

**WINDERMERE VIII CMBS PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MAY 2008**

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**WINDERMERE VIII CMBS PLC**  
**FOR THE YEAR ENDED 31 MAY 2008**

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# **WINDERMERE VIII CMBS PLC**

## **COMPANY INFORMATION**

|                               |  |
|-------------------------------|--|
| <b>The board of directors</b> | Wilmington Trust SP Services (London) Limited<br>Mr M H Filer<br>Mrs R L Samson<br>Mr J Traynor                  |
| <b>Company secretary</b>      | Wilmington Trust SP Services (London) Limited  |
| <b>Registered office</b>      | c/o Wilmington Trust SP Services (London) Limited<br>Fifth Floor<br>6 Broad Street Place<br>London<br>EC2M 7JH   |
| <b>Auditors</b>               | Deloitte LLP<br>London   |
| <b>Servicer</b>               | Hatfield Philips International Limited<br>34 <sup>th</sup> Floor<br>25 Canada Square<br>London<br>E14 5LB        |
| <b>Trustee</b>                | LaSalle Global Trust Services Limited<br>(formerly ABN Trustees Limited)<br>5 Canada Square<br>London<br>E14 5AQ |

# WINDERMERE VIII CMBS PLC

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 MAY 2008

The directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 May 2008. The comparative figures are from the date of incorporation on 17 May 2006 to 31 May 2007.

#### PRINCIPAL ACTIVITIES

The Company is a special purpose company established in order to issue commercial mortgage-backed loan notes due April 2015 ("the 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 open accounts, 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.

#### RESULT AND DIVIDENDS

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

The loss of the Company for the period after tax amounted to £16,761,539 as a result of a fair value loss on derivative financial instruments and an impairment made against the Commercial mortgage loans of £9,652,877 and £8,800,000 respectively (period ended 31 May 2007: profit of: £21,525,448). The directors have not recommended a dividend (2007:£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.

The key performance indicator of the business is considered to be the net interest margin. During the year, the Company achieved a net interest income margin (net interest income divided by interest income) of 11.0% (period ended 31 May 2007:17.0%). At the year end, the Company had net assets of £4,776,411 (2007:£21,537,950).

The Company will pay deferred consideration to the originator, Lehman Commercial Paper Inc. (in administration), United Kingdom Branch, which is dependent on the extent to which surplus income is generated by the mortgage portfolio, purchased by the Company.

During the year the Company received £92,061,143 (2007:£321,096,910) from redemptions on the Commercial mortgage loans and redeemed £278,111,143 (2007:£136,857,177) of the loan notes.

#### POST BALANCE SHEET EVENTS

*Lehman Brothers Holdings Inc. and Lehman Brothers Special Financing Inc*

On 15 September 2008 Lehman Brothers Holdings Inc., the guarantor in respect of the interest rate swaps and interest rate caps entered into by the Company, filed a voluntary petition for reorganisation pursuant to Chapter 11 of the Bankruptcy Code of the United States. On 3 October 2008 the interest rate swap and interest rate cap counterparty, Lehman Brothers Special Financing Inc, also made a Chapter 11 filing. The Chapter 11 filings by the guarantor and the counterparty constitute events of default under the terms of the interest rate swaps and interest rate caps and the Company notified the guarantor and counterparty that it would refrain from making any further payments pursuant to the interest rate swaps or interest rate caps for so long as such event of default was continuing.

As a result of these events of default, the Company was exposed to interest rate fluctuations as the Company was not making any payments to such swap counterparties (nor receiving any such payments) up until a replacement swap counterparty was found on 16 April 2009 (see below). The last swap receipts and payments to be received and paid respectively with Lehman Brothers Special Financing Inc were in July 2008.

Whilst no adjustment is required to these financial statements at 31 May 2008, the fair value of the swap agreements of £16,897,318 may not be realisable by the Company subsequent to the year end. Please refer to note 15 which provides details as to the market value of the derivatives held by the Company.

# WINDERMERE VIII CMBS PLC

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### POST BALANCE SHEET EVENTS (continued)

On 16 April 2009, the Company terminated the interest rate swap agreements with Lehman Brothers Special Financing, Inc. as Interest Rate Swap Provider and Lehman Brothers Holdings, Inc. as Interest Rate Swap Guarantor and entered into replacement interest rate swap agreements, each with an Effective Date (as defined in such replacement interest rate swap agreement) of 15 January 2009, with HSBC Bank plc as replacement interest rate swap provider at no cost to the Company. Such replacement interest rate swap agreements have been entered into on substantially the same terms as the terminated Interest Rate Swap Agreements, other than certain amendments made to rectify errors and ambiguities in the terminated interest rate swap agreements to reconcile the replacement interest rate swap agreements with the Terms and Conditions of the Notes and/or the relevant Commercial mortgage loans. As a result, HSBC Bank Plc paid the Company £31,900,000, of which £28,010,852 was paid to Lehman Brothers Special Financing Inc to terminate the existing swaps.

#### *Lehman Brothers International (Europe)*

On 15 September 2008, Lehman Brothers International (Europe) was placed into Administration. The Company is working to effect the removal or replacement of Lehman Brothers International (Europe) in their capacity as the Security Trustee and agent (as the case may be) for the mortgage loans relating to City Place, the AMG portfolio, Senator House, Wood Green, the Amadeus portfolio, the Government income portfolio and the Monument mortgage loan. Goldman Sachs Credit Partners L.P. continues to act as Security Trustee for the City Point whole mortgage loan.

#### *Lloyds TSB Bank PLC*

On 6 March 2009 Lloyds TSB Bank PLC, the liquidity provider, was downgraded from A-1+ to A-1 by Standard & Poors credit rating agency. The Company is exercising all relevant rights available under the Liquidity Facility Agreement in connection with such downgrade including, but not limited to, the drawing of a standby liquidity loan.

#### *Amadeus Loan*

The Amadeus 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 late payment of rent and fluctuations in its vacancy rate from quarter to quarter. 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. This Event of Default was due to an imminent default in respect of the payment of interest in January 2009 and covenant breaches during the year.

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.

Negotiations are on-going 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 has been made at year-end against the Amadeus Loan totalling £8,800,000 as, in the Directors' opinion, it is not certain that the full amount outstanding at the year end, £30,570,000, will now be fully recovered.

