Company Registration Number 5819693

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

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FOR THE YEAR ENDED 31 MAY 2011

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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 34th 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 2011

The dırectors have pleasure ın presentıng theır report and the financıal statements of the Company for the year ended 31 May 2011 wıth comparatıves for the year ended 31 May 2010

PRINCIPAL ACTIVITIES
The Company ıs a specıal purpose company establıshed ın order to ıssue commercıal mortgage-backed loan notes due Aprıl 2015 ("the loan notes"), to acquıre a mortgage portfolıo from Lehman Brothers Bankhaus AG, London Branch and Lehman Commercıal Paper Inc , Unıted Kıngdom Branch ("the Commercıal mortgage loans"), to create securıty and receıve ınterest ın respect thereof, and to enter ınto certaın related transactıons as descrıbed ın the Offerıng Cırcular dated 28 July 2006

RESULT AND DIVIDENDS
The tradıng results for the year and the Company's financıal posıtıon at the end of the year are shown ın the attached financıal statements

The profit after tax of the Company for the year amounted to £33,634,622 (2010 £9,103,221) as a result of a faır value gaın of £14,092,034 (2010 £8,593,775) on derıvatıve financıal ınstruments and an ımpaırment reversal agaınst the Commercıal mortgage loans of £22,592,576 (2010 £2,291,786) The dırectors have not recommended a dıvıdend (2010 £nıl)

BUSINESS REVIEW AND FUTURE DEVELOPMENTS
On 1 August 2006, the Company ıssued £1,037,598,000 commercıal mortgage-backed loan notes and on the same date acquıred a mortgage portfolıo from Lehman Brothers Bankhaus AG, London Branch and Lehman Commercıal Paper Inc , Unıted Kıngdom Branch The loan notes are lısted on the Irısh Stock Exchange

Durıng the year the Company receıved £218,230,360 (2010 £2,293,185) from redemptıons on the Commercıal mortgage loans and redeemed £218,230,360 (2010 £2,293,185) of the loan notes

The key performance ındıcators of the busıness are consıdered to be the net ınterest ıncome margın and ımpaırments Durıng the year, the Company achıeved a net ınterest ıncome margın (net ınterest ıncome dıvıded by ınterest ıncome) of 12 9% (2010 13 4%) Durıng the year, the Company recognısed an ımpaırment reversal agaınst the Commercıal mortgage loans of £22,592,576 (2010 £2,291,786), relatıng to the AMG Portfolıo Loan due to thıs loan beıng fully recovered subsequent to the year end At the year end, the Company had net lıabılıtıes of £36,249,251 (2010 £69,883,873)

PRINCIPAL RISKS AND UNCERTAINTIES AND FINANCIAL INSTRUMENTS
Dıscussıon of the Company's approach to financıal ınstruments ıs set out ın note 1 (sıgnıficant accountıng polıcıes) and ın note 14 The Board revıews and agrees polıcıes for managıng the maın rısks arısıng on the Company's financıal ınstruments and they are summarısed below

Market lıquıdıty constraınts, lımıted avaılabılıty of credıt and dıfficult tradıng condıtıons contınue to pose sıgnıficant challenges to all underlyıng busınesses and borrowers wıth whom the Company has exposure through the Commercıal mortgage loans Condıtıons may deterıorate further due to the contınued global financıal and economıc uncertaınty

Going concern rısk
The Company has net lıabılıtıes of £36,249,251 (2010 £69,883,873), due to the swap lıabılıty and cumulatıve ımpaırment agaınst the Commercıal mortgage loans The terms of the loan notes, due to mature ın Aprıl 2015, ıssued by the Company and assocıated arrangements are such that amounts due are only payable to the extent that there are sufficıent receıpts from the Company's assets (ıncludıng derıvatıves) As a consequence, the dırectors belıeve that the Company ıs well placed to manage ıts busıness rısks successfully despıte the current uncertaın economıc outlook

After makıng enquırıes, the dırectors have a reasonable expectatıon that the Company has adequate resources to contınue ın operatıonal exıstence for the foreseeable future Accordıngly, they contınue to adopt the goıng concern basıs ın preparıng the financıal statements

