# Topaz Finance PLC
# (previously known as Zestbay PLC)
No. 5946900

## Directors' Report and Financial Statements

## Period Ended 31 December 2007

# Report of the Directors

The dırectors present theır annual report and financıal statements for the penod ended 31 December 2007

## Principal activities and review of the business

The company was ıncorporated on 26 September 2006 as Zestbay PLC and ıts name was subsequently changed to Topaz Fınance PLC on 29 November 2006 The pnncıpal actıvıty of the company durıng the penod was the acquısıtıon and securıtısatıon of mortgaged loans The results for the penod are set out ın the profit and loss account on page 6

## Dividends and transfers to reserves

A profit for the penod after taxatıon of £2,346,000 has been transferred to reserves The dırectors do not recommend the payment of a dıvıdend

## Principal risks and uncertainties

The company ıs exposed to credıt, pnce, lıquıdıty and operatıonal nsks

Credıt nsk

Credıt nsk ıs the nsk that company's debtors for mortgage loans wıll cause a financıal loss by faılıng to dıscharge an oblıgatıon The credıt nsk may ıncrease from fall ın pnces of property, held as collateral for the balance receıvable from mortgagees

Pnce nsk

Pnce nsk anses relates to changes ın faır value of the mortgages on resıdentıal propertıes from changes ın ınputs to the pncıng technıques used for valuatıon of the mortgages These ınclude changes ın ınterest rates, default and prepayment rates ınherent ın the portfolıo of mortgages held by the company.

Lıquıdıty nsk

Lıquıdıty nsk ıs the nsk that the company wıll encounter dıfficulty ın meetıng oblıgatıons assocıated wıth financıal lıabılıtıes The company mıtıgates lıquıdıty nsk by managıng and generatıng lıquıdıty wıth group undertakıngs

The company monıtors pnncıpal nsks and uncertaıntıes through the ABN AMRO group nsk and financıal management framework whose pnmary objectıves are to protect the company from events that hınder the achıevement of the company's performance objectıves The framework aıms to lımıt undue counterparty exposure and ensure suffıcıent workıng capıtal exısts and monıtor the management of nsks faced by the company

## Report of the Directors (continued)

### Financial instruments

The company's financial instruments comprise mortgaged loans, cash, debtors and creditors which arise directly from its operations and are part of its principal activity The company uses interest rate swaps and interest rate cap agreements to manage interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements The main risks arising from the company's financial instruments are discussed under principal risks and uncertainties above

### Events since the balance sheet date

There are no material events since the balance sheet date

### Directors and their interests

The directors who served during the period and up to the date of signing these accounts were

| | | |
|---|---|---|
| A Levy | appointed 26 09 2006 | resigned 28 11 2006 |
| D J Pudge | appointed 26.09.2006 | resigned 28 11 2006 |
| C Corradini | appointed 28 11 2006 | resigned 8 03 2007 |
| J H Drayton | appointed 28 11 2006 | resigned 17 05 2007 |
| S Rayzor | appointed 28 11 2006 | resigned 6 08 2007 |
| U van den Linden | appointed 28 11 2006 | |
| R Hussain | appointed 28 11 2006 | |
| S J Mould | appointed 9 05 2007 | |
| R E Lindo | appointed 9 05 2007 | |
| M Nawas | appointed 9 05 2007 | |
| J D May | appointed 21 09 2007 | |

There are no directors' interests requiring disclosure under the Companies Act 1985

### Disclosure of information to the auditors

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 company'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

## Report of the Directors (continued)

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the general meeting.

On behalf of the Board,

Director

Director

Date 31 March 2008 250 Bishopsgate, London, EC2M 4AA

## Statement of Directors' Responsibilities in Respect of the Accounts

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

Company law requires the directors to prepare financial statements for each financial period Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Independent Auditor's Report to the Members of Topaz Finance PLC

We have audited the financial statements of Topaz Finance PLC for the period ended 31 December 2007 which comprise the Profit and Loss Account and the Balance Sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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

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

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

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

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

## Independent Auditor's Report to the Members of Topaz Finance PLC (continued)

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

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of the company's profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
Date 21/3/08