#### *Monument Loan*

The Monument Loan was due to mature on 15 April 2009 but this did not take place. On 6 February 2009, the Monument Loan was transferred to Special Servicing. The Servicing Transfer Event was due to an imminent material default not likely to be cured within sixty days of occurrence.

The Special Servicer undertook a special inspection on 17 February 2009 and a third party independent surveyor has been engaged to perform a valuation of the properties. The final report is currently being reviewed by the Special Servicer.

The Special Servicer met with the borrower to discuss their intentions and outline workout alternatives. Legal counsel has been engaged to conduct legal due diligence on possible workout options. As the default event occurred in the post year end period, no impairment has been made against the Monument Loan at the year-end.

# **WINDERMERE VIII CMBS PLC**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2008**

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

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.

Further, the directors acknowledge that the global macro-economic indicators and general business environment have deteriorated during 2008, and have worsened during the first quarter of 2009. 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 loan notes issued by the Company are non-recourse and their terms 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.

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.

#### **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 of a single borrower is considered to be Mid City Limited totalling £215,000,000 (2007:£215,000,000). At 31 May 2008, the total principal amount outstanding on all mortgage loans was £622,629,680 (2007:£714,690,823).

As has been mentioned above, the Company's swap counterparty, Lehman Brothers Special Financing, Inc, was replaced by HSBC Bank Plc on 16 April 2009, exhibiting similar terms as the previous one. As specified by the Issuer Deed, the ratings associated with the swap counterparty will be required to be A-1, F1 and P-1 by Standard & Poor's, Fitch Ratings and Moody's respectively and these will be monitored periodically to ensure they remain within these parameters.

#### **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. Subsequent to the year end, the swap guarantor and counterparty were in default. The Company was effectively un-hedged until a replacement swap guarantor and counterparty was found. As has been mentioned above, on 16 April 2009 a replacement swap counterparty was found on similar terms as those for the previous one.

The purpose of the interest rate swaps and interest rate caps 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.

# **WINDERMERE VIII CMBS PLC**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2008**

#### **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.

At 31 May 2008 this facility was not required, and has not been used during the current year or prior period.

A new liquidity facility agreement was entered into with Lloyds TSB Bank plc on 29 July 2008 to expire on 28 July 2009 for up to £42,815,103. The directors intend to renew this facility annually.

#### **Currency risk**

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

#### **DIRECTORS**

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

Wilmington Trust SP Services (London) Limited

Mr R G Baker (resigned on 28 February 2008)

Mr M H Filer

Mr M McDermott (resigned on 28 February 2008)

Mrs R L Samson

Mr J Traynor (appointed 28 February 2008)

#### **AUDITORS**

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

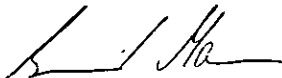
#### **STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

The directors confirm that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act of 1985.

Signed by order of the directors



For and on behalf of

**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**

Company Secretary

29 May 2009

## **WINDERMERE VIII CMBS PLC**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing 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. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 AUDITORS' 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 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 May 2008 and of the company's loss for the year ended 31 May 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



**Deloitte LLP**

Chartered Accountants and Registered Auditors

London, United Kingdom

29 May 2009

# WINDERMERE VIII CMBS PLC

## INCOME STATEMENT

### FOR THE YEAR ENDED 31 MAY 2008

|  |       | Year ended<br>31 May 2008 | Restated<br>Period from 17<br>May 2006 to 31<br>May 2007 |
|--|-------|---------------------------|--|
|  | Notes | £                         | £  |
| Interest income  | 2     | 48,183,058                | 54,768,533   |
| Interest expense   | 3     | <u>(42,893,947)</u>       | <u>(45,479,882)</u>                                      |
| Net interest income  |       | 5,289,111                 | 9,288,651  |
| Impairment of Commercial mortgage loans                                    | 8     | (8,800,000)               | -  |
| Fair value (loss)/gain on derivative financial instruments                 | 4     | (9,652,877)               | 26,550,195   |
| Other income   |       | -                         | 2,350  |
| Deferred consideration   |       | (4,901,617)               | (8,881,479)  |
| Administrative expenses  | 5     | <u>(354,325)</u>          | <u>(385,090)</u>   |
| (Loss)/profit before tax for the year/period                               |       | (18,419,708)              | 26,574,627   |
| Tax  | 6     | <u>1,658,169</u>          | <u>(5,049,179)</u>                                       |
| (Loss)/profit after tax for the year/period attributable to equity holders |       | <u>(16,761,539)</u>       | <u>21,525,448</u>  |

The loss shown above is derived from continuing activities.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 MAY 2008

|                        | Retained<br>earnings<br>£ | Issued share<br>capital<br>£ | Total equity<br>£   |
|------------------------|---------------------------|------------------------------|---------------------|
| As at 17 May 2006      | -                         | -                            | -                   |
| Issue of share capital | -                         | 12,502                       | 12,502              |
| Profit for the period  | <u>21,525,448</u>         | -                            | <u>21,525,448</u>   |
| Total at 31 May 2007   | 21,525,448                | 12,502                       | 21,537,950          |
| Loss for the year      | <u>(16,761,539)</u>       | -                            | <u>(16,761,539)</u> |
| Total at 31 May 2008   | <u>4,763,909</u>          | <u>12,502</u>                | <u>4,776,411</u>    |

The notes on pages 11 to 28 form part of these financial statements.

