

**FIXED INCOME DIAMOND COLLECTION LIMITED**

**AUDITED FINANCIAL STATEMENTS**

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

**FIXED INCOME DIAMOND COLLECTION LIMITED**

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## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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### **REPORT OF THE DIRECTORS**

The Directors present their report and the audited financial statements for the year ended 31st December 2010.

#### **INCORPORATION**

Fixed Income Diamond Collection Limited (the "Company") is incorporated in Jersey, Channel Islands.

#### **ACTIVITIES**

The principal activity of the Company is the issue of Limited Recourse Notes (the "Notes") in separate series. The proceeds from the issue of the Notes are used to acquire underlying assets (the "Charged Assets") and, in the case of certain series of Notes, to enter into asset swap transactions ("AS") and credit default swap transactions ("CDS"). The Notes are intended only for highly sophisticated and knowledgeable investors who are capable of understanding and evaluating the risks involved in investing in the Notes. The Pricing Supplement for each series specifies certain factors (there may be others) that may, alone or collectively, result in a reduction of the return on the Notes and could result in the loss of all or a proportion of a Noteholder's investment in the Notes. The Notes are listed on the Euronext Amsterdam stock exchange.

During 2008 Royal Bank of Scotland took over ABN Amro Bank N.V. who is the Counterparty to the financial assets and the derivatives as described in Notes 2 and 3 to the financial statements. From 8th February 2010 ABN AMRO Bank N.V. ("ABN AMRO") was renamed "The Royal Bank of Scotland N.V. ("RBS NV").

#### **RESULTS AND DIVIDENDS**

The results for the year are set out on page 6. The Directors do not recommend a dividend for the year ended 31st December 2010 (year ended 31st December 2009: € nil).

#### **CREDIT EVENTS**

A credit event occurred in reference to CIT Group Inc. where final loss amount was determined on 21st May 2010 (refer to Note 3 for details). Subsequent to the year end, another credit event occurred in reference to Eastman Kodak Co. on 25th April 2012 (refer to Note 19 for details).

#### **DIRECTORS**

The Directors who held office during the year and subsequently were:-

G.P. Essex-Cater

F.X.A. Chesnay

D.M. Godwin (resigned 27th July 2012)

C. Ruark (resigned 27th July 2012)

R. Inglis (appointed 27th July 2012)

L. Pinnington (appointed 27th July 2012)

#### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers CI LLP have expressed their willingness to continue in office.

#### **REGISTERED OFFICE**

22 Grenville Street

St. Helier, Jersey

Channel Islands

JE4 8PX

## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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### **REPORT OF THE DIRECTORS - (CONTINUED)**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Jersey company law requires the Directors to prepare financial statements for each financial year, which 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 these 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. 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.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **STATEMENT OF PERSONS RESPONSIBLE WITHIN THE ISSUER**

With regard to Regulation 2004/109/EC of the European Union (the "EU Transparency Directive"), the Directors of the Company whose names appear on page 2 confirm to the best of their knowledge that the financial statements for the year ended 31st December 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by the applicable accounting standards. The Report of the Directors gives a fair review of the development of the Company's business, financial position and the important events that have occurred during the financial period and their impact on the financial statements. The principal risks and uncertainties faced by the Company are disclosed in Note 15 of these financial statements.

Signed on behalf of the Board of Directors

Director:



Rebecca Inglis

Date: 21/9/12

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIXED INCOME DIAMOND COLLECTION LIMITED

## **Report on the financial statements**

We have audited the accompanying financial statements of Fixed Income Diamond Collection Limited (the "Company") which comprise the balance sheet as of 31 December 2010 and the profit and loss account and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## **Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with United Kingdom Accounting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

## **Report on other legal and regulatory requirements**

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of Directors.

In our opinion the information given in the Report of Directors is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Michael Byrne  
For and on behalf of PricewaterhouseCoopers CI LLP  
Chartered Accountants and Recognized Auditor  
Jersey, Channel Islands  
21 September 2012

