

WINDERMERE VIII CMBS PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2012

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WINDERMERE VIII CMBS PLC

FOR THE YEAR ENDED 31 MAY 2012

CONTENTS	PAGES
Company information	1
Directors' report	2 - 5
Directors' responsibilities statement	6
Independent auditor's report	7
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 - 26

WINDERMERE VIII CMBS PLC

COMPANY INFORMATION

The board of directors	Wilmington Trust SP Services (London) Limited Mr M H Filer Mr J Traynor
Company secretary	Wilmington Trust SP Services (London) Limited
Registered office	c/o Wilmington Trust SP Services (London) Limited Third Floor 1 King's Arms Yard London EC2R 7AF
Auditor	Deloitte LLP London
Servicer	Hatfield Philips International Limited 34 th Floor 25 Canada Square London E14 5LB
Trustee	LaSalle Global Trust Services Limited (formerly ABN Trustees Limited) 5 Canada Square London E14 5AQ

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2012

The directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 May 2012 with comparatives for the year ended 31 May 2011

PRINCIPAL ACTIVITIES

The Company is a special purpose company established in order to issue commercial mortgage-backed loan notes due April 2015 ("the loan notes"), to acquire a mortgage portfolio from Lehman Brothers Bankhaus AG, London Branch and Lehman Commercial Paper Inc, United Kingdom Branch ("the Commercial mortgage loans"), to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 28 July 2006

RESULTS AND DIVIDENDS

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements

The loss after tax of the Company for the year amounted to £53,824,949 (2011 profit of £33,634,622) as a result of impairment charge of £59,727,426 (2011 impairment reversal of £22,592,576) against the Commercial mortgage loans. The directors have not recommended a dividend (2011 £nil)

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

On 1 August 2006, the Company issued £1,037,598,000 commercial mortgage-backed loan notes and on the same date acquired a mortgage portfolio from Lehman Brothers Bankhaus AG, London Branch and Lehman Commercial Paper Inc, United Kingdom Branch. The loan notes are listed on the Irish Stock Exchange

During the year the Company received £155,283,450 (2011 £218,230,360) from redemptions on the Commercial mortgage loans and redeemed £155,283,451 (2011 £218,230,360) of the loan notes

The key performance indicators of the business are considered to be the net interest income margin and impairments. During the year, the Company achieved a net interest income margin (net interest income divided by interest income) of 16% (2011 12.9%). At the year end, the Company had net liabilities of £90,074,200 (2011 £36,249,251)

PRINCIPAL RISKS AND UNCERTAINTIES AND FINANCIAL INSTRUMENTS

Discussion of the Company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 14. The Board reviews and agrees policies for managing the main risks arising on the Company's financial instruments and they are summarised below

Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers with whom the Company has exposure through the Commercial mortgage loans. Conditions may deteriorate further due to the continued global financial and economic uncertainty

Going concern risk

The Company has net liabilities of £90,074,200 (2011 £36,249,251), due to the swap liability and cumulative impairment against the Commercial mortgage loans. The terms of the loan notes issued by the Company and associated arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets (including derivatives). As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The four remaining commercial mortgage loans held by the Company are either past their maturity date or due to mature within a year and therefore the directors expect the Company to cease trading in the foreseeable future. Therefore the financial statements have been prepared on a basis other than that of a going concern as described in note 1

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

Currency risk

All of the Company's assets and liabilities are denominated in Pounds Sterling therefore there is no foreign currency risk

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. The Company has entered into a number of interest rate swaps and interest rate caps with HSBC Bank plc to manage the Company's exposure to interest rate risk associated with the Commercial mortgage loans. This is to reduce interest rate risk as a result of the possible variance between the fixed rate of interest receivable on the Commercial mortgage loans and the variable rate of interest payable on the floating rate loan notes.

Credit risk

The principal credit risk to the Company is that the Commercial mortgage loan borrowers will not be able to meet their obligations as they fall due. The Commercial mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio. The largest individual gross exposures to credit risk relate to the two main borrowers, Government Income Portfolio and Amadeus Portfolio totalling £199,678,050 (2011 £199,678,050) and £24,420,711 (2011 £30,007,007) respectively. At 31 May 2012, the total principal amount outstanding on all Commercial mortgage loans was £244,635,217 (2011 £399,918,667).

Refinancing risk

The ability of a borrower to make timely payment of principal due on any loan on the relevant loan maturity date may be dependent upon that borrower's ability to refinance the loan. In the event a borrower cannot refinance before or at the loan maturity date, repayment may be delayed and in some circumstances the collateral, which would be enforced and sold, may be sold at a value below the then outstanding principal of the loan. The repayment of the loan may be made at below carrying value and the Company would be unable to repay certain classes of loan notes in full.

If in the event of the loans not being able to be repaid, the loan notes would be written down starting from the lowest class of note, E, to the highest class of note outstanding, A2.

Impairment

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. A summary of each of the loans is below.