# WINDERMERE VIII CMBS PLC

## BALANCE SHEET

AS AT 31 MAY 2008

|                                      | Notes | 2008<br>£          | 2007<br>£          |
|--------------------------------------|-------|--------------------|--------------------|
| <b>Assets</b>                        |       |                    |                    |
| <b>Non-current assets</b>            |       |                    |                    |
| Commercial mortgage loans            | 8     | <u>574,242,604</u> | <u>622,813,702</u> |
| <b>Current assets</b>                |       |                    |                    |
| Commercial mortgage loans            | 8     | 39,587,076         | 91,877,121         |
| Other assets                         | 9     | 4,669,451          | 5,578,026          |
| Derivative financial instruments     | 15    | 16,897,318         | 26,550,195         |
| Cash and cash equivalents            | 10    | <u>1,238,444</u>   | <u>190,704,558</u> |
|                                      |       | <u>62,392,289</u>  | <u>314,709,900</u> |
| <b>Total assets</b>                  |       | <u>636,634,893</u> | <u>937,523,602</u> |
| <b>Liabilities</b>                   |       |                    |                    |
| Debt securities in issue             | 12    | 48,387,076         | 277,967,122        |
| Other liabilities                    | 13    | <u>5,849,339</u>   | <u>10,200,292</u>  |
| <b>Total current liabilities</b>     |       | <u>54,236,415</u>  | <u>288,167,414</u> |
| <b>Non-current liabilities</b>       |       |                    |                    |
| Debt securities in issue             | 12    | 574,242,604        | 622,773,701        |
| Deferred tax liability               | 7     | <u>3,379,463</u>   | <u>5,044,537</u>   |
| <b>Total non-current liabilities</b> |       | <u>577,622,067</u> | <u>627,818,238</u> |
| <b>Total liabilities</b>             |       | <u>631,858,482</u> | <u>915,985,652</u> |
| <b>Net assets</b>                    |       | <u>4,776,411</u>   | <u>21,537,950</u>  |
| <b>Capital and reserves</b>          |       |                    |                    |
| Called up equity share capital       | 11    | 12,502             | 12,502             |
| Retained earnings                    |       | <u>4,763,909</u>   | <u>21,525,448</u>  |
| <b>Total equity</b>                  |       | <u>4,776,411</u>   | <u>21,537,950</u>  |

These financial statements on pages 8 to 28 were approved and authorised for issue by the directors on 29 May 2009 and are signed on their behalf by:



For and on behalf of

**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**

Director

The notes on pages 11 to 28 form part of these financial statements.

**WINDERMERE VIII CMBS PLC**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 MAY 2008**

|   |              | <b>Year ended<br/>31 May 2008</b> | <b>Period from<br/>17 May 2006<br/>to 31 May<br/>2007</b> |
|---|--------------|-----------------------------------|---|
|   | <b>Notes</b> | <b>£</b>                          | <b>£</b>  |
| <b>Cash flows from operating activities</b>                   |              |                                   |   |
| (Loss)/profit before tax for the year/period                  |              | (18,419,708)                      | 26,574,627  |
| <i>Adjustments for:</i>                                       |              |                                   |   |
| Fair value movement on derivative financial instruments       |              | 9,652,877                         | (26,550,195)  |
| Impairment against Commercial mortgage loans                  |              | 8,800,000                         | -   |
| Bank interest receivable                                      | 2            | (2,870,432)                       | (199,439)   |
| Decrease/(increase) in other assets                           | 9            | 908,575                           | (5,578,026)   |
| (Decrease)/increase in other liabilities                      | 13           | (4,357,858)                       | 10,195,650  |
| <b>Net cash (outflow)/inflow from operating activities</b>    |              | <b>(6,286,546)</b>                | <b>4,442,617</b>  |
| <b>Cash flows from investing activities</b>                   |              |                                   |   |
| Acquisition of commercial mortgage loans                      |              | -                                 | (1,035,787,733)   |
| Repayments during period                                      |              | 92,061,143                        | 321,096,910   |
| Bank interest received  | 2            | 2,870,432                         | 199,439   |
| <b>Net cash inflow/(outflow) from investing activities</b>    |              | <b>94,931,575</b>                 | <b>(714,491,384)</b>                                      |
| <b>Cash flows from financing activities</b>                   |              |                                   |   |
| Share capital issued  |              | -                                 | 12,502  |
| Cash received on loan notes issued                            |              | -                                 | 1,037,598,000   |
| Redemption of loan notes during the year/period               |              | (278,111,143)                     | (136,857,177)   |
| <b>Net cash (outflow)/inflow from financing activities</b>    |              | <b>(278,111,143)</b>              | <b>900,753,325</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |              | <b>(189,466,114)</b>              | <b>190,704,558</b>  |
| Cash and cash equivalents at the beginning of the year/period |              | 190,704,558                       | -   |
| <b>Cash and cash equivalents at 31 May 2008</b>               | 10           | <b>1,238,444</b>                  | <b>190,704,558</b>  |

As explained in the accounting policies on page 12, the cash is not freely available to be used.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MAY 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES

Windermere VIII CMBS Plc is a company incorporated in the United Kingdom under the Companies Act 1985 and domiciled in England.

##### **Statement of compliance**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The accounting policies set out below have been applied consistently in respect of the financial year ended 31 May 2008, and for the previous financial period.

##### **Basis of preparation**

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB as adopted by the EU that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The impact of the adoption of these new standards was to provide additional disclosure for financial instruments held.

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.

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than turnover and cost of sales in preparing the income statement.

##### **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 page 3. 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 loan notes issued by the Company are non-recourse and their terms 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 amount 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.

The comparative figures have been restated to reflect the net receivable position of the interest rate swap and basis swap transactions which were previously disclosed gross with the receivable and payable legs of the swaps in the interest income (note 2) and interest expense (note 3) notes to the financial statements respectively. This has had no overall net effect on the profit reported for the comparative period.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **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 on 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

##### **Financial instruments**

The Company's financial instruments comprise of 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 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.

##### **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 (see note 18). 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 income statement as an expense.

##### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand 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.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 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 operational, 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 income statement.

The fair value of interest rate swaps and basis swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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 income statement.

##### **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 cost with any difference between cost and redemption value being recognised in the income statement 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 income statement 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 MAY 2008**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Standards issued but not adopted**

The directors are considering the following standards which are currently in issue but are not yet effective and have not been adopted in the current financial year.

IFRS 8, 'Operating segments' is effective from 1 January 2009. The standard is still subject to endorsement by the European Union. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The new standard is not expected to have a significant impact on the Company's financial statements.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The new standard is not expected to have any impact on the Company's financial statements.

IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. IAS 27 revised is not relevant to the Company's operations because the Company does not have controlling or non-controlling interests.

IAS 32 (amended) 'Financial Instruments- Presentation' (effective from 1 January 2009). In February 2008, the IASB amended IAS 32 by requiring some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This revision is not relevant to the Company as it does not have any such instruments.

IFRS 3 (amended), 'Business combinations' (effective from 1 July 2009). The IASB published a revised IFRS 3, 'Business combinations'. The standard continues to apply the acquisition method to business combinations, with some significant changes. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. IFRS 3 is not relevant to the Company's operations because the Company does not have any business combinations.