## FIXED INCOME DIAMOND COLLECTION LIMITED

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### BALANCE SHEET

AS AT 31ST DECEMBER 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
		€	€
<b>FIXED ASSETS</b>			
Financial assets at fair value through profit or loss	2	21,190,175	20,683,194
Financial derivatives at fair value through profit or loss	3	650,740	1,374,562
		21,840,915	22,057,756
<b>CURRENT ASSETS</b>			
Debtors	1, 4	490,011	1,304,232
Cash and cash equivalents	5	1,042	1,045
		491,053	1,305,277
<b>CREDITORS: (Amounts due within one year)</b>			
Creditors	1, 6	( 490,266)	( 1,304,487)
		787	790
<b>NET CURRENT ASSETS</b>		787	790
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		21,841,702	22,058,546
<b>CREDITORS: (Amounts due after more than one year)</b>			
Financial derivatives at fair value through profit or loss	3	( 78,158)	( 974,736)
Financial liabilities at fair value through profit or loss	7, 17	( 21,762,757)	( 21,083,020)
		( 21,840,915)	( 22,057,756)
<b>NET ASSETS</b>		787	790
<b>CAPITAL AND RESERVES</b>			
Share capital	8	14	14
Profit and loss account		773	776
<b>EQUITY SHAREHOLDERS' FUNDS</b>		787	790

The financial statements were approved and authorised for issue by the Board of Directors on the 21 day of September 2012 and were signed on its behalf by:

Director:



*(The notes on pages 8 to 24 form part of these financial statements)*

## FIXED INCOME DIAMOND COLLECTION LIMITED

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### PROFIT AND LOSS ACCOUNT

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

	<u>2010</u>	<u>2009</u>
	€	€
<b>INCOME</b>		
Investment income	371,143	1,570,186
Asset swap income	847,507	5,659,536
Credit default swap income	232,787	1,673,377
Deposit interest income	130,668	2,334,576
Realised profit on exchange	37	90
	<hr/>	<hr/>
	1,582,142	11,237,765
	<hr/>	<hr/>
<b>EXPENDITURE</b>		
Limited Recourse Note interest expense	1,080,293	7,332,913
Asset swap expense	501,812	3,904,762
Bank charges	40	40
	<hr/>	<hr/>
	1,582,145	11,237,715
	<hr/>	<hr/>
<b>OPERATING (LOSS)/PROFIT</b>	( 3)	50
<b>NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Financial assets	870,607	( 3,081,511)
Financial liabilities	( 1,043,363)	( 11,091,136)
Derivative instruments	172,756	14,172,647
	<hr/>	<hr/>
<b>(LOSS)/PROFIT FOR THE YEAR</b>	( 3)	50
<b>BALANCE BROUGHT FORWARD</b>	776	726
	<hr/>	<hr/>
<b>BALANCE CARRIED FORWARD</b>	773	776
	<hr/> <hr/>	<hr/> <hr/>

#### Continuing operations

All items dealt with in arriving at the result for the year ended 31st December 2010 and 31st December 2009 relate to continuing operations.

#### Historical cost equivalent

There is no difference between the profit and loss for the year stated above and its historical cost equivalent.

#### Statement of total recognised gains and losses

There are no recognised gains and losses other than as recognised in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented in these financial statements.

*(The notes on pages 8 to 24 form part of these financial statements)*

## FIXED INCOME DIAMOND COLLECTION LIMITED

### CASH FLOW STATEMENT

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

	<u>2010</u>	<u>2009</u>	
	€	€	
<b>Net cash flow from operating activities</b>	( 3)	50	
<b>Acquisitions and disposals</b>			
Redemption of financial assets	-	278,536,000	
Redemption of Notes	-	(278,536,000)	
	<hr/>	<hr/>	
<b>Movement in cash</b>	( 3)	50	
	<hr/> <hr/>	<hr/> <hr/>	
<b>Reconciliation of net cash flow to movement in net debt</b>	<u>2010</u>	<u>2009</u>	
	€	€	
Movement in cash	( 3)	50	
Repayment of Notes	-	278,536,000	
Reduction in Notes resulting from credit events	363,626	-	
Movement in fair value of Notes	( 1,043,363)	( 11,091,136)	
	<hr/>	<hr/>	
<b>Change in net debt</b>	( 679,740)	267,444,914	
<b>Opening net debt</b>	( 21,081,975)	(288,526,889)	
	<hr/>	<hr/>	
<b>Closing net debt</b>	( 21,761,715)	( 21,081,975)	
	<hr/> <hr/>	<hr/> <hr/>	
<b>Reconciliation of the result for the period/year to net cash flow from operating activities</b>	<u>2010</u>	<u>2009</u>	
	€	€	
(Loss)/profit for the year	( 3)	50	
Decrease in debtors	814,221	4,142,989	
Decrease in creditors	( 814,221)	( 4,142,989)	
Loss on financial liabilities at fair value through profit or loss	1,043,363	11,091,136	
(Gain)/loss on financial assets at fair value through profit or loss	( 870,607)	3,081,511	
Gain on financial derivatives at fair value through profit or loss	( 172,756)	( 14,172,647)	
	<hr/>	<hr/>	
<b>Net cash flow from operating activities</b>	( 3)	50	
	<hr/> <hr/>	<hr/> <hr/>	
<b>Analysis of changes in net debt</b>	<u>1st Jan 10</u>	<u>Cash flows/other</u>	<u>31st Dec 10</u>
	€	€	€
Cash at bank	1,045	( 3)	1,042
Notes in issue	( 21,083,020)	( 679,737)	( 21,762,757)
	<hr/>	<hr/>	<hr/>
<b>Total</b>	( 21,081,975)	( 679,740)	€ ( 21,761,715)
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*(The notes on pages 8 to 24 form part of these financial statements)*



