

**Company Registration Number: 5573792 (England and Wales)**

**PICTON UK REAL ESTATE PARENT LIMITED**  
**(Previously ING (UK) Real Estate Parent Limited)**

**ANNUAL REPORT AND**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

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**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**DIRECTORS AND COMPANY INFORMATION**

**Directors**

Mark Filer  
Jean-Christophe Schroeder  
Wilmington Trust SP Services (London) Limited

**Company secretary**

Wilmington Trust SP Services (London) Limited

**Registered office**

c/o Wilmington Trust SP Services (London) Limited  
Third floor,  
1 King's Arms Yard,  
London  
EC2R 7AF

**Auditor**

KPMG Channel Islands Limited  
20 New Street  
St Peter Port  
Guernsey  
GY1 4AN

# **PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2011**

The directors present their report and the audited consolidated financial statements of the company and its subsidiary, Picton UK Listed Real Estate Issuer Plc (previously ING (UK) Listed Real Estate Issuer Plc) ("the group") for the year ended 31 December 2011. The comparative figures are for the year ended 31 December 2010. The company changed its name on 17 June 2011 to Picton UK Real Estate Parent Limited.

#### **PRINCIPAL ACTIVITIES**

The principal objects of the group are set out in its memorandum of association and permit the group, among other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money. The company is a limited liability company established specifically to act as a parent to Picton UK Listed Real Estate Issuer Plc, (the "Issuer"), a company established as a special purpose company.

#### **BUSINESS REVIEW**

On 20 December 2005 the Issuer issued a primary tranche of notes (the "Primary Tranche") amounting to £200m and used the proceeds to make an advance (the "Initial Loan") under an Issuer-Borrower Loan Agreement ("IBLA") to Northern Trust Fiduciary Services (Guernsey) Limited as trustee of Picton UK Listed Real Estate (previously ING (UK) Listed Real Estate), a property unit trust established in Guernsey (the "Borrower"). Picton UK Listed Real Estate is part of the Picton Property Income Ltd (previously ING (UK) Real Estate Income Trust Ltd) Group.

The Issuer also issued a reserve tranche (the "Reserve Tranche") of notes amounting to £25m on 20 December 2005 which would allow the Issuer to grant the Borrower a reserve loan (the "Reserve Loan") should a request be made within certain time limits. On issue the Reserve Tranche was immediately repurchased by the Issuer as no request for a Reserve Loan was received from the Borrower.

In July 2006 the Borrower requested a Reserve Loan and the group re-issued the Reserve Tranche and applied the net proceeds from the sale in funding the Reserve Loan.

Both the Primary Tranche of notes and Reserve Tranche of notes (together the "Notes") are listed on the Irish Stock Exchange.

Principal amounts payable on the Initial Loan and Reserve Loan (together the "Term Loan") are not scheduled to amortise and consequently, subject to any prepayments, principal amounts payable will become due and payable on the loan payment date falling in January 2015. However, the Borrower may prepay all or part of the Term Loan on any loan payment date in accordance with the terms of the IBLA and on the giving of at least five days' prior notice.

The group's key financial performance indicator during the year was as follows:

	<b>2011</b>	<b>2010</b>
Net loan interest margin	<b>102 bps</b>	101 bps
Net interest margin	<b>2 bps</b>	1bps

The net loan interest margin is calculated based on the income received on the loan, together with the swap income/expense, against the interest cost of the floating rate notes. The net interest margin includes the income and costs associated with issue of the floating rate notes and interest received on bank deposits.

The trading results for the year and the group's financial position at the end of the year are shown in the attached consolidated financial statements. The profit on ordinary activities before taxation for the year was £64,161 (2010: £20,263). The directors have not recommended a dividend.

The directors expect that the present level of activity will be sustained in the near future.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**PRINCIPAL RISKS**

**Business risks** – These are the risks caused from the occurrence of external events. The Issuer is a special purpose financing entity with no business operations other than the issue of the Notes, the entering into of certain agreements including the IBLA, the Swap Agreements and the Liquidity Facility Agreement, the making of the loans and the transactions ancillary thereto.

The principal business risks of the group are set out in a number of asset and non-asset trigger events in the documentation surrounding the issue of the primary and reserve tranches of notes. The occurrence of trigger events would lead to the early redemption of the notes in accordance with the established priorities.

There have been no such trigger events since the issue of the Notes.

**Interest rate risk** – This is the risk of the rate of interest payable becoming more than the interest receivable. The Issuer has entered into an interest rate swap transaction in order to protect the group against interest rate risk on the notes. The risk arises as a result of the Borrower paying a fixed rate of interest to the issuer under the IBLA, while the Issuer is required to pay floating rates of interest on the Notes.

**Liquidity risk** – This is the risk that insufficient funds are available to meet the ongoing obligations of the Issuer. The Issuer has entered into a 364-day committed facility (the "Liquidity Facility") which will allow the Issuer, subject to certain conditions, to make drawings under the Liquidity Facility, to cover shortfalls in the amount of funds available to cover certain expenses which are payable under the terms of the issuance of the Notes. The Liquidity Facility will be renewable with the consent of the Liquidity Facility provider.

**Credit risk** – The principal credit risk to the Issuer is that the Borrower will not be able to meet their obligations as they fall due. The ability of the Issuer to meet its obligations under the notes will be dependent on the receipt by it of principal and interest from the Borrower under the IBLA and the receipt of funds (if due) from the Swap Counterparty under the Swap Agreements. The ability of the Borrower to meet its obligations under the IBLA will depend on the receipt by it of (i) rental income (ii) income generated by indirect property investments and (iii) disposal proceeds following the sale of a property. Other than the foregoing, prior to the enforcement of the Borrower security, the Borrower is not expected to have any other funds available to it to meet its obligations under the IBLA.