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because the Company does not provide for public sector services.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Company's operations because the Company has no employees and also does not provide pension.



# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Standards issued but not adopted (continued)

Amendment to IFRS 2, Share based payments (effective from 1 January 2009). The IASB has published an amendment to IFRS 2, 'Share-based payment' dealing with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The new standard is not expected to have any impact on the Company's financial statements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', (effective from 1 periods beginning 1 March 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Company's financial statements.

##### Segmental reporting

The principal asset of the Company is the beneficial interest in the mortgage portfolio originated in the United Kingdom which is 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

|   | Year ended<br>31 May 2008 | Restated<br>Period from 17<br>May 2006 to 31<br>May 2007 |
|---|---------------------------|--|
|   | £                         | £  |
| Income from commercial mortgage loans                                 | 37,503,735                | 47,525,998   |
| Net receipts from interest rate swap and basis rate swap transactions | 6,863,108                 | 2,798,661  |
| Other fees and commissions  | 945,783                   | 4,244,435  |
| Bank interest received  | <u>2,870,432</u>          | <u>199,439</u>   |
|   | <u>48,183,058</u>         | <u>54,768,533</u>  |

#### 3. INTEREST EXPENSE

|                                 | Year ended<br>31 May 2008 | Restated<br>Period from 17<br>May 2006 to 31<br>May 2007 |
|---------------------------------|---------------------------|--|
|                                 | £                         | £  |
| Interest on Class A1 loan notes | 772,153                   | 7,883,732  |
| Interest on Class A2 loan notes | 27,645,448                | 25,035,159   |
| Interest on Class A3 loan notes | 2,959,475                 | 2,542,617  |
| Interest on Class B loan notes  | 3,206,773                 | 2,759,614  |
| Interest on Class C loan notes  | 3,332,022                 | 2,878,106  |
| Interest on Class D loan notes  | 3,102,121                 | 2,700,482  |
| Interest on Class E loan notes  | <u>1,875,955</u>          | <u>1,680,172</u>   |
|                                 | <u>42,893,947</u>         | <u>45,479,882</u>  |

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 4. MOVEMENT IN FAIR VALUE OF DERIVATIVES

|  | Year ended<br>31 May 2008 | Period from 17<br>May 2006 to 31<br>May 2007 |
|--|---------------------------|--|
|  | £                         | £  |
| Movement in fair value of derivatives at fair value through the income statement | <u>(9,652,877)</u>        | <u>26,550,195</u>                            |

#### 5. ADMINISTRATIVE EXPENSES

|   | Year ended<br>31 May 2008 | Period from 17<br>May 2006 to 31<br>May 2007 |
|---|---------------------------|--|
|   | £                         | £  |
| Administration and cash management fees   | 324,645                   | 355,497                                      |
| Audit fee for the audit of the Company's accounts   | 16,000                    | 16,000                                       |
| Audit fee paid on behalf of the parent company for the audit of the parent company's accounts | 1,625                     | 1,625  |
| Corporate services fees   | <u>12,055</u>             | <u>11,968</u>                                |
|   | <u>354,325</u>            | <u>385,090</u>                               |

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2007: £nil).

The Company does not have any employees (2007: none).

#### 6. TAXATION

|   | Year ended<br>31 May 2008 | Period from<br>17 May 2006<br>to 31 May<br>2007 |
|---|---------------------------|---|
|   | £                         | £   |
| <b>Current tax:</b>   |                           |   |
| Corporation tax charge for the period at a rate of 20% (2007:19%)       | 6,874                     | 4,642   |
| Adjustment to prior period's charge                                     | 31                        | -   |
| <b>Deferred tax:</b>  |                           |   |
| Deferred tax (credit)/charge for the period at a rate of 20% (2007:19%) | <u>(1,665,074)</u>        | <u>5,044,537</u>                                |
| Total tax (credit)/expense  | <u>(1,658,169)</u>        | <u>5,049,179</u>                                |

|   | Year ended<br>31 May 2008 | Period from<br>17 May 2006<br>to 31 May<br>2007 |
|---|---------------------------|---|
|   | £                         | £   |
| <b>Reconciliation of total tax charge</b>   |                           |   |
| The tax assessed for the period is at the small companies rate of corporation tax in the UK of 20% (2007:19%) |                           |   |
| (Loss)/profit before tax  | <u>(18,419,708)</u>       | <u>26,574,627</u>                               |
| (Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2007:19%)       | <u>(3,683,942)</u>        | <u>5,049,179</u>                                |
| Non-allowable items   | 1,760,240                 | -   |
| Adjustment on deferred tax due to change in tax rate  | 265,502                   | -   |
| Adjustment to prior period's charge   | <u>31</u>                 | <u>-</u>  |
|   | <u>(1,658,169)</u>        | <u>5,049,179</u>                                |

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 7. DEFERRED TAX

##### Deferred tax liability

|                               |                    |
|-------------------------------|--------------------|
| At 1 June 2007                | 5,044,537          |
|                               | <u>(1,665,074)</u> |
| Credit to income for the year |                    |
| Balance carried forward       | <u>3,379,463</u>   |

Deferred taxes are provided in full on temporary differences under the liability method using a principal rate of tax of 20% (2007: 19%)

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

|  |                    |
|--|--------------------|
|  | 2008               |
|  | £                  |
| Deferred tax liability on derivatives at 1 June 2007 | 5,044,537          |
| Fair value movement of derivatives                   | <u>(1,665,074)</u> |
| Deferred tax asset on derivatives at 31 May 2008     | <u>3,379,463</u>   |

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

|                                    |                    |
|------------------------------------|--------------------|
|                                    | 2008               |
|                                    | £                  |
| Fair value movement of derivatives | <u>(1,665,074)</u> |
| Net deferred tax credit            | <u>(1,665,074)</u> |

#### 8. COMMERCIAL MORTGAGE LOANS

|   |                    |                    |
|---|--------------------|--------------------|
|   | 2008               | 2007               |
|   | £                  | £                  |
| At 1 June 2007                          | 714,690,823        | -                  |
| Acquisitions                            | -                  | 1,035,787,733      |
| Redemptions                             | (92,061,143)       | (321,096,910)      |
| Impairment of commercial mortgage loans | <u>(8,800,000)</u> | -                  |
| At 31 May 2008                          | <u>613,829,680</u> | <u>714,690,823</u> |