# **FIXED INCOME DIAMOND COLLECTION LIMITED**

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## **NOTES TO THE FINANCIAL STATEMENTS**

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

#### **1. ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with United Kingdom accounting standards. The more significant accounting policies used are set out below:

##### **Basis of accounting**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets, financial liabilities and derivative financial instruments at fair value through profit or loss.

##### **Financial assets and liabilities held at fair value through profit or loss**

The Company has designated its investments held, and Notes issued, as financial assets and financial liabilities at fair value through profit and loss in accordance with FRS 26 Financial Instruments: measurement ("FRS 26").

Purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset and are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are also recognised on trade date and are derecognised when the Company has transferred substantially all of its financial obligations relating thereto. Financial instruments are initially recognised at fair value, and transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred. Gains and losses arising from changes in the fair value of the Company's financial instruments are included in the profit and loss account in the period in which they arise.

##### **Derivative financial instruments**

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative. Gains and losses arising from changes in the fair value of the Company's derivative financial instruments are included in the profit and loss account in the period in which they arise.

##### **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

##### **Fair value estimation**

Amendment to FRS 29 Financial Instruments Disclosure: "Improving Disclosures about Financial Instruments" ("FRS 29") establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FRS 29 are as follows:

## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Fair value estimation - (continued)**

Level I – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the valuation date;

Level II – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), including inputs from markets that are not considered to be active;

Level III – Inputs that are not based upon observable market data.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the financial instrument and does not necessarily correspond to the Company's perceived risk inherent in such financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (ie, the fair value of the consideration given or received). Subsequent changes in the fair value of any financial instrument are recognised immediately in the profit and loss account. The fair value of financial instruments traded in active markets (such as the quoted investments) is based on quoted market prices at the balance sheet date.

The Company may invest in financial instruments that are not traded in an active market. The fair value of such instruments is determined by Royal Bank of Scotland NV (formerly ABN AMRO), ("RBS N.V."), using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

See Note 15 for analysis of fair value hierarchy.

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

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

###### **Currency of domicile, functional currency and presentation currency**

The currency of domicile is GBP (pound sterling). Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency given that majority of the assets and liabilities of the Company are denominated in Euro. Foreign currency transactions are recorded at the exchange rate ruling at the date of transaction and balances at the year end are retranslated at the closing rate through the profit and loss account.

## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

##### **1. ACCOUNTING POLICIES - (CONTINUED)**

###### **Investment income receivable**

Investment income receivable is recognised on an effective interest rate basis.

###### **Limited Recourse Note interest payable**

Limited Recourse Note interest payable is recognised on an effective interest rate basis.

###### **Asset swap amounts receivable and Asset swap amounts payable**

Asset swap amounts receivable and Asset swap amounts payable are recognised on an effective interest rate basis.

###### **Credit default swap amounts receivable**

Credit default swap amounts receivable are recognised on an effective interest rate basis.

###### **Credit events notification, provision and disclosure**

Under the terms of the CDS agreements entered into by the Company, and in accordance with the ISDA Master Agreement definitions, it is the sole responsibility of RBS N.V. to notify the Company immediately of any credit events that have occurred in respect of the reference entities listed in the swap agreements. Any obligations arising under the terms of the credit default swaps are provided for if the associated credit event has occurred prior to the balance sheet date and if notice of such credit event has been received.

###### **Other income and expenditure**

Deposit interest receivable and transaction fees receivable are recognised on an accruals basis.

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The balance sheet totals of financial assets are classified as fixed or current based on the redemption date of the related Notes. Series 2 Notes were redeemed on 19th May 2009 and the Series 3 Notes are due to be redeemed on 19th May 2013.