Amadeus

The Amadeus Loan was due to mature on 15 April 2009 but the loan failed to repay on that date. As at 31 May 2012, the loan continues to be on the Servicer's (Hatfield Philips International Limited) watch-list due to overdue repayment, late payment of rent and fluctuations in its vacancy rate from quarter to quarter.

In prior years, an impairment provision was booked against the Amadeus Loan totalling £14,757,007 based on the most recent property valuation in February 2009. One of the properties, Merit House Colindale, was sold on 17 February 2012 and two properties remain Archer House Nottingham and Rede House, Middlesbrough. As a result of further estimated decreases in the market values of the remaining underlying properties (based on property indices), the impairment provision has been increased in the current year to £18,103,818 as, in the directors' opinion, it is not certain that the gross amount outstanding at the year end, £24,420,711 (2011 £30,007,007) will be fully recovered.

Negotiations are on-going between the borrower and the Special Servicer in order to work out a strategy in recovering the remaining amount outstanding on the commercial mortgage loan.

Monument

On 6 February 2009, the Monument Loan was transferred to Special Servicing and a Regulatory Information Service (RIS) notice was issued to this effect, citing an Event of Default under the terms of the loan agreement.

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

The sale of the underlying properties was agreed in the year and after year-end, on 13 July 2012, the Monument Loan has repaid £13,178,735 in settlement of the outstanding loan amount of £15,557,343 (2011 £15,557,343) Accordingly, the opening impairment provision held against the Amadeus Loan totalling £12,557,343 has been reversed by £10,178,735 during the current year No further recoveries are expected on the loan and therefore the remaining balance is fully provided

Government Income Portfolio

The Government Income Portfolio loan was due to mature on 15 October 2012, however failed to repay on maturity The most recent independent valuation of the underlying properties was in 2006 However, in the opinion of the directors, based on comparable property portfolios, the estimated current market price of the underlying properties is below the carrying amount of the loan and therefore an impairment provision has been raised as at year-end of £66,559,350 (2011 £nil)

The Wood Green loan is not impaired because, in the opinion of the directors, the underlying property values are estimated to be sufficient to recover the full amount

Liquidity risk

A facility provided by Lloyds TSB Bank Plc has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments

The liquidity facility was renewed on 27 July 2012 to expire on 26 July 2013 The directors intend to renew this facility annually

DIRECTORS

The directors who served the Company during the year, were as follows

Wilmington Trust SP Services (London) Limited
Mr M H Filer
Mr J Traynor

AUDITOR

A resolution to re-appoint Deloitte LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 2006

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

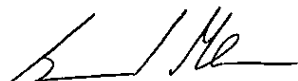
STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each of the directors have taken all steps that they ought to have as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Signed by order of the directors



Sunil Masson for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Company Secretary
30 November 2012

WINDERMERE VIII CMBS PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MAY 2012

The directors are responsible for preparing the Annual 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

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 WINDERMERE VIII CMBS PLC

We have audited the financial statements of Windermere VIII CMBS Plc for the year ended 31 May 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies with the audited financial statements we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 May 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



Simon Stephens ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 November 2012

WINDERMERE VIII CMBS PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2012

	Notes	2012 £	2011 £
Interest income	2	14,197,160	25,746,329
Interest expense	3	<u>(11,917,264)</u>	<u>(22,418,649)</u>
Net interest income		2,279,896	3,327,680
(Impairment)/ reversal against Commercial mortgage loans	8	<u>(59,727,426)</u>	22,592,576
Fair value gain on derivative financial instruments	4	7,368,074	14,092,034
Deferred consideration		<u>(1,699,580)</u>	<u>(1,889,232)</u>
Administrative expenses	5	<u>(570,255)</u>	<u>(1,409,993)</u>
(Loss)/ profit before tax for the year		(52,349,291)	36,713,065
Income tax charge	6	<u>(1,475,658)</u>	<u>(3,078,443)</u>
(Loss)/profit after tax for the year attributable to equity holders		(53,824,949)	33,634,622
Other comprehensive income		—	—
Total comprehensive (loss)/income for the year attributable to equity holders		<u>(53,824,949)</u>	<u>33,634,622</u>

The notes on pages 12 to 26 form part of these financial statements

WINDERMERE VIII CMBS PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Commercial mortgage loans	8	-	204,670,050
Current assets			
Commercial mortgage loans	8	157,593,441	167,934,267
Trade and other receivables	9	1,384,208	2,330,637
Deferred tax asset	7	790,055	2,263,670
Cash and cash equivalents	10	596,414	464,633
		<u>160,364,118</u>	<u>172,993,207</u>
Total assets		<u>160,364,118</u>	<u>377,663,257</u>
Liabilities			
Non-current liabilities			
Debt securities in issue	12	87,041,775	204,670,050
Total non-current liabilities		<u>87,041,775</u>	<u>204,670,050</u>
Current liabilities			
Debt securities in issue	12	157,593,441	195,248,617
Derivative financial instruments	15	3,950,277	11,318,351
Trade and other payables	13	1,852,825	2,675,490
Total current liabilities		<u>163,396,543</u>	<u>209,242,458</u>
Total liabilities		250,438,318	413,912,508
Equity			
Share capital	11	12,502	12,502
Retained deficit		<u>(90,086,702)</u>	<u>(36,261,753)</u>
Total equity		<u>(90,074,200)</u>	<u>(36,249,251)</u>
Total equity and liabilities		<u>160,364,118</u>	<u>377,663,257</u>

