

# *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 quarterly.*

*The enclosed statistics are as at 31/12/08.*

## **HIGHLIGHTS**

*Properties 98.9% let at 31 December 2008*

*Valuations as at 31 December 2008 were £2,922.5 M*

**Briefing Note**

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Recent Events - Lehman Brothers:

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

Lehman currently lease 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc, the US parent. Of the 1.023m sq ft, Lehman occupies approximately 525,000 sq ft. and a further 350,000 sq ft was sub-let in December 2008 to Nomura International Plc by Lehman for approximately 2 years. Of the remaining 148,000 sq ft, approximately 100,000 sq ft is sub-let until 2013 and the balance sub-let for a maximum of 2 years. 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 increased from £41.00 psf to £53.00 psf in November 2008.

The securitisation has the benefit of an agreement with AIG which provides for the payment of the contracted rent under the lease following a default from Lehman, either in its entirety or to cover any shortfall ('the HQ2 Facility Agreement'). The agreement is for a period of 4 years from a payment default by Lehman. Under this agreement, 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.

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 mortgaged properties include –

- The valuation of mortgaged properties at 31<sup>st</sup> December 08 was £2,922.5 million. Based on this valuation the LMCTV ratio was 86.3% (without taking account of the cash collateral posted by AIG in respect of 25 Bank Street). Taking this collateral into account the LMCTV ratio was 78.6%
- Estimated annual rental income for mortgages properties as at 31<sup>st</sup> December 08 (assuming the expiry of rent free periods) was £228.3 million.
- BNY International Financing Corporation's lease of 6,463 sq ft on part of floor 34, One Canada Square expired on the 28 November 2008.
- Subsequent to 31 December 2008 the following tenants served notice to determine their leases in accordance with the relevant lease agreements:

<b>Tenant Name</b>	<b>Building</b>	<b>Floor</b>	<b>NIA</b>	<b>Date Effective</b>
Metlife Services Limited	One Canada Square.	Pt Floor 28	10,784	28-Jan-10
Bear Stearns International Limited	One Canada Square.	Pt Floor 25	19,888	14-Apr-09
Bear Stearns International Limited	One Canada Square.	Floor 31	28,780	14-Apr-09
State Street Bank and Trust Company	One Canada Square.	Pt Floor 25	7,051	09-Jan-09
State Street Bank and Trust Company	One Canada Square.	Pt Floor 27	7,016	31-Mar-09

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### Property Portfolio Summary

Address	Whole Building NIA	Area Securitised NIA	Area Securitised Let NIA <sup>(4)</sup>	Estimated Annual Rental Income <sup>(1)(3)</sup>	Market Value <sup>(2)</sup>
33 Canada Square	562,700 sq. ft	562,700 sq. ft	562,745 sq ft	£20.1	£305.0 m
One Canada Square	1,236,200 sq. ft	1,220,700 sq. ft	1,186,044 sq ft	£47.9 <sup>(3)</sup>	£660.0 m
20 Bank Street	546,500 sq. ft	546,500 sq. ft	546,538 sq ft	£26.2	£385.0 m
40 Bank Street	607,400 sq. ft	607,400 sq. ft	596,377 sq ft	£26.5 <sup>(3)</sup>	£377.5 m
50 Bank Street	210,500 sq. ft	210,500 sq. ft	210,529 sq ft	£8.5 <sup>(3)</sup>	£130.0 m
25 – 30 Bank Street	1,023,300 sq. ft	1,023,300 sq. ft	1,023,293 sq ft	£54.7 <sup>(5)</sup>	£415.0 m
10 Upper Bank Street	1,000,400 sq. ft	1,000,400 sq. ft	1,000,416 sq ft	£44.3	£650.0 m
<b>Total</b>	<b>5,187,000 sq. ft</b>	<b>5,171,500 sq. ft</b>	<b>5,116,309 sq ft</b>	<b>228.3</b>	<b>£2,922.5 m</b>

Notes:

- (1) Estimated annual rental income based on annualised rent for the quarter to 31 December 2008.
- (2) MV based valuation of the properties at 31 December 2008.
- (3) Rent receivable after expiry of rent-free periods and excluding potential rental income on unlet space, where applicable.
- (4) Area let as at 31 December 2008.
- (5) Lehman Brothers Limited lease subject to a fixed rental uplift effective 9 November 2008 from £41 psf to £53 psf.

