

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

**ING (UK) REAL ESTATE PARENT LIMITED**  
**ANNUAL REPORT AND**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**ING (UK) REAL ESTATE PARENT LIMITED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

<b>CONTENTS</b>	<b>PAGE</b>
Directors and Company Information	<b>1</b>
Directors' Report	<b>2</b>
Statement of Directors' Responsibilities	<b>5</b>
Independent Auditor's Report	<b>6</b>
Consolidated Statement of Comprehensive Income	<b>7</b>
Consolidated Statement of Changes in Equity	<b>7</b>
Consolidated Statement of Financial Position	<b>8</b>
Company Statement of Financial Position	<b>9</b>
Consolidated Statement of Cash Flows	<b>10</b>
Notes to the Consolidated Financial Statements	<b>11 to 26</b>

# **ING (UK) REAL ESTATE PARENT LIMITED**

## **DIRECTORS AND COMPANY INFORMATION**

<b>Directors</b>	Mark Filer Jean-Christophe Schroeder Wilmington Trust SP Services (London) Limited
<b>Company secretary</b>	Wilmington Trust SP Services (London) Limited
<b>Registered office</b>	c/o Wilmington Trust SP Services (London) Limited Fifth Floor, 6 Broad Street Place, London EC2M 7JH
<b>Auditor</b>	KPMG Channel Islands Limited 20 New Street St Peter Port Guernsey GY1 4AN

# ING (UK) REAL ESTATE PARENT LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report and the audited consolidated financial statements of the company and its subsidiary, ING (UK) Listed Real Estate Issuer Plc ("the group") for the year ended 31 December 2010. The comparative figures are for the year ended 31 December 2009.

#### 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 ING (UK) Issuer 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 ING (UK) Listed Real Estate, a property unit trust established in Guernsey (the "Borrower"). ING (UK) Listed Real Estate is part of the 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 2013. 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:

	2010	2009
Net loan interest margin	-1bps	-5 bps
Net interest margin	10bps	-3bps

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 £20,263 (2009: £32,915 loss). The directors have not recommended a dividend.

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

# ING (UK) REAL ESTATE PARENT LIMITED

## DIRECTORS' REPORT (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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.

# **ING (UK) REAL ESTATE PARENT LIMITED**

## **DIRECTORS' REPORT (continued)**

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **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 2010 (2009 £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 ING (UK) 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 ING (UK) 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 s418 of the Companies Act 2006.

By order of the Board



**Ms Mignon Clarke**

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

**Director**

Date 6 May 2011

## **ING (UK) REAL ESTATE PARENT LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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 ING (UK) REAL ESTATE PARENT LIMITED**

We have audited the consolidated financial statements of ING (UK) Real Estate Parent Limited for the year ended 31 December 2010 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 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 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

- adequate accounting records have not been kept 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

12 May 2011



**ING (UK) REAL ESTATE PARENT LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	31 Dec 2010 £	31 Dec 2009 £
<b>Continuing activities</b>			
Interest receivable and similar income	3	8,843,784	10,462,791
Interest payable and similar charges	4	<u>(8,747,313)</u>	<u>(10,499,414)</u>
Net interest income/(expense)		96,471	(36,623)
Realised gain on cancellation of loan notes	12	974,000	-
Loan receivable write off	10	<u>(974,000)</u>	<u>-</u>
		-	-
Other income		268,368	388,059
Operating expenses	5	<u>(344,576)</u>	<u>(384,351)</u>
Profit/(loss) before tax for the year	6	20,263	(32,915)
Income tax (charge)/credit	7	<u>(4,107)</u>	<u>6,530</u>
Total comprehensive income/(expense) for the year	13	<u><u>16,156</u></u>	<u><u>(26,385)</u></u>
Attributable to:			
Equity holders		<u><u>16,156</u></u>	<u><u>(26,385)</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR  
ENDED 31 DECEMBER 2010**