Enforcement under the Borrower security may not result in immediate realisation of the properties or indirect property investments which are the subject of the Borrower security. There can be no assurance that the Borrower security trustee would recover all amounts secured upon enforcement of the Borrower security and, accordingly, sufficient funds may not be realised or available to make all required payments to the Issuer and, accordingly, the Issuer (or the Issuer Security Trustee if it has taken enforcement action against the Issuer or the Issuer Security) may not have sufficient funds available to make all required payments to the noteholders.

**FINANCIAL INSTRUMENTS**

The group's financial instruments, other than derivatives, comprise of a loan to the Borrower, cash and liquid resources, interest-bearing borrowings i.e. the loan notes and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Borrower.

The group also enters into derivative transactions (interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Issuer's operations and its sources of finance. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments is undertaken.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**RESULTS**

The results for the year are set out on page 7

**THE DIRECTORS OF THE COMPANY**

The directors who served the group during the year are set out in page 1

The directors do not have any service contracts nor material contracts with the group

**CREDITOR PAYMENT POLICY**

The group's policy concerning the payment of its creditors is to pay in accordance with its contractual and other legal obligations. Payments are made quarterly on the interest payment dates falling due in January, April, July and October. The group does not follow any other code or standard on payment practice.

**DIVIDENDS**

The directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010: £nil)

**GOING CONCERN**

The consolidated financial statements have been prepared on a going concern basis as, in the opinion of the directors, the loans provided to Picton UK Listed Real Estate Issuer Plc will remain available for foreseeable future and interest received from the Term Loan and interest rate swaps will be sufficient to meet future operating expenses. The consolidated financial statements do not include any adjustments that would affect the investment in Picton UK Listed Real Estate Issuer Plc. The group's principal activities, together with the factors likely to affect its future development, performance and position and its principal risks and uncertainties are set out above. The directors have undertaken a review and concluded that the group has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate for the financial statements to be prepared on a going concern basis. The directors continue to monitor the balance of the overall capital structure.

**DISCLOSURE OF INFORMATION TO THE AUDITOR**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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

**AUDITOR**

The Board appointed KPMG Channel Islands Limited ('the Auditor') as Auditor of the company for the year.

A resolution to re-appoint KPMG Channel Islands Limited as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 418 of the Companies Act 2006.

By order of the Board



**Ms. Mignon Clarke**

**On behalf of Wilmington Trust SP Services (London) Limited  
Director**

Date: 19 April 2012

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law, they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

We have audited the consolidated financial statements of Picton UK Real Estate Parent Limited (previously ING (UK) Real Estate Parent limited), for the year ended 31 December 2011 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



**Ewan McGill (Senior Statutory Auditor)**  
for and on behalf of KPMG Channel Islands Limited, Statutory Auditor  
Chartered Accountants  
20 New Street  
St Peter Port  
Guernsey  
GY1 4AN

*24 April* 2012



**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

		31 Dec 2011 £	31 Dec 2010 £
<b>Continuing activities</b>	<b>Note</b>		
Interest receivable and similar income	3	8,836,844	8,843,784
Interest payable and similar charges	4	<u>(8,659,543)</u>	<u>(8,747,313)</u>
<b>Net interest income</b>		<b>177,301</b>	<b>96,471</b>
Realised gain on cancellation of loan notes	14	-	974,000
Loan receivable write off	10	<u>-</u>	<u>(974,000)</u>
		-	-
Other income		217,637	268,368
Operating expenses	5	<u>(330,777)</u>	<u>(344,576)</u>
<b>Profit before tax for the year</b>	6	<b>64,161</b>	<b>20,263</b>
Income tax charge	7	<u>(12,888)</u>	<u>(4,107)</u>
<b>Total comprehensive income for the year</b>	13	<b><u>51,273</u></b>	<b><u>16,156</u></b>
<b>Attributable to:</b>			
Equity holders		<u>51,273</u>	<u>16,156</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share Capital £	Hedge Reserve £	Retained Earnings £	Total £
Balance at 31 December 2009	1	(11,576,612)	159,557	(11,417,054)
Fair value adjustment	-	239,434	-	239,434
Comprehensive income for the year	-	-	16,156	16,156
Balance at 31 December 2010	<u>1</u>	<u>(11,337,178)</u>	<u>175,713</u>	<u>(11,161,464)</u>
Fair value adjustment	-	4,961,161	-	4,961,161
Comprehensive income for the year	-	-	51,273	51,273
Balance at 31 December 2011	<u>1</u>	<u>(6,376,017)</u>	<u>226,986</u>	<u>(6,149,030)</u>

The notes on pages 11 to 26 form part of these consolidated financial statements

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2011**

	Note	2011 £	2010 £
<b>Non-current assets</b>			
Loan receivables	10	171,600,000	171,600,000
<b>Total non-current assets</b>			
<b>Current assets</b>			
Other receivables	11	1,677,758	1,626,809
Cash and cash equivalents	12	<u>10,816,331</u>	<u>10,776,702</u>
<b>Total current assets</b>		<u>12,494,089</u>	<u>12,403,511</u>
<b>Total assets</b>		<u>184,094,089</u>	<u>184,003,511</u>
<b>Equity</b>			
Issued capital	13	1	1
Hedge reserve	13	(6,376,017)	(11,337,178)
Retained earnings	13	<u>226,986</u>	<u>175,713</u>
<b>Total equity</b>		<u>(6,149,030)</u>	<u>(11,161,464)</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	<u>171,348,882</u>	<u>171,104,142</u>
<b>Total non-current liabilities</b>		<u>171,348,882</u>	<u>171,104,142</u>
<b>Current liabilities</b>			
Other payables	15	1,478,887	1,752,820
Derivative liability	13	6,376,017	11,337,178
Interest payable	14	362,000	293,502
Liquidity drawdown	14	<u>10,677,333</u>	<u>10,677,333</u>
<b>Total current liabilities</b>		<u>18,894,237</u>	<u>24,060,833</u>
<b>Total liabilities</b>		<u>190,243,119</u>	<u>195,164,975</u>
<b>Total equity and liabilities</b>		<u>184,094,089</u>	<u>184,003,511</u>

