

**FX Dynamic Guarantee US\$ Class Series 3 Notes and  
FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of

**RBS FX Notes (Series 3) Limited**

Financial statements  
For the year-ended 31 December 2012

# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

Financial statements for the year ended 31 December 2012

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# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

## **Directors, officers and other information**

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<b>Directors</b>	Roderick M. Forrest Nicholas J. Hoskins
<b>Registered office</b>	Victoria Place 31 Victoria Street Hamilton HM 10 Bermuda
<b>Guarantor</b>	The Royal Bank of Scotland N.V. 250 Bishopsgate London EC2M 4AA United Kingdom
<b>Administrator, registrar, and transfer agent</b>	Custom House Global Fund Services Limited Tigne Towers Tigne Street Sliema, SLM 3172 Malta
<b>Payment bank</b>	<i>(from May 2012)</i> The Royal Bank of Scotland International Limited Royal Bank House, 2 Victoria St Douglas, Isle of Man IM99 1NJ United Kingdom  <i>(until May 2012)</i> First Caribbean Bank De Ruyterkade 61 P.O. Box 3144 Curacao Netherlands Antilles
<b>Auditors</b>	Doran & Associates 4 <sup>th</sup> Floor, Crescent House Hartstonge Street Limerick Ireland
<b>Company secretary and legal advisor</b>	MQ Services Ltd Victoria Place, 1 <sup>st</sup> Floor 31 Victoria Street Hamilton HM 10 Bermuda

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Directors' report**

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The directors present the financial statements of the FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes, segregated accounts of RBS FX Notes (Series 3) Limited, (the "Note Accounts") for the year ended 31 December 2012.

#### **Principal activities and business review**

The Company is a limited liability company incorporated under the laws of Bermuda and registered as a segregated accounts company in accordance with the Segregated Accounts Companies Act 2000 (the "SAC Act"). The Company has established two segregated accounts, being the Note Accounts "US\$ Class" and "EUR Class", which offer two separate classes of Notes denominated in US Dollars ("US\$") and Euro ("EUR") respectively. These financial statements are those of the Note Accounts. The objective of the Company was to achieve medium-term gains in the net asset value of the Company, to be achieved through investing the proceeds of the issue of the Notes in shares of Prime Investments Managed Account Master Limited (the "Master Company"). The Master Company was incorporated in Bermuda on 24 September 2003 with limited liability and registered as a segregated accounts company under the SAC Act.


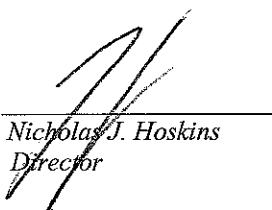
In respect of the Notes, the Company invested the proceeds of the US\$ Class in the Class G Shares issued by the Master Company and the proceeds of the EUR Class in the Class H Shares issued by the Master Company. The objective of the Master Company in respect of the Class G Fund and the Class H Fund was to achieve medium-term capital gains in the net asset value of the funds through the implementation of a quantitatively driven currency investment process. In June 2009, the Note Accounts redeemed out of the Class G and Class H funds of the Master Company and both classes of Notes entered stop-trigger trading. The Note Accounts are therefore no longer pursuing their investment objective and have invested in debt instruments with the objective of capital preservation.

#### **Future developments**

The directors anticipate that the Company will continue to operate until the maturity of the existing Notes in issue, being 23 June 2014. The directors anticipate that the Note Accounts will continue in stop-trigger trading until the maturity of the Notes. Refer to note 19 for details of any material subsequent events.

#### **Principal risks and uncertainties**

The principal risks and uncertainties, including details of the Company's risk management objectives and policies and exposure to price risk, credit risk, liquidity risk and cash flow risk are disclosed in note 15 to the financial statements.

  
*Roderick M. Forrest*  
Director  
*Nicholas J. Hoskins*  
Director

30 April 2013

## **FX Dynamic Guarantee USS Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Statement of directors' responsibilities**

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The directors have assumed responsibility for the preparation of the financial statements. In preparing the financial statements, the directors:

- ensure that the financial statements comply with the Memorandum and Articles of Association and International Financial Reporting Standards subject to any material departures disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in operation.

The directors are also required to keep proper accounting records and to manage the company in accordance with its Prospectus and Articles of Association. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

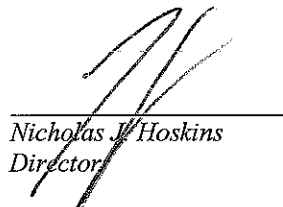
The Company is subject to Bermudan statute in the form of the Segregated Accounts Companies Act 2000, in addition to the listing requirements of NYSE Euronext Amsterdam and the Netherlands Act on Financial Supervision.

#### **Responsibility statement**

The directors confirm that to the best of their knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and the loss for the year of the Note Accounts in accordance with International Financial Reporting Standards; and
- The directors' report gives a true and fair view of the state of affairs of the Note Accounts as at 31 December 2012, the course of business during the financial year then ended, and describes the substantial risks with which the Note Accounts are confronted.

  
Roderick M. Forrest  
Director

  
Nicholas J. Hoskins  
Director

30 April 2013

# Independent auditors' report

To the noteholders of

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

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We have audited the accompanying statement of financial position of the FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes, segregated accounts of RBS FX Notes (Series 3) Limited, (the "Note Accounts") as at 31 December 2012 and the related statement of comprehensive income, statement of changes in net assets attributable to noteholders and statement of cash flows for the year then ended, and notes 1 - 21 to the financial statements.

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We have 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, but not absolute, assurance about 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 auditor's 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 controls relevant to the Note Account'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to any other information.

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

### **Basis for qualified opinion**

We were not able to confirm the identity of the guarantee claims agent. We have been unable to establish which entity if any is performing the role. Accordingly, we are unable to conclude as to the validity and completeness of the claim agent fee expense and associated payable.

# Independent auditors' report *(continued)*

To the noteholders of

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

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### **Qualified opinion**

In our opinion, except for the possible effects of both of the matters described above, the financial statements give a true and fair view of the financial position of the Note Accounts as of 31 December 2012 and of the Note Account's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.



