Topaz Finance PLC

No. 5946900

Directors' Report and Financial Statements

Period Ended 31 December 2008

Report of the Directors

The directors present their annual report and financial statements for the year ended 31 December 2008.

Principal activities and review of the business

The principal activity of the company during the year was the acquisition and securitisation of mortgaged loans. The future intentions of the company remain the same for the foreseeable future. The results for the year are set out in the profit and loss account on page 7.

Going concern

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group Plc for the year ended 31 December 2008, approved on 25 February 2009, which were prepared on a going concern basis.

Dividends and transfers to reserves

A loss for the year after taxation of £145,946,000 (2007:£2,346,000 profit) has been transferred to reserves. The directors do not recommend the payment of a dividend (2007:£Nil).

Principal risks and uncertainties

The company is exposed to credit, price, liquidity and operational risks.

Credit risk

Credit risk is the risk that company's debtors for mortgage loans will cause a financial loss by failing to discharge an obligation. The credit risk may increase from fall in prices of property, held as collateral for the balance receivable from mortgagees.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company mitigates liquidity risk by managing and generating liquidity with group undertakings.

The company monitors principal risks and uncertainties through the ABN AMRO group risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives. The framework aims to limit undue counterparty exposure and ensure sufficient working capital exists and monitor the management of risks faced by the company.

Report of the Directors (continued)

Price risk

Price risk arises in relation to changes in fair value of the mortgages on residential properties from changes in inputs to the pricing techniques used for valuation of the mortgages. These inputs include changes in interest rates, default and prepayment rates inherent in the portfolio of mortgages held by the company.

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

The company entered into a trade with a third party investor whereby the investor acquired £12,304,167 of the mortgages held at 31 December 2008.

Ownership of the company was transferred from ABN AMRO Bank N.V. to The Royal Bank of Scotland Group Plc on 20 March 2009. The consideration paid was £41,893,300.

Directors and their interests

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

U van den Linden	resigned 06.08.2008
R Hussain	resigned 17.10.2008
S J Mould	resigned 20.03.2009
R E Lindo	resigned 29.04.2008
M Nawas	resigned 04.03.2009
J D May	resigned 08.07.2008
M Aminuddin	appointed 07.10.2008, resigned 20.03.2009
M J Hickey	appointed 20.03.2009
H F A Tissier de Mallerais	appointed 20.03.2009
L M Rochford	appointed 20.03.2009

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

Report of the Directors (continued)

Auditors
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Following the resignation of Ernst & Young LLP as auditors, the directors have appointed Deloitte LLP as auditors for the year ended 31st December 2008.

Deloitte LLP have expressed their willingness to continue in office as auditors.

On behalf of the Board,

Director

Date 27/04/09

Director

280 Bishopsgate, London, EC2M 4RB

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 year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

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

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 2008 and of its loss for the year 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.

Deloitte LLP Deloitte LLP.
Chartered Accountants and Registered Auditors
London, United Kingdom
~~March~~ 2009
27 April

Profit and Loss Account for the Year Ended 31 December 2008

	Notes	2008 £'000	26/09/2006 to 31/12/2007 £'000
(Loss)/gain on investments	2	(113,811)	28,067
Administrative expenses	3	(2,754)	(857)
Net change in fair value of financial instruments		(5,286)	(3,580)
Interest payable and similar charges	7	(27,706)	(20,686)
Operating (loss)/profit		(149,557)	2,944
Interest receivable and similar income	8	3,510	551
(Loss)/profit on ordinary activities before taxation		(146,047)	3,495
Tax on (loss)/profit on ordinary activities	9	101	(1,149)
(Loss)/profit on ordinary activities after taxation and retained profit for the financial year		(145,946)	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 results for the current and prior year reflect continuing activities.

The notes on page 9 to 16 form an integral part of these financial statements.

Balance Sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Current assets			
Mortgages on residential properties	10	25,227	512,637
Derivative assets	11	6	13
Debtor	12	663	-
Cash at bank		402,708	23,216
Creditors: amounts falling due within one year	13	(387,413)	(523,375)
Derivative liabilities	14	(7,791)	(3,145)
Net current assets		33,400	9,346
Total assets less current liabilities		33,400	9,346
Net assets		33,400	9,346
Capital and reserves			
Called up share capital	15	177,000	7,000
Profit and loss account	16	(143,600)	2,346
Total equity shareholders' funds	16	33,400	9,346

Approved by the board of directors and authorised for issue on 27/04/09 and signed on their behalf:

Director

Director

Notes to the Accounts

1. Accounting policies

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

a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial assets and financial liabilities measured at fair value, and in accordance with applicable United Kingdom accounting standards.

b) 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.

c) 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 ultimately controlled by The Royal Bank of Scotland Group Plc, which produces publicly available consolidated accounts in which the company is included.

d) Related party transactions

In accordance with the Financial Reporting Standard 8 'Related Party Disclosures', the company is exempt from the requirement to disclose related party transactions within The Royal Bank of Scotland group of companies on the grounds that more than 90% of voting rights are controlled within the group. There were no other related party transactions or balances requiring disclosure.

e) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

f) 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.

