee provided by Canary Wharf Group plc in relation to £100m of the loan and/or the trapping of surplus rents. Nevertheless, the prospect of future falls in the valuation of retail property assets may mean that these remedies will may in themselves be insufficient to cure a breach of the 70% LTV covenant resulting in the company having insufficient funds to cover such repayment as it falls due.

As stated in Note 2.2, the events or conditions described above indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF RETAIL FUNDING LIMITED

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF RETAIL FUNDING LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Valerie Main

Valerie Main (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 September 2020

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Administrative expenses		-	(4,320)
OPERATING PROFIT/(LOSS)		-	(4,320)
Interest receivable and similar income	6	22,350,604	19,896,316
Interest payable and similar charges	7	(22,111,367)	(20,557,144)
PROFIT/(LOSS) BEFORE TAX		239,237	(665,148)
Tax on profit/(loss)	8	-	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		239,237	(665,148)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Fair value movement on derivative financial instruments		(5,731,823)	4,274,614
Deferred tax on fair value movements		-	(254,315)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(5,731,823)	4,020,299
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(5,492,586)	3,355,151

The notes on pages 12 to 21 form part of these financial statements.

CANARY WHARF RETAIL FUNDING LIMITED
REGISTERED NUMBER: 8302481

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	9	696,935,457	699,378,678
Debtors: amounts falling due within one year	9	30,143,978	32,905,251
Cash at bank and in hand		2,731	1,977
		727,082,166	732,285,906
Creditors: amounts falling due within one year	10	(3,944,525)	(3,947,356)
NET CURRENT ASSETS		723,137,641	728,338,550
TOTAL ASSETS LESS CURRENT LIABILITIES		723,137,641	728,338,550
Creditors: amounts falling due after more than one year	11	(700,291,677)	(700,000,000)
NET ASSETS		22,845,964	28,338,550
CAPITAL AND RESERVES			
Called up share capital	13	29,127,050	29,127,050
Hedging reserve		(2,953,180)	2,778,643
Retained earnings		(3,327,906)	(3,567,143)
		22,845,964	28,338,550

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 21 September 2020.

R J J Lyons
Director

The notes on pages 12 to 21 form part of these financial statements.

CANARY WHARF RETAIL FUNDING LIMITED

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	29,127,050	2,778,643	(3,567,143)	28,338,550
COMPREHENSIVE INCOME FOR THE YEAR				
Profit for the year	-	-	239,237	239,237
Fair value movement on effective hedging instrument	-	(5,731,823)	-	(5,731,823)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	(5,731,823)	-	(5,731,823)
AT 31 DECEMBER 2019	29,127,050	(2,953,180)	(3,327,906)	22,845,964

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	29,127,050	(1,241,656)	(2,901,995)	24,983,399
COMPREHENSIVE INCOME FOR THE YEAR				
Loss for the year	-	-	(665,148)	(665,148)
Fair value movement on effective hedging instrument	-	4,274,614	-	4,274,614
Taxation in respect of items of other comprehensive income	-	(254,315)	-	(254,315)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	4,020,299	(665,148)	3,355,151
AT 31 DECEMBER 2018	29,127,050	2,778,643	(3,567,143)	28,338,550

The notes on pages 12 to 21 form part of these financial statements.

1. GENERAL INFORMATION

Canary Wharf Retail Funding Limited is a private company limited by shares incorporated in the UK under the Companies Act 2006 and registered in England and Wales at One Canada Square, Canary Wharf, London, E14 5AB.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland").

Replacement of LIBOR as an interest rate benchmark

It is anticipated that LIBOR will be replaced or discontinued after the end of 2021, as part of global financial regulators' project to reform interest rate benchmarks. The Company will therefore re-negotiate and/or otherwise amend to accommodate such change in benchmarks, where related instruments mature after 2021.

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

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

2.2 Going concern

The financial statements have been prepared on a going concern basis which assumes the company will be able to meet its liabilities as they fall due for the foreseeable future.

The impact of the COVID–19 outbreak is described in Note 14.

The current environment for the retail and hospitality sectors is challenging which is impacting on the company's rental income. Nevertheless, taking all of the group's retail properties charged as security for the company's retail loan, the group has collected sufficient rent to service the interest obligations under the loan for Q2 and Q3 2020. The board expects that this will continue to be the case in Q4 2020 and the early part of 2021 before there is a recovery in trading later in the year.

The company's retail loan facility is subject to a minimum Interest Coverage Ratio (ICR) covenant of 175%. The loan also contains a maximum Loan to Value (LTV) covenant of 70%, above which a pay down of the loan is triggered, and an LTV covenant of 65%, above which there is a cash trap such that surplus rents are used to amortise the loan. On the basis of the last valuation addressed to the lenders in November 2019 the LTV ratio was 64.5%.