The balance can be analysed as follows:

|                    |                    |                    |
|--------------------|--------------------|--------------------|
| Current assets     | 39,587,076         | 91,877,121         |
| Non-current assets | <u>574,242,604</u> | <u>622,813,702</u> |
|                    | <u>613,829,680</u> | <u>714,690,823</u> |

The mortgage loans are due for repayment between April 2009 and January 2013. At 31 May 2008, £622,629,680 (2007: £714,690,823) of principal was outstanding. At 31 May 2008, the fixed rate of interest on the Commercial mortgage loans ranged from 5.5571% to 6.7% (2007: 4.49% and 5.102% respectively). The loans are secured over commercial properties. Lehman Brothers International (Europe) acts as Security Trustee to the Mid City Place Mortgage Loan, the AMG Portfolio Mortgage Loan, the Senator House 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 Group 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.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 8. COMMERCIAL MORTGAGE LOANS (continued)

The Amadeus 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 late payment of rent and fluctuations in its vacancy rate from quarter to quarter. 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. This Event of Default was due to an imminent default in respect of the payment of interest in January 2009 and breaches during the year.

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.

Negotiations are on-going 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 has been made against the Amadeus Loan totalling £8,800,000 as in the Directors' opinion it is not certain that the full amount outstanding at the year end, £30,570,000, will be fully recovered.

#### 9. OTHER ASSETS

|                                | 2008             | 2007             |
|--------------------------------|------------------|------------------|
|                                | £                | £                |
| Prepayments and accrued income | <u>4,669,451</u> | <u>5,578,026</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.

|                           | 2008             | 2007               |
|---------------------------|------------------|--------------------|
|                           | £                | £                  |
| Cash and cash equivalents | <u>1,238,444</u> | <u>190,704,558</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

|                        | 2008          | 2007          |
|------------------------|---------------|---------------|
|                        | £             | £             |
| Issued capital         | <u>12,502</u> | <u>12,502</u> |
| Balance at 31 May 2007 | <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 called up and quarter. 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 2008

#### 12. DEBT SECURITIES IN ISSUE

|                                       | 2008<br>£          | 2007<br>£          |
|---------------------------------------|--------------------|--------------------|
| <b>Due within one year</b>            |                    |                    |
| Commercial mortgage-backed loan notes | <u>48,387,076</u>  | <u>277,967,122</u> |
| <b>Due in more than one year</b>      |                    |                    |
| Commercial mortgage-backed loan notes | <u>574,242,604</u> | <u>622,773,701</u> |
| <b>Total debt securities in issue</b> | <u>622,629,680</u> | <u>900,740,823</u> |

On 1 August 2006 an agreement was entered into with Lloyds TSB Bank Plc for the provision of an amortising liquidity facility of up to £62,267,400 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. No amounts have been drawn under the facility since inception. A new liquidity facility agreement was entered into with Lloyds TSB Bank plc on 29 July 2008 for up to £42,815,103. This facility is due to expire on 28 July 2009.

At 31 May 2008 this facility was not required, and has not been used during the current year or prior period.

Interest-bearing loans and borrowings are repayable as follows:

#### Year ended 31 May 2008

|             | Total              | Less<br>than 1 year | 1-2 years          | 2-5 years          | More<br>than 5 years |
|-------------|--------------------|---------------------|--------------------|--------------------|----------------------|
| Liabilities | £                  | £                   | £                  | £                  | £                    |
| Loan notes  | <u>622,629,680</u> | <u>48,387,076</u>   | <u>154,550,504</u> | <u>419,692,100</u> | <u>-</u>             |

#### Period ended 31 May 2007

|             | Total              | Less<br>than 1 year | 1-2 years        | 2-5 years        | More<br>than 5 years |
|-------------|--------------------|---------------------|------------------|------------------|----------------------|
| Liabilities | £                  | £                   | £                | £                | £                    |
| Loan notes  | <u>900,740,823</u> | <u>277,967,122</u>  | <u>1,520,640</u> | <u>4,561,919</u> | <u>616,691,142</u>   |

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%.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 12. DEBT SECURITIES IN ISSUE (continued)

At the balance sheet date £nil (2007:£97,247,691) in relation to the Class A1 was still outstanding, £412,832,707 (2007:£558,500,000) in relation to the Class A2 notes was still outstanding, £46,524,455 (2007:£54,329,535) in respect of the Class A3 notes, £49,760,939 (2007:£58,108,981) in respect of the Class B notes, £50,165,499 (2007:£58,581,411) in respect of the Class C notes, £43,692,532 (2007:£51,022,520) in respect of the Class D notes and £19,653,548 (2007:£22,950,685) 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. OTHER LIABILITIES

|                                | 2008             | 2007              |
|--------------------------------|------------------|-------------------|
| <b>Current liabilities</b>     | <b>£</b>         | <b>£</b>          |
| Interest payable on loan notes | 4,265,215        | 6,042,495         |
| Other creditors                | 932,602          | -                 |
| Accruals and deferred income   | 639,975          | 4,153,155         |
| Corporation tax                | 11,547           | 4,642             |
|                                | <u>5,849,339</u> | <u>10,200,292</u> |

#### 14. FINANCIAL INSTRUMENTS

The principal risks and uncertainties are set out in the Directors' Report on pages 3 and 4.

##### Financial instruments

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.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 14. FINANCIAL INSTRUMENTS (continued)

##### 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 largest single exposure to credit risk is the Mid City commercial mortgage loan totalling £215,000,000 (2007:£215,000,000).

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

|                                | 31 May<br>2008     | 31 May<br>2007     |
|--------------------------------|--------------------|--------------------|
|                                | £                  | £                  |
| Neither past due nor impaired  | 592,059,680        | 714,690,823        |
| Past due but not impaired      | -                  | -                  |
| Impaired                       | <u>30,570,000</u>  | <u>-</u>           |
|                                | 622,629,680        | 714,690,823        |
| Less: allowance for impairment | <u>(8,800,000)</u> | <u>-</u>           |
|                                | <u>613,829,680</u> | <u>714,690,823</u> |

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 collaterals or transfer its obligations to another bank of the same credit rating.