Notes to the Accounts

1. Accounting policies (continued)

g) ***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.

The company has taken the exemption available in FRS 29 'Financial Instruments: Disclosure' where disclosure requirements are not required for 90% subsidiary undertaking that are not banks or insurance companies.

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.

Notes to the Accounts

1. Accounting policies (continued)

g) Financial assets (continued)

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 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. Loss/gain on investments

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.

4. Auditor's remuneration

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

Auditors' remuneration for audit services to the company were £40,000 (2007:£39,000)

5. Directors' remuneration

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

Notes to the Accounts

6. Employees

The company did not have any direct employees during the year or prior period.

7. Interest payable and similar charges

	2008 £'000	26/09/2006 to 31/12/2007 £'000
Interest payable to group undertakings	27,706	20,686

8. Interest receivable and similar income

	2008 £'000	26/09/2006 to 31/12/2007 £'000
Interest receivable from group undertakings	3,510	551

Notes to the Accounts

9. Tax on (loss)/profit on ordinary activities

Analysis of charge in year	**2008**	**26/09/2006 to 31/12/2007**
	£'000	**£'000**
Current tax:	-	1,149
Prior year adjustment	(101)	-
Tax on (loss)/profit on ordinary activities	(101)	1,149

Factors affecting tax charge for period
The credit in respect of taxation for the period is lower (2007 charge:lower) to the standard rate of corporation tax in the UK. The differences are explained below:

	2008	**26/09/2006 to 31/12/2007**
	£'000	**£'000**
(Loss)/profit on ordinary activities before tax	(146,047)	3,495
Loss/(profit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007:30%).	41,620	(1,048)
Losses carried forward to next period	(41,620)	-
Prior year adjustment	101	-
Less effects of expenses not deductible for tax purposes	-	(101)
Current tax charge for year	101	(1,149)

Deferred tax

	2008	**26/09/2006 to 31/12/2007**
	£'000	**£'000**
Unrecognised deferred tax asset	40,893	-

No deferred tax asset has been recognised as it is not possible to forecast accurately when suitable profits will arise from which the future tax losses can be deducted.

The unrecognised deferred tax asset has been computed at 28% (2007:30%). As at 1 April 2008, the UK corporation tax rate was reduced to 28%.

Notes to the Accounts

10. Mortgages on residential properties

	2008 £'000	2007 £'000
At 1 January/incorporation	512,637	-
Additions	-	1,127,701
Disposals	(273,067)	(643,131)
(Loss)/gain on fair value	(214,343)	28,067
As at 31 December	25,227	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 5.85% with interest rates ranging between 3.44% to 9.39% and the weighted average maturity of the mortgages is 16 July 2029.

11. Derivative assets

	2008 £'000	2007 £'000
Fair value of interest rate cap with group undertaking	6	13

The notional amount of the cap at year end was £80,000,000 with interest rates capped 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.

12. Debtors

	2008 £'000	2007 £'000
Other debtors	663	-

13. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts owed to fellow group undertakings	376,129	516,967
Corporation tax payable	1,048	1,149
Other liabilities	10,236	5,259
	387,413	523,375

Notes to the Accounts

14. Derivative liabilities

	2008 £'000	2007 £'000
Fair value of interest rate swaps with group entity	7,791	3,145

The notional amount of the swaps at period end was £ 197,131,300 with fixed interest rates ranging from 5.88% to 6.15% and maturity dates between 1 April 2010 to 1 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.

15. Share capital

	2008 £'000	2007 £'000
Authorised share capital		
200,000,000 (2007:10,000,000) authorised ordinary shares of £1 each	200,000	10,000
Issued share capital		
177,000,000 (2007:7,000,000) allotted, called up and fully paid ordinary shares of £1 each	177,000	7,000

Notes to the Accounts

16. 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
New shares issued	170,000	-	170,000
Loss for the year	-	(145,946)	(145,946)
At 31 December 2008	177,000	(143,600)	33,400

17. Events since the balance sheet date

The company entered into a trade with a third party investor whereby the investor acquired £12,304,167 of the mortgages held at 31 December 2008.

Ownership of the company was transferred from ABN AMRO Bank N.V. to The Royal Bank of Scotland Plc on 20 March 2009. The consideration paid was £41,893,300.

18. Ultimate parent undertaking

The ultimate parent undertaking is The Royal Bank of Scotland Group Plc, a company incorporated in the United Kingdom. ABN AMRO Holding N.V. is the smallest and The 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 The Royal Bank of Scotland Group Plc, PO Box 1000, Gogarburn, Edinburgh, EH12 1HQ.