2. ACCOUNTING POLICIES (CONTINUED)

As explained in Note 14, the lenders have waived covenant testing under the loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020. Given the ongoing impact of COVID–19 on valuations, it is likely that the company may need to request a waiver of covenant testing beyond November 2020 but there can be no assurance that such waiver will be agreed and in those circumstances a partial repayment of the loan would be required. This could take the form of a call under the parent company guarantee provided by Canary Wharf Group plc in relation to £100m of the loan and/or the trapping of surplus rents. Nevertheless, the prospect of future falls in the valuation of retail property assets may mean that these remedies will in themselves be insufficient to cure a breach of the 70% LTV covenant resulting in the company having insufficient funds to cover such repayment as it falls due.

The directors have concluded that these circumstances represent a material uncertainty which casts significant doubt upon the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, allowing for the parent company guarantee in relation to £100.0m of the retail loan and the expectation of reaching agreement with the lenders on the continuation of the loan covenant waiver, the directors have formed a judgement that at the time of approving the financial statements there is a reasonable expectation that the company will have adequate resources to continue its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year end 31 December 2019.

The financial statements have been prepared on a going concern basis which assumes the company will be able to meet its liabilities as they fall due for the foreseeable future.

2.3 Cash flow statement

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

2.4 Financial instruments

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

Trade and other receivables

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

Loans receivable

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

Trade and other payables

Trade and other creditors are stated at cost.

2. ACCOUNTING POLICIES (CONTINUED)

Borrowings

Standard loans payable are recognised initially at transaction price including transaction costs.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability.

2.5 Taxation

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

2.6 Derivative instruments

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

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

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The preparation of financial statements also requires use of judgements, apart from those involving estimation, that management makes in the process of applying the entity's accounting policies.

Derivative financial instruments

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

For the year ended 31 December 2019, the financial statements of the company did not contain any significant items that required the application of judgements, apart from those involving estimation.

4. AUDITOR'S REMUNERATION

Auditor's remuneration of £6,000 (2018: £6,000) for the audit of the company for the year ended 31 December 2019 has been borne by another group undertaking.

5. EMPLOYEES

The Company has no employees other than the directors, who did not receive any remuneration (2018 - £NIL).

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £	2018 £
Interest receivable from group companies	20,677,343	19,670,595
Amortisation of loan fees	1,659,592	218,272
Other interest receivable	13,669	7,449
	22,350,604	19,896,316

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £	2018 £
Bank interest payable	19,797,058	18,823,802
Loan fees	1,502,901	87,607
Interest payable on derivative financial instruments	809,093	1,643,312
Bank charges	2,315	2,423
	22,111,367	20,557,144

8. TAXATION

	2019 £	2018 £
Current tax on profits for the year	-	-
TOTAL CURRENT TAX	-	-
DEFERRED TAX		
TOTAL DEFERRED TAX	-	-
TAXATION ON PROFIT/(LOSS) 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% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Profit/(loss) on ordinary activities before tax	239,237	(665,148)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	45,455	(126,378)
EFFECTS OF:		
Interest restriction	-	216,565
Other	-	821
Group relief	(45,455)	(91,008)
TOTAL TAX CHARGE FOR THE YEAR	-	-

8. TAXATION (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

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

Following the year end, in the 2020 Budget, HM Treasury announced their intention not to cut corporation tax beyond 19%.

The company is a member of a REIT headed by Stork Holdings Limited . As a consequence all qualifying property rental business is exempt from corporation tax. Only income and expenses relating to non-qualifying activities will continue to be taxable.

9. DEBTORS

	2019 £	2018 £
DUE AFTER MORE THAN ONE YEAR		
Loans to group undertakings	696,935,457	699,378,678
	696,935,457	699,378,678

The loans to group undertakings bear interest at LIBOR plus 2.1% and are repayable in November 2021.

Recorded against the balance at 31 December 2019 is £3,064,553 (2018 - £621,322) of unamortised financing fees.

	2019 £	2018 £
DUE WITHIN ONE YEAR		
Amounts owed by group undertakings	30,143,978	30,126,608
Derivative financial instruments	-	2,778,643
	30,143,978	32,905,251

Amounts owed by group undertakings

	2019 £	2018 £
Loan to group undertaking	26,264,411	26,227,240
Accrued interest on loans to group undertakings due after more than one year	3,879,565	3,899,366
Amounts owed to group undertakings	2	2
	30,143,978	30,126,608

The loan to a group undertaking bears interest at a rate linked to LIBOR and is repayable on demand.