WINDERMERE VIII CMBS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2011

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 maximum exposure to credit risk relates to the two main borrowers, Wichford Gamma Limited and AM Holdings Limited totalling £199,678,050 (2010 £199,678,050) and £149,677,366 (2010 £152,892,576) respectively At 31 May 2011, the total principal amount outstanding on all Commercial mortgage loans was £399,918,667 (2010 £618,568,748)

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 bear the loss 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

Amadeus
On 8 December 2008, the Amadeus 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

A third-party independent surveyor was instructed to carry out a market valuation of the properties in the Amadeus Loan portfolio The market value, stated as at 27 February 2009 was £15,250,000 as compared to £36,000,000 on purchase of the commercial mortgage loan

The Amadeus Loan was due to mature on 15 April 2009 but this did not take place At 31 May 2011, the loan was on the Servicer Watch-list due to late payment of rent and fluctuations in its vacancy rate from quarter to quarter

Negotiations are ongoing between the Borrower and the Special Servicer in order to work out a strategy in recovering the amount outstanding on the commercial mortgage loan Accordingly, an impairment provision is held against the Amadeus Loan totalling £14,757,007 (2010 £14,757,007) as in the directors' opinion it is not certain that the gross amount outstanding at the year end, £30,007,007 (2010 £30,007,007) will be fully recovered

Impairment (continued)

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

A third-party independent surveyor was instructed to carry out a market valuation of the properties in the Monument Loan portfolio The market value, stated as at 6 March 2009 was £3,000,000 as compared to £20,550,000 on purchase of the commercial mortgage loan

The Monument Loan was due to mature on 15 April 2009 but this did not take place At 31 May 2011, the loan was on the Servicer Watch list due to a material default not likely to be cured within 60 days of occurrence

Negotiations are ongoing between the Borrower and the Special Servicer in order to work out a strategy in recovering the amount outstanding on the commercial mortgage loan Accordingly, an impairment provision is held against the Amadeus Loan totalling £12,557,343 (2010 £12,557,343) as in the directors' opinion it is not certain that the gross amount outstanding at the year end, £15,557,343 (2010 £15,557,343) will be fully recovered

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 29 July 2011 to expire on 27 July 2012 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
Mrs R L Samson – resigned on 4 May 2011
Mr J Traynor

Mrs R L Samson was an alternate director to Mr M H Filer

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 2011

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

Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Company Secretary
30 November 2011

WINDERMERE VIII CMBS PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MAY 2011

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 2011 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 or inconsistencies 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 2011 and of its profit 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

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 2011

WINDERMERE VIII CMBS PLC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2011

	Notes	2011 £	2010 £
Interest income	2	**25,746,329**	34,961,423
Interest expense	3	**(22,418,649)**	(30,290,513)
Net interest income		**3,327,680**	4,670,910
Impairment reversal against Commercial mortgage loans	8	**22,592,576**	2,291,786
Fair value gain on derivative financial instruments	4	**14,092,034**	8,593,775
Deferred consideration		**(1,889,232)**	(3,429,783)
Administrative expenses	5	**(1,409,993)**	(1,212,458)
Profit before tax for the year		**36,713,065**	10,914,230
Income tax charge	6	**(3,078,443)**	(1,811,009)
Profit after tax for the year attributable to equity holders		**33,634,622**	9,103,221
Other comprehensive income		**-**	-
Total comprehensive income for the year attributable to equity holders		**33,634,622**	9,103,221

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

Company Registration Number 5819693

WINDERMERE VIII CMBS PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2011

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Commercial mortgage loans	8	204,670,050	204,690,700
Deferred tax asset	7	2,263,670	5,336,181
		206,933,720	210,026,881
Current assets			
Commercial mortgage loans	8	167,934,267	363,971,122
Trade and other receivables	9	2,330,637	2,995,710
Cash and cash equivalents	10	464,633	1,136,514
		170,729,537	368,103,346
Total assets		377,663,257	578,130,227
Liabilities			
Non-current liabilities			
Debt securities in issue	12	204,670,050	204,690,700
Total non-current liabilities		204,670,050	204,690,700
Current liabilities			
Debt securities in issue	12	195,248,617	413,458,327
Derivative financial instruments	15	11,318,351	25,410,385
Trade and other payables	13	2,675,490	4,454,688
Total current liabilities		209,242,458	443,323,400
Total liabilities		413,912,508	648,014,100
Equity			
Share capital	11	12,502	12,502
Retained deficit		(36,261,753)	(69,896,375)
Total equity		(36,249,251)	(69,883,873)
Total equity and liabilities		377,663,257	578,130,227