These financial statements of Windermere VIII CMBS Plc, Company Registration 5819693 on pages 8 to 26 were approved and authorised for issue by the directors on 30 November 2012 and are signed on their behalf by



Sunil Masson for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
 Director

The notes on pages 12 to 26 form part of these financial statements

WINDERMERE VIII CMBS PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2012

	Share capital	Retained losses	Total equity
	£	£	£
Balance as at 1 June 2010	12,502	(69,896,375)	(69,883,873)
Profit for the year	-	33,634,622	33,634,622
Other comprehensive income	-	-	-
Total at 31 May 2011	<u>12,502</u>	<u>(36,261,753)</u>	<u>(36,249,251)</u>

	Share capital	Retained losses	Total
	£	£	£
Balance at 1 June 2011	12,502	(36,261,753)	(36,249,251)
Loss for the year	-	(53,824,949)	(53,824,949)
Other comprehensive income	-	-	-
Balance at 31 May 2012	<u>12,502</u>	<u>(90,086,702)</u>	<u>(90,074,200)</u>

The notes on pages 12 to 26 form part of these financial statements

WINDERMERE VIII CMBS PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MAY 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
(Loss)/profit before tax for the year		(52,349,291)	36,713,065
<i>Adjustments for</i>			
Fair value movement on derivative financial instruments		(7,368,074)	(14,092,034)
Movement in impairment against Commercial mortgage loans		59,727,426	(22,592,576)
Bank interest receivable	2	(1,670)	(713)
Decrease in trade and other receivables	8,9	946,429	1,084,814
Decrease in trade and other payables		(821,881)	(1,778,815)
Net cash inflow/(outflow) from operating activities		132,939	(666,259)
Taxation paid		(5,932)	(6,335)
		<u>127,007</u>	<u>(672,594)</u>
Cash flows from investing activities			
Repayments during year		155,283,450	218,230,360
Bank interest received	2	<u>1,670</u>	<u>713</u>
Net cash inflow from investing activities		<u>155,285,120</u>	<u>218,231,073</u>
Cash flows from financing activities			
Redemption of loan notes during the year		(155,283,451)	(218,230,360)
Liquidity drawdown		<u>3,105</u>	-
Net cash outflow from financing activities		<u>(155,280,346)</u>	<u>(218,230,360)</u>
Net increase/(decrease) in cash and cash equivalents		131,781	(671,881)
Cash and cash equivalents at the beginning of the year		<u>464,633</u>	<u>1,136,514</u>
Cash and cash equivalents at 31 May	10	<u><u>596,414</u></u>	<u><u>464,633</u></u>

As explained in the accounting policies on page 13, the cash is not freely available to be used

The notes on pages 12 to 26 form part of these financial statements

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2012

1 SIGNIFICANT ACCOUNTING POLICIES

Windermere VIII CMBS Plc is a company incorporated in United Kingdom under the Companies Act 2006 and domiciled in England

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 May 2012

The accounting policies set out below have been applied consistently in respect of the financial year ended 31 May 2012, and for the previous financial year

Basis of preparation

The financial statements are presented in Pounds Sterling The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments under IAS 39 Financial Instruments Recognition and Measurement

Basis of preparation - going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report on pages 2 to 4 In addition, note 14 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk

The Company has net liabilities of £90,074,200 (2011 £36,249,251), due to the swap liability and cumulative impairment of the Commercial mortgage loans

The terms of the loan notes issued by the Company and the associated arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets (including derivatives)

However, all of the four remaining commercial mortgage loans held by the Company are either past their maturity date or due to mature within a year and therefore the directors expect the Company to cease trading in the foreseeable future As a result the Company is no longer a going concern and the financial statements have been prepared on a basis other than a going concern The financial statements do not contain any adjustments for accruals relating to the liquidation of the Company

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses In particular for the fair value of derivatives and the recoverability of assets The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements and carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates used in the financial statements

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both the current and future years. The key estimates and assumptions are discussed in the accounting policy notes.

Financial instruments

The Company's financial instruments comprise Commercial mortgage loans, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. These financial instruments are classified in accordance with the principles of IAS 39 Financial Instruments: Recognition and Measurement as described below.

Commercial mortgage loans

The Commercial mortgage loans are classified as loans and receivables and are initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Fees and commissions

Fees and commissions on the Commercial mortgage loans are considered by the directors to represent part of the effective interest on the Commercial mortgage loans and hence classified as part of interest income.