On 3 October 2008 the interest rate and cap swap counterparty, Lehman Brothers Special Financing Inc, filed for Chapter 11 bankruptcy. As a result of this, and the filing under Chapter 11 of the Bankruptcy Code of the United States on 15 September 2008 of Lehman Brothers Holdings Inc., the swap guarantor, the future amounts due to the Company under these swaps are unlikely to be paid. The last swap receipts to be received and the payments made were in July 2008. An asset of £16,897,318 was held on the balance sheet at year-end in respect of the fair value of these derivatives at the balance sheet date.

On 16 April 2009, the Company terminated the interest rate swap agreements with Lehman Brothers Special Financing, Inc. as Interest Rate Swap Provider and Lehman Brothers Holdings, Inc. as Interest Rate Swap Guarantor and entered into replacement interest rate swap agreements, each with an Effective Date (as defined in such replacement interest rate swap agreement) of 15 January 2009, with HSBC Bank plc as replacement interest rate swap provider at no cost to the Company. Such replacement interest rate swap agreements have been entered into on substantially the same terms as the terminated interest rate swap agreements, other than certain amendments made to rectify errors and ambiguities in the terminated interest rate swap agreements to reconcile the replacement interest rate swap agreements with the Terms and Conditions of the Notes and/or the relevant Commercial mortgage loans.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 14. FINANCIAL INSTRUMENTS (continued)

##### Fair values

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

|                                       | Notes | Carrying<br>amount<br>2008<br>£ | Fair value<br>2008<br>£ | Carrying<br>amount<br>2007<br>£ | Fair value<br>2007<br>£ |
|---------------------------------------|-------|---------------------------------|-------------------------|---------------------------------|-------------------------|
| Derivative financial instruments      | 15    | 16,897,318                      | 16,897,318              | 26,550,195                      | 26,550,195              |
| Mortgage commercial loans             | 8     | 613,829,680                     | 560,881,263             | 714,690,823                     | 719,017,232             |
| Trade and other receivables           | 9     | 4,669,451                       | 4,669,451               | 5,578,026                       | 5,578,026               |
| Cash and cash equivalents             | 10    | 1,238,444                       | 1,238,444               | 190,704,558                     | 190,704,558             |
| Total assets                          |       | <u>636,634,893</u>              | <u>583,686,476</u>      | <u>937,523,602</u>              | <u>941,850,011</u>      |
| Interest-bearing loans and borrowings | 12    | (622,629,680)                   | (586,061,744)           | (900,740,823)                   | (900,599,093)           |
| Interest payable                      | 13    | (4,265,215)                     | (4,265,215)             | (6,042,495)                     | (6,042,495)             |
| Trade and other payables              | 13    | (1,572,577)                     | (1,572,577)             | (4,153,155)                     | (4,153,155)             |
| Current tax liability                 | 13    | (11,547)                        | (11,547)                | (4,642)                         | (4,642)                 |
| Deferred tax liability                | 7     | (3,379,463)                     | (3,379,463)             | (5,044,537)                     | (5,044,537)             |
| Total liabilities                     |       | <u>(631,858,482)</u>            | <u>(595,290,546)</u>    | <u>(915,985,652)</u>            | <u>(915,843,922)</u>    |
|                                       |       | <u>4,776,411</u>                | <u>(11,604,070)</u>     | <u>21,537,950</u>               | <u>26,006,089</u>       |

##### 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.

A new liquidity facility agreement was entered into with Lloyds TSB Bank plc on 29 July 2008 for up to £42,815,103. This facility is due to expire on 29 July 2009.

At 31 May 2008 this facility was not required, and has not been used during the current year or prior period. On 6 March 2009 Lloyds TSB Bank PLC, the liquidity provider, was downgraded from A-1+ to A-1 by Standard & Poors credit rating agency. The Company is exercising all relevant rights available under the Liquidity Facility Agreement in connection with such downgrade including, but not limited to, the drawing of a standby liquidity loan.

The loan notes issued by the Company are non-recourse and their terms are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets.

If the Trustee determines that there are no further assets available to pay amounts due and owing to the noteholders the Trustee will enforce the security and will require the noteholders to transfer their noteholdings to Windermere VIII CMBS Options Limited for a nominal sum in accordance with a post enforcement call option agreement entered into between the Trustee and Windermere VIII CMBS Options Limited. No such determination has been made by the Trustee.



# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 14. FINANCIAL INSTRUMENTS (continued)

##### Liquidity risk (continued)

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

As at 31 May 2008

|   | Carrying<br>value<br>£    | Gross cash<br>flows<br>£  | After 1<br>month<br>but within<br>3 months<br>£ | After 3<br>months<br>but within<br>one year<br>£ | After 1<br>year but<br>within 5<br>years<br>£ | After 5<br>years<br>£ |
|---|---------------------------|---------------------------|---|--|---|-----------------------|
| Notes   | 622,629,680               | 622,629,680               | 596,604   | 47,790,472                                       | 574,242,604                                   | -                     |
| Interest payable on Notes                             | <u>4,265,215</u>          | <u>95,826,471</u>         | <u>9,694,920</u>                                | <u>29,030,675</u>                                | <u>57,100,876</u>                             | <u>-</u>              |
| <b>Total non-derivative<br/>financial instruments</b> | <b><u>626,894,895</u></b> | <b><u>718,456,151</u></b> | <b><u>10,291,524</u></b>                        | <b><u>76,821,147</u></b>                         | <b><u>631,343,480</u></b>                     | <b><u>-</u></b>       |

As at 31 May 2007

|   | Carrying<br>value<br>£    | Gross cash<br>flows<br>£    | After 1<br>month but<br>within 3<br>months<br>£ | After 3<br>months<br>but within<br>one year<br>£ | After 1<br>year but<br>within 5<br>years<br>£ | After 5<br>years<br>£   |
|---|---------------------------|-----------------------------|---|--|---|-------------------------|
| Notes   | 900,740,823               | 900,740,823                 | 187,155,778                                     | 90,811,344                                       | 617,762,451                                   | 5,011,250               |
| Interest payable on Notes                             | <u>6,042,495</u>          | <u>134,451,543</u>          | <u>13,277,951</u>                               | <u>29,189,040</u>                                | <u>91,658,306</u>                             | <u>332,246</u>          |
| <b>Total non-derivative<br/>financial instruments</b> | <b><u>906,783,318</u></b> | <b><u>1,035,198,366</u></b> | <b><u>200,433,729</u></b>                       | <b><u>120,000,384</u></b>                        | <b><u>709,420,757</u></b>                     | <b><u>5,343,496</u></b> |

The redemption of the notes is dependent on the receipt of payments on the loan notes. In accordance with the respective Prospectus for each of the Notes, Class A2 Notes will be redeemed in priority to redemption of the remaining classes of Notes followed by Class A3, B, C, D and Class E. Interest payable on floating rate notes was estimated based on the floating rate amounts as at 31 May 2008.