The consolidated financial statements of Picton UK Real Estate Parent Limited, company registration number 05573792, were approved by the board of directors on 19 April 2012 and are signed on their behalf by



**Ms. Mignon Clarke**  
On behalf of Wilmington Trust SP Services (London) Limited  
Director

The notes on pages 11 to 26 form part of these consolidated financial statements

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**COMPANY STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2011**

	Note	2011 £	2010 £
<b>Assets</b>			
Investments	9	<u>12,501</u>	<u>12,501</u>
<b>Total non-current assets</b>			
<b>Assets</b>			
Cash and cash equivalents		<u>1</u>	<u>1</u>
<b>Total current assets</b>		<u>1</u>	<u>1</u>
<b>Total assets</b>		<u>12,502</u>	<u>12,502</u>
<b>Equity</b>			
Issued capital	13	1	1
Accumulated losses	13	<u>(1,605)</u>	<u>(1,326)</u>
<b>Total equity</b>		<u>(1,604)</u>	<u>(1,325)</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	<u>14,106</u>	<u>13,827</u>
<b>Total non-current liabilities</b>		<u>14,106</u>	<u>13,827</u>
<b>Total current liabilities</b>		<u>14,106</u>	<u>13,827</u>
<b>Total liabilities</b>		<u>14,106</u>	<u>13,827</u>
<b>Total equity and liabilities</b>		<u>12,502</u>	<u>12,502</u>

The consolidated financial statements of Picton UK real Estate Parent Limited, company registration number 05573792, were approved by the board of directors on 19 April 2012 and are signed on their behalf by



**Ms. Mignon Clarke**  
On behalf of Wilmington Trust SP Services (London) Limited  
Director

The notes on pages 11 to 26 form part of these consolidated financial statements

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £	2010 £
<b>Cash flows used in operating activities</b>			
Profit before tax for the year		64,161	20,263
<i>Adjustments for</i>			
Amortisation of issue costs	4	244,461	244,461
Amortisation of facility fees	3	(204,235)	(204,235)
Amortisation of premium	3	(41,317)	(41,317)
Interest income	3	(8,591,292)	(8,598,232)
Interest expense	4	1,868,827	1,632,167
Increase in other receivables	11	(7,277)	(3,147)
Decrease in other payables	15	(41,269)	(188,598)
<b>Net cash used in operating activities</b>		<b>(6,707,941)</b>	<b>(7,138,638)</b>
<b>Cash flows from investing activities</b>			
Interest received		8,547,620	8,757,642
Loan repayments during the year	10	-	18,450,000
<b>Net cash from investing activities</b>		<b>8,547,620</b>	<b>27,207,642</b>
<b>Cash flows used in financing activities</b>			
Liquidity drawdown		-	(3,322,667)
Loan note repayments		-	(18,450,000)
Interest paid on loan notes		(1,800,050)	(1,606,996)
<b>Net cash used in financing activities</b>		<b>(1,800,050)</b>	<b>(23,379,663)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>39,629</b>	<b>(3,310,659)</b>
Cash and cash equivalents at 1 January	12	10,776,702	14,087,361
Cash and cash equivalents at 31 December		<u>10,816,331</u>	<u>10,776,702</u>

All withdrawals from the Group's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes

The notes on pages 11 to 26 form part of these consolidated financial statements

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**1. COMPANY INFORMATION**

ING (UK) Real Estate Parent Limited was incorporated under the United Kingdom laws with registered number 5573792 on 26 September 2005. The Company changed name on 17 June 2011 to Picton UK Real Estate Parent Limited. The Group through its subsidiary, Picton UK Listed Real Estate Issuer Plc (previously ING (UK) Listed Real Estate Issuer Plc), has issued loan notes amounting to £225,000,000 which are listed on the Irish Stock Exchange (the 'ISE'). At the year end the loan Notes remaining amounted to £171,600,000 (2010 £171,600,000). The proceeds were used to make an advance to Northern Trust Fiduciary Services (Guernsey) Limited as trustee of Picton UK Listed Real Estate (previously ING (UK) Listed Real Estate), a Guernsey property unit trust set up to hold properties, on behalf of Picton Property Income Limited (previously ING (UK) Real Estate Income Trust Limited), a Guernsey investment company listed on the London Stock Exchange.

**2. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies set out below have been applied for the year ended 31 December 2011.

**Statement of compliance**

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as endorsed by the European Union ("EU") and effective at 31 December 2011 and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC"), that remain in effect, together with applicable legal and regulatory requirements.

**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 period:

IFRS 9 – Financial Instruments Classification and Measurement

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**2. PRINCIPAL ACCOUNTING POLICIES (continued)**

**Basis of preparation**

The Group 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 that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2011. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments and the interest rate element of the fixed rate loan are stated at their fair value, and on a going concern basis. The group's functional and presentation currency is Pounds Sterling.

The most significantly affected components of the consolidated financial statements and associated critical judgements are as follows:

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of consolidated 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about 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 current and future periods.

For the purpose of the effective yield calculation, it has been assumed that the average expected life of the notes in issue will end at the date of the first step-up in interest rates, based on the payment experience to date. This may not be the case in practice.