Deferred consideration

Deferred purchase consideration represents further amounts payable on the acquisition of the Commercial mortgage loans from Lehman Brothers Bankhaus AG, London Branch and Lehman Commercial Paper Inc, United Kingdom Branch. Provision is made for the deferred purchase consideration as amounts become payable as a result of the performance of the acquired Commercial mortgage loans and is included in the statement of comprehensive income as an expense.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and short-term deposits with an original maturity of three months or less.

The Company has deposits in bank accounts held in the Company's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. Cash and cash equivalents are classified as loans and receivables.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are recognised initially at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value with any changes in fair value of the derivatives being recognised in the statement of comprehensive income. The fair value is measured using discounted cash flow techniques applying observable inputs.

Interest income receivable or interest expense on the interest rate swap is accounted for on an effective interest rate basis within interest income or interest expense in the statement of comprehensive income.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between amortised cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Interest income and expense

Interest income and expense is accounted for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount.

Value added tax

Value added tax is not recoverable by the Company and is included with its related cost.

Taxation

Tax on the profit and loss for the period comprises current tax and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, and
- deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not adopted

The adoption of Standards and Interpretations issued by the International Accounting Standards Board (IASB), as adopted by the EU, that were effective for the current year has not had a material impact on the financial statements of the Company. At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

Name of new Standards/amendments	Effective date
Annual Improvements to IFRSs 2009-2011 Cycle (May 2012)	1 January 2013
Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 27 (revised May 2011) Separate Financial Statements	1 January 2013
IAS 28 (revised May 2011) Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS 32 (Dec 2011) Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRS 7 (Dec 2011) Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 7 (Oct 2010) Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013

The directors are currently considering the potential impact of the adoption of IFRS 9 and IFRS 13 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining Standards above will have any material impact on the amounts reported in these financial statements

Segmental reporting

The principal assets of the Company are the Commercial mortgage loans originated in the United Kingdom which are funded by commercial mortgage-backed loan notes issued in the United Kingdom. The directors do not consider it necessary to provide a further analysis of the results of the Company from those already disclosed in these financial statements

2. INTEREST INCOME

	2012	2011
	£	£
Income from Commercial mortgage loans	14,195,490	25,704,386
Other fees and commissions	-	41,230
Bank interest received	1,670	713
	<u>14,197,160</u>	<u>25,746,329</u>

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

3. INTEREST EXPENSE

	2012	2011
	£	£
Interest on Class A2 loan notes	648,300	3,432,448
Interest on Class A3 loan notes	530,644	433,705
Interest on Class B loan notes	607,459	503,667
Interest on Class C loan notes	707,933	603,036
Interest on Class D loan notes	809,278	717,390
Interest on Class E loan notes	826,951	784,354
Net payments on interest rate swap and basis rate swap transactions	<u>7,786,699</u>	<u>15,944,049</u>
	<u>11,917,264</u>	<u>22,418,649</u>

4. MOVEMENT IN FAIR VALUE OF DERIVATIVES

	2012	2011
	£	£
Movement in fair value of derivatives at fair value through the statement of comprehensive income (see note 15)	<u>7,368,074</u>	<u>14,092,034</u>

5. ADMINISTRATIVE EXPENSES

	2012	2011
	£	£
Administration and cash management fees	530,746	1,374,553
Audit fee for the audit of the Company's statutory accounts	22,200	18,037
Audit fee paid on behalf of the parent company for the audit of the parent company's statutory accounts	2,400	2,400
Corporate services fees	<u>14,909</u>	<u>15,003</u>
	<u>570,255</u>	<u>1,409,993</u>

The directors received no emoluments for their services as directors to the Company during the year, except for those disclosed in note 16 (2011 none) The directors had no material interest in any contract of significance (2011 none)

The Company does not have any employees (2011 none)

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

6. TAXATION

	2012	2011
	£	£
Current tax:		
Corporation tax charge for the year at a rate of 20% (2011 21%)	2,043	5,932
Adjustment to prior year's charge	-	-
Deferred tax:		
Deferred tax charge for the year at a rate of 20% (2011 20%)	<u>1,473,615</u>	<u>3,072,511</u>
Total income tax charge in the statement of comprehensive income	<u>1,475,658</u>	<u>3,078,443</u>
	2012	2011
	£	£
Reconciliation of total tax charge		
The tax assessed for the year is at the small companies' rate of corporation tax in the UK of 20% (2011 21%)		
(Loss)/profit before tax	<u>(52,349,291)</u>	<u>36,713,065</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2011 21%)	<u>(10,469,858)</u>	7,709,744
Non-allowable items	11,945,516	(4,744,437)
Adjustment on deferred tax due to change in tax rate	-	113,136
Adjustment to prior year's tax charge	-	-
Total income tax charge in the statement of comprehensive income	<u>1,475,658</u>	<u>3,078,443</u>

7. DEFERRED TAX

	2012
	£
Deferred tax asset	
At 1 June 2011	2,263,670
Charge to income for the year	<u>(1,473,615)</u>
Balance carried forward	<u>790,055</u>

Deferred taxes are provided in full on temporary differences under the liability method using a principal rate of tax of 20% (2011 21%)