##### 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 its entering into a number of interest rate swaps and interest rate caps with Lehman Brothers Special Financing Inc. Lehman Brothers Holdings Inc. is the guarantor in respect of such interest rate swaps and interest rate caps.

On 15 September 2008 the guarantor, Lehman Brothers Holdings Inc., filed a voluntary petition for reorganisation pursuant to Chapter 11 of the Bankruptcy Code of the United States. On 3 October 2008 the interest rate swap and interest rate cap counterparty, Lehman Brothers Special Financing Inc, also made a Chapter 11 filing. The Chapter 11 filings by the guarantor and the counterparty constitute events of default under the terms of the interest rate swaps and interest rate caps and the Company notified the guarantor and counterparty that it would refrain from making any further payments pursuant to the interest rate swaps or interest rate caps for so long as such event of default was continuing. Furthermore the Chapter 11 filings by the guarantor and counterparty mean that neither party are likely to perform any future obligations arising under the interest rate swaps and interest rate caps. The last swap receipts and payments to be received and paid respectively were in July 2008.

As explained above the swap guarantor and counterparty defaulted after the year-end. However, at the year end the directors did not believe that the Company had any significant interest rate re-pricing exposure.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 14. FINANCIAL INSTRUMENTS (continued)

##### Interest rate risk (continued)

On 16 April 2009, the Company terminated the interest rate swap agreements with Lehman Brothers Special Financing, Inc. as Interest Rate Swap Provider and Lehman Brothers Holdings, Inc. as Interest Rate Swap Guarantor and entered into replacement interest rate swap agreements, each with an Effective Date (as defined in such replacement interest rate swap agreement) of 15 January 2009, with HSBC Bank plc as replacement interest rate swap provider at no cost to the Company. Such replacement interest rate swap agreements have been entered into on substantially the same terms as the terminated interest rate swap agreements, other than certain amendments made to rectify errors and ambiguities in the terminated interest rate swap agreements to reconcile the replacement interest rate swap agreements with the Terms and Conditions of the Notes and/or the relevant Commercial mortgage loans.

##### 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. 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<br>effective interest<br>rate<br>% | 1 to 3<br>months<br>£ | Non-interest<br>bearing<br>£ | Total<br>£         |
|----------------------------------|---|-----------------------|------------------------------|--------------------|
| <b>At 31 May 2008</b>            |   |                       |                              |                    |
| <b>Assets</b>                    |   |                       |                              |                    |
| Trade and other receivables      | -   | -                     | 4,669,451                    | 4,669,451          |
| Commercial mortgage loans        | 5.8468%   | 613,829,680           | -                            | 613,829,680        |
| Derivative financial instruments | -   | -                     | 16,897,318                   | 16,897,318         |
| Cash and cash equivalents        | -   | <u>1,238,444</u>      | -                            | <u>1,238,444</u>   |
| Total assets                     |   | <u>615,068,124</u>    | <u>21,566,769</u>            | <u>636,634,893</u> |
| <b>Liabilities</b>               |   |                       |                              |                    |
| Accruals and tax liabilities     | -   | -                     | 5,849,339                    | 5,849,339          |
| Deferred tax liability           | -   | -                     | 3,379,463                    | 3,379,463          |
| Interest bearing loans           | 6.2802%   | <u>622,629,680</u>    | -                            | <u>622,629,680</u> |
| Total liabilities                |   | <u>622,629,680</u>    | <u>9,228,802</u>             | <u>631,858,482</u> |

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 14. FINANCIAL INSTRUMENTS (continued)

##### Effective interest rates and repricing analysis (continued)

|                                  | Weighted average<br>effective interest<br>rate<br>% | 1 to 3<br>months<br>£ | Non-interest<br>bearing<br>£ | Total<br>£         |
|----------------------------------|---|-----------------------|------------------------------|--------------------|
| <b>At 31 May 2007</b>            |   |                       |                              |                    |
| <b>Assets</b>                    |   |                       |                              |                    |
| Trade and other receivables      | -   | -                     | 5,578,026                    | 5,578,026          |
| Commercial mortgage loans        | 4.81%   | 714,690,823           | -                            | 714,690,823        |
| Derivative financial instruments | -   | -                     | 26,550,195                   | 26,550,195         |
| Cash and cash equivalents        | -   | <u>190,704,558</u>    | <u>-</u>                     | <u>190,704,558</u> |
| Total assets                     |   | <u>905,395,381</u>    | <u>32,128,221</u>            | <u>937,523,602</u> |
| <b>Liabilities</b>               |   |                       |                              |                    |
| Accruals and tax liabilities     | -   | -                     | 10,200,292                   | 10,200,292         |
| Deferred tax liability           | -   | -                     | 5,044,537                    | 5,044,537          |
| Interest bearing loans           | 5.4669%   | <u>900,740,823</u>    | <u>-</u>                     | <u>900,740,823</u> |
| Total liabilities                |   | <u>900,740,823</u>    | <u>15,244,829</u>            | <u>915,985,652</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 Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 1985. The Company has not breached the minimum requirement.

# WINDERMERE VIII CMBS PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MAY 2008

#### 15. DERIVATIVE ASSETS

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

|                     | 2008              | 2007              |
|---------------------|-------------------|-------------------|
|                     | £                 | £                 |
| Interest rate swaps | <u>16,897,318</u> | <u>26,550,195</u> |

The notional principal amount of the outstanding interest rate swaps and interest rate caps at 31 May 2008 was £666,440,490 (2007:£1,101,899,807). At 31 May 2008 the fixed rate payable by the company on the interest rate swaps and interest rate caps was 4.6% and the company was entitled to receive floating rate equal to 3 month LIBOR plus various margins.

