

Canary Wharf Finance II plc

Issued June 2000/June 2001/February 2002/October 2002/May 2005/April 2007

Class A1 6.455% Fixed Rate First Mortgage Debentures due 2033

Class A3 5.952% Fixed Rate First Mortgage Debentures due 2037

Class A7 Floating Rate First Mortgage Debentures due 2037

Class B 6.800% Fixed Rate First Mortgage Debentures due 2033

Class B3 Floating Rate First Mortgage Debentures due 2037

Class C2 Floating Rate First Mortgage Debentures due 2037

Class D2 Floating Rate First Mortgage Debentures due 2037

QUARTERLY UPDATE

Canary Wharf Group updates information on the securitisation bi-annually to coincide with the announcement of the group's results.

The enclosed statistics are as at 30 June 2010.

HIGHLIGHTS

Properties 96.1% let at 30 June 2010

Valuations as at 30 June 2010 were £2,943.0 M

Briefing Note

Lehman Brothers:

On 15 September 2008 Lehman Brothers Limited entered into administration in the UK and its ultimate parent, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman Brothers Limited (in administration) ('Lehman') originally leased 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. Although Lehman has ceased paying rent, the lease legally remains in place and its obligations are guaranteed by Lehman Brothers Holdings Inc, the US parent. Of the 1.023m sq ft, approximately 358,000 sq ft was sub-let in December 2008 to Nomura International Plc. A further 63,000 sq ft (approx) in aggregate was sub-let to Nomura in May 2009 and March 2010. These subleases will expire on 30 September 2010 following the exercise of breaks.

A further 101,000 sq ft is sublet until 2013. Each of these sub-lets revert to Lehman on the expiry of the various sub-leases. The current rent payable by Lehman for the entire building is £54.59 psf.

The securitisation has the benefit of a loan facility agreement ('the HQ2 Facility') with AIG which provides for a shortfall of the contracted rent under the lease (for example following a default by Lehman or its administrators) to be made up by drawing upon the HQ2 Facility. The Facility provides for drawings over a period of 4 years from first drawdown. The amounts drawn are repayable from any recoveries received in respect of the amounts claimed under the Facility and rentals in the property which exceed the contracted rents that would have been received from Lehman under the lease.

Under the HQ2 Facility AIG are obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral of approximately £224.0 million. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG have granted security over the deposits as collateral for its obligations. The amount initially posted in respect of AIG's obligations is subject to periodic adjustment to reflect movements in interest rates.

For the first quarter of 2010 Lehman paid rent in respect of 290,146 sq ft only, being the areas of 25 Bank Street which it occupied at that time and not for the whole of 25 Bank Street. From 1 April 2010 Lehman ceased paying all rent and estate service charge on the building. The sub-tenant of 101,000 sq ft will continue to pay rent directly to the Securitisation rental receipts account.

Notwithstanding any partial occupation or any subsequent vacation of 25 Bank Street by the administrators, CWF II continues to expect full performance of the Lehman obligations under the lease and payment of rent on the whole of 25 Bank Street is being pursued in line with a recent High Court ruling on administrator liability in relation to the first quarter of 2010, with the position reserved as to subsequently. Pending resolution of this issue there was a net shortfall in rental income of £2.6 million within the securitisation structure in the first quarter of 2010. The shortfall for the second quarter was £4.8m and for the third quarter was £5.8m. These shortfalls have been satisfied from existing cash resources in a coverage reserve account established within the securitisation to meet such shortfalls. There has therefore been no immediate drawdown under the HQ2 Facility.

Separately, the securitisation has 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. AIG has posted a further £276.3 million as cash collateral in respect of this obligation.

CWFII 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.

Highlights regarding the other mortgaged properties during the second quarter of 2010 include –

- In June 2010 a new lease was signed with Shell International Ltd to take 186,903 sq ft over 10 floors in 40 Bank Street on a 15 year lease expiring in June 2025 (subject to a break at the end of the 10th year). The starting rent will be £37.50 psf following a rent free period of 42 months. Shell also acquired an option to call for a further 2 floors within 3 months of the date of exchange but has decided not to take up this option. The space taken by Shell was previously leased to Barclays and prior to completion the Barclays lease was surrendered. The resulting shortfall in rent was covered by adding £37.3m to cash collateral.
- The following tenants have served notice to determine their leases in accordance with their relevant lease agreements:

Tenant Name	Building	Floor	NIA	Date Effective
National Westminster Bank Plc	One Canada Square.	Pt Floor 6, Suite E	5,440sq. ft.	10-Jul-10
Nomura International Plc (sublease from Lehman Brothers Limited)	25 Bank Street.	Various	<u>421,000 sq. ft.</u>	30-Sept-10
TOTAL			<u>426,440 sq. ft.</u>	

- The following tenancies expired in the quarter ending 30 June 10:

Tenant Name	Building	Floor	NIA	Date Effective
Hartford Life Limited	One Canada Square.	Pt Floor 29	9,882 sq. ft.	30-Jun-10
KPMG	One Canada Square.	Floor 7,8,9,39	<u>110,050 sq. ft.</u>	30-Jun-10
TOTAL			<u>119,932 sq. ft.</u>	

Subsequent to the quarter end a new lease was signed with Servcorp UK Limited to take 2,891 sqft on part of Floor 18 of 40 Bank Street at a rent of £38 expiring in 2020.

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The figures below are based on actual receipts for Q2 2010.

Property Portfolio Summary

Address	Whole Building NIA	Area Securitised NIA	Area Securitised Let NIA ⁽⁴⁾	Actual Quarterly Rental Income Q2 2010	Estimated Annual Rental Income ⁽¹⁾	Market Value ⁽²⁾
33 Canada Square	562,700 sq. ft	562,700 sq. ft	562,745 sq ft	£5.0m	£20.1	£350.0m
One Canada Square	1,236,200 sq. ft	1,220,700 sq. ft	1,029,795 sq ft	£8.8m	£39.6 ⁽³⁾	£620.0m
20 Bank Street	546,500 sq. ft	546,500 sq. ft	546,538 sq ft	£6.6m	£26.2	£400.0m
25 – 30 Bank Street	1,023,300 sq. ft	1,023,300 sq. ft	1,023,293 sq ft ⁽⁵⁾	£8.3m	£56.5 ⁽⁶⁾	£351.0m
40 Bank Street	607,400 sq. ft	607,400 sq. ft	596,378 sq ft	£6.5m	£24.9 ⁽³⁾	£385.0m
50 Bank Street	210,500 sq. ft	210,500 sq. ft	210,518 sq ft	£2.1m	£8.5	£142.0m
10 Upper Bank Street	1,000,400 sq. ft	1,000,480 sq. ft	1,000,416 sq ft	£11.1m	£44.3	£695.0m
Total	5,187,000 sq. ft	5,171,580 sq. ft	4,969,683 sq ft	£48.4m	£220.1	£2,943.0m

Notes:

- (1) Estimated annual rental income based on annualised rent for the quarter to 30th June 2010.
- (2) MV based valuation of the properties at 30 June 2010.
- (3) Rent receivable after expiry of rent-free periods and excluding potential rental income on unlet space, where applicable.
- (4) Area let as at 30th June 2010.
- (5) Of this total approximately 547,000 sq ft is sublet to tenants including Nomura International plc.
- (6) Annualised rental income is shown inclusive of a full year of Lehman Brothers rent or drawings from the HQ2 Facility.

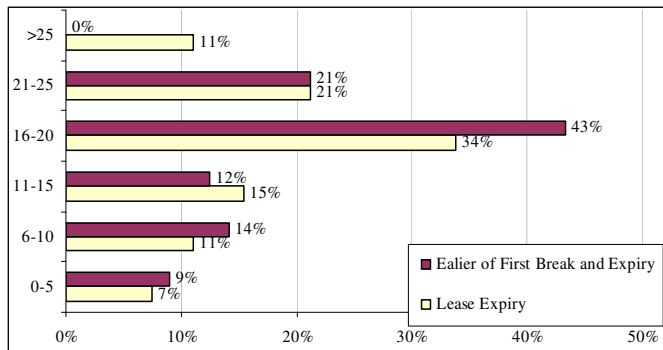
Occupancy

At 30 June 2010 the securitised property portfolio was 96.1% let. For this purpose 25 Bank Street, let to Lehman, has been treated as fully let because of the subleases in the building and the 4 years' cover provided by AIG.