The deferred tax asset is attributable to temporary differences arising in respect of the following items

	2012
	£
Deferred tax asset on derivatives at 1 June 2011	2,263,670
Fair value movement of derivatives	<u>(1,473,615)</u>
Deferred tax asset on derivatives at 31 May 2012	<u>790,055</u>

The deferred tax asset in the statement of financial position comprises the following temporary differences

	2012
	£
Fair value movement of derivatives	<u>790,055</u>
Deferred tax asset	<u>790,055</u>

The Company has not recognised a deferred tax asset in respect of other taxable losses carried forward since it cannot be certain that the Company will generate sufficient future taxable profits

Under the Finance Act 2005 temporary tax regime for securitisation companies, the Company's tax charge for the year is based on the taxable profits calculated in accordance with the Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP") The Company has not made an election into the permanent Taxation of Companies regime (as set out in Section 84 FA 2005 and Statutory Instrument 2006/3296)

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

8. COMMERCIAL MORTGAGE LOANS

	2012	2011
	£	£
At 1 June 2011	372,604,317	568,661,822
Redemptions	(155,283,450)	(218,230,360)
Impairment (provision)/release	(59,727,426)	22,592,576
Default interest capitalised	-	(419,721)
At 31 May 2012	<u>157,593,441</u>	<u>372,604,317</u>

The balance can be analysed as follows

Current assets	157,593,441	167,934,267
Non-current assets	-	204,670,050
	<u>157,593,441</u>	<u>372,604,317</u>

The mortgage loans were due for repayment between April 2009 and January 2013. At 31 May 2012, £244,635,217 (2011 £399,918,667) of principal was outstanding. At 31 May 2012, the rate of interest on the Commercial mortgage loans ranged from 5.43% to 5.72% (2011 3.22% to 5.72% respectively). The loans are secured over commercial properties. Lehman Brothers International (Europe) acts as Security Trustee to the Wood Green Mortgage Loan, the Amadeus Portfolio Mortgage Loan, the Government Income Portfolio Mortgage Loan and the Monument Mortgage Loan. Goldman Sachs Credit Partners L.P. acts as Security Trustee in relation to the City Point Whole Mortgage Loan.

On 15 September 2008, Lehman Brothers International (Europe) was placed into Administration. The Company continues to cooperate with the Servicer, Hatfield Philips International Limited, with the intention to effect the removal or replacement of Lehman Brothers International (Europe) in their capacity as Security Trustee to the extent permitted under the relevant documentation or at law. Replacements are being sought on similar terms.

Amadeus

The Amadeus Loan was due to mature on 15 April 2009 but the loan failed to repay on that date. As at 31 May 2012, the loan continues to be on the Servicer's (Hatfield Philips International Limited) watch-list due to overdue repayment, late payment of rent and fluctuations in its vacancy rate from quarter to quarter.

In prior years, an impairment provision was booked against the Amadeus Loan totalling £14,757,007 based on the most recent property valuation in February 2009. One of the properties, Merit House Colindale, was sold on 17 February 2012 and two properties remain: Archer House Nottingham and Rede House, Middlesbrough. As a result of further estimated decreases in the market values of the remaining underlying properties (based on property indices), the impairment provision has been increased in the current year to £18,103,818 as, in the directors' opinion, it is not certain that the gross amount outstanding at the year end, £24,420,711 (2011 £30,007,007) will be fully recovered.

Negotiations are on-going between the borrower and the Special Servicer in order to work out a strategy in recovering the remaining amount outstanding on the commercial mortgage loan.

Monument

On 6 February 2009, the Monument Loan was transferred to Special Servicing and a Regulatory Information Service (RIS) notice was issued to this effect, citing an Event of Default under the terms of the loan agreement.

The sale of the underlying properties was agreed in the year and after year-end, on 13 July 2012, the Monument Loan has repaid £13,178,735 in settlement of the outstanding loan amount of £15,557,343 (2011 £15,557,343). Accordingly, the opening impairment provision held against the Amadeus Loan totalling £12,557,343 has been reversed by £10,178,735 during the current year. No further recoveries are expected on the loan and therefore the remaining balance is fully provided.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

8. COMMERCIAL MORTGAGE LOANS (CONTINUED)

Government Income Portfolio

The Government Income Portfolio loan was due to mature on 15 October 2012, however failed to repay on maturity. The most recent independent valuation of the underlying properties was in 2006. However, in the opinion of the directors, based on comparable property portfolios, the estimated current market price of the underlying properties is below the carrying amount of the loan and therefore an impairment provision has been raised as at year-end of £66,559,350 (2011 £nil)

The *Wood Green* loan is not impaired because, in the opinion of the directors, the underlying property values are estimated to be sufficient to recover the full amount.