	Share Capital £	Hedge Reserve £	Retained Earnings £	Total £
Balance at 31 December 2008	1	(14,028,389)	185,942	(13,842,446)
Fair value adjustment	-	2,451,777	-	2,451,777
Comprehensive expense for the year	-	-	<u>(26,385)</u>	<u>(26,385)</u>
Balance at 31 December 2009	<u>1</u>	<u>(11,576,612)</u>	<u>159,557</u>	<u>(11,417,054)</u>
Fair value adjustment	-	239,434	-	239,434
Comprehensive income for the year	-	-	<u>16,156</u>	<u>16,156</u>
Balance at 31 December 2010	<u>1</u>	<u>(11,337,178)</u>	<u>175,713</u>	<u>(11,161,464)</u>

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

# ING (UK) REAL ESTATE PARENT LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 £	2009 £
<b>Non-current assets</b>			
Loan receivables	10	171,600,000	190,050,000
<b>Total non-current assets</b>			
<b>Current assets</b>			
Other receivables	11	1,626,809	1,783,070
Cash and cash equivalents	12	10,776,702	14,087,361
Current tax asset	7(c)	-	3,586
<b>Total current assets</b>		<u>12,403,511</u>	<u>15,874,017</u>
<b>Total assets</b>		<u>184,003,511</u>	<u>205,924,017</u>
<b>Equity</b>			
Issued capital	13	1	1
Hedge reserve	13	(11,337,178)	(11,576,612)
Retained earnings	13	175,713	159,557
<b>Total equity</b>		<u>(11,161,464)</u>	<u>(11,417,054)</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	171,104,142	189,309,407
<b>Total non-current liabilities</b>		<u>171,104,142</u>	<u>189,309,407</u>
<b>Current liabilities</b>			
Other payables	15	1,752,820	2,186,449
Derivative liability	13	11,337,178	11,576,612
Interest payable	14	293,502	268,603
Liquidity drawdown		10,677,333	14,000,000
<b>Total current liabilities</b>		<u>24,060,833</u>	<u>28,031,664</u>
<b>Total liabilities</b>		<u>195,164,975</u>	<u>217,341,071</u>
<b>Total equity and liabilities</b>		<u>184,003,511</u>	<u>205,924,017</u>

The consolidated financial statements of ING (UK) Real Estate Parent Limited, company registration number 05573792, were approved by the board of directors on 6 May 2011 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

**ING (UK) REAL ESTATE PARENT LIMITED**  
**COMPANY STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010**

	Note	2010 £	2009 £
<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><u>12,502</u></u>	<u><u>12,502</u></u>
<b>Equity</b>			
Issued capital	13	1	1
Accumulated losses	13	<u>(1,326)</u>	<u>(1,053)</u>
<b>Total equity</b>		<u><u>(1,325)</u></u>	<u><u>(1,052)</u></u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	14	<u>13,827</u>	<u>13,554</u>
<b>Total non-current liabilities</b>		<u><u>13,827</u></u>	<u><u>13,554</u></u>
<b>Total current liabilities</b>		<u><u>13,827</u></u>	<u><u>13,554</u></u>
<b>Total liabilities</b>		<u><u>13,287</u></u>	<u><u>13,554</u></u>
<b>Total equity and liabilities</b>		<u><u>12,502</u></u>	<u><u>12,502</u></u>

The consolidated financial statements of ING (UK) Real Estate Parent Limited, company registration number 05573792, were approved by the board of directors on 6 May 2011 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