**Stephen Doran**

**For and on behalf of Doran & Associates**

Chartered Certified Accountants and

Statutory Auditors

4<sup>th</sup> Floor, Crescent House

Hartstonge Street

Limerick

Date: 30 April 2013

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# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes


segregated accounts of RBS FX Notes (Series 3) Limited

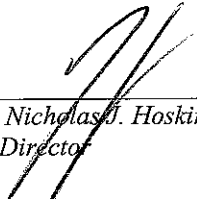
## Statement of financial position

as at 31 December 2012

	<i>Note</i>	<b>RBS FX Notes Series III US\$ 31 December 2012 US\$</b>	<b>RBS FX Notes Series III US\$ 31 December 2011 US\$</b>
<b>Assets</b>			
Cash and cash equivalents	4	136,655	208,713
Investments in debt instruments	15	3,362,673	3,877,694
Other receivables and prepaid expenses	6	10,840	30,962
<b>Total assets</b>		<b>3,510,168</b>	<b>4,117,369</b>
<b>Liabilities</b>			
Management fee payable	7	227,604	227,604
Guarantee and facilitation fees payable	8	38,682	45,338
Other payables and accruals	12	25,284	11,240
Audit fee payable	12	10,397	14,448
<b>Total liabilities (excluding net assets attributable to noteholders)</b>		<b>301,967</b>	<b>298,630</b>
<b>Net assets attributable to noteholders</b>		<b>3,208,201</b>	<b>3,818,739</b>
<b>Net asset value per Note</b>			
Number of Notes in issue at 31 December	13	3,214,000	3,759,000
Net asset value per Note at 31 December		US\$0.9982	US\$1.0159

The financial statements set out on pages 6 to 34 were approved by the Board of Directors on 30 April 2013 and signed on its behalf by:

  
Roderick M. Forrest  
Director

  
Nicholas J. Hoskins  
Director

The accompanying notes form an integral part of these financial statements.



# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of financial position

as at 31 December 2012

	<i>Note</i>	<b>RBS FX Notes Series III EUR 31 December 2012 EUR</b>	<b>RBS FX Notes Series III EUR 31 December 2011 EUR</b>
<b>Assets</b>			
Cash and cash equivalents	4	<b>111,639</b>	325,970
Investments in debt instruments	15	<b>2,432,806</b>	2,487,116
Other receivables and prepaid expenses	6	<b>35,683</b>	160,006
		<hr/>	<hr/>
<b>Total assets</b>		<b>2,580,128</b>	2,973,092
		<hr/>	<hr/>
<b>Liabilities</b>			
Management fee payable	7	<b>219,033</b>	219,033
Other payables and accruals	5,12	<b>43,618</b>	284,591
Guarantee and facilitation fees payable	8	<b>28,222</b>	44,451
Audit fee payable	12	<b>9,250</b>	10,501
		<hr/>	<hr/>
<b>Total liabilities (excluding net assets attributable to noteholders)</b>		<b>300,123</b>	558,576
		<hr/>	<hr/>
<b>Net assets attributable to noteholders</b>		<b>2,280,005</b>	2,414,516
		<hr/>	<hr/>
<b>Net asset value per Note</b>			
Number of Notes in issue at 31 December	13	<b>2,322,000</b>	2,444,000
Net asset value per Note at 31 December		<b>EUR0.9819</b>	EUR0.9879

*The accompanying notes form an integral part of these financial statements.*

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of comprehensive income

for the year ended 31 December 2012

	<i>Note</i>	<b>RBS FX Notes Series III US\$ 31 December 2012 US\$</b>	<b>RBS FX Notes Series III US\$ 31 December 2011 US\$</b>
<b>Investment income</b>			
Movement in investments held at fair value through profit or loss		<b>53,733</b>	146,788
<b>Total investment income</b>		<b>53,733</b>	146,788
<b>Expenses</b>			
Guarantee and facilitation fees	8	<b>40,474</b>	43,213
Audit fees	12	<b>23,484</b>	9,002
Other operating expenses	12	<b>20,387</b>	7,227
Administration fees	9	<b>12,500</b>	20,612
Corporate secretarial fees	9	<b>9,751</b>	5,000
Claim agent fees	11	<b>7,500</b>	7,500
Bank charges		<b>1,678</b>	3,165
<b>Total expenses</b>		<b>115,774</b>	95,719
<b>Change in net assets attributable to noteholders from operations</b>		<b>(62,041)</b>	51,069

The accompanying notes are an integral part of these financial statements.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of comprehensive income

for the year ended 31 December 2012

	<i>Note</i>	<b>RBS FX Notes Series III EUR 31 December 2012 EUR</b>	<b>RBS FX Notes Series III EUR 31 December 2011 EUR</b>
<b>Investment income</b>			
Movement in investments held at fair value through profit or loss		<b>72,243</b>	278,335
<b>Total investment income</b>		<b>72,243</b>	278,335
<b>Expenses</b>			
Guarantee and facilitation fees	8	<b>28,091</b>	44,450
Audit fee	12	<b>20,233</b>	6,152
Other operating expenses	12	<b>14,442</b>	3,244
Administration fees	9	<b>9,643</b>	14,942
Corporate secretarial fees	9	<b>7,547</b>	3,687
Claim agent fees	11	<b>5,786</b>	5,367
Bank charges		<b>769</b>	3,329
<b>Total expenses</b>		<b>86,511</b>	81,171
<b>Change in net assets attributable to noteholders from operations</b>		<b>(14,268)</b>	197,164

The accompanying notes are an integral part of these financial statements.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of changes in net assets attributable to noteholders for the year ended 31 December 2012

	RBS FX Notes Series III US\$ 31 December 2012 US\$	RBS FX Notes Series III US\$ 31 December 2011 US\$
<b>Operating activities</b>		
Change in net asset attributable to noteholders from operations	(62,041)	51,069
Redemption of notes during the year	(548,497)	(801,972)
<b>Decrease in net assets attributable to noteholders during the year</b>	<b>(610,538)</b>	<b>(750,903)</b>
Net assets attributable to noteholders at the beginning of the year	3,818,739	4,569,642
<b>Net assets attributable to noteholders at the end of the year</b>	<b>3,208,201</b>	<b>3,818,739</b>

*The accompanying notes are an integral part of these financial statements.*

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of changes in net assets attributable to noteholders for the year ended 31 December 2012

	RBS FX Notes Series III EUR 31 December 2012 EUR	RBS FX Notes Series III EUR 31 December 2011 EUR
<b>Operating activities</b>		
Change in net asset attributable to noteholders from operations	(14,268)	197,164
Redemption of notes during the year	(120,243)	(2,688,234)
<b>Decrease in net assets attributable to noteholders during the year</b>	<b>(134,511)</b>	<b>(2,491,070)</b>
Net assets attributable to noteholders at the beginning of the year	2,414,516	4,905,586
<b>Net assets attributable to noteholders at the end of the year</b>	<b>2,280,005</b>	<b>2,414,516</b>