## Profit and Loss Account for the period 26 September 2006 to 31 December 2007

| | Notes | 26/09/2006 to 31/12/2007 £'000 |
|---|---|---|
| Gain on investment | 2 | 28,067 |
| Administrative expenses | 3 | (857) |
| Net change in fair value of financial instruments | | (3,580) |
| Interest payable and similar charges | 6 | (20,686) |
| **Operating profit** | | 2,944 |
| Interest receivable and similar income | 7 | 551 |
| **Profit on ordinary activities before taxation** | | 3,495 |
| Tax on profit on ordinary activities | 8 | (1,149) |
| **Profit on ordinary activities after taxation** | | 2,346 |

The above profit and loss account also represents the company's statement of total recognised gains and losses as required by Financial Reporting Standard 3

The notes on page 8 to 14 form an integral part of these financial statements

## Balance Sheet as at 31 December 2007

| | Notes | 2007 £'000 |
|---|---|---|
| **Current assets** | | |
| Mortgages on residential properties | 9 | 512,637 |
| Financial assets | 10 | 13 |
| Cash at bank | | 23,216 |
| | | |
| **Creditors:** amounts falling due within one year | 11 | (523,375) |
| Financial liabilities | 12 | (3,145) |
| **Net current assets** | | 9,346 |
| **Total assets less current liabilities** | | 9,346 |
| **Net assets** | | 9,346 |
| | | |
| **Capital and reserves** | | |
| Called up share capital | 13 | 7,000 |
| Profit and loss account | 14 | 2,346 |
| **Total equity shareholders' funds** | 14 | 9,346 |

Approved by the board of directors on 31 March 2008 and signed on their behalf

Director

Director

The notes on page 8 to 14 form an integral part of these financial statements

## Notes to the Accounts

### 1. Accounting policies

The financial statements of Topaz Finance PLC were approved for issue by the Board of Directors on 31 March 2008

A summary of the principal accounting policies, which have been applied consistently throughout the period, is set out below

a) ***Period of accounts and comparatives***
These financial statements cover the period from 26 September 2006 to 31 December 2007, being the first financial statements since incorporation Consequently no comparative figures are shown

*b)* ***Accounting convention***
The accounts are prepared under the historical cost convention modified for the valuation of mortgages and financial assets and liabilities, and in accordance with applicable accounting standards

*c)* ***Valuation of mortgages on residential properties***
Mortgages are carried at fair value and the related gains and losses are recognised in the profit and loss account Fair value is determined using valuation techniques and includes using recent arms length market transactions, reference to the current market value which is substantially the same, discounted cash flow analysis and pricing models

*d)* ***Cash flow statement***
The company has taken advantage of the exemption under Financial Reporting Standard 1 (Revised) Accordingly, a cash flow statement has not been prepared as all the company's voting rights are controlled by Royal Bank of Scotland Group Plc, which produces publicly available consolidated accounts in which the company is included

*e)* ***Related party transactions***
The company has taken advantage of the exemption in Financial Reporting Standard 8 from disclosing transactions with related parties, which are part of the group.

*f)* ***Taxation***
Corporation tax payable is provided for at the current rate

## Notes to the Accounts

1. **Accounting policies (continued)**

*g)* ***Pensions***

For the financial period the cost of providing pensions is charged to the profit and loss account of ABN AMRO Management Services Limited and all related disclosures are made in the accounts of that company

*h)* ***Financial assets***

Financial assets in the scope of FRS 26 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or as available for sale financial assets, as appropriate The company has determined the classification of its financial assets at incorporation and will evaluate the designation at each financial year end

Financial assets classified as held for trading and other assets designated as such at incorporation of the standards are included in this category Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term Derivatives are also classified as held for trading unless they are designated as effective hedging instruments Such assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss are recognised in the income statement

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss and available for sale Such instruments are carried at amortised cost using the effective interest method if the time value of money is significant

**Held to maturity investments**

Non derivative financial instruments with fixed or determinable payments and fixed maturity are classified as held to maturity when the company has the positive intention and ability to hold to maturity Such assets are carried at amortised cost using the effective interest method and the related gains and losses are recognised in income

**Available for sale financial assets**

Available for sale financial assets are those non derivative financial assets that are designated as such or are not classified in any of the three preceding categories After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised in equity until the investment is derecognised or until the investment is determined to be impaired

**Impairment**

The company assess at each balance sheet date whether the financial asset or group of financial assets is impaired If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the

## Notes to the Accounts

### 1. Accounting policies (continued)

difference between the asset's carrying amount and the asset's recoverable amount The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs Where subsequent events indicate that the impairment loss provision is not required or nor required in full, the loss provision made above will be reversed