On 15 September 2008 Lehman Brothers Holdings Inc., the guarantor in respect of the interest rate swaps and interest rate caps entered into by the Company, filed a voluntary petition for reorganisation pursuant to Chapter 11 of the Bankruptcy Code of the United States. On 3 October 2008 the interest rate swap and interest rate cap counterparty, Lehman Brothers Special Financing Inc, also made a Chapter 11 filing. The Chapter 11 filings by the guarantor and the counterparty constitute events of default under the terms of the interest rate swaps and interest rate caps and the Company notified the guarantor and counterparty that it would refrain from making any further payments pursuant to the interest rate swaps or interest rate caps for so long as such event of default was continuing.

Following these events, it is likely that the carrying value of the derivatives has been significantly impaired.

As has been mentioned in the post balance sheet events note (see note 18), on 16 April 2009, the Company terminated the interest rate swap agreements with Lehman Brothers Special Financing, Inc. as Interest Rate Swap Provider and Lehman Brothers Holdings, Inc. as Interest Rate Swap Guarantor and entered into replacement interest rate swap agreements, each with an Effective Date (as defined in such replacement interest rate swap agreement) of 15 January 2009, with HSBC Bank plc as replacement interest rate swap provider at no cost to the Company. Such replacement interest rate swap agreements have been entered into on substantially the same terms as the terminated Interest Rate Swap Agreements, other than certain amendments made to rectify errors and ambiguities in the terminated interest rate swap agreements to reconcile the replacement interest rate swap agreements with the Terms and Conditions of the Notes and/or the relevant Commercial mortgage loans.

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.

In relation to the repayment of the floating rate notes, the Company has identified a hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract. This arises because repayment of the floating rate notes is dependant on repayment of the mortgage loans, which in turn depends upon the lease payments and property sale proceeds arising from the property portfolio held by the chargors. However, the credit derivatives are regarded as closely related to the host contract and therefore do not require separation. A similar hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract arises on the repayment of the mortgage loans and, again, does not require separation.

# **WINDERMERE VIII CMBS PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 31 MAY 2008**

#### **16. RELATED PARTY TRANSACTIONS**

The Company is a special-purpose company controlled by its Board of directors, which comprises four directors; Wilmington Trust SP Services (London) Limited, Mr M H Filer, Mrs R L Samson and Mr J Traynor. Mrs R L Samson is an alternate director to Mr M H Filer. 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 2008 amounted to £12,055 (period ended 31 May 2007: £11,968). At the end of the year, £1,284 (period ended 31 May 2007: £1,059) had been accrued and included within other liabilities: accruals and deferred income.

#### **17. ULTIMATE PARENT UNDERTAKING**

Windermere VIII CMBS Plc is a company 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 Windermere VIII CMBS Plc and the entire share capital in Windermere VIII CMBS Holdings Limited under a declaration of trust for charitable purposes.

#### **18. POST BALANCE SHEET EVENTS**

On 15 September 2008 Lehman Brothers Holdings Inc. the guarantor in respect of the interest rate swaps and interest rate caps entered into by the Company filed a voluntary petition for reorganisation pursuant to Chapter 11 of the Bankruptcy Code of the United States. On 3 October 2008 the interest rate swap and interest rate cap counterparty, Lehman Brothers Special Financing Inc, also made a Chapter 11 filing. The Chapter 11 filings by the guarantor and the counterparty constitute events of default under the terms of the interest rate swaps and interest rate caps and the Company notified the guarantor and counterparty that it would refrain from making any further payments pursuant to the interest rate swaps or interest rate caps for so long as such event of default was continuing.

Whilst no adjustment is required to these financial statements at 31 May 2008, the fair value of the swap agreements may not be realisable by the Company subsequent to the year end. Please refer to note 15 which provides details as to the market value of the derivatives held by the Company.

On 15 September 2008, Lehman Brothers International (Europe) was placed into Administration. The Company is working to effect the removal or replacement of Lehman Brothers International (Europe) in their capacity as the Security Trustee and agent (as the case may be) for the mortgage loans relating to City Place, the AMG portfolio, Senator House, Wood Green, the Amadeus portfolio, the Government income portfolio and the Monument mortgage loan. Goldman Sachs Credit Partners L.P. continues to act as Security Trustee for the City Point whole mortgage loan.

On 16 April 2009, the Company terminated the interest rate swap agreements with Lehman Brothers Special Financing, Inc. as Interest Rate Swap Provider and Lehman Brothers Holdings, Inc. as Interest Rate Swap Guarantor and entered into replacement interest rate swap agreements, each with an Effective Date (as defined in such replacement interest rate swap agreement) of 15 January 2009, with HSBC Bank plc as replacement interest rate swap provider at no cost to the Company. Such replacement interest rate swap agreements have been entered into on substantially the same terms as the terminated interest rate swap agreements, other than certain amendments made to rectify errors and ambiguities in the terminated interest rate swap agreements to reconcile the replacement interest rate swap agreements with the Terms and Conditions of the Notes and/or the relevant Commercial mortgage loans.

On 6 March 2009 Lloyds TSB Bank PLC, the liquidity provider, was downgraded from A-1+ to A-1 by Standard & Poors credit rating agency. The Company is exercising all relevant rights available under the Liquidity Facility Agreement in connection with such downgrade including, but not limited to, the drawing of a standby liquidity loan.

## **WINDERMERE VIII CMBS PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE YEAR ENDED 31 MAY 2008**

##### **18. POST BALANCE SHEET EVENTS**

The Amadeus 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 late payment of rent and fluctuations in its vacancy rate from quarter to quarter. 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. This Event of Default was due to an imminent default in respect of the payment of interest in January 2009 and breaches during the year.

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.

Negotiations are on-going 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 has been made against the Amadeus Loan totalling £8,800,000 as in the Directors' opinion it is not certain that the full amount outstanding at the year end, £30,570,000, will be fully recovered.

The Monument Loan was due to mature on 15 April 2009 but this did not take place. On 6 February 2009, the Monument Loan was transferred to Special Servicing. The Servicing Transfer Event was due to an imminent material default not likely to be cured within sixty days of occurrence.

The Special Servicer undertook a special inspection on 17 February 2009 and a third party independent surveyor has been engaged to perform a valuation of the properties. The final report is currently being reviewed by the Special Servicer.

The Special Servicer met with the borrower to discuss their intentions and outline workout alternatives. Legal counsel has been engaged to conduct legal due diligence on possible workout options. As the default event occurred in the post year end period, no impairment has been made against the Monument Loan at the year-end..