*The accompanying notes are an integral part of these financial statements.*

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of cash flows

for the year ended 31 December 2012

	<b>RBS FX Notes Series III US\$ 31 December 2012 US\$</b>	<b>RBS FX Notes Series III US\$ 31 December 2011 US\$</b>
<b>Cash flows from operating activities</b>		
Change in net assets attributable to noteholders from operations	(62,041)	51,069
<b>Changes in operating assets and liabilities</b>		
Decrease in investment in debt instruments	515,021	1,276,129
Decrease/(increase) in other receivables and prepaid expenses	20,122	(17,838)
Increase/(decrease) in total fees payable	3,337	(487,940)
<b>Net cash provided by operating activities</b>	<b>476,439</b>	<b>821,420</b>
<b>Financing activities</b>		
Payments on redemption of notes	(548,497)	(801,972)
<b>Net cash used in financing activities</b>	<b>(548,497)</b>	<b>(801,972)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(72,058)</b>	<b>19,448</b>
Cash and cash equivalents at beginning of year	208,713	189,265
<b>Cash and cash equivalents at end of year</b>	<b>136,655</b>	<b>208,713</b>

The accompanying notes are an integral part of these financial statements.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Statement of cash flows

for the year ended 31 December 2012

	<b>RBS FX Notes Series III EUR 31 December 2012 EUR</b>	<b>RBS FX Notes Series III EUR 31 December 2011 EUR</b>
<b>Cash flows from operating activities</b>		
Change in net assets attributable to noteholders from operations	(14,268)	197,164
<b>Changes in operating assets and liabilities</b>		
Decrease in investment in debt instrument	54,310	3,161,234
Decrease/(increase) in other receivables and prepaid expenses	124,323	(149,588)
Decrease in total fees payable	(258,453)	(480,691)
<b>Net cash provided by operating activities</b>	<b>(94,088)</b>	<b>2,728,119</b>
<b>Financing activities</b>		
Payments on redemption of notes	(120,243)	(2,688,234)
<b>Net cash used in financing activities</b>	<b>(120,243)</b>	<b>(2,688,234)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(214,331)</b>	<b>39,885</b>
Cash and cash equivalents at beginning of year	325,970	286,085
<b>Cash and cash equivalents at end of year</b>	<b>111,639</b>	<b>325,970</b>

The accompanying notes are an integral part of these financial statements.

# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

## **Notes**

to and forming part of the financial statements for the year ended 31 December 2012

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### **1 Company information**

RBS FX Notes (Series 3) Limited, formerly ABN Amro FX Notes (Series 3) Limited, (the “Company”), is a limited liability company incorporated under the laws of Bermuda and registered as a segregated accounts company in accordance with the Segregated Accounts Companies Act 2000 (the “SAC Act”). The Company maintains its registered office in Bermuda. The Company has established two segregated accounts, being the Note Accounts “US\$ Class” and “EUR Class”, which offer two separate classes of Notes denominated in US Dollars (“US\$”) and Euro (“EUR”) respectively. These financial statements are those of the Note Accounts.

The objective of the Company was to achieve medium-term capital gains in the net asset value of the Notes, to be achieved through investing the proceeds of the issue of the Notes in shares of Prime Investments Managed Account Master Limited (the “Master Company”). The Master Company was incorporated in Bermuda on 24 September 2003 with limited liability and registered as a segregated accounts company under the SAC Act.

In respect of the Notes, the Company invested the proceeds of the US\$ Class in the Class G Shares issued by the Master Company and the proceeds of the EUR Class in the Class H Shares issued by the Master Company. The objective of the Master Company in respect of the Class G Fund and the Class H Fund was to achieve medium-term capital gains in the net asset value of the funds through the implementation of a quantitatively driven currency investment process. The Master Company has multiple additional share classes. In June 2009, the Note Accounts redeemed out of the Class G and Class H funds of the Master Company and both classes of Notes entered a stop trading trigger event. The Note Accounts are therefore no longer pursuing their investment objective and have invested in debt instruments with the objective of capital preservation.

Royal Bank of Scotland N.V., (the “Guarantor”) acts as Guarantor to the Company. The role of the Bank as Guarantor is detailed in note 13. Custom House Global Fund Services Limited acts as the administrator (the “Administrator”) of the Company.

At 31 December 2012, the Company had no employees.

The US\$ Class and EUR Class Notes of the Company are listed on NYSE Euronext Amsterdam. The home member state to whose transparency laws the Company is subject is The Netherlands. The competent authority responsible for the ongoing supervision of the Company is The Netherlands Authority for the Financial Markets.

The financial statements were approved by the Board of Directors on 30 April 2013.

### **2 Significant accounting policies**

#### **(a) Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by International Accounting Standards Board (“IASB”). The accounting policies have been applied consistently by the Company and are consistent with those used in the previous year, except for changes, if any, resulting from amendments to IFRS.

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# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

## **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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## **2 Significant accounting policies (*continued*)**

### **(b) Basis of preparation**

The financial statements are presented in the functional currencies of the Note Accounts, being US\$ in the case of the US\$ Class and EUR in the case of the EUR Class, and rounded to the nearest US\$/EUR. They are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non financial assets and liabilities are stated at amortised cost.

Although a stop trading trigger event occurred in June 2009, the Directors have prepared the financial statements on a going concern basis as no formal decision has been taken in respect of the winding up or closure of the Company.

### **(c) Investment transactions and valuations**

#### *(i) Measurement and recognition*

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), all of the Note Accounts' investments in debt instruments have been designated at fair value through profit or loss upon initial recognition. Such treatment is permitted where financial assets are managed and their performance evaluated on a fair value basis.

Under IAS 39, derivatives are always classified as held for trading.

All other financial assets not designated as at fair value through profit or loss are classified as loans and receivables and are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities that are not designated as at fair value through profit or loss comprise of management fees payable and all other payables. These are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

The Notes issued by the Company have been designated as at fair value through profit or loss because doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the liabilities at amortised cost, since the Notes are presented at their redemption amount determined as the value of the residual assets of the Company after deducting all of its other liabilities.

Financial liabilities that are not designated as at fair value through profit or loss comprise of management fees payable and all other liabilities. These are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

The Note Accounts recognise financial assets or liabilities designated at fair value through profit or loss upon initial recognition on the date they commit to purchase the instruments. From this date any gains and losses arising from the changes in fair value of the assets and liabilities are recorded. Financial instruments are initially measured at fair value, which is the fair value of the consideration given or received. Financial instruments are subsequently re-measured at fair value.

# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

## **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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## **2 Significant accounting policies (*continued*)**

### **(c) Investment transactions and valuations (*continued*)**

#### *(i) Measurement and recognition (*continued*)*

The fair value of listed financial instruments is based on their quoted market price at the reporting date without any deduction for estimated future selling costs. Pricing is based on quoted bid prices for long securities and quoted offer prices for short securities and if unavailable, by reference to the last reported traded price. For unlisted securities, valuation is estimated by reference to prices obtained from brokers and other pricing sources. The fair value of the debt instruments is determined by reference to prices provided by the Guarantor, which calculates the cancellation value based on the contractual terms of the instruments.

The value of cash in hand or on deposit and accounts receivable and prepaid expenses will be deemed to be the full amount unless it is unlikely to be paid or received in full.

Gains and losses arising from a change in the fair value of investments designated at fair value through profit or loss are recognised in the statement of comprehensive income.

#### *(ii) Derecognition*

The Note Accounts derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. The Note Accounts use the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### **(d) Receivables**

Receivables are stated at their nominal amount. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired.

### **(e) Foreign currency translation**

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to US\$/EUR at the foreign currency closing exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to US\$/EUR at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to financial assets and liabilities at fair value through profit or loss are included in movement in investments held at fair value through profit or loss.

# **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

## **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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## **2 Significant accounting policies (*continued*)**

### **(f) Interest income and expense**

Interest income and expense are recognised in the statement of comprehensive income as they accrue, using the historical effective interest rate of the asset. Interest income includes the amortisation of any discount or premium, transaction costs (in the case of financial instruments other than those classified at fair value through profit or loss) or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income and expense items related to investments at fair value through profit or loss is included in movement in investment held at fair value through profit or loss.

### **(g) Expenses**

All expenses, including management fees, guarantee fees and facilitation fees, are recognised in the statement of comprehensive income on an accruals basis.

### **(h) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant changes in value and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

### **(i) Taxation**

The Company and the Master Company have obtained from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an undertaking that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28 March 2016 be applicable to the Company and the Master Company or to any of their operations or to the shares, debentures or other obligations of the Company and the Master Company, except in so far as such tax applies to persons ordinarily resident in Bermuda.

### **(j) New and amended standards and interpretations**

There are no new or amended standards or interpretations adopted with effect from 01 January 2012 that have a significant impact on the financial statements.

A number of new standards, amendments to standards and interpretations that have been issued to date are not yet effective for the financial statements of the Company for the year ended 31 December 2012, and have not been applied or early adopted in preparing these financial statements. The adoption of these standards is not anticipated to have a significant impact on the financial statements of the Company.

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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### **3 Judgements in applying accounting policies and key sources of estimation uncertainty**

The preparation of these financial statements requires the directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The key judgements relate to the classification of the Notes as liabilities as opposed to equity instruments, and the selection of the classification of investments and the associated valuation policy. Investments have been classified as designated at fair value through profit and loss in line with note 2(c) and are measured at fair value. Further information on the risks related to the investments is included in note 15.

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

Bank balances held with Royal Bank of Scotland International at 31 December 2012 amounted to US\$136,655 (2011: US\$208,713 at First Caribbean Bank) in respect of the US\$ Class and EUR 111,639 (2011: EUR 325,970 at First Caribbean Bank) in respect of the EUR Class.

In January 2012 the Company's payment bank, First Caribbean Bank, froze all payments from the Company's bank account. First Caribbean Bank took this action following an internal audit which revealed that it did not hold the necessary due diligence documentation on the Company. The Directors of the Company wrote to shareholders advising them of a potential delay in the payment of redemptions. In May 2012 the account was unfrozen and the Company transferred its account to Royal Bank of Scotland International.

### **5 Other payables and accruals**

Included within other payables and accruals of the EUR Class Series 3 Notes at 31 December 2012 is an amount of EUR 8,214 payable to the US\$ Class Series 3 Notes. An amount of legal fees invoiced to the Company in respect of work performed by Wakefield Quin on the matter of the freezing of the Companies bank accounts at First Caribbean Bank and the matter of the payment error in the EUR Class Series 3 Notes (as disclosed in notes 4 and 5 respectively) was initially charged to the US\$ Class Series 3 Notes in its entirety.

Included within other payables and accruals of the EUR Class Series 3 Notes at 31 December 2011 was an amount of EUR 263,843. This sum represented an amount received by the EUR Class Series 3 Notes in error. The amount was payable to RBS FX Notes (Series DPM EUR) Limited, an investor in one of the other share classes of the Master Company.

Upon receiving the amount, a gain was recognised in the statement of comprehensive income of the EUR Note Account for the year ended 31 December 2009 in error. As at 31 December 2011, the administrator and the guarantor determined that the existence of the error had resulted in the overpayment of redemption proceeds to noteholders that redeemed between November 2009 and November 2011. In order to recompense those noteholders that had not redeemed, the administrator and the guarantor committed to contribute a cash sum equal to the proportion of the gain that had been paid to redeeming noteholders. This amount was determined to be EUR 160,006. A gain of this amount was recognised in profit or loss and a corresponding receivable was recognised at 31 December 2011 (refer to note 6).

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### **5 Other payables and accruals (*continued*)**

The amount was subsequently repaid in June 2012. RBS FX Notes (Series DPM EUR) Limited has service providers in common with the Company.

#### **6 Other receivables and prepaid expenses**

Included within other receivables and prepaid expenses of the US\$ Class Series 3 Notes at 31 December 2012 is an amount of US\$10,840 (2011: US\$Nil) due from the EUR Class Series 3 Notes. Refer to note 5.

Included within other receivables and prepaid expenses of the EUR Class Series 3 Notes at 31 December 2012 is an amount of EUR 35,683 (2011: EUR 160,006). This amount is due from the guarantor (2011: EUR 80,003 due from each of the administrator and the guarantor). Refer to note 5.

#### **7 Management fee**

Fortis Investment Management Netherlands N.V., now BNP Paribas Investment Partners, acted as Investment Manager to the Company. As consideration for the Investment Manager's services to the Company, a management fee was payable by the US\$ Class and the EUR Class at a rate of 2% per annum on the base net asset value of the Class G and Class H funds respectively.

There were no management fees accrued during the year, as following the redemption of both the US\$ Class and the EUR Class in the underlying classes of the Master Company in June 2009, the Investment Manager is no longer acting for or charging fees to the company.