**Going concern**

The financial statements have been prepared on a going concern basis as, in the opinion of the directors, the loans provided to the Group will remain available for the foreseeable future and interest received from the Term Loan and interest rate swaps will be sufficient to meet future operating expenses. The Group's principal activities, together with the factors likely to affect its future development, performance and position and its principal risks and uncertainties are set out above. The directors have undertaken a review and concluded that the Group has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate for the financial statements to be prepared on a going concern basis. The directors continue to monitor the balance of the overall capital structure. The negative position of the hedge reserve in the statement of financial position is due to the fair valuation of the hedge which can increase or decrease over time.

**Valuation of derivatives**

The swap which has been purchased to hedge interest rate risks arising on the Notes has been valued by discounting future cash flows. The valuation method is consistent with commonly used market techniques. All inputs into valuation models adopted by the entity are obtained from observable market data.

The Directors use their judgement in selecting an appropriate valuation technique for financial instruments. Valuation techniques commonly used by market practitioners are applied. For derivative instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Derivatives are valued in these consolidated financial statements based on the valuation received from the issuer of the swap.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**2. PRINCIPAL ACCOUNTING POLICIES (continued)**

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group (the Subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Subsidiaries**

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities.

**Transactions eliminated on consolidation**

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

**Loan receivable and Impairment**

Loans receivable are initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the loan to the borrower is calculated with reference to the interest earned on the loans.

The loans are subject to impairment reviews in accordance with International Accounting Standard 36 "Impairment of Assets". A charge for impairment would be recognised where there is a risk that the income on the loan will be significantly reduced.

**Cash and cash equivalents**

The bank accounts held in the Issuer's name 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.

**Interest bearing borrowings**

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

**Interest receivable and interest payable**

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Issuer estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**2. PRINCIPAL ACCOUNTING POLICIES (continued)**

**Income tax**

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

Under special rules issued by the HM Revenue & Customs for securitisation companies, the group's charge for taxation for 2011 is based on the taxable profits calculated on an un-modified United Kingdom Generally Accepted Accounting Practice ("UK GAAP") basis but disclosed in accordance with International Accounting Standard 12 'Income Taxes'.

**Statement of cash flows**

The Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Statement of Comprehensive Income and movements in the Statement of Financial Position which have not resulted in cash income or expenditure in the year.

The cash amounts in the Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction. Dividends that have been proposed and declared are included in the cash flow from financing activities.

**Derivative financial instruments**

The group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' requires all derivative financial instruments to be recognised initially at cost on the balance sheet. Subsequent to initial recognition, derivatives are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit and loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Where a fair value hedge is documented, the fair value movements of the swap may be offset in the income statement against the fair value movements for the risk being hedged on the hedged item.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, gains or losses previously recognised in equity are reclassified to consolidated statement of comprehensive income in the same period as the asset or liability affects profit or loss. Where the forecasted transaction or commitment results in a non-financial asset or liability, gains or losses previously deferred in equity are included in the carrying amount of the related asset or liability. If the forecasted transaction or commitment results in a future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are not recognised in equity, rather they are recognised immediately in consolidated statement of comprehensive income.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to demonstrate that the hedge will be highly effective on an ongoing basis.

The fair value of interest rate swaps is the estimated amount that the group 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.



**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**3. INTEREST RECEIVABLE AND SIMILAR INCOME**

Interest receivable and similar income represents the interest receivable on the loans receivable, other associated income and interest on bank deposits

	Group 2011 £	Group 2010 £
Interest receivable on loans receivable	8,503,209	8,501,562
Bank interest receivable	88,083	96,670
Amortisation of facility fees	204,235	204,235
Amortisation of premium	41,317	41,317
	<u>8,836,844</u>	<u>8,843,784</u>
<b>Geographic</b>		
United Kingdom	<u>8,836,844</u>	<u>8,843,784</u>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	Group 2011 £	Group 2010 £
Interest payable on floating rate notes	1,868,548	1,631,894
Interest payable on other loans	279	273
Amortisation of issue costs	244,461	244,461
Swap payable	6,546,255	6,870,685
	<u>8,659,543</u>	<u>8,747,313</u>

**5. OPERATING EXPENSES**

The profit on ordinary activities before taxation is stated after charging

	Group 2011 £	Group 2010 £
Fees payable to the group's auditors for the audit of the group's annual accounts	16,560	16,060
Fees payable to the group's tax agent – tax services	25,953	26,834
ISE fees FX differences	1,666	(60)
Liquidity fees	132,249	119,252
Rating agency fees	62,327	82,915
Management administration fees	15,256	14,285
Management accounting fees (Note 15)	6,437	7,014
Servicing fees	42,900	43,711
Cash manager fees	8,000	8,000
Trustee fees	8,429	8,225
Other professional fees	11,000	18,340
	<u>330,777</u>	<u>344,576</u>

Under the terms of the Corporate Services Agreement, Wilmington Trust SP Services (London) Limited receives remuneration for administration and accounting services. The fees are payable quarterly in arrears in accordance with the priority of payments set out in the securitisation documents.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**6. PROFIT BEFORE TAX FOR THE YEAR**

The profit/(loss) before tax for the year/period is stated after charging

	Group 2011	Group 2010
	£	£
Auditors' remuneration for audit work paid to current auditors	16,560	16,060
Auditors' remuneration for taxation services	<u>25,953</u>	<u>26,834</u>

The group has no employees. Other than the fees paid to Wilmington Trust SP Services (London) Limited for management services of £21,693 (2010 £21,299), the directors received no remuneration during the year (2010 nil)

