

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 31/03/10 except for the LMCTV ratio which is based on valuations as at 31/12/09.

HIGHLIGHTS

Properties 98.3% let at 31 March 2010

Valuations as at 31 December 2009 were £2,958.0 M

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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') 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, approximately 358,000 sq ft was sub-let in December 2008 to Nomura International Plc. A further 63,000 sq ft (approx) was sub-let to Nomura in March 2010. These subleases will expire in March 2011 subject to breaks in September and December 2010. A further 126,000 sq ft is sublet, of which approximately 101,000 sq ft is sub-let until 2013 and the balance sub-let until September 2010. 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.

On 21st January 2010 Canary Wharf Finance II plc ("CWF II") announced that the administrators acting on behalf of Lehman had advised that: -

- (1) As from 1 January 2010 Lehman had 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; and
- (2) Lehman will move out of 25 Bank Street from 31 March 2010 and from 1 April 2010 cease paying rent and the estate service charge on 25 Bank Street.

The administrators have since confirmed that Lehman has vacated the building and the rent for the second quarter has not been paid. Sub-tenants which currently occupy 547,000 sq ft continue to pay rent directly to the Securitisation rental receipts account.

Notwithstanding any partial occupation or 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. 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. These shortfalls were, however, 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 –

- The FSA exercised their option to take Level 25 (27,900 sq ft) in One Canada Square on a lease expiring in 2018.
- A new lease was signed with Samsung to take 1,844 sq ft on Level 34 of One Canada Square expiring in 2015.
- A new lease was signed with Knight Frank to take 981 sq ft on Level 6 of One Canada Square expiring in 2015, with a break in 2013.
- The above leases were concluded at rents ranging from £35.00 to £39.50 psf.
- The following tenants have served notice to determine their leases in accordance with the relevant lease agreements:

Tenant Name	Building	Floor	NIA	Date Effective
National Westminster Bank Plc	One Canada Square.	Pt Floor 6, Suite E	5,440 sq. ft.	10-Jul-10
KPMG	One Canada Square.	Pt Floor 7,8,9 & Pt 39	<u>110,050 sq. ft.</u>	30-Jun-10
TOTAL			<u>115,490 sq. ft.</u>	

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The following tables have been re-presented below to show more clearly the impact of the quarterly shortfall in income following the decision of the Lehman administrators to move out of 25 Bank Street. The figures below are based on actual receipts for Q1 2010, whereas previous quarters utilised annualised data.

Property Portfolio Summary

Address	Whole Building NIA	Area Securitised NIA	Area Securitised Let NIA ⁽⁴⁾	Actual Quarterly Rental Income Q1 2010	Estimated Annual Rental Income ⁽¹⁾⁽³⁾	Market Value ⁽²⁾
33 Canada Square	562,700 sq. ft	562,700 sq. ft	562,745 sq ft	£5.0m	£20.1m	£350.0
One Canada Square	1,236,200 sq. ft	1,220,700 sq. ft	1,145,819 sq ft	£10.8m	£45.4m ⁽³⁾	£610.0
20 Bank Street	546,500 sq. ft	546,500 sq. ft	546,538 sq ft	£6.6m	£26.2m	£400.0
25 – 30 Bank Street	1,023,300 sq. ft	1,023,300 sq. ft	1,023,293 sq ft ⁽⁵⁾	£7.5m	£56.5m ⁽⁶⁾	£361.0
40 Bank Street	607,400 sq. ft	607,400 sq. ft	596,377 sq ft	£6.5m	£26.4m ⁽³⁾	£420.0
50 Bank Street	210,500 sq. ft	210,500 sq. ft	210,518 sq ft	£2.1m	£8.5m	£142.0
10 Upper Bank Street	1,000,400 sq. ft	1,000,400 sq. ft	1,000,416 sq ft	£11.1m	£44.3m	£675.0
Total	5,187,000 sq. ft	5,171,500 sq. ft	5,085,706 sq ft	£49.6m	£227.4m	£2,958.0

Notes:

- (1) Estimated annual rental income based on annualised rent for the quarter to 31st March 2010.
- (2) MV based valuation of the properties at 31 December 2009.
- (3) Rent receivable after expiry of rent-free periods and excluding potential rental income on unlet space, where applicable.
- (4) Area let as at 31st March 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.