**ING (UK) REAL ESTATE PARENT LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

		2010 £	2009 £
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax for the year		20,263	(32,915)
<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	(8,598,232)	(10,217,238)
Interest expense	4	1,632,167	4,243,869
(Increase)/decrease in other receivables	11	(3,147)	507,175
(Decrease)/increase in other payables	15	(188,598)	1,259,321
Income tax paid		-	(5,654)
<b>Net cash from operating activities</b>		<u>(7,138,638)</u>	<u>(4,246,533)</u>
<b>Cash flows from investing activities</b>			
Interest received		8,757,642	10,580,396
Loan repayments during the year	10	<u>18,450,000</u>	<u>34,950,000</u>
<b>Net cash from investing activities</b>		<u>27,207,642</u>	<u>45,530,396</u>
<b>Cash flows from financing activities</b>			
Liquidity drawdown		(3,322,667)	14,000,000
Loan note repayments		(18,450,000)	(34,950,000)
Interest paid on loan notes		<u>(1,606,996)</u>	<u>(6,318,780)</u>
<b>Net cash (used in) financing activities</b>		<u>(23,379,663)</u>	<u>(27,268,780)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,310,659)</b>	<b>14,015,083</b>
Cash and cash equivalents at 1 January	12	<u>14,087,361</u>	<u>72,278</u>
Cash and cash equivalents at 31 December		<u><u>10,776,702</u></u>	<u><u>14,087,361</u></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

# **ING (UK) REAL ESTATE PARENT LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **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 Group through its subsidiary, 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"). £18,450,000 of loan notes were redeemed in 2010 at a discount of £974,000. At the year end the loan Notes remaining amounted to £171,600,000 (2009 £190,050,000). The proceeds were used to make an advance to Northern Trust Fiduciary Services (Guernsey) Limited as trustee of ING (UK) Listed Real Estate, a Guernsey property unit trust set up to hold properties, on behalf of 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 2010.

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

The consolidated financial statements for the year ended 31 December 2010 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 2010 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 1 (amended)/IAS 27 (amended) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

IFRIC 15 – Agreements for the Construction of Real Estate

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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.

# **ING (UK) REAL ESTATE PARENT LIMITED**

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

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **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 2010. 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.

# **ING (UK) REAL ESTATE PARENT LIMITED**

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

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **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.

The client account is held in the name of Wilmington Trust SP Services (London) Limited.

##### **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.

# **ING (UK) REAL ESTATE PARENT LIMITED**

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

### **FOR THE YEAR ENDED 31 DECEMBER 2010**

#### **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 2010 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.



# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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 Dec 2010 £	Group Dec 2009 £
Interest receivable on loans receivable	8,501,562	10,207,574
Bank interest receivable	96,670	9,665
Amortisation of facility fees	204,235	204,235
Amortisation of premium	41,317	41,317
	<u>8,843,784</u>	<u>10,462,791</u>
<b>Geographic</b>		
United Kingdom	<u>8,843,784</u>	<u>10,462,791</u>

#### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group Dec 2010 £	Group Dec 2009 £
Interest payable on floating rate notes	1,631,894	4,243,601
Interest payable on other loans	273	268
Amortisation of issue costs	244,461	244,461
Swap payable	<u>6,870,685</u>	<u>6,011,084</u>
	<u>8,747,313</u>	<u>10,499,414</u>

#### 5. OPERATING EXPENSES

The profit on ordinary activities before taxation is stated after charging

	Group Dec 2010 £	Group Dec 2009 £
Fees payable to the group's auditors for the audit of the group's annual accounts	16,060	35,601
Fees payable to the group's tax agent – tax services	26,834	8,990
ISE fees FX differences	(60)	(166)
Liquidity fees	119,252	192,094
Rating agency fees	82,915	38,835
Management administration fees	14,285	14,422
Management accounting fees (Note 15)	7,014	5,875
Servicing fees	43,711	54,502
Cash manager fees	8,000	10,000
Trustee fees	8,225	10,092
Other professional fees	<u>18,340</u>	<u>14,106</u>
	<u>344,576</u>	<u>384,351</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.