**7. INCOME TAX EXPENSE**

**(a) Analysis of charge in the year**

	Group 2011	Group 2010
	£	£
<b>Current tax:</b>		
Corporation tax charge for the year	<u>(12,888)</u>	<u>(4,107)</u>
Total income tax expense in income statement	<u>(12,888)</u>	<u>(4,107)</u>

**(b) Reconciliation of effective tax rate**

The tax assessed on the profit on ordinary activities for the year is the same as the standard rate of corporation tax in the UK for small companies of 20%

	2011	2010
	£	£
Profit before tax	<u>64,161</u>	<u>20,263</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK for small companies of 20% (2010 20%)	<u>(12,888)</u>	<u>(4,107)</u>
Total tax in income statement	<u>(12,888)</u>	<u>(4,107)</u>

**(c) Current tax liability**

	2011	2010
	£	£
Current tax liability	<u>13,409</u>	<u>521</u>

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**8. LOSS FOR THE YEAR**

As permitted by the Companies Act 2006, the company-only income statement has not been included in these financial statements. The company's loss for the financial year was £279 (2010: £273).

**9. INVESTMENTS**

	Company 2011 £	Company 2010 £
Investment in subsidiaries		
At start of the year	12,501	12,501
Additions	-	-
At end of the year	<u>12,501</u>	<u>12,501</u>
At 31 December 2011	<u>12,501</u>	<u>12,501</u>

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

	Country of incorporation	Class of shares and % held	Activity
Picton UK Listed Real Estate Issuer Plc	Great Britain	Ordinary 100% held	Financing company

**10. LOAN RECEIVABLE**

	Group 2011 £	Group 2010 £
Loan at 1 January	171,600,000	190,050,000
Repayments during the year	-	(18,450,000)
At 31 December	<u>171,600,000</u>	<u>171,600,000</u>

Subject to any prepayments, principal amounts payable on the loan will become due and payable on the loan payment date falling due in January 2015. The loan has a fixed interest rate of 4.798% on the Initial Loan and 5.390% on the Reserve Loan. The loan has been made to Northern Trust Fiduciary Services (Guernsey) Limited as trustee of Picton UK Listed Real Estate (previously ING (UK) Listed Real Estate), a property unit trust established in Guernsey. The loan is secured against the assets of the unit trust. In 2010, as part of the loan notes were redeemed at a discount, as detailed in note 14, the corresponding amount of the loan receivable was written off to the statement of comprehensive income.

**11. OTHER RECEIVABLES**

	Group 2011 £	Group 2010 £
Interest receivable on loans	1,559,728	1,516,056
Accrued fees receivable	100,186	95,938
Prepayments and accrued income	<u>17,844</u>	<u>14,815</u>
	<u>1,677,758</u>	<u>1,626,809</u>

The Directors consider that the carrying amount of accounts receivables approximates their fair value.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**12. CASH AND CASH EQUIVALENTS**

All withdrawals from Picton UK Listed Real Estate Issuer Plc's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements

	2011	2010
	£	£
Cash and bank current accounts	4,587	4,587
Bank deposit accounts	134,411	94,782
Liquidity account	<u>10,677,333</u>	<u>10,677,333</u>
	<u>10,816,331</u>	<u>10,776,702</u>

Bank deposit accounts earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

The carrying amounts of these assets approximate their fair value.

During the year no draw downs were made under the liquidity drawdown facility (2010 £nil) and no repayments were made (2010 £3,312,179). £10,677,333 (2010 £10,677,333) was outstanding at the year end (note 14).

**13. TOTAL EQUITY**

Reconciliation of movement in capital and reserves

Group	Share capital	Hedge reserve	Retained earnings	Total
	£	£	£	£
Balance at 31 December 2009	1	(11,576,612)	159,557	(11,417,054)
Fair value adjustment	-	239,434	-	239,434
Comprehensive income for the year	-	-	16,156	16,156
Balance at 31 December 2010	<u>1</u>	<u>(11,337,178)</u>	<u>175,713</u>	<u>(11,161,464)</u>

Group	Share capital	Hedge reserve	Retained earnings	Total
	£	£	£	£
Fair value of derivative	-	4,961,161	-	4,961,161
Comprehensive income for the year	-	-	51,273	51,273
At 31 December 2011	<u>1</u>	<u>(6,376,017)</u>	<u>226,986</u>	<u>(6,149,030)</u>

Company	Share capital	Accumulated Losses	Total
	£	£	£
At 31 December 2009	1	(1,053)	(1,052)
Loss for the year	-	(273)	(273)
At 31 December 2010	<u>1</u>	<u>(1,326)</u>	<u>(1,325)</u>

Company	Share capital	Accumulated Losses	Total
	£	£	£
Loss for the year	-	(279)	(279)
At 31 December 2011	<u>1</u>	<u>(1,605)</u>	<u>(1,604)</u>

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**13. TOTAL EQUITY (continued)**

The company has an authorised ordinary share capital of 1,000 shares of £1 each

The group only has one class of share. The shares have no rights to any fixed dividend and entitle the holder to one vote per share at meetings of the group.

The hedge reserve is the fair value of the interest rate swap. Interest payable on the loan notes has been fixed using interest rate swaps, as described in note 16. The interest rate swaps mature on the same dates as the associated borrowings.