The management fees payable represent amounts due to the former Investment Manager of the Company in respect of unpaid management fees from prior periods. The amount due in respect of the US\$ Class as at 31 December 2012 is US\$227,604 (2011: US\$227,604), and the amount due in respect of the EUR class as at 31 December 2012 is EUR 219,033 (2011: EUR 219,033).

#### **8 Guarantee and facilitation fees**

Royal Bank of Scotland N.V., formerly ABN Amro Bank N.V., (the "Guarantor") acts as Guarantor in respect of the notes.

Each Note Account pays a Guarantee fee to the Guarantor on a quarterly basis at a rate of 1.15% per annum on the greater of the number of Notes of the relevant Note account in issue, and the relevant net asset value per Note. In addition, each Note Account pays to the Guarantor a Facilitation fee on a quarterly basis at a rate determined by the Guarantor two business days before each issue date, within an expected range of 0.55% - 0.65% of the number of Notes of the relevant Note account in issue.

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### **8 Guarantee and facilitation fees (*continued*)**

The amounts in respect of Guarantee fees and Facilitation fees charged during the year and outstanding at the reporting date are disclosed in the statement of comprehensive income and the statement of financial position, respectively.

#### **9 Administration and corporate secretarial fees**

Under the terms of the administration agreement dated 05 August 2010 with an effective date of 01 January 2009, the Company appointed Custom House Global Fund Services Limited as the administrator of the Company.

The Note Accounts pay the administrator's fees annually in arrears in the amount of 0.1% of the net asset value of the Note Accounts. The agreement makes provision for a minimum annual administration fee equal to \$12,500 for each Note Account, which applies from 01 January 2010.

In addition, the administrator is entitled to charge EUR 6,000 or currency equivalent per annum for the preparation of the financial statements of the Company.

Under the terms of the corporate secretarial services agreement dated 06 May 2004, MQ Services Limited provides corporate secretarial services to the Company. The minimum annual fee for such services is US\$10,500.

The amounts in respect of Administration and Corporate Secretarial fees charged during the year are disclosed in the statement of comprehensive income. The amount outstanding at the reporting date is included within other payables and accruals in the statement of financial position.

#### **10 Directors' fees**

The Directors of the Company reserve the right to charge all or any of their reasonable fees and expenses to the Company, subject to an annual limit of US\$5,000 (or equivalent).

#### **11 Claim agent fees**

For the year ended 31 December 2012 claim agent fees of US\$7,500 (2011: US\$7,500) and EUR 5,786 (2011: EUR 5,367) were charged to the Note Accounts.

#### **12 Other operating expenses**

Other operating expenses include transactions fees and commissions as well as regulatory fees and other incidental expenses.

## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### 12 Other operating expenses (*continued*)

Audit fees for each of the Note Accounts amount to EUR 9,250. The amount recognised in the statement of comprehensive income in the year ended 31 December 2012 includes an under-accrual of audit fees in prior periods.

Audit fees payable at 31 December 2012 and 2011 are presented in the statement of financial position.

#### 13 Notes

The Company has established two segregated accounts, namely the Note Account (US\$ Class) and the Note Account (EUR Class), which offered two separate Classes of Notes.

The offering amount in respect of the US\$ Class and EUR Class was US\$25,000,000 and EUR25,000,000 respectively. The minimum subscription per investor was US\$ Class 10,000 Notes and EUR Class 10,000 Notes. The face value of the Notes is US\$1 per US\$ Class and EUR1 per EUR Class.

The Notes will mature on the 23 June 2014 (the “Maturity Date”) unless redeemed earlier. The minimum redemption is US\$ Class 10,000 Notes and EUR Class 10,000 Notes. The Company redemption policy only allows for redemption on the last business day of each month and Note holders must provide 10 business days notice.

The Notes are guaranteed by the London Branch of Royal Bank of Scotland N.V. (the “Guarantor”) in respect of 100% of the face value of each Note. The guarantees are only available in respect of the Notes outstanding as at the maturity date and are not applicable to any Notes which are redeemed prior to the maturity date.

Each Note constitutes unsubordinated and unsecured obligations of the relevant Note Account of the Company and shall at all times rank *pari passu* and without preference amongst themselves.

Movement in the number of Notes in issue representing the US\$ Class for the year ended 31 December 2012 was as follows:

Share class	Notes at beginning of the year	Notes issued	Notes redeemed	Notes at end of the year
Notes	3,759,000	-	(545,000)	3,214,000

Movement in the number of Notes in issue representing the EUR Class for the year ended 31 December 2012 was as follows:

Share class	Notes at beginning of the year	Notes issued	Notes redeemed	Notes at end of the year
Notes	2,444,000	-	(122,000)	2,322,000

## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### 13 Notes (*continued*)

Movement in the number of Notes in issue representing the US\$ Class for the year ended 31 December 2011 was as follows:

Share class	Notes at beginning of the year	Notes issued	Notes redeemed	Notes at end of the year
Notes	4,559,000	-	(800,000)	3,759,000

Movement in the number of Notes in issue representing the EUR Class for the year ended 31 December 2011 was as follows:

Share class	Notes at beginning of the year	Notes issued	Notes redeemed	Notes at end of the year
Notes	5,109,000	-	(2,665,000)	2,444,000

#### 14 Share capital

The Company was incorporated on 11 May 2004 in Bermuda with limited liability under Bermuda Law. An aggregate of 12,000 ordinary shares with a nominal value of US\$1 per share were issued by the Company. The ordinary shares are owned by RBS FX Notes (Series 3) Purpose Trust, formerly ABN AMRO FX Notes Purpose Trust (the "Trust"), a Bermudan purpose trust, as share trustee. The ordinary shares carry 100% of the voting rights. The Trust has foregone all rights to the assets of the Company other than to the nominal value of the 12,000 voting shares.

There were no movements in ordinary shares in issue during the years ended 31 December 2012 and 2011.

#### 15 Financial instrument disclosures and associated risks

The objective of the Note Accounts via their investment in the Master Company was to achieve medium-term capital gains in the net asset value of the funds through the implementation of a quantitatively driven currency investment process. In June 2009, the Note Accounts redeemed out of the Class G and Class H funds of the Master Company on occurrence of a stop trading trigger event. The Note Accounts are therefore no longer pursuing their investment objective and have invested in debt instruments with the objective of capital preservation.

The Note Accounts are exposed to market risk, credit risk and liquidity risk arising from the financial instruments they hold. The nature and extent of the risks at the reporting date and the risk management policies employed by the Note Accounts are discussed below.