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

	Group Dec 2010	Group 31 Dec 2009
	£	£
Auditors' remuneration for audit work paid to previous auditors	-	18,801
Auditors' remuneration for audit work paid to current auditors	16,560	17,500
Auditors' remuneration for taxation services	<u>26,834</u>	<u>8,990</u>

The group has no employees Other than the fees paid to Wilmington Trust SP Services (London) Limited for management services of £21,299 (2009 £20,297), the directors received no remuneration during the year (2009 nil)

#### 7. INCOME TAX EXPENSE

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

	Group Dec 2010	Group Dec 2009
	£	£
<b>Current tax:</b>		
Corporation tax (charge)/credit for the year	<u>(4,107)</u>	<u>6,530</u>
Total income tax expense in income statement	<u>(4,107)</u>	<u>6,530</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%

	Dec 2010	Dec 2009
	£	£
Profit/(loss) before tax	<u>20,263</u>	<u>(32,915)</u>
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK for small companies of 20% (2009 20%)	<u>(4,107)</u>	<u>6,530</u>
Total tax in income statement	<u>(4,107)</u>	<u>6,530</u>

##### (c) Current tax (liability)/asset

	2010	2009
	£	£
Current tax (liability)/asset	<u>(521)</u>	<u>(3,586)</u>

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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 £273 (2009 £268)

#### 9. INVESTMENTS

	Company Dec 2010 £	Company Dec 2009 £
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 2010	<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
ING (UK) Listed Real Estate Issuer PLC	Great Britain	Ordinary 100% held	Financing company

#### 10. LOAN RECEIVABLE

	Group 2010 £	Group 2009 £
Loan granted	190,050,000	225,000,000
Repayments during the year	<u>(18,450,000)</u>	<u>(34,950,000)</u>
At 31 December 2010	<u>171,600,000</u>	<u>190,050,000</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 2013. 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 ING (UK) Listed Real Estate, a property unit trust established in Guernsey. The loan is secured against the assets of the unit trust. During the year as part of the loan notes were redeemed at a discount, as detailed in note 12, the corresponding amount of the loan receivable was written off to the statement of comprehensive income.

#### 11. OTHER RECEIVABLES

	Group 2010 £	Group 2009 £
Interest receivable on loans	1,516,056	1,675,464
Accrued fees receivable	95,938	84,720
Prepayments and accrued income	<u>14,815</u>	<u>22,886</u>
	<u>1,626,809</u>	<u>1,783,070</u>

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

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 12. CASH AND CASH EQUIVALENTS

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

	2010	2009
	€	€
Cash and bank current accounts	4,587	4,587
Bank deposit accounts	94,782	73,262
Liquidity account	<u>10,677,333</u>	<u>14,009,512</u>
	<u>10,776,702</u>	<u>14,087,361</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 (2009 £14,000,000) but £3,312,179 (2009 £nil) was repaid. £10,677,333 (2009 £14,000,000) 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 2008	1	(14,028,389)	185,942	(13,842,446)
Fair value adjustment	-	2,451,777	-	2,451,777
Comprehensive expense for the year	-	-	(26,385)	(26,385)
Balance at 31 December 2009	<u>1</u>	<u>(11,576,612)</u>	<u>159,557</u>	<u>(11,417,054)</u>

Group	Share capital	Hedge reserve	Retained earnings	Total
	£	£	£	£
Fair value of derivative	-	239,434	-	239,434
Profit for the year	-	-	16,156	16,156
At 31 December 2010	<u>1</u>	<u>(11,337,178)</u>	<u>175,713</u>	<u>(11,161,464)</u>

Company	Share capital	Accumulated Losses	Total
	£	£	£
At 31 December 2008	1	(785)	(784)
Loss for the year	-	(268)	(268)
At 31 December 2009	<u>1</u>	<u>(1,053)</u>	<u>(1,052)</u>

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

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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

	Group 2010	Company 2010	Group 2009	Company 2009
	£	£	£	£
<b>Non-current liabilities</b>				
Floating rate notes	171,600,000	-	190,050,000	-
Unamortised issue costs	(509,685)	-	(754,147)	-
Other loan	<u>13,827</u>	<u>13,827</u>	<u>13,554</u>	<u>13,554</u>
	<u>171,104,142</u>	<u>13,827</u>	<u>189,309,407</u>	<u>13,554</u>
<b>Current liabilities</b>				
Interest payable	293,502	-	268,603	-
Liquidity facility	<u>10,677,333</u>	-	<u>14,000,000</u>	-
Total	<u>182,074,977</u>	<u>13,827</u>	<u>203,578,010</u>	<u>13,554</u>

The floating rate notes fall due in full on 30 January 2013 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 2013. 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 floating rate loan notes are secured by means of a fixed and floating charge over the company'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.