	<u>2010</u>	<u>2009</u>
	€	€
Investments (relating to Series 3 Notes)	8,355,738	7,703,225
RBS N.V. deposits	12,834,437	12,979,969
	<u>21,190,175</u>	<u>20,683,194</u>
	<u>2010</u>	<u>2009</u>
	€	€
<b>Movement of investments</b>		
Opening balance	20,683,194	302,300,705
Maturities during the year	-	(278,536,000)
Credit events	( 363,626)	-
Gain/(loss) on fair value through profit or loss	870,607	( 3,081,511)
	<u>21,190,175</u>	<u>20,683,194</u>

The Company has used the proceeds from the issue of the Notes to acquire underlying assets (the "Charged Assets") and, in the case of certain series of Notes, to enter into asset swap transactions ("AS") and credit default swap transactions ("CDS"). The Charged Assets include the investments referred to above and the cash deposits held at RBS N.V., further details of the investments are set out in Note 16. Further details of the AS and the CDS entered into are set out in Note 3.

The fair value of the investments provided by RBS N.V. is based on quoted market prices while the fair value of the deposits is based on valuation techniques using market related inputs.

The deposits at RBS N.V. bear interest at the 6 month Euribor, receivable on a 6 monthly basis in arrears each 19th May and 19th November.

The reduction in Charged Assets during the year amounting to a total of €363,626 pertained to a credit event in relation to CIT Group Inc. Refer to note 3 for further details.

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 3. FINANCIAL DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2010</u>	<u>2009</u>
	€	€
Asset Swaps	650,740	1,374,562
Credit Default Swaps	( 78,158)	( 974,736)

The Company has entered into a separate CDS, with RBS N.V. as counterparty, with respect to each of the series of Notes listed below. Under the CDS, the Company receives income, at fixed rates as detailed below, receivable on a 6 monthly basis in arrears each 19th May and 19th November, calculated on a notional amount equal to the notional value of the Notes. In turn, the Company is obliged to make floating payments, up to a maximum amount equal to the notional value of the Notes, upon the occurrence of certain specified credit events within the designated theoretical pools of reference entities (the "Portfolios").

The fair value of the derivatives is derived by RBS N.V. using valuation models based on market related inputs.

There are 3 different Portfolios. Each separate Portfolio relates to just one of the 3 categories of Notes: Brilliant, Oval or Emerald. Therefore, within each of these categories, the Portfolios are identical for Series 1 and Series 2 which have been redeemed as of 31st December 2010 and Series 3. Each Portfolio consists of the number of reference entities noted below, each having a theoretical notional value equal to the "Reference Entity Weighting" % of the notional amount of the relevant series of Notes. If a credit event occurs in one of the securities, the Calculation Agent (RBS N.V.) is responsible for notifying the Company that a credit event has occurred and is also responsible for calculating the resulting floating amount payable by the Company (the "Cash Settlement Amount").

On or around 1st November 2009 CIT Group Inc. filed for a pre-packaged bankruptcy which constituted a credit event. The entity was in the notional reference portfolio attached to both Emerald Series 3 and Brilliant Series 3 Notes. Final loss amount was calculated on 21st May 2010 which resulted in reduction in the Charged Assets amounting to a total of €222,872 in relation to Emerald Series 3 Notes and a total of €140,754 in relation to Brilliant Series 3 Notes. Refer to note 19 for credit events after the balance sheet date.

Details of CDS applicable to each series:

	Annual Premium receivable	No. of Reference Entities	Reference Entity Weightings
Brilliant Series 3	0.41%	25	4.0000%
Oval Series 3	0.71%	25	4.0000%
Emerald Series 3	2.26%	50	8.0000%

A full list of the reference entities is listed in Note 18.

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 3. FINANCIAL DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS - (CONTINUED)

The Company has also entered into an AS for each series of Notes in respect of which it has entered into a CDS. Under the terms of the AS, the Company pays to the swap counterparty (RBS N.V.) all income received on the Charged Assets relating to each series and receives income, at fixed rates, which when aggregated with the premium receivable on the CDS, are equal to the rates payable by the Company on the Notes. These amounts are receivable on a 6 monthly basis in arrears each 19th May and 19th November, calculated on a notional amount equal to the notional value of the Notes. On the redemption of the Notes, RBS N.V. will pay to the Company an amount equal to the Final Redemption Amount of the Notes and the Company will deliver the Charged Assets to RBS N.V.