##### (a) Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.



# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 15 Financial instrument disclosures and associated risks (*continued*)

#### (a) Market risk (*continued*)

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices will affect the positions held by the Note Accounts. All financial assets and liabilities designated at fair value are measured at fair value and therefore changes in market conditions may directly affect investment income.

#### (i) Currency risk

The Note Accounts may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Note Accounts are exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Note Accounts' assets or liabilities denominated in currencies other than US\$/EUR. At 31 December 2012 and 2011, the Note accounts have no material exposure to currency risk.

#### (ii) Interest rate risk

A portion of the Note Accounts' financial assets throughout the year consisted of cash and cash equivalents. These assets yield an immaterial amount of interest income and therefore the Note Accounts are not subject to a significant degree of cash flow interest rate risk.

The Note Accounts also invested in zero-coupon deposits. As a result, the Note Accounts are subject to fair value interest rate risk due to fluctuations in the prevailing rate of market interest rates impacting on the fair value of the investments in debt instruments.

The following tables detail the Note Accounts' exposure to cash flow interest rate risk of RBS FX Notes Series III (US\$). It includes the Note Accounts' assets and liabilities at their carrying amounts, categorised by the earlier of the contractual re-pricing or maturity date.

#### *Series III US\$ Class at 31 December 2012*

All amounts stated in US\$

	Less than 1 month	1 month to 1 year	Non-interest bearing	Total
<b>Assets</b>				
<i>Designated at fair value through profit or loss</i>				
Investments in debt instruments	-	-	3,362,673*	<b>3,362,673*</b>
<i>Loans &amp; receivables</i>				
Cash and cash equivalents	136,655	-	-	<b>136,655</b>
Other receivables and prepaid expenses	-	-	10,840	<b>10,840</b>
<b>Total assets</b>	<b>136,655</b>	<b>-</b>	<b>3,373,513*</b>	<b>3,510,168</b>

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 15 Financial instrument disclosures and associated risks (*continued*)

#### (a) Market risk (*continued*)

#### (ii) Interest rate risk (*continued*)

#### Series III US\$ Class at 31 December 2012 (*continued*)

All amounts stated in US\$

	Less than 1 month	1 month to 1 year	Non-interest bearing	Total
<b>Liabilities excluding net assets attributable to noteholders</b>				
<i>Financial liabilities measured at amortised cost</i>				
Management fees payable	-	-	227,604	<b>227,604</b>
Audit fees payable	-	-	10,397	<b>10,397</b>
Other payables and accruals	-	-	25,284	<b>25,284</b>
Guarantee and facilitation fees payable	-	-	38,682	<b>38,682</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>301,967</b>	<b>301,967</b>
<b>Total interest sensitivity gap</b>	<b>136,655</b>			

#### Series III US\$ Class at 31 December 2011

	Less than 1 month	1 month to 1 year	Non-interest bearing	Total
<b>Assets</b>				
<i>Designated at fair value through profit or loss</i>				
Investments in debt instruments	-	-	3,877,694*	<b>3,877,694</b>
<i>Loans &amp; receivables</i>				
Cash and cash equivalents	208,713	-	-	<b>208,713</b>
Other receivables and prepaid expenses	-	-	30,962	<b>30,962</b>
<b>Total assets</b>	<b>208,713</b>	<b>-</b>	<b>3,908,656</b>	<b>4,117,369</b>

#### Liabilities excluding net assets attributable to noteholders

*Financial liabilities measured at amortised cost*

Management fees payable	-	-	227,604	<b>227,604</b>
Audit fees payable	-	-	14,448	<b>14,448</b>
Other payables and accruals	-	-	11,240	<b>11,240</b>
Guarantee and facilitation fees payable	-	-	45,338	<b>45,338</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>298,630</b>	<b>298,630</b>
<b>Total interest sensitivity gap</b>	<b>208,713</b>			

\*Investment in debt instruments are classified as non-interest bearing as they are zero coupon deposits and there is no cash flow interest rate risk.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 15 Financial instrument disclosures and associated risks (*continued*)

#### (a) Market risk (*continued*)

##### (ii) Interest rate risk (*continued*)

The following tables detail the Note Accounts' exposure to cash flow interest rate risk of RBS FX Notes Series III (EUR). It includes the Note Accounts' assets and liabilities at their carrying amounts, categorised by the earlier of the contractual re-pricing or maturity date.

#### *Series III EUR Class at 31 December 2012*

All amounts stated in EUR

	Less than 1 month	1 month to 1 year	Non-interest bearing	Total
<b>Assets</b>				
<i>Designated at fair value through profit or loss</i>				
Investments in debt instruments	-	-	2,432,806*	<b>2,432,806*</b>
<i>Loans &amp; receivables</i>				
Cash and cash equivalents	111,639	-	-	<b>111,639</b>
Other receivables and prepaid expenses	-	-	35,683	<b>35,683</b>
<b>Total assets</b>	<b>111,639</b>	<b>-</b>	<b>2,468,489</b>	<b>2,580,128</b>
<b>Liabilities excluding net assets attributable to noteholders</b>				
<i>Financial liabilities measured at amortised cost</i>				
Management fees payable	-	-	219,033	219,033
Other payables and accruals	-	-	43,618	43,618
Guarantee and facilitation fees payable	-	-	28,222	28,222
Audit fee payable	-	-	9,250	9,250
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>300,123</b>	<b>300,123</b>
<b>Total interest sensitivity gap</b>	<b>111,639</b>			

\*Investment in debt instruments are classified as non-interest bearing as they are zero coupon deposits and there is no cash flow interest rate risk.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 15 Financial instrument disclosures and associated risks (*continued*)

#### (a) Market risk (*continued*)

#### (ii) Interest rate risk (*continued*)

*Series III EUR Class at 31 December 2011*

All amounts stated in EUR

	Less than 1 month	1 month to 1 year	Non-interest bearing	Total
<b>Assets</b>				
<i>Designated at fair value through profit or loss</i>				
Investments in debt instruments	-	-	2,487,116*	<b>2,487,116</b>
<i>Loans &amp; receivables</i>				
Cash and cash equivalents	325,970	-	-	<b>325,970</b>
Other receivables and prepaid expenses	-	-	160,006	<b>160,006</b>
<b>Total assets</b>	<b>325,970</b>	<b>-</b>	<b>2,647,122</b>	<b>2,973,092</b>
<b>Liabilities excluding net assets attributable to noteholders</b>				
<i>Financial liabilities measured at amortised cost</i>				
Management fees payable	-	-	219,033	<b>219,033</b>
Other payables and accruals	-	-	295,092	<b>295,092</b>
Guarantee and facilitation fees payable	-	-	44,451	<b>44,451</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>558,576</b>	<b>558,576</b>
<b>Total interest sensitivity gap</b>	<b>325,970</b>			

\*Investment in debt instruments are classified as non-interest bearing as they are zero coupon deposits and there is no cash flow interest rate risk.