ING Real Estate Income Trust is currently in compliance with all loan covenants at the date of these financial statements.

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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

	2010 £	2009 £
<b>Current Liabilities</b>		
Accruals	1,201,759	1,390,357
Other creditors	38,581	38,581
Tax liability	521	-
Deferred income	<u>511,959</u>	<u>757,511</u>
	<u>1,752,820</u>	<u>2,186,449</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 2010, the Group's financial assets exposed to credit risk amounted to the following

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

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

##### Credit risk (continued)

31 December 2010	Note	Derivative investments in designated hedge accounting relationships	Financial assets and liabilities at amortised cost	Total
		£	£	£
<b>Financial assets</b>				
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>		<u>-</u>	<u>184,003,511</u>	<u>184,003,511</u>
<b>Financial liabilities</b>				
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>		<u>11,337,178</u>	<u>183,827,797</u>	<u>195,164,975</u>

  

31 December 2009	Note	Derivative investments in designated hedge accounting relationships	Financial assets and liabilities at amortised cost	Total
		£	£	£
<b>Financial assets</b>				
Loan receivables	10	-	190,050,000	190,050,000
Other receivables	11	-	1,783,070	1,783,070
Liquidity account		-	14,000,000	14,000,000
Cash and cash equivalents	12	-	87,361	87,361
Deferred tax	7(c)	-	3,586	3,586
<b>Total</b>		<u>-</u>	<u>205,924,017</u>	<u>205,924,017</u>
<b>Financial liabilities</b>				
Loans and borrowings	14	-	203,578,010	203,578,010
Accruals	7(c), 15	-	2,186,449	2,186,449
Derivative liabilities	13	11,576,612	-	11,576,612
<b>Total</b>		<u>11,576,612</u>	<u>205,764,459</u>	<u>217,341,071</u>

Loan receivables comprise amounts due from ING (UK) Listed Real Estate (the "GPUR"), a Guernsey property unit trust which is part of the ING UK Real Estate Income Trust Ltd Group (ING REIT). Bankruptcy or insolvency of the GPUR and / or ING REIT, on whose behalf the properties are held, may result in non-recovery of the loan. ING REIT 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 used to value the interest rate swaps which are financial liabilities as at 31 December 2010. 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.

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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 0.30% (2009: 0.65%)

##### 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

31 December 2010	Weighted average effective interest rate (%)	Less than 1 year	1 to 5 years	More than 5 years	Total
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)
Total		<u>(194,133)</u>	<u>495,858</u>	<u>-</u>	<u>301,725</u>

31 December 2009	Weighted average effective interest rate (%)	Less than 1 year	1 to 5 years	More than 5 years	Total
Loans receivable	4.798	-	190,050,000	-	190,050,000
Cash and cash equivalents	0.01	14,087,361	-	-	14,087,361
Loans and borrowings	4.795	(268,603)	(189,309,407)	-	(189,578,010)
Liquidity account	0.8	(14,000,000)	-	-	(14,000,000)
Total		<u>(181,242)</u>	<u>740,593</u>	<u>-</u>	<u>559,351</u>

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



# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	%	%	£	£	£	£
<b>Outstanding</b>						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
More than 5 years	4.798	4.805	<u>171,600,000</u>	<u>190,050,000</u>	<u>171,600,000</u>	<u>190,050,000</u>
			<u>171,600,000</u>	<u>190,050,000</u>	<u>171,600,000</u>	<u>190,050,000</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 2009	(11,576,612)
Movement in valuation through the hedge reserve to 31 December 2010	<u>239,434</u>
Market value of swap as at 31 December 2010	<u>(11,337,178)</u>

##### Currency risk

The Group has no exposure to foreign currency risk

##### Concentration risk

The Group has provided financing to ING REIT whose property investments are in the UK and the Isle of Man. ING REIT 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 2010 and the periods in which floating rate assets and liabilities re-price.