<b>4. DEBTORS</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
	€	€
Investment income receivable	348,789	1,164,613
Amounts receivable on asset swaps	95,884	97,536
Amounts receivable on credit default swaps	26,265	26,904
Deposit interest receivable	19,073	15,179
	<hr/>	<hr/>
	490,011	1,304,232
	<hr/> <hr/>	<hr/> <hr/>
<b>5. CASH AND CASH EQUIVALENTS</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
	€	€
Royal Bank of Scotland International	832	842
State Street (Jersey) Limited - £ client account	210	203
	<hr/>	<hr/>
	1,042	1,045
	<hr/> <hr/>	<hr/> <hr/>
<b>6. CREDITORS</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
	€	€
Note interest payable	122,149	124,440
Amounts payable on asset swaps	367,862	1,179,792
Sundry creditor	255	255
	<hr/>	<hr/>
	490,266	1,304,487
	<hr/> <hr/>	<hr/> <hr/>

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 7. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2010</u>	<u>2009</u>
	€	€
Opening balance	21,083,020	288,527,884
Maturities during the year	-	(278,536,000)
Credit events	( 363,626)	-
Loss on fair value through profit or loss	1,043,363	11,091,136
	<hr/>	<hr/>
Closing balance	<u>21,762,757</u>	<u>21,083,020</u>

The Company has issued the Notes in separate series, as further detailed in Note 17. Certain series of Notes are referenced to a portfolio of synthetic corporate credit exposure reference entities as detailed in Note 18. The Notes have been issued under a €1,000,000,000 Limited Recourse Secured Note Programme (the "Programme"), as established by the Master Trust Deed dated 19th May 2003. The Notes are listed on the Euronext Amsterdam stock exchange.

The Notes are secured by a charge on the assets acquired with the proceeds from each Note issue and, if applicable, any swap transactions entered into, together (the "Collateral"). The recourse of Noteholders is limited to amounts receivable from the net proceeds from the Collateral. If the net proceeds from the redemption of the Collateral are insufficient to discharge the obligations of the Company, the Noteholders are not entitled to proceed directly against any other assets of the Company.

The fair value of the Notes is derived by RBS N.V. from the fair value of the financial assets and derivatives using market valuation techniques commonly used by market participants.

Refer to Note 3 for details on the credit event during the year.

Refer to Note 17 for further details on Notes in issue as at the year end.

#### 8. SHARE CAPITAL

	<u>2010</u>	<u>2009</u>
	£	£
AUTHORISED SHARE CAPITAL		
10,000 ordinary shares of £1 each	10,000	10,000
	<hr/>	<hr/>
	€	€
ISSUED AND FULLY PAID:		
10 ordinary shares of £1 each	14	14
	<hr/>	<hr/>

#### 9. TRANSACTION FEES RECEIVABLE

The Company is entitled to receive €100 from RBS N.V. in respect of each new series of Notes issued. No new series of Notes have been issued during the year ended 31st December 2010 or 31st December 2009.

## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

#### **10. TAXATION**

Profits arising in the Company are subject to Jersey Income Tax, currently at the rate of 0%.

#### **11. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	<u>2010</u>	<u>2009</u>
	€	€
(Loss)/profit for the year	( 3)	50
(Deduction from)/Net addition to equity shareholders' funds	( 3)	50
Opening equity shareholders' funds	790	740
Closing equity shareholders' funds	<u>787</u>	<u>790</u>

#### **12. HOLDING COMPANY**

The Company is owned by Maurant & Co. Trustees Limited as Trustee of a charitable trust known as the Fixed Income Diamond Collection Trust. In the opinion of the Directors there is no ultimate controlling party since the criteria contained within the definition of "control" in Financial Reporting Standard No. 8 are not satisfied by any one party.

#### **13. RELATED PARTIES**

G.P. Essex-Cater is a shareholder of Maurant Limited. Until 1st April 2010 each of G.P. Essex-Cater, F.X.A. Chesnay, D.M Godwin and C. Ruark was an employee of a subsidiary of Maurant Limited. Affiliates of Maurant Limited provided administrative services to the Company at commercial rates.

On 1st April 2010, Maurant Limited sold its interest in certain affiliates to State Street Corporation ("SSC"). Each of G.P. Essex-Cater, F.X.A. Chesnay, D.M Godwin, C. Ruark, R. Inglis and L. Pinnington is, or was, an employee of a subsidiary of SSC, affiliates of SSC now provide ongoing administrative services to the Company at commercial rates.

#### **14. EXPENSES**

All of the Company's general expenses are met by RBS N.V. under the terms of an agreement dated 19th May 2003 and are therefore not reflected within these financial statements.



## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 15. FINANCIAL INSTRUMENTS

As stated in the Directors' Report, the principal activity of the Company is limited to the issue of the Notes in separate series. The proceeds from the issue of the Notes have been used to acquire the Charged Assets and, in the case of certain series of Notes, to enter into CDS and AS. Therefore the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provided the funding to purchase the Company's financial assets. Financial assets and liabilities (including derivatives) provide the majority of the assets and liabilities of the Company along with all the income.