#### *Interest rate sensitivity*

As the Note Accounts are not exposed to a material amount of cash flow interest rate risk, a sensitivity analysis is not presented.

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### **15 Financial instrument disclosures and associated risks (*continued*)**

##### **(a) Market risk (*continued*)**

###### *(iii) Other price risk*

Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As a material element of the Note Accounts' financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, any changes in market conditions may directly affect net investment income.

On the occurrence of a stop trading trigger event, the Note Accounts have invested in debt instruments with a risk profile consistent with the Note Accounts' objective of capital preservation. As such the Note Accounts are not exposed to a significant amount of price risk as 31 December 2012 or 2011.

##### **(b) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Note Accounts.

The Note Accounts are exposed to credit risk through their investment in debt instruments. The Note Accounts hold investments in debt instruments issued by Royal Bank of Scotland, which has a credit rating of "A" as determined by Standard and Poor's.

At 31 December 2012, cash and cash equivalents are held at Royal Bank of Scotland International. Bankruptcy or insolvency at the Royal Bank of Scotland International may cause the Company's rights with respect to cash and cash equivalents to be delayed or limited. Royal Bank of Scotland has a credit rating of "A" as determined by Standard and Poor's.

At 31 December 2011, cash and cash equivalents were held at First Caribbean Bank. The majority shareholder of First Caribbean Bank is CIBC West Indies Holdings, which had a credit rating of "A+" as determined by Standard and Poor's.

In January 2012 First Caribbean Bank froze all payments from the Company's bank account. First Caribbean Bank took this action following an internal audit which revealed that it did not hold the necessary due diligence documentation on the Company. The Directors of the Company wrote to shareholders advising them of a potential delay in the payment of redemptions. In May 2012 the account was unfrozen and the Company transferred its account to Royal Bank of Scotland International.

## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

#### 15 Financial instrument disclosures and associated risks (*continued*)

##### (b) Credit risk (*continued*)

The carrying amount of financial assets best represents the maximum credit risk exposure at the 31 December 2012:

	<b>RBS FX Notes Series III US\$ 31 December 2012</b>	<b>RBS FX Notes Series III EUR 31 December 2012</b>
	<b>US\$</b>	<b>EUR</b>
Cash balances held on deposit with payment bank	136,655	111,639
Investments in debt instruments	3,362,673	2,432,806
	<b>3,499,328</b>	<b>2,544,445</b>

The carrying amount of financial assets best represents the maximum credit risk exposure at the 31 December 2011:

	<b>RBS FX Notes Series III US\$ 31 December 2011</b>	<b>RBS FX Notes Series III EUR 31 December 2011</b>
	<b>US\$</b>	<b>EUR</b>
Cash balances held on deposit with payment bank	208,713	325,970
Investments in debt instruments	3,877,694	2,487,116
	<b>4,086,407</b>	<b>2,813,086</b>

The Notes are guaranteed by the London Branch of Royal Bank of Scotland N.V. in respect of 100% of the face value of each Note. The guarantees are only available in respect of the Notes outstanding as at the maturity date and are not applicable to any Notes which are redeemed prior to the maturity date. Noteholders are therefore exposed to the credit risk of the guarantor.

##### (c) Liquidity risk

The Note Accounts' offering document provides for the redemption of Notes and they are therefore exposed to the liquidity risk of meeting noteholder redemptions. The Note Accounts' redemption policy allows for redemptions on the last day of each month and noteholders must provide 10 business days notice. The Directors of the Company reserves the right to limit the aggregate of all individual redemptions to 20% of the relevant NAV of the Note Account. If redemption requests in excess of this are received, such requests may be scaled down pro-rata and any balance carried forward.

A portion of the Note Accounts' assets are maintained as cash and cash equivalents in order to meet unexpected redemptions. Refer to note 4 for details of events occurring during the period, when a temporary restriction was placed on the account by First Caribbean Bank, and the account was subsequently transferred to another institution, Royal Bank of Scotland International.

The zero coupon deposits are realisable on demand.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 15 Financial instrument disclosures and associated risks (*continued*)

#### (c) Liquidity risk (*continued*)

The following tables show the remaining contractual, undiscounted cash flows of the Company's liabilities at the reporting date.

#### *Series III US\$ Class at 31 December 2012*

All amounts stated in US\$	Less than 1 month	1-3 months	3 months to 1 year	No stated maturity
<b><i>Financial liabilities</i></b>				
Management fee payable	-	227,604	-	-
Other payables and accruals	25,284	-	-	-
Guarantee and facilitation fees payable	38,682	-	-	-
Audit fee payable	10,397	-	-	-
Net assets attributable to noteholders	3,208,201	-	-	-

#### *Series III EUR Class at 31 December 2012*

All amounts stated in EUR	Less than 1 month	1-3 months	3 months to 1 year	No stated maturity
<b><i>Financial liabilities</i></b>				
Management fee payable	-	219,033	-	-
Other payables and accruals	43,618	-	-	-
Guarantee and facilitation fees payable	28,222	-	-	-
Audit fee payable	9,250	-	-	-
Net assets attributable to noteholders	2,280,005	-	-	-

The following table shows the remaining contractual, undiscounted cash flows of the Company's liabilities at the 31 December 2011.