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 2011 and are signed on their behalf by

Mignon Clarke 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 2011

	Share capital	Retained losses	Total equity
	£	£	£
Balance as at 1 June 2009	12,502	(78,999,596)	(78,987,094)
Profit for the year	-	9,103,221	9,103,221
Other comprehensive income	-	-	-
Total at 31 May 2010	12,502	(69,896,375)	(69,883,873)

	Share capital	Retained losses	Total
	£	£	£
Balance 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	**-**	**-**	**-**
Balance at 31 May 2011	**12,502**	**(36,261,753)**	**(36,249,251)**

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 2011

	Notes	2011 £	2010 £
Cash flows from operating activities			
Profit before tax for the year		**36,713,065**	10,914,230
Adjustments for			
Fair value movement on derivative financial instruments		**(14,092,034)**	(8,593,775)
Movement in impairment against Commercial mortgage loans		**(22,592,576)**	(2,291,786)
Bank interest receivable	**2**	**(713)**	(102)
Decrease in trade and other receivables	**8,9**	**1,084,794**	634,981
Decrease in trade and other payables		**(1,778,814)**	(2,480,978)
Net cash outflow from operating activities		**(666,278)**	(1,817,430)
Taxation paid		**(6,316)**	(5,437)
Cash flows from investing activities			
Repayments of Commercial mortgage loans during the year		**218,230,360**	2,293,185
Bank interest received	**2**	**713**	102
Net cash inflow from investing activities		**218,231,073**	2,293,287
Cash flows from financing activities			
Redemption of loan notes during the year		**(218,230,360)**	(2,293,185)
Net cash outflow from financing activities		**(218,230,360)**	(2,293,185)
Net decrease in cash and cash equivalents		**(671,881)**	(1,822,765)
Cash and cash equivalents at the beginning of the year		**1,136,514**	2,959,279
Cash and cash equivalents at 31 May	**10**	**464,633**	1,136,514

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 2011

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation
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 2011

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

The accounting policies set out below have been applied consistently in respect of the financial year ended 31 May 2011, and for the previous financial year

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 £36,249,251 (2010 £69,883,873), due to the swap liability and cumulative impairment of the Commercial mortgage loans

The terms of the loan notes, with final maturity in April 2015, 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) As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook It is the intention of the Directors of the Company to continue operations until such time as the amounts due from the Commercial mortgage loans have been fully realised

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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 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

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
Amendments to IAS 1 (June 2011) - Presentation of Items of Other Comprehensive Income	Accounting periods beginning on or after 1 July 2012
IAS 24 (Amendment) - Related Party Disclosures	Accounting periods beginning on or after 1 January 2011
Improvements to IFRSs 2010 (May 2010)	Accounting periods beginning on or after 1 January 2011
IFRS 9- Financial Instruments	Accounting periods beginning on or after 1 January 2013
IFRS 13- Fair Value Measurement	Accounting periods beginning on or after 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

	2011	2010
	£	£
Income from Commercial mortgage loans	**25,704,386**	34,919,964
Other fees and commissions	**41,230**	41,357
Bank interest received	**713**	102
	25,746,329	34,961,423

3. INTEREST EXPENSE

	2011 £	2010 £
Interest on Class A2 loan notes	**3,432,448**	4,020,805
Interest on Class A3 loan notes	**433,705**	470,424
Interest on Class B loan notes	**503,667**	542,948
Interest on Class C loan notes	**603,036**	642,652
Interest on Class D loan notes	**717,390**	751,926
Interest on Class E loan notes	**784,354**	799,965
Net payments on interest rate swap and basis rate swap transactions	**15,944,049**	23,061,793
	22,418,649	30,290,513

4. MOVEMENT IN FAIR VALUE OF DERIVATIVES

	2011 £	2010 £
Movement in fair value of derivatives at fair value through the statement of comprehensive income (see note 15)	**14,092,034**	8,593,775

5. ADMINISTRATIVE EXPENSES

	2011 £	2010 £
Administration and cash management fees	**1,374,553**	1,172,618
Audit fee for the audit of the Company's statutory accounts	**18,037**	25,750
Audit fee paid on behalf of the parent company for the audit of the parent company's statutory accounts	**2,400**	2,350
Corporate services fees	**15,003**	11,740
	1,409,993	1,212,458