The strategies used by the Company in achieving its objectives regarding the use of its financial assets and liabilities were set when the Company entered into the transactions. The Company has matched the properties of its financial liabilities to its financial assets to avoid significant elements of risk generated by mis-matches of maturity and interest rate risk.

#### Interest rate risk

The Company finances its operations through the issue of Notes upon which interest is payable at floating rates and fixed rates. The interest payable under the Notes issued is matched by the aggregate of: the interest receivable from the Charged Assets; fixed income receivable under the CDS; fixed income receivable under the AS, and any interest receivable on the cash held on deposit. Accordingly, the Directors believe that there is no significant net interest rate risk to the Company.

After taking account of the CDS and AS entered into by the Company, the interest rate profile of the Company's financial assets and liabilities is as follows:

			<u>2010</u>		<u>2009</u>
	Interest charging basis	Effective interest rate	Amount	Effective interest rate	Amount
		%		%	
<b>Financial assets:</b>			€		€
Investments	Fixed	4.44%	8,355,738	4.69%	7,703,225
Debtors	n/a	n/a	490,011	n/a	1,304,232
RBS N.V. deposits	Floating	1.02%	12,834,437	5.18%	12,979,969
Cash at bank	Floating	0.10%	1,042	0.10%	1,045
			<u>21,681,228</u>		<u>21,988,471</u>
<b>Financial liabilities:</b>					
Limited Recourse Notes payable	Fixed	4.96%	( 21,762,757)	5.18%	( 21,083,020)

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

#### 15. FINANCIAL INSTRUMENTS - (CONTINUED)

##### Currency rate risk

All of the Company's material assets and liabilities are denominated in Euro. Therefore the Directors believe that there is no significant currency risk to the Company.

##### Credit and Counterparty risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations under the Notes, and arises principally from the Company's investments and derivative financial instruments.

The Company's main financial assets are Charged Assets, cash deposits held with RBS N.V. and the corresponding interest receivable at period-end. The Company's income derives from these financial assets and from the credit default swap transactions and asset swap transactions entered into with the Counterparty, RBS NV.

The Company's maximum exposure to credit risk at the balance sheet date is as follows:

	<u>2010</u>	<u>2009</u>
	€	€
Investments with Eurohypo AG	8,355,738	7,703,225
RBS N.V. deposits	12,834,437	12,979,969
Investment income receivable	348,789	1,164,613
Amounts receivable on asset swaps	95,884	97,536
Amounts receivable on credit default swaps	26,265	26,904
Deposit interest receivable	19,073	15,179
Financial derivatives	650,740	1,374,562
Cash and cash equivalents	1,042	1,045
	<u>22,331,968</u>	<u>23,363,033</u>

Eurohypo AG is rated AAA by Standard & Poors and Aa1 by Moody's. RBS N.V. is rated A by Standard & Poors, A by Fitch and A3 by Moody's.

Despite the downgrade subsequent to the year end (see note 19), RBS N.V. was able to post sufficient collateral according to the terms of the swap agreements to allow the credit ratings of the Notes to remain unchanged. Due to the limited recourse nature of the Notes issued by the Company, it is the Noteholders that ultimately bear the credit risk that the Collateral will fail to perform. Consequently, in the Directors' opinion there is no significant counterparty risk to the Company.

No triggers of impairment have been identified in relation to the Company's financial assets and swap agreements, with interest always received as per the Agreements. In the Directors' opinion the Counterparty is not expected to fail to meet its obligations.

## FIXED INCOME DIAMOND COLLECTION LIMITED

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

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

##### 15. FINANCIAL INSTRUMENTS - (CONTINUED)

###### Fair values

The fair values of the Charged Assets, Notes, CDS and AS have been supplied by RBS N.V. The fair values as at the balance sheet date are as follows:

	<u>2010</u>		<u>2009</u>	
	Nominal value	Fair value	Nominal value	Fair value
	€	€	€	€
Primary financial instruments held:				
Investments	8,248,000	8,355,738	8,587,000	7,703,225
Issuer Deposit				
Fixed Deposits	12,852,374	12,834,437	12,877,000	12,979,969
Limited Recourse	( 21,100,374)	( 21,762,757)	( 21,464,000)	( 21,083,020)
Residual interest certificates				
	€	€	€	€
Derivative financial instruments held:				
Asset Swaps	-	650,740	-	1,374,562
Credit default swaps	-	( 78,158)	-	( 974,736)

The fair values of the Notes as at 31st December have been disclosed above. The Notes are listed on the Euronext Amsterdam Stock Exchange. The fair values of the investments have been derived using quoted market prices. The cash deposits held with RBS N.V. and the derivative financial instruments have been determined using valuation techniques using market related inputs. For debt securities in issue the fair values have been derived from the fair values of the financial assets and the derivative financial instruments using market valuation techniques commonly used by market participants.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The recourse of the Noteholders of each separate series of Notes is limited to amounts receivable from the net proceeds from the Collateral of that series of Notes.

