We focus on having an appropriate balance of debt and equity funding which enables us to deliver our property strategy

"Magnification" means the property values in the denominator are stress-tested to amplify the LTV ratio as a way of allowing for the increased financial risk to British Land due to adverse property price movements.

For example, the process asks "how far do property values have to fall before there is a covenant breach?"

Read the qualitative effect of this in the paragraph that follows.

Leverage

We manage our use of debt and equity finance to balance the benefits of leverage against the risks, including a magnification of property valuation movements. A loan to value ratio ('LTV') measures our leverage, primarily on a proportionally consolidated basis including our share of joint ventures and funds and excluding non-controlling interests. At 31 March 2017, our proportionally consolidated LTV of 29.9% was higher than the Group measure of 22.6%.

In accordance with the FRC LAB report additional performance measures (APM) is defined.

We aim to manage our LTV through the property cycle such that our financial position would remain robust in the event of a significant fall in property values. This means we do not adjust our approach to leverage based on changes in property market yields. Consequently our LTV may be higher in the low point in the cycle and will trend downwards as market yields tighten.

Debt finance

The scale of our business combined with the quality of our assets and rental income means that we are able to approach a diverse range of debt providers to arrange finance on attractive terms. Good access to the capital and debt markets is a competitive advantage, allowing us to take opportunities when they arise.

The Group's approach to debt financing for British Land is to raise funds predominantly on an unsecured basis with our standard financial covenants (set out on page 45). This provides flexibility and low operational cost. Our joint ventures and funds are each financed in 'ring-fenced' structures without recourse to British Land for repayment and are secured on the relevant assets.

Presented on the following page are the five guiding principles that govern the way we structure and manage debt.

Key risk factors and why they matter

Monitoring and controlling our debt

We monitor our debt requirement by focusing principally on current and projected borrowing levels, available facilities, debt maturity and interest rate exposure. We undertake sensitivity analysis to assess the impacts of proposed transactions, movements in interest rates and changes in property values on key balance sheet, liquidity and profitability ratios. We also consider the risks of a reduction in the availability of finance, including a temporary disruption of the debt markets.

Based on our current commitments and available facilities, the Group has no requirement to refinance until early 2021 (irrespective of whether the settlement of the 1.5% 2012 convertible bond is with equity or debt). British Land's committed bank facilities total £1.8 billion, of which £1.3 billion was undrawn at 31 March 2017. Consistent with viability statement

For more on managing our risks, including financial risks, see pages 46 to 53.

Managing interest rate exposure

We manage our interest rate profile independently from our debt, considering the sensitivity of underlying earnings to movements in market rates of interest over a five year period. The Board sets appropriate ranges of hedged debt over that period and the longer term.

Our debt finance is raised at both fixed and variable rates. Derivatives (primarily interest rate swaps and caps) are used to achieve the desired interest rate profile across proportionally consolidated net debt. Currently 60% on average of projected net debt is hedged over the next five years, with a decreasing profile over that period. The use of derivatives is managed by a Derivatives Committee, using delegated authority from the Board. The interest rate management of joint ventures and funds is considered separately by each entity's Board, taking into account appropriate factors for its business.

Counterparties

We monitor the credit standing of our counterparties to minimise our risk exposure in placing cash deposits and arranging derivatives. Regular reviews are made of the external credit ratings of the counterparties.

Foreign currency

Our policy is to have no material unhedged net assets or liabilities denominated in foreign currencies.

When attractive terms are available, the Group may choose to borrow in currencies other than Sterling, and will fully hedge the foreign currency exposure.

FINANCIAL POLICIES AND PRINCIPLES CONTINUED

Our five guiding principles

Diversify our sources of finance

We monitor finance markets and seek to access different sources of finance when the relevant market conditions are favourable to meet the needs of our business and, where appropriate, those of our joint ventures and funds. The scale and quality of our business enables us to access a broad range of unsecured and secured, recourse and non-recourse debt.

We develop and maintain long term relationships with banks and debt investors. We aim to avoid reliance on particular sources of funds and borrow from a large number of lenders from different sectors in the market across a range of geographical areas, with a total of 30 debt providers in bank facilities and private placements alone. We work to ensure that debt providers understand our business, adopting a transparent approach to provide sufficient disclosures to enable them to evaluate their exposure within the overall context of the Group. These factors increase our attractiveness to debt providers, and in the last five years we have arranged £4.6 billion (British Land share £3.9 billion) of new finance in unsecured and secured bank loan facilities, US Private Placements and convertible bonds. In addition we have existing long dated debentures and securitisation bonds. A European Medium Term Note programme has also been maintained to enable us to access Sterling/Euro unsecured bond markets when it is appropriate for our business.

£4.5bn
total drawn debt (proportionally consolidated)

Phase maturity of debt portfolio

The maturity profile of our debt is managed with a spread of repayment dates, reducing our refinancing risk in respect of timing and market conditions. We monitor the various debt markets so that we have the ability to act quickly to arrange new finance as opportunities arise which meet our business needs. As a result of our financing activity, we are comfortably ahead of our preferred refinancing date horizon of not less than two years.

The current range of debt maturities is within one to 19 years. In accordance with our usual practice, we expect to refinance facilities ahead of their maturities. Thanks to good access to capital and debt markets

7.7 years
average debt maturity (proportionally consolidated)

READ IN CONJUNCTION WITH Exam guidance for IAS 7 Statement of Cash flows

Maintain liquidity

In addition to our drawn debt, we always aim to have a good level of undrawn, committed, unsecured revolving bank facilities. These facilities provide financial liquidity, reduce the need to hold resources in cash and deposits, and minimise costs arising from the difference between borrowing and deposit rates, while reducing credit exposure.

We arrange these revolving credit facilities in excess of our committed and expected requirements to ensure we have adequate financing availability to support business requirements and new opportunities.

£1.3bn
undrawn revolving credit facilities

Maintain flexibility

Our facilities are structured to provide valuable flexibility for investment activity execution, whether sales, purchases, developments or asset management initiatives. Our revolving credit facilities provide full operational flexibility of drawing and repayment (and cancellation if we require) at short notice without additional cost. These are arranged with standard terms and financial covenants and generally have maturities of five years. Alongside this unsecured revolving debt our secured term debt in debentures has good asset security substitution rights, where we have the ability to move assets in and out of the security pool.

Floating charge on assets pool rather than fixed charge on specific assets.

£1.8bn
total revolving credit facilities

Maintain strong balance sheet metrics

We use both debt and equity financing. We aim to manage LTV through the property cycle such that our financial position would remain robust in the event of a significant fall in property values and we do not adjust our approach to leverage based on changes in property market yields.

We manage our interest rate profile independently from our debt, setting appropriate ranges of hedged debt over a five year period and the longer term.

29.9%
LTV (proportionally consolidated)

A-
senior unsecured credit rating

3.6x
interest cover (proportionally consolidated)