The directors received no emoluments for their services as directors to the Company during the year, except for those disclosed in note 16 (2010 none) The directors had no material interest in any contract of significance (2010 none)

The Company does not have any employees (2010 none)

6. TAXATION

	2011	2010
Current tax:	**£**	£
Corporation tax charge for the year at a rate of 21% (2010 21%)	**5,932**	6,335
Adjustment to prior year's charge	**-**	(19)
Deferred tax:		
Deferred tax charge for the year at a rate of 20% (2010 21%)	**3,072,511**	1,804,693
Total income tax charge in the statement of comprehensive income	**3,078,443**	1,811,009

	2011	2010
Reconciliation of total tax charge	**£**	£
The tax assessed for the year is at the small companies' rate of corporation tax in the UK of 21% (2010 21%)		
Profit before tax	**36,713,065**	10,914,230
Profit before tax multiplied by the standard rate of corporation tax in the UK of 21% (2010 21%)	**7,709,744**	2,291,988
Non-allowable items	**(4,744,437)**	(480,960)
Adjustment on deferred tax due to change in tax rate	**113,136**	-
Adjustment to prior year's tax charge	**-**	(19)
Total income tax charge in the statement of comprehensive income	**3,078,443**	1,811,009

7. DEFERRED TAX

	2011
Deferred tax asset	**£**
At 1 June 2010	**5,336,181**
Charge to income for the year	**(3,072,511)**
Balance carried forward	**2,263,670**

Deferred taxes are provided in full on temporary differences under the liability method using a principal rate of tax of 20% (2010 21%)

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

	2011
	£
Deferred tax asset on unrealised derivative profit and loss at 1 June 2010	**5,336,181**
Fair value movement of derivatives	**(3,072,511)**
Deferred tax asset on unrealised derivative profit and loss at 31 May 2011	**2,263,670**

The deferred tax credit in the statement of comprehensive income comprises of the following temporary differences

	2011
	£
Fair value movement of derivatives	**2,263,670**
Deferred tax asset	**2,263,670**

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)

8. COMMERCIAL MORTGAGE LOANS

	2011	2010
	£	£
At 1 June 2010	**568,661,822**	568,243,500
Redemptions	**(218,230,360)**	(2,293,185)
Impairment release	**22,592,576**	2,291,786
(Decrease)/increase in accrued interest	**(419,721)**	419,721
At 31 May 2011	**372,604,317**	568,661,822

The balance can be analysed as follows

	2011	2010
Current assets	**167,934,267**	363,971,122
Non-current assets	**204,670,050**	204,690,700
	372,604,317	568,661,822
Gross commercial mortgage loans	**399,918,667**	618,568,748
Cumulative impairment	**(27,314,350)**	(49,906,926)
Net commercial mortgage loans	**372,604,317**	568,661,822

The mortgage loans were due for repayment between July 2011 and January 2013 At 31 May 2011, £399,918,667 (2010 £618,568,748) of principal was outstanding At 31 May 2011, the rate of interest on the Commercial mortgage loans ranged from 3 22% to 5 72% (2010 5 46% and 6 60% respectively) The loans are secured over commercial properties Lehman Brothers International (Europe) acts as Security Trustee to the AMG Portfolio Mortgage Loan, 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 is co-operating 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
On 8 December 2008, the Amadeus 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

A third-party independent surveyor was instructed to carry out a market valuation of the properties in the Amadeus Loan portfolio The market value, stated as at 27 February 2009 was £15,250,000 as compared to £36,000,000 on purchase of the commercial mortgage loan

The Amadeus Loan was due to mature on 15 April 2009 but this did not take place At 31 May 2010, the loan was on the Servicer Watch-list due to late payment of rent and fluctuations in its vacancy rate from quarter to quarter

Negotiations are ongoing between the Borrower and the Special Servicer in order to work out a strategy in recovering the amount outstanding on the commercial mortgage loan Accordingly, an impairment provision is held against the Amadeus Loan totalling £14,757,007 (2010 £14,757,007) as in the directors' opinion it is not certain that the gross amount outstanding at the year end, £30,007,007 (2010 £30,007,007) will be fully recovered