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**FIXED INCOME DIAMOND COLLECTION LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2010****15. FINANCIAL INSTRUMENTS - (CONTINUED)****Fair values - (continued)**

The following table analyses within the fair value hierarchy the Company's financial assets measured at fair value at 31st December 2010.

	Level 1	Level 2	Level 3	Total
	€	€	€	€
<b>Assets</b>				
Financial assets at FVTPL	21,190,175	-	-	21,190,175
Financial derivatives at FVTPL	-	650,740	-	650,740
	<u>21,190,175</u>	<u>650,740</u>	<u>-</u>	<u>21,840,915</u>
<b>Liabilities</b>				
Financial derivatives at FVTPL	-	( 78,158)	-	( 78,158)
Financial liabilities at FVTPL	-	( 21,762,757)	-	( 21,762,757)
	<u>-</u>	<u>( 21,840,915)</u>	<u>-</u>	<u>( 21,840,915)</u>

Financial assets that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 3. As level 3 investments are not traded in an active market, valuations are based on expert valuation models.

There were no movements in or out of level 3 during the year.

**Fair values - sensitivity analysis**

From the perspective of the Company, any change in the fair value of the Company's financial assets and derivative financial instruments would be matched by an equal and opposite change in the fair value of the Notes. Consequently the Company is not exposed to any significant net market price risk.

FRS 29 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date."

As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the profit or loss and equity of the Company are not exposed to any significant net interest rate or market price risk. Therefore, in the Directors' opinion, no sensitivity analysis is required to be disclosed.

**FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

**15. FINANCIAL INSTRUMENTS - (CONTINUED)**

**Maturity of financial assets and liabilities**

The maturity profile of the Company's financial assets and liabilities is as follows:

	<u>2010</u>		<u>2009</u>	
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
	Nominal (€)	Nominal (€)	Nominal (€)	Nominal (€)
In one year or less	491,053	( 490,266)	1,305,277	( 1,304,487)
In more than two years but not more than five years	21,100,374	( 21,100,374)	21,464,000	( 21,464,000)
	<u>21,591,427</u>	<u>( 21,590,640)</u>	<u>22,769,277</u>	<u>( 22,768,487)</u>

**FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

**16. INVESTMENTS**

Related Series	Maturity Date	Ccy	Nominal Amount	Security description	ISIN	2010		2009	
						Nominal value	Fair Value	Nominal value	Fair Value
						€	€	€	€
Brilliant Series 3	21/01/2013	EUR	3,486,000	EUROHYPO AG 21.01.13 4.50%	DE0003611885	3,486,000	3,531,535	3,617,000	3,343,554
Oval Series 3	21/01/2013	EUR	2,106,000	EUROHYPO AG 21.01.13 4.50%	DE0003611885	2,106,000	2,133,509	2,106,000	1,790,216
Emerald Series 3	21/01/2013	EUR	2,656,000	EUROHYPO AG 21.01.13 4.50%	DE0003611885	2,656,000	2,690,694	2,864,000	2,569,455
						<b>8,248,000</b>	<b>8,355,738</b>	<b>8,587,000</b>	<b>7,703,225</b>

**FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

**17. LIMITED RECOURSE NOTES PAYABLE**

Series	Issue Date	Maturity Date	Ccy	Nominal Amount	Note description	Coupon	2010		2009	
							Nominal value	Fair Value	Nominal value	Fair Value
							€	€	€	€
Brilliant Series 3	19/05/2003	19/05/2013	EUR	8,901,246	Secured Credit-linked	4.4000%	8,901,246	9,173,237	9,042,000	9,032,933
Oval Series 3	19/05/2003	19/05/2013	EUR	5,263,000	Secured Credit-linked	4.7000%	5,263,000	5,435,824	5,263,000	5,311,776
Emerald Series 3	19/05/2003	19/05/2013	EUR	6,936,128	Secured Credit-linked	6.2500%	6,936,128	7,153,696	7,159,000	6,738,311
							<u>21,100,374</u>	<u>21,762,757</u>	<u>21,464,000</u>	<u>21,083,020</u>

**FIXED INCOME DIAMOND COLLECTION LIMITED****NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2010****18. REFERENCE ENTITIES**