9. TRADE AND OTHER RECEIVABLES

	2012	2011
	£	£
Amounts due from holding company	2,482	2,482
Prepayments and accrued income	<u>1,381,726</u>	<u>2,328,155</u>
	<u>1,384,208</u>	<u>2,330,637</u>

10. CASH AND CASH EQUIVALENTS

Withdrawals from the Company's bank account are restricted by the detailed priority of payments set out in the Offering Circular for the notes issued dated 28 July 2006.

	2012	2011
	£	£
Cash and cash equivalents	<u>596,414</u>	<u>464,633</u>

The Company has deposits in bank accounts held in the Company's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

11. CALLED UP SHARE CAPITAL

	2012	2011
	£	£
Issued capital	<u>12,502</u>	<u>12,502</u>
	<u>12,502</u>	<u>12,502</u>

There are 50,000 authorised ordinary shares of £1 each. The issued share capital comprises two fully paid £1 shares allotted, called up and fully paid on incorporation, and 49,998 ordinary shares quarter called up and paid. Wilmington Trust SP Services (London) Limited holds one fully paid £1 share under a declaration of trust for charitable purposes.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

12. DEBT SECURITIES IN ISSUE

	2012 £	2011 £
Due within one year		
Commercial mortgage-backed loan notes	<u>157,593,441</u>	<u>195,248,617</u>
Due in more than one year		
Commercial mortgage-backed loan notes	<u>87,041,775</u>	<u>204,670,050</u>
Total debt securities in issue	<u>244,635,216</u>	<u>399,918,667</u>

On 13 June 2012 an agreement was entered into with Lloyds TSB Bank Plc for the provision of an amortising liquidity facility of up to £22,519,936 for the Company. The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the Commercial mortgage loans. A fee is charged on the undrawn balance, currently set out at 0.23% per annum. This fee would increase on any drawn balance.

The liquidity facility was renewed on 27 July 2012 to expire on 26 July 2013. The directors intend to renew this facility annually.

On 1 August 2006, the Company issued £219,808,000 Class A1 notes due April 2015, £558,500,000 Class A2 notes due April 2015, £57,500,000 Class A3 notes due April 2015, £61,500,000 Class B notes due April 2015, £62,000,000 Class C notes due April 2015, £54,000,000 Class D notes due April 2015 and £24,290,000 Class E notes due April 2015. The loan notes are denominated in Pounds Sterling. Interest on the Class A1 notes is payable at a rate of 3-month LIBOR plus 0.13%. Interest on the Class A2 notes is payable at a rate of 3-month LIBOR plus 0.16%. Interest on the Class A3 notes is payable at a rate of 3 month LIBOR plus 0.19%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.27%. Interest on the Class C notes is payable at a rate of 3-month LIBOR plus 0.46%. Interest on the Class D notes is payable at a rate of 3-month LIBOR plus 0.90%. Interest on the Class E notes is payable at a rate of 3-month LIBOR plus 3.25%.

At the balance sheet date £34,927,862 (2011 £190,211,313) in relation to the Class A2 notes, £46,504,581 (2011 £46,504,581) in respect of the Class A3 notes, £49,739,683 (2011 £49,739,683) in respect of the Class B notes, £50,144,070 (2011 £50,144,070) in respect of the Class C notes, £43,673,868 (2011 £43,673,868) in respect of the Class D notes and £19,645,153 (2011 £19,645,153) in respect of the Class E notes were outstanding.

The loan notes are secured by way of a fixed and floating charge over all of the Company's assets, including the Commercial mortgage loans.

13. TRADE AND OTHER PAYABLES

	2012 £	2011 £
Current liabilities		
Interest payable on loan notes	451,816	569,062
Other creditors	121,106	3,255
Liquidity drawdown	3,105	-
Accruals and deferred income	1,274,755	2,097,241
Corporation tax	2,043	5,932
	<u>1,852,825</u>	<u>2,675,490</u>

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

14. FINANCIAL INSTRUMENTS

The principal risks and uncertainties are set out in the Directors' Report on pages 2 to 4

Financial risk management

The Company's financial instruments, other than derivatives, comprise a portfolio of Commercial mortgage loans, cash and liquid resources, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The Company also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Company's operations and its sources of finance.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken.

Currency risk

All of the Company's assets and liabilities are denominated in Pounds Sterling therefore there is no foreign currency risk.

Credit risk

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying commercial properties. The maximum exposure to credit risk is the carrying amount of assets in the balance sheet. The highest concentration of credit risk relates to the two main borrowers, Government Income Portfolio and Amadeus Portfolio totalling £199,678,050 (2011 £199,678,050) and £24,420,711 (2011 £30,007,007) respectively.

The credit quality of the underlying mortgage loans is summarised as follows:

	2012	2011
	£	£
Neither past due nor impaired	4,979,113	354,354,317
Past due but not impaired	-	-
Impaired	<u>239,656,104</u>	<u>45,564,350</u>
	<u>244,635,217</u>	399,918,667
Less allowance for impairment	<u>(87,041,776)</u>	<u>(27,314,350)</u>
	<u>157,593,441</u>	<u>372,604,317</u>

The movement in the allowance of impairment was as follows:

	2012
	£
At 1 June 2011	(27,314,350)
Impairment provision	<u>(59,727,426)</u>
At 31 May 2012	<u>(87,041,776)</u>

At year-end one loan, Wood Green, was neither past due nor impaired. The directors consider that the estimated value of the property security is greater than the carrying amount at year-end.