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

8. COMMERCIAL MORTGAGE LOANS (CONTINUED)

A third-party independent surveyor was instructed to carry out a market valuation of the properties in the Monument Loan portfolio The market value, stated as at 6 March 2009 was £3,000,000 as compared to £20,550,000 on purchase of the commercial mortgage loan

The Monument Loan was due to mature on 15 April 2009 but this did not take place At year-end, the loan was on the Servicer Watch list due to a material default not likely to be cured within 60 days of occurrence

Negotiations are ongoing between the Borrower and the Special Servicer in order to work out a strategy in recovering the amount outstanding on the commercial mortgage loan Accordingly, an impairment provision is held against the Amadeus Loan totalling £12,557,343 (2010 £12,557,343) as in the directors' opinion it is not certain that the gross amount outstanding at the year end, £15,557,343 (2010 £15,557,343) will be fully recovered

The impairment reversal in the sum of £22,592,576 relates to the AMG Portfolio Loan as this Loan was fully recovered subsequent to the year end

9. TRADE AND OTHER RECEIVABLES

	2011	2010
	£	£
Amounts due from holding company	**2,482**	2,482
Prepayments and accrued income	**2,328,155**	2,993,228
	2,330,637	2,995,710

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

	2011	2010
	£	£
Cash and cash equivalents	**464,633**	1,136,514

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

	2011	2010
	£	£
Issued capital	**12,502**	12,502
	12,502	12,502

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

12. DEBT SECURITIES IN ISSUE

	2011	2010
	£	£
Due within one year		
Commercial mortgage-backed loan notes	195,248,617	413,458,327
Due in more than one year		
Commercial mortgage-backed loan notes	204,670,050	204,690,700
Total debt securities in issue	399,918,667	618,149,027

On 28 July 2009 an agreement was entered into with Lloyds TSB Bank Plc for the provision of an amortising liquidity facility of up to £42,815,103 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 29 July 2011 to expire on 27 July 2012 The directors intend to renew this facility annually

Interest-bearing loans and borrowings are repayable as follows

Year ended 31 May 2011

	Total	Less than 1 year	1-2 years	2-5 years
Liabilities	£	£	£	£
Loan notes	399,918,667	195,248,617	204,670,050	-

Year ended 31 May 2010

	Total	Less than 1 year	1-2 years	2-5 years
Liabilities	£	£	£	£
Loan notes	618,149,027	413,458,327	1,400	204,689,300

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 £190,211,313 (2010 £408,441,673) in relation to the Class A2 notes, £46,504,581 (2010 £46,504,581) in respect of the Class A3 notes, £49,739,683 (2010 £49,739,683) in respect of the Class B notes, £50,144,070 (2010 £50,144,070) in respect of the Class C notes, £43,673,868 (2010 £43,673,868) in respect of the Class D notes and £19,645,152 (2010 £19,645,152) in respect of the Class E notes were outstanding

12. DEBT SECURITIES IN ISSUE (CONTINUED)

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

	2011	2010
Current liabilities	**£**	£
Interest payable on loan notes	**569,062**	693,053
Other creditors	**3,255**	240,200
Accruals and deferred income	**2,097,241**	3,515,119
Corporation tax	**5,932**	6,316
	2,675,490	4,454,688

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 balance sheet amount The maximum exposure to credit risk relates to the two main borrowers Wichford Gamma Limited and AM Holdings Limited totalling £199,678,050 (2010 £199,678,050) and £149,677,366 (2010 £152,892,576) respectively

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

	2011	2010
	£	£
Neither past due nor impaired	**354,354,317**	420,111,822
Past due but not impaired	**-**	-
Impaired	**45,564,350**	198,456,926
	399,918,667	618,568,748
Less allowance for impairment	**(27,314,350)**	(49,906,926)
	372,604,317	568,661,822

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

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 2011 £	Fair value 2011 £	Carrying amount 2010 £	Fair value 2010 £
Commercial mortgage loans	8	372,604,317	345,222,615	568,661,822	487,502,315
Other assets	9	2,330,637	2,330,637	2,995,710	2,995,710
Deferred tax asset	7	2,263,670	2,263,670	5,336,181	5,336,181
Cash and cash equivalents	10	464,633	464,633	1,136,514	1,136,514
Total assets		377,663,257	350,281,555	578,130,227	496,970,720
Debt securities in issue	12	(399,918,667)	(333,904,263)	(618,149,027)	(462,091,930)
Interest payable	13	(569,062)	(569,062)	(693,053)	(693,053)
Other payables	13	(2,100,496)	(2,100,496)	(3,755,319)	(3,755,319)
Current tax liability	13	(5,932)	(5,932)	(6,316)	(6,316)
Derivative financial instruments	15	(11,318,351)	(11,318,351)	(25,410,385)	(25,410,385)
Total liabilities		(413,912,508)	(347,898,104)	(648,014,100)	(491,957,003)
		(36,249,251)	2,383,451	(69,883,873)	5,013,717