<u>ENTITY</u>	<u>APPLICABLE SERIES</u>	
1 Accor SA	Emerald	Oval
2 Aegon NV	Emerald	Brilliant
3 Akzo Nobel NV	Emerald	Brilliant
4 Allianz AG	Emerald	Brilliant
5 Allied Domecq PLC	Emerald	Oval
6 American Electric Power Co Inc	Emerald	Oval
7 American Express Company	Emerald	Brilliant
8 AOL Time Warner Inc	Emerald	Oval
9 AT&T Corp	Emerald	Oval
10 BAE Systems PLC	Emerald	Oval
11 Bayer AG	Emerald	Brilliant
12 BHP Billiton Ltd	Emerald	Brilliant
13 The Boeing Company	Emerald	Brilliant
14 Cadbury Schweppes PLC	Emerald	Oval
15 Carrefour SA	Emerald	Brilliant
16 CIT Group - credit event 1/11/09	Emerald	Brilliant
17 Commerzbank AG	Emerald	Brilliant
18 Continental AG	Emerald	Oval
19 DaimlerChrysler AG	Emerald	Oval
20 The Dow Chemical Company	Emerald	Brilliant
21 DSM NV	Emerald	Brilliant
22 Eastman Kodak Co (See Note 19)	Emerald	Oval
23 Electrolux AB (Publ)	Emerald	Oval
24 European Aeronautic Defense and Space Company EAD	Emerald	Brilliant
25 Ford Motor Credit Company	Emerald	Oval
26 Fujitsu Limited	Emerald	Oval
27 General Electric Capital Corporation	Emerald	Brilliant
28 Hewlett Packard	Emerald	Brilliant
29 Hilton Group PLC	Emerald	Oval
30 Hutchison Whampoa Limited	Emerald	Oval
31 ICI PLC	Emerald	Oval
32 International Lease Finance Corporation	Emerald	Brilliant
33 Koninklijke Philips Electronics NV	Emerald	Oval
34 Koninklijke KPN NV	Emerald	Oval
35 Lafarge SA	Emerald	Oval
36 LVMH Moet Hennessy Louis Vuitton SA	Emerald	Oval
37 McDonald's Corporation	Emerald	Brilliant
38 Metro AG	Emerald	Oval
39 Motorola Inc	Emerald	Oval
40 Qantas Airways Ltd	Emerald	Oval
41 Rolls Royce PLC	Emerald	Oval
42 Siemens AG	Emerald	Brilliant
43 Suez SA	Emerald	Brilliant
44 Telefonica SA	Emerald	Brilliant
45 The Tokyo Electric Power Company, Inc	Emerald	Brilliant
46 Unilever NV	Emerald	Brilliant
47 VNU NV	Emerald	Oval
48 Vodafone Group Plc	Emerald	Brilliant
49 Volkswagen AG	Emerald	Brilliant
50 Wolters Kluwer NV	Emerald	Brilliant



## **FIXED INCOME DIAMOND COLLECTION LIMITED**

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

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

##### **19. POST BALANCE SHEET EVENTS**

Based on the latest valuation determined by RBS N.V. as at 31st December 2011, the fair value of Brilliant Series 3 Notes decreased from 103.06% to 100.21%; the fair value of the Oval Series 3 Notes decreased from 103.28% to 99.03%; and the fair value of the Emerald Series 3 Notes decreased from 103.14% to 92.89%.

On 25th April 2012, the Company received credit event notices from RBS N.V. in respect of Eastman Kodak Co. Such credit event resulted in a reduction in the Collateral relating to Emerald Series 3 Notes amounting to €416,000 and to Oval Series 3 Notes amounting to €152,000.

##### ***RBS downgrade***

On 21st June 2012, RBS N.V.'s long term rating was downgraded by Moody's from A2 to A3 while the short term rating was downgraded from P-1 to P-2. Pursuant to the ISDA Master Agreements entered into with the Company dated 19th May 2003, RBS N.V. was required to provide collateral for its obligations to the Company under the swap agreements. In connection with this, RBS N.V. and the Company entered into a Credit Support Annex dated 11th July 2012 and Supplemental Trust Deed for each of the series dated 17th July 2012. RBS N.V. and the Company also entered into an Account Bank Agreement dated 17th July 2012 with The Bank of New York Mellon where the collateral is held.

The collateral posted will not be applied through the waterfalls until it crystallises into receipts in respect of the swap agreements following default by RBS N.V. as the swap counterparty. The waterfalls are set out at paragraph 11 of the Pricing Supplements and do not include the distribution of any swap collateral amounts until following a swap counterparty default.