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

10. CREDITORS: Amounts falling due within one year

	2019 £	2018 £
Accruals and deferred income	3,944,525	3,947,356
	3,944,525	3,947,356

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

	2019 £	2018 £
Bank loans	697,338,497	700,000,000
Derivative financial instruments	2,953,180	-
	700,291,677	700,000,000

Secured loans

In November 2016, the company refinanced its loan facility with a new £700.0 million loan facility. Of this amount, £600.0 million was drawn down in December 2016 and an additional £100.0 million was drawn down on 24 April 2017.

Interest on the loan is payable at 3 month LIBOR plus 2.0% and an interest rate hedge has been entered into to fix 3 month LIBOR at 0.963%.

The loan is subject to a maximum LTV ratio of 70.0%. This covenant was satisfied throughout the year.

The loan is subject to a minimum ICR covenant of 175%. The covenant was satisfied throughout the year. The company has the ability to remedy any potential breach of covenant by depositing cash.

The facility repayment date is 4 November 2021.

Recorded against the balance at 31 December 2019 is £2,661,503 (2018: Nil) of unamortised financing fees.

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 £	2018 £
Interest rate swap (liability)/asset	(2,953,180)	2,778,643

The company uses an interest rate swap to hedge the exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. The swap rate is 0.963%.

At 31 December 2019 the fair value of the interest rate swap resulted in the recognition of a liability of £2,953,180 (2018 - asset of £2,778,643). The swap qualifies for hedge accounting and has been designated as a highly effective hedge.

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 instrument correlates 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.

The following table shows the undiscounted cash outflows in relation to the company's interest rate swap based on the company's prediction of future movements in interest rates:

	2019 £	2018 £
Within one year	1,281,261	117,205
In one to two years	1,525,566	(1,000,090)
in two to five years	-	(1,774,392)
Impact on net assets	2,806,827	(2,657,277)

Changes in interest rates would affect the market value of derivative financial instruments. These changes would impact the reserves for swaps, which are highly effective. A 0.5% parallel shift in the interest rate curve used to value the derivatives, with all other variables held constant would have the following impact:

	2019 £	2018 £
0.5% increase in interest rates		
Impact on hedging reserve	5,250,885	8,034,253
Impact on net assets	5,250,885	8,034,253

A -0.5% parallel shift in the interest rate curve used to value derivatives, with all other variables held constant would have the following impact:

	2019 £	2018 £
-0.5% decrease in interest rates		
Impact on hedging reserve	(5,329,876)	(8,193,238)
Impact on net assets	(5,329,876)	(8,193,238)

The 0.5% sensitivity have been selected based on the directors' view of a reasonable interest rate curve movement assumption.

The impact on the net assets of the company arises because all of the company's borrowings are subject to interest rate swaps, which are carried at valuation in the balance sheet and all of its loans to fellow subsidiary undertakings are at fixed rate, and carried at amortised cost.

13. SHARE CAPITAL

	2019 £	2018 £
Allotted, called up and fully paid		
29,127,050 (2018 - 29,127,050) Ordinary shares of £1.00 each	29,127,050	29,127,050

14. 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 has not been adjusted for the subsequent uncertainty caused by these events.

There is an increased risk of a breach of the loan covenants in relation to the company's £700.0m retail facility as a result of a shortfall in contracted rents and falling valuations. The loan is secured by fixed and floating charges over the group subsidiaries which have interests in the retail properties included in the facility. The retail loan also has the benefit of a £100.0m corporate guarantee provided by Canary Wharf Group plc, but is otherwise non recourse. Of the 1 April 2020 retail rents billed, the group collected around 39.0% which was sufficient to service the Q2 interest obligation under the loan. Of the 1 July retail rents billed, the group has so far collected 37.0% of rents billed and this, combined with rent deposits, was sufficient to service the Q3 interest obligation.

The company negotiated a waiver of covenant breaches under the retail loan for two interest payment dates meaning that the first date on which the LTV covenant can be tested is November 2020 and the first date on which the ICR covenant can be tested is January 2021. In accordance with UK Government announcements, non-essential retail reopened on 15 June 2020 and food and beverage outlets are reopening on a phased basis from 4 July 2020. Nevertheless, it is anticipated that it will take some months for footfall to recover. Dependent on how retail recovers, it is possible that the company may need to request a further extension to the waiver of covenant testing beyond November 2020 for the LTV covenant and January 2021 for the ICR covenant.

15. CONTROLLING PARTY

The company's immediate parent undertaking is Canary Wharf Investments Limited.

As at 31 December 2019, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of Canary Wharf Group Investment Holdings plc. Copies of the financial statements may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

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

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

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