With regard to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in case of any downgrade may require the swap provider to provide sufficient collateral or transfer its obligations to another bank of higher credit rating.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

14. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

	Notes	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Commercial mortgage loans	8	157,593,441	116,816,683	372,604,317	345,222,615
Other assets	9	1,384,208	1,384,208	2,330,637	2,330,637
Deferred tax asset	7	790,055	790,055	2,263,670	2,263,670
Cash and cash equivalents	10	596,414	596,414	464,633	464,633
Total assets		<u>160,364,118</u>	<u>119,587,360</u>	<u>377,663,257</u>	<u>350,281,555</u>
Debt securities in issue	12	(244,635,216)	(175,204,611)	(399,918,667)	(333,904,263)
Interest payable	13	(451,816)	(451,816)	(569,062)	(569,062)
Other payables	13	(1,398,966)	(1,395,861)	(2,100,496)	(2,100,496)
Current tax liability	13	(2,043)	(2,043)	(5,932)	(5,932)
Derivative financial instruments	15	(3,950,277)	(3,950,277)	(11,318,351)	(11,318,351)
Total liabilities		<u>(250,438,318)</u>	<u>(181,004,608)</u>	<u>(413,912,508)</u>	<u>(347,828,104)</u>

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Wherever possible, fair values have been estimated using quoted market prices for instruments held. Where market prices are not available, fair values have been estimated using quoted values for instruments with either identical or similar characteristics. In certain cases, where no ready markets currently exist, various techniques (such as discounted cash flows or observations of similar recent market transactions) have been used to estimate what the approximate fair value of such instruments might be. These estimation techniques are necessarily subjective in nature and involve several assumptions.

Fair value hierarchy

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows:

Level 1 - valued using quoted prices in active markets for identical assets or liabilities

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data. The valuation techniques used by the Company are explained in the accounting policies note.

The derivatives are the only financial instruments held on the balance sheet at fair value and fall within level 2 of the hierarchy.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

14. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

A facility provided by Lloyds TSB Bank Plc has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The purpose of the liquidity facility is to provide liquidity, not credit support, and the liquidity facility provider is entitled to receive interest on drawings made which may reduce the amount available for distribution to noteholders.

The liquidity facility was renewed on 27 July 2012 to expire on 26 July 2013. The directors intend to renew this facility annually.

The terms of the loan notes issued by the Company and associated arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date.

As at 31 May 2012	Carrying value £	Gross cash flows £	After 1 month but within 3 months £	After 3 months but within one year £	After 1 year but within 5 years £
Notes	244,635,216	244,635,216	39,979,779	204,655,437	-
Interest payable on Notes	451,816	1,946,421	1,005,567	940,854	-
Derivative financial instruments	<u>3,950,277</u>	<u>3,191,104</u>	<u>1,106,837</u>	<u>2,084,267</u>	<u>-</u>
Total financial instruments	<u>249,037,309</u>	<u>249,772,741</u>	<u>42,092,183</u>	<u>207,680,558</u>	<u>-</u>
As at 31 May 2011	Carrying value £	Gross cash flows £	After 1 month but within 3 months £	After 3 months but within one year £	After 1 year but within 5 years £
Notes	399,918,667	399,918,667	195,243,442	5,175	204,670,050
Interest payable on Notes	569,062	5,282,178	1,273,379	2,374,801	1,633,998
Derivative financial instruments	<u>11,318,351</u>	<u>11,272,448</u>	<u>1,104,847</u>	<u>6,076,559</u>	<u>4,091,042</u>
Total financial instruments	<u>411,806,080</u>	<u>416,473,293</u>	<u>197,621,668</u>	<u>8,456,535</u>	<u>210,395,090</u>

The redemption of the notes is dependent on the receipt of payments on the Commercial mortgage loans. In accordance with the respective prospectus for each of the notes, the class A2 notes will be redeemed in priority to redemption of the remaining classes of notes followed by classes A3, B, C, D and E. Interest payable on floating rate notes was estimated based on the floating rates as at 31 May 2012.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

14. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Company is exposed to movements in interest rates and manages this exposure using interest rate swaps. This has been hedged by the Company by entering into a number of interest rate swaps and interest rate caps with HSBC Bank Plc.

The interest rate swaps in respect of the Amadeus and Monument Loans, where the maturities of the loans have passed, have expired and so these loans are un-hedged.

As mentioned in the accounting policies note above, the terms of the loan notes issued by the Company and the associated arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets, which include the derivatives.

In addition, the Company has an amortising liquidity facility which can be utilised in the event there is a shortfall of interest and principal received from the Commercial mortgage loans. During the year £248,412 was drawn down and £245,307 was repaid leaving an outstanding balance of £3,105 at year end.