### 2. Gain on investment

The company's gain on investment has been disclosed instead of turnover as this represents more accurately the company's activities Gain on investment represents gains and losses arising from changes in fair values of financial assets at fair value through profit or loss together with cash realised from mortgagees, which are continuing activities

### 3. Administrative expenses

Administrative expenses comprise direct costs plus expenditure recharged by ABN AMRO Management Services Limited for central costs and overheads and fees charged by the mortgage service provider

For the financial period the auditors' remuneration was paid by ABN AMRO Management Services Limited and is disclosed in the accounts of that company

### 4. Directors' remuneration

No emoluments were received by the directors from the company or any other third party for the performance of their duties

### 5. Employees

The company did not have any direct employees during the period but incurred recharges in respect of staff costs from the ABN AMRO Management Services Limited.

### 6. Interest payable and similar charges

| | 2007<br>£'000 |
|---|---|
| Interest payable to fellow group undertakings | 20,686 |

## Notes to the Accounts

### 7. Interest receivable and similar income

| | 2007<br>£'000 |
|---|---|
| Interest receivable from group undertakings | 551 |

### 8. Tax on profit on ordinary activities

| **Analysis of charge in period** | **2007**<br>**£'000** |
|---|---|
| Current tax | 1,149 |
| Tax on profit on ordinary activities | 1,149 |

**Factors affecting tax charge for period**

The charge in respect of taxation for the period is lower than the standard rate of corporation tax in the UK The differences are explained below

| | 2007<br>£'000 |
|---|---|
| Profit on ordinary activities before tax | 3,495 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% | (1,048) |
| Less effects of expenses not deductible for tax purposes | (101) |
| Current tax charge for period | (1,149) |

### 9. Mortgages on residential properties

| | 2007<br>£'000 |
|---|---|
| At incorporation | - |
| Additions | 1,127,701 |
| Disposals | (643,131) |
| Gain on fair value | 28,067 |
| As at 31 December 2007 | 512,637 |

The amount receivable against mortgages is secured against charge on residential properties The weighted average return on the mortgages on residential properties is 6 57% with interest rates ranging between 4 55% to 9 88% and the weighted average maturity of the mortgages is 26 March 2029

## Notes to the Accounts

### 10. Financial assets

| | 2007 £'000 |
|---|---|
| Fair value of interest rate cap with group undertaking | 13 |

The notional amount of the cap at period end was £80,000,000 with interest rates caped at 7% and maturity date of 21 December 2010 The company uses interest rate cap agreements to manage interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements

### 11. Creditors: amounts falling due within one year

| | 2007 £'000 |
|---|---|
| Amounts owed to fellow group undertakings | 516,967 |
| Corporation tax payable | 1,149 |
| Other liabilities | 5,259 |
| | 523,375 |

### 12. Financial liabilities

| | 2007 £'000 |
|---|---|
| Fair value of interest rate swaps with group entity | 3,145 |

The notional amount of the swaps at period end was £ 310,590,461 with fixed interest rates ranging from 5 89% to 6.15% and maturity dates between 01 April 2010 to 01 December 2010 The company uses interest rate swaps to manage interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements

## Notes to the Accounts

### 13. Share capital

| | 2007 £'000 |
|---|---|
| **Authorised share capital** | |
| 10,000,000 authorised ordinary shares of £1 each | 10,000 |
| **Issued share capital** | |
| 7,000,000 allotted, called up and fully paid ordinary shares of £1 each | 7,000 |

### 14. Reconciliation of equity shareholders' funds and movements on reserves

| | Share capital £'000 | Profit and loss account £'000 | Total equity shareholders funds' £'000 |
|---|---|---|---|
| On incorporation | - | - | - |
| Shares issued | 7,000 | - | 7,000 |
| Profit for the period | - | 2,346 | 2,346 |
| At 31 December 2007 | 7,000 | 2,346 | 9,346 |

### 15. Ultimate parent undertaking

The ultimate parent undertaking is Royal Bank of Scotland Group Plc, a company incorporated in the United Kingdom ABN AMRO Holding N V is the smallest and Royal Bank of Scotland Group Plc is the largest group of which the company is a member and for which group financial statements are prepared Group financial statements are available from Royal Bank of Scotland Group Plc, PO Box 1000, Gogarburn, Edinburgh, EH12 1HQ