### Financial Considerations

Gross Rental (on expiry of rent free periods)	£228.3
Senior Expenses <sup>(1)</sup>	£7.0 m

Gross Debt	£2,550.1 m
Cash Reserves <sup>(2)</sup>	£(28.4) m
<b>Net Debt</b>	<b>£2,521.7 m</b>

Class	Amount	Interest	Principal <sup>(2)</sup>	Expected Reserve Releases	Interest Cover Ratio	Debt Service Cover Ratio	LMCTV	Modified LMCTV <sup>(2)</sup>
AAA	£1,837.0 m	£(116.0 m)	-	-	1.91 x	1.91 x	61.9%	54.2%
AA	£313.1 m	£(20.9 m)	£(6.9 m)	-	1.62 x	1.54 x	72.6%	64.9%
A	£275.0 m	£(18.0 m)	-	-	1.43 x	1.37 x	82.0%	74.3%
BBB	£125.0 m	£(8.5 m)	-	-	1.35 x	1.30 x	86.3%	78.6%
	<b>£2,550.1 m</b>	<b>£(163.3 m)</b>	<b>£(6.9 m)</b>	-				

Reserve	Opening Balance <sup>(5)</sup>	Period Movement	Closing Balance <sup>(5)</sup>
Void Costs Ledger	£1.5 m	£ (0.6) m	£0.9 m
Cash Ledger	£14.6 m	-	£14.6 m
B3 Defeasance Ledger	£1.2 m	£ 0.1 m	£1.3 m
C2 Defeasance Ledger	£5.2 m	£ 0.5 m	£5.7 m
Cash Collateral <sup>(6)</sup>	£10.1 m	£ (4.1) m	£6.0 m
<b>Total Reserves</b>	<b>£32.6 m</b>	<b>£(4.1) m</b>	<b>£28.4 m</b>

Notes:

- (1) Senior Expenses principally include the HQ2 and DS6 credit wrap commitment fees and the liquidity facility fee.
- (2) 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.
- (3) Interest Payable based on 22<sup>nd</sup> January 2009 interest payable (annualised).
- (4) Based on amortisation for the quarter to 22<sup>nd</sup> January 2009 (annualised).
- (5) Opening balance is as at 22<sup>nd</sup> October 2008, closing balance is at 22<sup>nd</sup> January 2009.
- (6) Reserves in respect of an expected loss of rental income in One Canada Square as a result of State Street exercising breaks in their leases in 2008 on a move to 20 Churchill Place were reduced by £4.1m to cover Moody's and Abbey Business Centres' rent free periods in One Canada Square.

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## Material Events

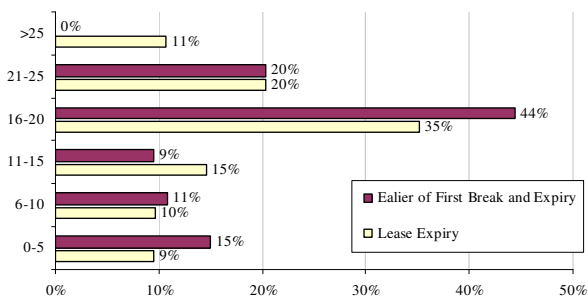
### Rent Reviews

	<u>Area</u>	<u>Passing Rent</u>
Outstanding 2008 Rent Reviews	341,174 sq ft	£13,118,847

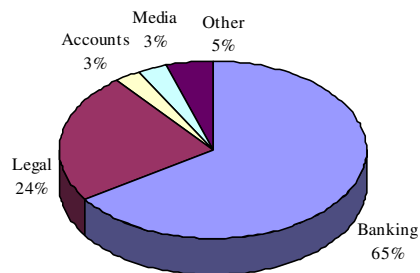
#### Notes:

(1) Lehman Brothers rent in HQ2 was subject to a fixed rental uplift effective 9 November 2008 from £41 psf to £53 psf.

**Analysis of Office Lease Expiries and Breaks (Note 1)**



**Concentration of Leases by Area**



(1) The weighted average unexpired lease term of the office portfolio (by sq.ft) is 18.0 years or 16.1 years after taking into account break options.

## Major Tenants:

### 33 Canada Square

Citigroup

### One Canada Square

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

### 20 Bank Street

Morgan Stanley UK Group

### 25 – 30 Bank Street

Lehman Brothers Limited

### 40 Bank Street

Skadden Arps  
Allen & Overy  
BGC International  
Barclays Bank plc

### 50 Bank Street

The Northern Trust Company  
Goldenberg Hehmeyer & Co

### 10 Upper Bank Street

Clifford Chance LLP