#### *US\$ Class at 31 December 2011*

All amounts stated in US\$	Less than 1 month	1-3 months	3 months to 1 year	No stated maturity
<b><i>Financial liabilities</i></b>				
Management fee payable	-	227,604	-	-
Other payables and accruals	11,240	-	-	-
Guarantee and facilitation fees payable	45,338	-	-	-
Audit fee payable	14,448	-	-	-
Net assets attributable to noteholders	3,818,739	-	-	-

## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

#### 15 Financial instrument disclosures and associated risks (*continued*)

##### (c) Liquidity risk (*continued*)

*EUR Class at 31 December 2011*

All amounts stated in EUR	Less than 1 month	1-3 months	3 months to 1 year	No stated maturity
<i>Financial liabilities</i>				
Management fee payable	-	219,033	-	-
Other payables and accruals	295,092	-	-	-
Guarantee and facilitation fees payable	44,451	-	-	-
Net assets attributable to noteholders	2,414,516	-	-	-

#### 16 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements at 31 December 2012:

*Series III US\$ Class at 31 December 2012*

	Total US\$	Level 1 US\$	Level 2 US\$	Level 3 US\$
<b><u>Assets</u></b>				
<i>Financial assets designated at fair value through profit or loss</i>				
Investment in debt instruments	3,362,673	-	3,362,673	-
	<b>3,362,673</b>	<b>-</b>	<b>3,362,673</b>	<b>-</b>



## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

#### 16 Fair value measurements recognised in the statement of financial position (*continued*)

##### *Series III EUR Class at 31 December 2012*

	<b>Total EUR</b>	<b>Level 1 EUR</b>	<b>Level 2 EUR</b>	<b>Level 3 EUR</b>
<b><u>Assets</u></b>				
<i>Financial assets designated at fair value through profit or loss</i>				
Investment in debt instruments	2,432,806	-	2,432,806	-
	<b>2,432,806</b>	<b>-</b>	<b>2,432,806</b>	<b>-</b>

Fair value measurements at 31 December 2011:

##### *Series III US\$ Class at 31 December 2011*

	<b>Total US\$</b>	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>
<b><u>Assets</u></b>				
<i>Financial assets designated at fair value through profit or loss</i>				
Investment in debt instruments	3,877,694	-	3,877,694	-
	<b>3,877,694</b>	<b>-</b>	<b>3,877,694</b>	<b>-</b>

##### *Series III EUR Class at 31 December 2011*

	<b>Total EUR</b>	<b>Level 1 EUR</b>	<b>Level 2 EUR</b>	<b>Level 3 EUR</b>
<b><u>Assets</u></b>				
<i>Financial assets designated at fair value through profit or loss</i>				
Investment in debt instruments	2,487,116	-	2,487,116	-
	<b>2,487,116</b>	<b>-</b>	<b>2,487,116</b>	<b>-</b>

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment.

There were no transfers between levels in the year.

## **FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes**

segregated accounts of RBS FX Notes (Series 3) Limited

### **Notes**

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

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#### **16 Fair value measurements recognised in the statement of financial position (*continued*)**

##### **Valuation methods**

All of the Note Accounts' investments in debt instruments are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. The major methods and assumptions used in estimating the fair values of financial instruments are set out below.

##### **Investment in debt instruments**

The fair value of the debt instruments is determined by reference to prices provided by the Guarantor, which calculates the cancellation value based on the contractual terms of the instruments. The Note Accounts' investment in debt instruments are therefore categorised in level 2 of the fair value hierarchy.

#### **17 Related party transactions**

Royal Bank of Scotland N.V. is a related party of the company and acts as the Guarantor, and earned guarantee fees and facilitation fees during the year (refer to note 8). The Note Accounts' investments are held in custody by Royal Bank of Scotland N.V., which is also the Guarantor.

Directors' fees are disclosed in note 10.

Roderick M. Forrest and Nicholas J. Hoskins, directors of the Company, are also directors of MQ Services Limited. MQ Services Limited provides corporate secretarial services to the fund. Corporate secretarial fees paid to MQ Services during the year are disclosed in note 9.

There were no other related party transactions.

#### **18 Contingency**

As disclosed in note 13, the Notes are guaranteed by the London Branch of Royal Bank of Scotland N.V. in respect of 100% of the face value of each Note. The guarantees are only available in respect of the Notes outstanding as at the maturity date and are not applicable to any Notes which are redeemed prior to the maturity date.

The Company was not in compliance with the filing requirements of the Netherlands Authority for the Financial Markets as the financial statements for the prior period were not filed according to the specified deadlines. Accordingly, enforcement action could be taken against the Company at any time, including possible fines.

#### **19 Subsequent events**

There were no material subsequent events which necessitate revision of the figures included in the financial statements.

# FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

## Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

### 20 Reconciliation of audited net asset value to net asset value as reported to the noteholders in the calculation of the dealing net asset value

During the audit of the financial statements for the year ended 31 December 2012, certain audit adjustments were identified and actioned. These adjustments primarily related to the write-back of over-accruals. The below table reconciles the resulting difference between the net asset value as reported to noteholders and the net asset value per the financial statements

	<b>RBS FX Notes Series III US\$ 31-Dec-12 US\$</b>	<b>RBS FX Notes Series III US\$ 31-Dec-11 US\$</b>
Net assets per financial statements	3,208,201	3,818,739
Effect of audit adjustments brought forward	(24,343)	(35,890)
Audit adjustments in the current year	4,581	11,547
<b>Net assets as reported to noteholders</b>	<b>3,188,439</b>	<b>3,794,396</b>
	US\$	US\$
<i>A reconciliation of the net asset value per note is as follows:</i>		
Net asset value per note as per the financial statements	0.9982	1.0159
Effect of audit adjustments brought forward	(0.0076)	(0.0095)
Audit adjustments in the current year	0.0035	0.0030
<b>Net asset value per note as reported to noteholders</b>	<b>0.9941</b>	<b>1.0094</b>

## FX Dynamic Guarantee US\$ Class Series 3 Notes and FX Dynamic Guarantee EUR Class Series 3 Notes

segregated accounts of RBS FX Notes (Series 3) Limited

### Notes

to and forming part of the financial statements for the year ended 31 December 2012 (*continued*)

#### 20 Reconciliation of audited net asset value to net asset value as reported to the noteholders in the calculation of the dealing net asset value (*continued*)

	<b>RBS FX Notes Series III EUR 31-Dec-12 EUR</b>	<b>RBS FX Notes Series III EUR 31-Dec-11 EUR</b>
Net assets per financial statements	2,280,005	2,414,516
Effect of audit adjustments brought forward	(18,425)	238,780
Audit adjustments in the current year	22,213	(257,205)
	<hr/>	<hr/>
<b>Net assets as reported to noteholders</b>	<b>2,283,793</b>	<b>2,396,091</b>
	<hr/>	<hr/>
	EUR	EUR
<i>A reconciliation of the net asset value per note is as follows:</i>		
Net asset value per note as per the financial statements	0.9819	0.9879
Effect of audit adjustments brought forward	(0.0079)	0.0977
Audit adjustments in the current year	0.0113	(0.1052)
	<hr/>	<hr/>
<b>Net asset value per note as reported to noteholders</b>	<b>0.9853</b>	<b>0.9804</b>
	<hr/>	<hr/>

#### 21 Approval of financial statements

The financial statements were approved by the Board of Directors on 30 April 2013.