**14. INTEREST BEARING LOANS AND BORROWINGS**

	<b>Group 2011</b>	<b>Company 2011</b>	<b>Group 2010</b>	<b>Company 2010</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Non-current liabilities</b>				
Floating rate notes	171,600,000	-	171,600,000	-
Unamortised issue costs	(265,224)	-	(509,685)	-
Other loan	14,106	14,106	13,827	13,827
	<u>171,348,882</u>	<u>14,106</u>	<u>171,104,142</u>	<u>13,827</u>
<b>Current liabilities</b>				
Interest payable	362,000	-	293,502	-
Liquidity facility	10,677,333	-	10,677,333	-
Total	<u>182,388,215</u>	<u>14,106</u>	<u>182,074,977</u>	<u>13,827</u>

The floating rate notes fall due in full on 30 January 2015 and comprised, at issue, £200m AAA rated seven year loan notes issued on 20 December 2005. The interest payable on these notes is fixed at 4.795% by means of an interest rate swap. On 6 July 2006 a further £25m of loan notes were issued on the same terms, with the interest payable fixed at 5.3804% by means of a further swap. In July 2009 a partial loan note repayment was made for £34,950,000. In 2010 two further redemptions were made totalling £18,450,000 at a discount of £974,000. It is anticipated that, based on certain assumptions, the Notes will be fully redeemed on or before the note payment date falling due on 30 January 2015. The Notes bear interest at a rate equal to LIBOR for three month sterling deposits plus 25 basis points. Interest on the Notes is paid quarterly in arrears on 30 January, 30 April, 30 July and 30 October. The Notes are secured by means of a fixed and floating charge over the group's assets.

The other loan is repayable in full three months after the floating rate notes have been repaid in full and bears interest at a fixed rate of 2%. Interest is calculated on a quarterly basis and is rolled up into the loan balance until the loan is repaid.

The loan agreement for the floating rate notes states that for the securitised pool of assets owned by ING Real Estate Income Trust the Loan to Value ratio should not exceed 60% and the Interest Cover Ratio should be a minimum of 1.75.

Picton Property Income Limited (previously INK UK Real Estate Income Trust Limited) is currently in compliance with all loan covenants at the date of these financial statements.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**14. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**Liquidity facility**

On 27 February 2009 the Group drew down the full amount on the liquidity facility agreement as the liquidity facility provider had breached the required rating requirement. This is further explained under liquidity risk in note 16.

**15. OTHER PAYABLES**

Interest-bearing loans and borrowings are repayable as follows

	2011 £	2010 £
<b>Current Liabilities</b>		
Accruals	1,160,490	1,201,759
Other creditors	38,581	38,581
Tax liability	13,409	521
Deferred income	<u>266,407</u>	<u>511,959</u>
	<u><b>1,478,887</b></u>	<u><b>1,752,820</b></u>

The Directors consider that the carrying amount of accounts payable and accruals approximates their fair value.

**16. FINANCIAL RISK MANAGEMENT**

The principal risks and uncertainties are set out in the Directors' Report on page 3. The Board reviews and agrees policies for managing each of these risks.

The Group's financial instruments comprise a loan receivable, cash and liquid resources, derivatives, interest-bearing loans and borrowings and various receivables and payables that arise directly from its operations. The main risk arising from the group's financial instruments are interest rate risk, liquidity risk, and credit risk.

**Credit risk**

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

The carrying amount of the financial assets, best represent the maximum credit risk exposure at the statement of financial position date.

As at 31 December 2011, the Group's financial assets exposed to credit risk amounted to the following

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**16. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

31 December 2011	Note	Derivative investments in designated hedge accounting relationships	Financial assets and liabilities at amortised cost	Total
Financial assets		£	£	£
Loan receivables	10	-	171,600,000	171,600,000
Other receivables	11	-	1,677,758	1,677,758
Liquidity account		-	10,677,333	10,677,333
Cash and cash equivalents	12	-	138,998	138,998
<b>Total</b>		<b>-</b>	<b>184,094,089</b>	<b>184,094,089</b>
Financial liabilities				
Loans and borrowings	14	-	182,388,215	182,388,215
Accruals	7(c), 15	-	1,478,887	1,478,887
Derivative liabilities	13	6,376,017	-	6,376,017
<b>Total</b>		<b>6,376,017</b>	<b>183,867,102</b>	<b>190,243,119</b>
31 December 2010	Note	Derivative investments in designated hedge accounting relationships	Financial assets and liabilities at amortised cost	Total
Financial assets		£	£	£
Loan receivables	10	-	170,600,000	170,600,000
Other receivables	11	-	1,626,809	1,626,809
Liquidity account		-	10,677,333	10,677,333
Cash and cash equivalents	12	-	99,369	99,369
<b>Total</b>		<b>-</b>	<b>184,003,511</b>	<b>184,003,511</b>
Financial liabilities				
Loans and borrowings	14	-	182,074,977	182,074,977
Accruals	7(c), 15	-	1,752,820	1,752,820
Derivative liabilities	13	11,337,178	-	11,337,178
<b>Total</b>		<b>11,337,178</b>	<b>183,827,797</b>	<b>195,164,975</b>

Loan receivables comprise amounts due from Picton UK Listed Real Estate (previously ING (UK) Listed Real Estate) (the "GPU"), a Guernsey property unit trust which is part of the Picton Property Income Ltd (previously ING UK Real Estate Income Trust Ltd) Group. Bankruptcy or insolvency of the GPU and / or Picton Property Income Ltd, on whose behalf the properties are held, may result in non-recovery of the loan. Picton Property Income Ltd has entered into a securitisation agreement with JP Morgan.

There have been no loan defaults or breaches during the current or prior year. The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Directors continue to monitor the Group's exposure to credit risk.

The Group's main cash balances are held with the Bank of New York. Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. The Bank of New York is also rated by all major rating agencies. If the credit quality of the bank deteriorates, the Group would look to move the short term deposits or cash to another bank.