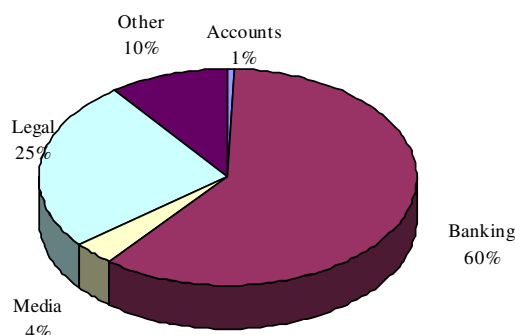
Rent Reviews

	Area	Passing Rent
Outstanding Rent Reviews	36, 838 sq ft	£628, 985

Analysis of Office Lease Expiries and Breaks (Note 1)



Concentration of Leases by Area



(1) The weighted average unexpired lease term of the securitised office portfolio (by sq.ft) was 16.85 years reflecting the full term of the Lehman lease. The weighted average lease term substituting the term of the lease to Lehman with the term of the leases to sub-tenants and the AIG facility was 13.03 years. The weighted average lease term reflecting all break options was 11.54 years.

Major Tenants:

33 Canada Square

Citigroup

One Canada Square

Bank of New York
Mirror Group Newspapers
Moody's Investor Services
JP Morgan
State Street

20 Bank Street

Morgan Stanley UK Group

25 – 30 Bank Street

Lehman Brothers Limited
(In administration)

40 Bank Street

Skadden Arps
Allen & Overy
BGC International
Barclays Bank plc
Shell International Limited

50 Bank Street

The Northern Trust Company
Goldenberg Hehmeyer & Co

10 Upper Bank Street

Clifford Chance LLP

Financial Considerations

	Quarter 2 2010 actuals
Gross Rental (cash received in Q2 2010)	£48.4 m
Interest on collateral accounts and other releases	£0.2 m
B3 Defeasance	(£0.1 m)
C2 Defeasance	(£0.2 m)
Senior Expenses ⁽¹⁾	(£1.8 m)
Gross Debt	£2,476.4 m
Cash Reserves	<u>(£49.1 m)</u>
Net Debt	<u>£2,427.3 m</u>

Quarter 2 2010 Actuals

The Interest Cover and Debt Service Cover ratios have been calculated on the basis of total interest costs, including payments to interest swap providers for the quarter.

Class	Amount ⁽²⁾	Interest ⁽³⁾	Principal ⁽⁴⁾	Reserve Releases	Interest Cover Ratio	Debt Service Cover Ratio	LMCTV	Modified LMCTV ⁽⁵⁾
AAA	£1,773.7 m	(£27.6 m)	(£12.7 m)		1.69 x	1.16 x	58.6%	51.0%
AA	£302.7 m	(£4.8 m)	(£1.7 m)	£0.2 m	1.45 x	1.00 x	68.9%	61.3%
A	£275.0 m	(£3.7 m)	-	£3.7 m	1.30 x	1.00 x	78.2%	70.6%
BBB	£125.0 m	(£1.8 m)	-	£1.8 m	1.23 x	1.00 x	82.5%	74.9%
	£2,476.4 m	(£37.9 m)	(£14.4 m)	£5.8 m				

Reserve	Opening Balance ⁽⁶⁾	Period Movement	Closing Balance ⁽⁶⁾
Void Costs Ledger	£0.9 m		£0.9 m
Cash Ledger	£7.2 m	(£5.8 m)	£1.4 m
B3 Defeasance Ledger	£1.8 m	£0.1 m	£1.9 m
C2 Defeasance Ledger	£6.2 m	£0.2 m	£6.4 m
Cash Collateral ⁽⁷⁾	£5.1 m	£33.4 m	£38.5 m
Total Reserves	£21.2 m	£27.9 m	£49.1 m

Notes:

- Senior Expenses principally include the HQ2 and DS6 credit wrap commitment fees and the liquidity facility fee.
- Total outstanding debt at 22nd July 2010 interest payable date.
- Interest paid on 22nd July 2010. Comprises bond interest of £30.2m and payments under interest rate swaps of £7.7m.
- Amortisation paid on 22nd July 2010.
- As mentioned in the briefing note above, approximately £224.0 m was posted by AIG in respect of the HQ2 Facility Agreement (which is subject to market adjustments). The modified LMCTV ratio reflects the benefit of this cash collateral.
- Opening balance is as at 22nd April 2010, closing balance is at 22nd July 2010.
- On 8 June 2010 Shell International Ltd leased 186,903 sq ft over 10 floors in 40 Bank Street on a 15 year lease expiring in June 2025 (subject to a break at the end of the 10th year). The starting rent will be £37.50 psf following a rent free period of 42 months. Shell also acquired an option to call for a further 2 floors within 3 months of the date of exchange. The space taken by Shell was previously leased to Barclays and prior to completion the Barclays lease was surrendered. The resulting shortfall in rent was covered by adding £37.3m to cash collateral.