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

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

2010	Effective interest rate (%)	Total £	Fixed rate £	Floating rate < 1 month £	Floating rate 1-3 months £	Non interest bearing £
<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>-</u>	<u>10,677,333</u>	<u>-</u>	<u>-</u>
		<u>184,003,511</u>	<u>171,600,000</u>	<u>10,776,702</u>	<u>-</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>-</u>	<u>10,677,333</u>	<u>-</u>	<u>-</u>
		<u>195,164,975</u>	<u>-</u>	<u>10,677,333</u>	<u>171,613,827</u>	<u>12,873,815</u>

2009	Effective interest rate (%)	Total £	Fixed rate £	Floating rate < 1 month £	Floating rate 1-3 months £	Non interest bearing £
<b>Assets</b>						
Loans receivable	4.798	190,050,000	190,050,000	-	-	-
Other receivables	-	1,783,070	-	-	-	1,783,070
Liquidity account	-	14,009,512	-	14,009,512	-	-
Cash at bank	0.1	<u>77,849</u>	<u>-</u>	<u>77,849</u>	<u>-</u>	<u>-</u>
		<u>205,920,431</u>	<u>190,050,000</u>	<u>14,087,361</u>	<u>-</u>	<u>1,783,070</u>
<b>Liabilities</b>						
Floating rate notes	4.795	190,050,000	-	-	190,050,000	-
Unamortised issue costs	-	(754,147)	-	-	-	(754,147)
Interest payable	-	268,603	-	-	-	268,603
Derivative liability	-	11,576,612	-	-	-	11,576,612
Other loans	-	13,554	-	-	13,554	-
Other payables	-	2,186,449	-	-	-	2,186,449
Liquidity drawdown	0.8	<u>14,000,000</u>	<u>-</u>	<u>14,000,000</u>	<u>-</u>	<u>-</u>
		<u>217,341,071</u>	<u>-</u>	<u>14,000,000</u>	<u>190,063,554</u>	<u>13,277,517</u>

#### Fair values

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

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

#### 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 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 ING (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 10 December 2010 for up to £14,000,000. This facility is renewed annually and is due to expire on 09 December 2011.

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 2010 a repayment of £3,322,667 was made and the balance remaining unpaid as at 31 December 2010 is £10,677,333 (2009: £14,000,000).

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	10,677,333	-	-	10,677,333
<b>Total liabilities</b>	<b>24,060,833</b>	<b>171,104,142</b>	<b>-</b>	<b>195,164,975</b>

# ING (UK) REAL ESTATE PARENT LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2010

2009	Less than 1 year	1 – 5 years	More than 5 years	Total
Liabilities	£	£	£	£
Floating rate loan notes	-	190,050,000	-	190,050,000
Unamortised issue costs	-	(754,147)	-	(754,147)
Other loans	-	13,554	-	13,554
Interest payable	268,603	-	-	268,603
Derivative liability	11,576,612	-	-	11,576,612
Accruals	1,390,357	-	-	1,390,357
Other creditors	38,581	-	-	38,581
Deferred income	757,511	-	-	757,511
Liquidity drawdown	14,000,000	-	-	14,000,000
Total liabilities	<u>28,031,664</u>	<u>189,309,407</u>	<u>-</u>	<u>217,341,071</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 £21,299 (2009 £20,297). At 31 December 2010 £8,834 (2009 £8,175) 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 2010 £13,827 (2009 £13,554) 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 2010 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 (2009 nil).