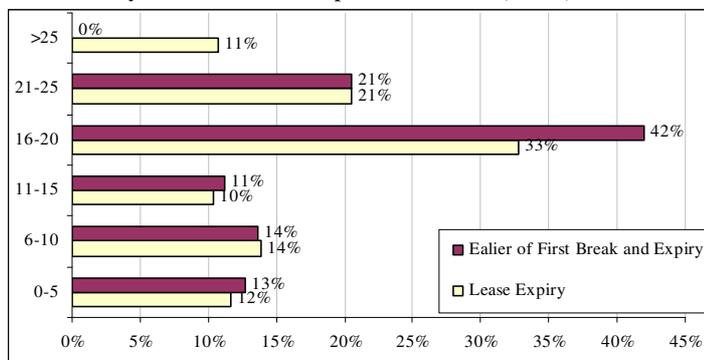
Occupancy

At 31 March 2010 the securitised property portfolio was 98.3% 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.

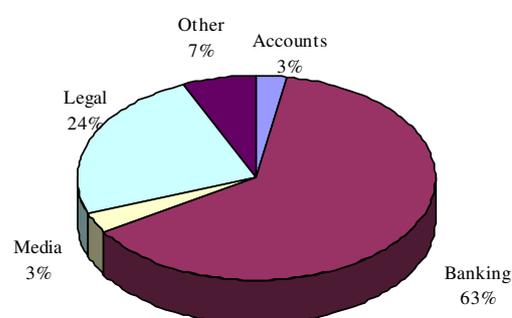
Rent Reviews

	Area	Passing Rent
Outstanding Rent Reviews	591,319 sq ft	£20,883,057

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 16.3 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 12.6 years. The weighted average lease term reflecting all break options was 11.3 years.

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
(In administration)

40 Bank Street

Skadden Arps
Allen & Overy
BGC International
Barclays Bank plc

50 Bank Street

The Northern Trust Company
Goldenberg Hehmyer & Co

10 Upper Bank Street

Clifford Chance LLP

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Financial Considerations

	Quarter 1 2010 actuals
Gross Rental (cash received in Q1 2010)	£49.5 m
Senior Expenses ⁽¹⁾	£1.8 m
Gross Debt	£2,490.8 m
Cash Reserves	<u>(£21.2 m)</u>
Net Debt	<u>£2,469.6 m</u>

Quarter 1 2010 Actuals

This quarter 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, whereas in previous periods they have been shown by reference to interest payable to bondholders only and on an annualised basis.

Class	Amount ⁽²⁾	Interest ⁽³⁾	Principal ⁽⁴⁾	Reserve Releases	Interest Cover Ratio	Debt Service Cover Ratio	LMCTV	Modified LMCTV ⁽⁵⁾
AAA	£1,786.4 m	(£27.8 m)	(£12.7 m)		1.72 x	1.18 x	59.7%	52.1%
AA	£304.4 m	(£4.8 m)	(£1.7 m)		1.47 x	1.02 x	70.0%	62.4%
A	£275.0 m	(£3.7 m)	-	£2.9 m	1.32 x	1.00 x	79.3%	71.7%
BBB	£125.0 m	(£1.8 m)	-	£1.9 m	1.26 x	1.00 x	83.5%	75.9%
	£2,490.8 m	(£38.0 m)	(£14.4 m)	£4.8 m				

Reserve	Opening Balance ⁽⁶⁾	Period Movement	Closing Balance ⁽⁶⁾
Void Costs Ledger	£0.9 m		£0.9 m
Cash Ledger	£12.0 m	(£4.8 m)	£7.2 m
B3 Defeasance Ledger	£1.7 m	£0.1 m	£1.8 m
C2 Defeasance Ledger	£6.0 m	£0.2 m	£6.2 m
Cash Collateral	£5.4 m	(£0.3 m)	£5.1 m
Total Reserves	£26.0 m	(£4.8 m)	£21.2 m

Notes:

- Senior Expenses principally include the HQ2 and DS6 credit wrap commitment fees and the liquidity facility fee.
- Total outstanding debt at 22nd April 2010 interest payable date.
- Interest paid on 22nd April 2010. Comprises bond interest of £30.3m and payments under interest rate swaps of £7.7m.
- Amortisation paid on 22nd April 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 January 2010, closing balance is at 22nd April 2010.