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

As at 31 May 2011 **Financial liabilities at fair value through profit or loss**	**Total £**	**Level 1 £**	**Level 2 £**	**Level 3 £**
Derivative financial instruments	11,318,351	-	11,318,351	-

As at 31 May 2010 Financial liabilities at fair value through profit or loss	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	25,410,385	-	25,410,385	-

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 29 July 2011 to expire on 27 July 2012 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 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	11,318,351	11,272,448	1,104,847	6,076,559	4,091,042
Total financial instruments	**411,806,080**	**416,473,293**	**197,621,668**	**8,456,535**	**210,395,090**

As at 31 May 2010	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	618,149,027	618,149,027	198,457,276	215,001,051	204,690,700
Interest payable on Notes	693,053	17,445,358	1,632,777	3,602,459	12,210,122
Derivative financial instruments	25,410,385	17,277,938	2,323,208	10,596,619	4,358,111
Total financial instruments	**644,252,465**	**652,872,323**	**202,413,261**	**229,200,129**	**221,258,933**

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 2011

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, AMG Portfolio and Monument Loans, where the maturity of the loans has expired, have lapsed and the interest rate risk on the loans is in effect unhedged The Borrowers of these loans are now paying a lower rate of interest due to the reduction in the LIBOR rates than would be the case if these loans were 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 This was not utilised during the year

Interest rate sensitivity
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 on Loans hedged As has been mentioned above, interest swaps in respect of the Amadeus, AMG Portfolio and Monument Loans, where the maturity of the loans has expired, are unhedged and hence, these loans are now paying a lower rate of interest due to the reduction in the LIBOR rates than would be the case if these loans were hedged 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

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		168,392,000	4,594,307	204,676,950	377,663,257
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		410,937,018	2,675,490	-	413,612,508

14. FINANCIAL INSTRUMENTS (CONTINUED)

Effective interest rates and repricing analysis (continued)

At 31 May 2010	Weighted average effective interest rate %	1 to 3 months £	Non-interest bearing £	Fixed rate £	Total £
Assets					
Trade and other receivables	-	-	2,995,729	-	2,995,729
Commercial mortgage loans	5 6362%	363,969,722	-	204,692,100	568,661,822
Deferred tax asset	-	-	5,336,181	-	5,336,181
Cash and cash equivalents	-	1,136,514	-	-	1,136,514
Total assets		365,106,236	8,331,910	204,692,100	578,130,246
Liabilities					
Trade and other payables	-	-	4,454,707	-	4,454,707
Derivative financial instruments	-	25,410,385	-	-	25,410,385
Debt securities in issue	1 1670%	618,149,027	-	-	618,149,027
Total liabilities		643,559,412	4,454,707	-	648,014,119

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

	2011 £	2010 £
Interest rate swaps and caps	**(11,318,351)**	(25,410,385)

The notional principal amount of the outstanding interest rate swaps and interest rate caps at 31 May 2011 was £204,690,700 (2010 £419,692,100) At 31 May 2011 the fixed rate payable by the Company on the interest rate swaps ranged from 4 6% to 4 771% (2010 4 6% to 5 102%) 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

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 2011 amounted to £15,003 (2010 £11,740) At the end of the year, £1,455 (2010 £1,323) had been accrued and included within trade and other payables

During the year, accounting services amounting to £6,755 (2010 £6,000) were charged by Wilmington Trust SP Services (London) Limited At 31 May 2011, an amount of £6,381 (2010 £5,875) was outstanding and disclosed within current liabilities trade and other payables

17. ULTIMATE PARENT UNDERTAKING

The Company is incorporated in Great Britain and registered in England and Wales

Windermere VIII CMBS Holdings Limited, a company incorporated in Great Britain 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

There were no significant post balance sheet events to report