The Group is exposed to credit risk from counterparties of the interest rate swaps which are financial liabilities as at 31 December 2011. The risk is mitigated by the Group only engaging with creditworthy counterparties. The counterparty for the interest rate swap is JP Morgan Chase Bank, who have a credit rating of AA- as noted above.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**16. FINANCIAL RISK MANAGEMENT (continued)**

**Capital risk management**

The Group's overall strategy remains unchanged since the prior year

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings. The Directors continue to monitor the balance of the overall capital structure by ensuring that the borrowing restrictions are adhered to and that the debt is serviced promptly to ensure that it continues to be available for the foreseeable future

The Group is not subject to any external capital requirements

**Interest rate risk**

All of the group's financial liabilities are floating rate and carry interest rates based on the relevant three-month LIBOR rate. At the period end, the three month LIBOR rate was 1.08% (2010: 0.30%)

**Interest rate risk management**

Interest risk arises on interest payable on the floating rate loans and borrowings. The Directors manage this risk by use of interest rate swaps. The risk arises as a result of the GPUT paying a fixed rate of interest, while the Group is required to pay floating rates of interest on the notes issued. The Group's exposure to interest rate risk with respect to the interest rate swap is monitored and reviewed by the Directors on a regular basis.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities, including interest that will accrue to those liabilities except where the Group is entitled and intends to repay the liability before its maturity.

	Weighted average effective interest rate (%)	Less than 1 year	1 to 5 years	More than 5 years	Total
<b>31 December 2011</b>					
Loans receivable	4.798	-	171,600,000	-	171,600,000
Cash and cash equivalents	0.00	10,816,331	-	-	10,816,331
Loans and borrowings	4.795	(362,000)	(171,348,882)	-	(171,710,882)
Liquidity account	1.0	(10,677,333)	-	-	(10,677,333)
<b>Total</b>		<u>(223,002)</u>	<u>251,118</u>	<u>-</u>	<u>28,116</u>

	Weighted average effective interest rate (%)	Less than 1 year	1 to 5 years	More than 5 years	Total
<b>31 December 2010</b>					
Loans receivable	4.798	-	171,600,000	-	171,600,000
Cash and cash equivalents	0.00	10,776,702	-	-	10,776,702
Loans and borrowings	4.795	(293,502)	(171,104,142)	-	(171,397,644)
Liquidity account	0.8	(10,677,333)	-	-	(10,677,333)
<b>Total</b>		<u>(194,133)</u>	<u>495,858</u>	<u>-</u>	<u>301,725</u>

The above interest rates take into account the impact of the interest rate swaps



**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**16. FINANCIAL RISK MANAGEMENT (continued)**

**Interest rate swap contracts**

Interest rate swap contracts enable the Group to mitigate the risk of changing interest rates and cashflow exposures on the floating rate debt held. The fair values of interest rate swaps at the year end are the marked to market values supplied by the issuer of the swap. This value is based on the future cashflows relating to the outstanding balances at the start of the financial year at the relevant interest rate.

The following table detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	%	%	£	£	£	£
<b>Outstanding</b>						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
More than 5 years	4.798	4.798	<u>171,600,000</u>	<u>171,600,000</u>	<u>(6,376,017)</u>	<u>(11,337,178)</u>
			<u>171,600,000</u>	<u>171,600,000</u>	<u>(6,376,017)</u>	<u>(11,337,178)</u>

The actual movement in the valuation of the swaps and the actual impact on the hedge reserve is shown below,

	£
Market value of swaps as at 31 December 2010	(11,337,178)
Movement in valuation through the hedge reserve to 31 December 2011	<u>4,961,161</u>
Market value of swap as at 31 December 2011	<u>(6,376,017)</u>

**Currency risk**

The Group has no exposure to foreign currency risk

**Concentration risk**

The Group has provided financing to Picton Property Income Ltd (previously ING UK Real Estate Income Trust Ltd) whose property investments are in the UK and the Isle of Man. Picton Property Income Ltd is exposed to macroeconomic changes in the UK and Isle of Man economies.

**Effective interest rates and re-pricing analysis**

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 December 2011 and the periods in which floating rate assets and liabilities re-price.

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**16. FINANCIAL RISK MANAGEMENT (continued)**

<b>2011</b>	<b>Effective interest rate (%)</b>	<b>Total £</b>	<b>Fixed rate £</b>	<b>Floating rate &lt; 1 month £</b>	<b>Floating rate 1-3 months £</b>	<b>Non interest bearing £</b>
<b>Assets</b>						
Loans receivable	4.798	171,600,000	171,600,000	-	-	-
Other receivables	-	1,677,758	-	-	-	1,677,758
Cash at bank	0.0	138,998	-	138,998	-	-
Liquidity account		<u>10,677,333</u>	-	<u>10,677,333</u>	-	-
		<u>184,094,089</u>	<u>171,600,000</u>	<u>10,816,331</u>	-	<u>1,677,758</u>
<b>Liabilities</b>						
Floating rate notes	4.795	171,600,000	-	-	171,600,000	-
Unamortised issue costs	-	(265,224)	-	-	-	(265,224)
Interest payable	-	362,000	-	-	-	362,000
Derivative liability	-	6,376,017	-	-	-	6,376,017
Other loans	-	14,106	-	-	14,106	-
Other payables	-	1,478,887	-	-	-	1,478,887
Liquidity drawdown	1.0	<u>10,677,333</u>	-	<u>10,677,333</u>	-	-
		<u>190,243,119</u>	-	<u>10,677,333</u>	<u>171,614,106</u>	<u>7,951,680</u>