Interest rate sensitivity

As has been mentioned above, the sensitivity of the Company to interest rate changes, and the resulting changes in net assets attributable to equity shareholders at year-end, is limited as the Company uses interest rate swaps to mitigate the risk where possible. However, as has been mentioned above, interest rate swaps in respect of the Amadeus and Monument Loans have expired. Changes in interest rates compared to fixed rates on the un-hedged loans are absorbed by movements in deferred consideration payable. As such, no sensitivity analysis has been presented.

Interest rate risk profile of financial liabilities

All of the Company's financial liabilities are floating rate and carry interest rates based on the relevant three-month LIBOR rate.

Effective interest rates and repricing analysis

The following table details the Company's exposure to interest rate risk by the earlier of contractual maturities or re-pricing.

	Weighted average effective interest rate	1 to 3 months	Non-interest bearing	Fixed rate	Total
At 31 May 2012	%	£	£	£	£
Assets					
Trade and other receivables	-	-	1,384,208	-	1,384,208
Commercial mortgage loans	5.2604%	15,559,068	-	142,034,373	157,593,441
Deferred tax asset	-	-	790,055	-	790,055
Cash and cash equivalents	-	596,414	-	-	596,414
Total assets		<u>16,155,482</u>	<u>2,174,263</u>	<u>142,034,373</u>	<u>160,364,118</u>
Liabilities					
Trade and other payables	-	-	1,852,825	-	1,852,825
Derivative financial instruments	-	3,950,277	-	-	3,950,277
Debt securities in issue	1.5442%	244,635,216	-	-	244,635,216
Total liabilities		<u>248,585,493</u>	<u>1,852,825</u>	<u>-</u>	<u>250,438,318</u>

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

14. FINANCIAL INSTRUMENTS (CONTINUED)

At 31 May 2011	Weighted average effective interest rate %	1 to 3 months £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	2,330,637	-	2,330,637
Commercial mortgage loans	4.3747%	167,927,367	-	204,676,950	372,604,317
Deferred tax asset	-	-	2,263,670	-	2,263,670
Cash and cash equivalents	-	464,633	-	-	464,633
Total assets		<u>168,392,000</u>	<u>4,594,307</u>	<u>204,676,950</u>	<u>377,663,257</u>
Liabilities					
Trade and other payables	-	-	2,675,490	-	2,675,490
Derivative financial instruments	-	11,318,351	-	-	11,318,351
Debt securities in issue	1.1004%	399,618,667	-	-	399,618,667
Total liabilities		<u>410,937,018</u>	<u>2,675,490</u>	-	<u>413,612,508</u>

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 12 and equity attributable to equity holders of the parent, comprising issued capital less the retained loss.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the balance sheet date were

	2012 £	2011 £
Interest rate swaps and caps	<u>(3,950,277)</u>	<u>(11,318,351)</u>

The notional principal amount of the outstanding interest rate swaps and interest rate caps at 31 May 2012 was £204,689,300 (2011: £204,690,700). At 31 May 2012 the fixed rate payable by the Company on the interest rate swaps ranged from 4.6% to 4.771% (2011: 4.6% to 4.771%) and the Company was entitled to receive floating rate equal to 3 month LIBOR plus various margins.

In accordance with IAS 39 'Financial instruments: Recognition and measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. In relation to the floating rate notes the Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the floating rate notes) as set out in IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loans exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

WINDERMERE VIII CMBS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2012

16. RELATED PARTY TRANSACTIONS

The Company is a special-purpose company controlled by its Board of directors, which comprises three directors, Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor. Mr M H Filer, a director of the Company, is also a director of Wilmington Trust SP Services (London) Limited. The Company pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to these directors for their services in the year ended 31 May 2012 amounted to £14,909 (2011 £15,003). At the end of the year, £1,868 (2011 £1,455) had been accrued and included within trade and other payables.

During the year, accounting services amounting to £6,534 (2011 £6,755) were charged by Wilmington Trust SP Services (London) Limited. At 31 May 2012, an amount of £6,458 (2011 £6,381) was outstanding and disclosed within current liabilities: trade and other payables.

17. ULTIMATE PARENT UNDERTAKING

The Company is incorporated in United Kingdom and registered in England and Wales.

Windermere VIII CMBS Holdings Limited, a company incorporated in United Kingdom and registered in England and Wales, holds 49,999 shares in the Company and is the smallest and largest group into which the results of the Company are consolidated. Wilmington Trust SP Services (London) Limited holds one share in the Company and the entire share capital in Windermere VIII CMBS Holdings Limited under a declaration of trust for charitable purposes.

18. POST BALANCE SHEET EVENTS

The Government Income Portfolio mortgage loan defaulted at maturity on 15 October 2012 and has been transferred to special servicing.

The underlying property for the Monument mortgage loan was sold on the 4 July 2012 for £13,300,000 and the proceeds were used to partially repay the loan on 13 July 2012. A final recovery determination was issued on 24 July 2012 with a principal loss on the loan of £2,378,608.