<b>2010</b>	<b>Effective interest rate (%)</b>	<b>Total £</b>	<b>Fixed rate £</b>	<b>Floating rate &lt; 1 month £</b>	<b>Floating rate 1-3 months £</b>	<b>Non interest bearing £</b>
<b>Assets</b>						
Loans receivable	4.798	171,600,000	171,600,000	-	-	-
Other receivables	-	1,626,809	-	-	-	1,626,809
Cash at bank	0.0	99,369	-	99,369	-	-
Liquidity account	-	<u>10,677,333</u>	-	<u>10,677,333</u>	-	-
		<u>184,003,511</u>	<u>171,600,000</u>	<u>10,776,702</u>	-	<u>1,626,809</u>
<b>Liabilities</b>						
Floating rate notes	4.795	171,600,000	-	-	171,600,000	-
Unamortised issue costs	-	(509,685)	-	-	-	(509,685)
Interest payable	-	293,502	-	-	-	293,502
Derivative liability	-	11,337,178	-	-	-	11,337,178
Other loans	-	13,827	-	-	13,827	-
Other payables	-	1,752,820	-	-	-	1,752,820
Liquidity drawdown	0.8	<u>10,677,333</u>	-	<u>10,677,333</u>	-	-
		<u>195,164,975</u>	-	<u>10,677,333</u>	<u>171,613,827</u>	<u>12,873,815</u>

**Fair values**

The fair values of assets and liabilities are considered to equal their carrying amounts shown in the balance sheet

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

**16. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk**

The Group's policy is to manage liquidity risk through its use of its start-up loan and excess spread, a reserve fund and an over-collateralisation of mortgage loans underlying the loan to Picton UK Listed Real Estate (previously ING (UK) Listed Real Estate). As the length of the loan notes is designed to match the length of the mortgage loans underlying the loan to Picton UK Listed Real Estate, there are deemed to be limited liquidity risks facing the Group.

A liquidity facility provided by Barclays Bank, 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.

On 20 December 2005 an agreement was entered into with Barclays Bank for the provision of an amortising liquidity facility of up to £14,000,000 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 0.2% per annum. This fee would increase on any drawn balance. A new liquidity facility agreement was entered into with Barclays Bank on 08 December 2011 for up to £10,677,333. This facility is renewed annually and is due to expire on 08 December 2012.

In 2009 the credit rating (short term) of Barclays Bank has been downgraded by the Rating Agencies, and is no longer equal to or better than the credit ratings specified in the Liquidity Facility Agreement. As per the terms of the Liquidity Facility Agreement and as a result of this downgrade the company drew down this facility in full on 27 February 2009 and deposited the funds in a separate bank account, the Liquidity Account. These reserve drawings will remain in this account until the Liquidity Facility Provider is ascribed a better credit rating from all of the relevant rating agencies.

During 2011 no repayments were made (2010 £3,322,667). The balance remaining unpaid as at 31 December 2011 is £10,677,333 (2010 £10,677,333).

The table below shows the maturity of financial liabilities

2011	Less than 1 year	1 – 5 years	More than 5 years	Total
Liabilities	£	£	£	£
Floating rate loan notes	-	171,600,000	-	171,600,000
Unamortised issue costs	-	(265,224)	-	(265,224)
Other loans	-	14,106	-	14,106
Interest payable	362,000	-	-	362,000
Derivative liability	6,376,017	-	-	6,376,017
Accruals	1,160,490	-	-	1,160,490
Other creditors	38,581	-	-	38,581
Deferred income	266,407	-	-	266,407
Tax liability	13,409	-	-	13,409
Liquidity drawdown	<u>10,677,333</u>	-	-	<u>10,677,333</u>
<b>Total liabilities</b>	<b><u>18,894,237</u></b>	<b><u>171,348,882</u></b>	<b><u>-</u></b>	<b><u>190,243,119</u></b>

**PICTON UK REAL ESTATE PARENT LIMITED (Previously ING (UK) Real Estate Parent Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

2010	Less than 1 year	1 – 5 years	More than 5 years	Total
Liabilities	£	£	£	£
Floating rate loan notes	-	171,600,000	-	171,600,000
Unamortised issue costs	-	(509,685)	-	(509,685)
Other loans	-	13,827	-	13,827
Interest payable	293,502	-	-	293,502
Derivative liability	11,337,178	-	-	11,337,178
Accruals	1,201,759	-	-	1,201,759
Other creditors	38,581	-	-	38,581
Deferred income	511,959	-	-	511,959
Tax liability	521	-	-	521
Liquidity drawdown	<u>10,677,333</u>	-	-	<u>10,677,333</u>
Total liabilities	<u>24,060,833</u>	<u>171,104,142</u>	-	<u>195,164,975</u>

**Interest rate sensitivity**

No sensitivity analysis has been performed because it was considered immaterial.

**17. RELATED PARTY TRANSACTIONS**

The group has identified the following transactions which are required to be disclosed under the terms of IAS 24 Related Party Disclosures

During the year administration and accounting services were provided by Wilmington Trust SP Services (London) Limited, as per the Corporate Services Agreement, for which they received a fee of £21,693 (2010 £21,299) At 31 December 2011 £9,040 (2010 £8,834) of these fees were outstanding Wilmington Trust SP Services (London) Limited are also a director of the company

Wilmington Trust SP Services (London) Limited has provided the Company with a loan which is repayable in full three months after the floating rate notes have been repaid in full and bears interest at a fixed rate of 2% As at 31 December 2011 £14,106 (2010 £13,827) was outstanding

Mr Mark Filer and Mr Jean-Christophe Schroeder whom are directors of the company are also directors of Wilmington Trust SP Services (London) Limited

**18. ULTIMATE CONTROLLING PARTY**

The shares of the company are held by Wilmington Trust SP Services (London) Limited under a Declaration of Trust for charitable purposes Ultimate control of the company rests with the directors and shareholders

**19. CONTINGENCIES AND CAPITAL COMMITMENTS**

As at 31 December 2011 the Group did not enter into any capital commitments The Group did not have any contingent liabilities or legal claims outstanding or made against it (2010 nil)