

RBS Capital Funding Trust V

Annual Accounts and Management Report 2014

RBS CAPITAL FUNDING TRUST V

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MANAGEMENT REPORT

Financial position and performance

RBS Capital Funding Trust V (the “Trust”) reported a net loss of approximately \$29.7 million for the year ended December 31, 2014 primarily related to the reduction in the effective interest rate on the investment securities. The revised effective interest rate was due to the change in expectations of future cash flows driven by the interest suspension period.

In 2014, the Trust employed no staff.

Outlook

Effective April 1, 2011, the Trust suspended interest payments on the Trust Securities through and including March 31, 2013. Effective April 1, 2013, the Trust resumed interest payments on the Trust Securities.

Management does not expect any significant change in the activities of the Trust.

Management Disclosure

In accordance with the European Transparency Directive implemented in the Netherlands as part of the Act of Financial Supervision (Wet op het Financieel Toezicht (“WFT”)), we declare that, to the best of our knowledge:

1. the financial statements give a true and fair view, in all material respects, of the assets, liabilities, financial position and profit and loss of the Trust;
2. the report gives a true and fair view, in all material respects, of the Trust and its related entities as at December 31, 2014 and their state of affairs during 2014; and
3. the report describes the material risks that the Trust is facing.

Alexander Alam, President

Jason Hauf, Trustee

April 29, 2015

INDEPENDENT AUDITORS' REPORT

To the Officers of RBS Capital Funding Trust V

We have audited the accompanying financial statements of RBS Capital Funding Trust V (the "Trust"), which comprise the statements of financial condition as of December 31, 2014 and 2013, and the related statements of comprehensive income (loss), changes in stockholder's (deficit) equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

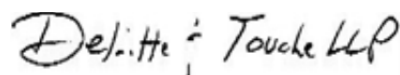
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 Trust'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 Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, 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 referred to above present fairly, in all material respects, the financial position of RBS Capital Funding Trust V as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



April 29, 2015

RBS CAPITAL FUNDING TRUST V

STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2014 and 2013

(In thousands except for share information)

	2014	2013
ASSETS		
Cash	\$ 1	\$ 1
Accrued interest receivable	23,785	53,516
Investment securities (Note 3)		
Available-for-sale (cost \$1,285,000)	<u>1,249,020</u>	<u>1,050,616</u>
TOTAL ASSETS	<u>\$ 1,272,806</u>	<u>\$ 1,104,133</u>
LIABILITIES AND STOCKHOLDER'S (DEFICIT) EQUITY		
LIABILITIES:		
Trust securities (Note 4)	<u>\$ 1,285,000</u>	<u>\$ 1,285,000</u>
Total liabilities	<u>1,285,000</u>	<u>1,285,000</u>
STOCKHOLDER'S (DEFICIT) EQUITY:		
Common stock, \$25 par value — authorized, issued and outstanding 40 shares	1	1
Accumulated other comprehensive loss	(35,980)	(234,384)
Retained earnings	<u>23,785</u>	<u>53,516</u>
Total stockholder's deficit	<u>(12,194)</u>	<u>(180,867)</u>
TOTAL LIABILITIES AND STOCKHOLDER'S (DEFICIT) EQUITY	<u>\$ 1,272,806</u>	<u>\$ 1,104,133</u>

See notes to financial statements.

RBS CAPITAL FUNDING TRUST V

STATEMENTS OF COMPREHENSIVE INCOME (LOSS) YEARS ENDED DECEMBER 31, 2014 and 2013 (In thousands)

	2014	2013
Interest income (Note 3)	\$ 46,084	\$ 40,137
Interest expense (Note 4)	<u>75,815</u>	<u>75,145</u>
NET LOSS	(29,731)	(35,008)
Other comprehensive income	<u>198,404</u>	<u>4,112</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 168,673</u>	<u>\$ (30,896)</u>

See notes to financial statements.

RBS CAPITAL FUNDING TRUST V

STATEMENTS OF CHANGES IN STOCKHOLDER'S (DEFICIT) EQUITY YEARS ENDED DECEMBER 31, 2014 and 2013 (In thousands)

	Common Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholder's (Deficit) Equity
BALANCE, JANUARY 1, 2013	\$ 1	\$ (238,496)	\$ 88,524	\$ (149,971)
Unrealized gain on available-for-sale securities	-	4,112	-	4,112
Net loss	-	-	(35,008)	(35,008)
BALANCE, DECEMBER 31, 2013	1	(234,384)	53,516	(180,867)
Unrealized gain on available-for-sale securities	-	198,404	-	198,404
Net loss	-	-	(29,731)	(29,731)
BALANCE, DECEMBER 31, 2014	<u>\$ 1</u>	<u>\$ (35,980)</u>	<u>\$ 23,785</u>	<u>\$ (12,194)</u>

See notes to financial statements.

RBS CAPITAL FUNDING TRUST V

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 and 2013 (In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (29,731)	\$ (35,008)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of carrying value adjustment of Trust Securities	-	18,284
Change in assets:		
Accrued interest receivable	<u>29,731</u>	<u>16,724</u>
Net cash provided by operating activities	-	-
CASH, BEGINNING OF YEAR	<u>1</u>	<u>1</u>
CASH, END OF YEAR	<u>\$ 1</u>	<u>\$ 1</u>
<u>Supplemental cash flow information:</u>		
Interest paid	\$ 75,815	\$ 56,861

See notes to financial statements.

RBS CAPITAL FUNDING TRUST V

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands unless otherwise noted)

1. ORGANIZATION AND NATURE OF OPERATIONS

RBS Capital Funding Trust V (the “Trust”) is a wholly owned subsidiary of The Royal Bank of Scotland N.V. (the “Bank”), which is a wholly owned subsidiary of RBS Holdings N.V. (“Holdings”). Holdings is a wholly owned subsidiary of RFS Holdings B.V. (“RFS”), which itself is 97.7% owned by The Royal Bank of Scotland Group plc (“RBS”). The Trust is economically and financially dependent on the Bank and Holdings.

The United Kingdom (“UK”) Government is the ultimate majority shareholder of RBS. The UK Government’s shareholding is managed by UK Financial Investment Limited, a company wholly owned by the UK Government.

The Trust, a statutory trust, was formed under the Statutory Trust Act pursuant to the Amended and Restated Trust Agreement dated as of July 3, 2003 (the “Trust Agreement”), and as amended on September 27, 2007, and a Certificate of Trust filed with the Secretary of State of the State of Delaware on April 1, 2003 for the sole purpose of issuing and selling its preferred securities (the “Trust Securities”), which represent an undivided beneficial interest in assets of the Trust and investing the proceeds thereof in the RBS Capital Funding LLC V (“Funding LLC”) preferred securities (the “LLC Securities”). Funding LLC used the proceeds from the issuance of the LLC Securities to invest in “Initial Intercompany Securities” issued by the Bank. Distributions, redemption and liquidation payments paid by the Funding LLC on the LLC Securities will pass through the Trust to pay distributions, redemption and liquidation payments on the Trust Securities. The Trust Securities are listed and traded on the Euronext exchange. The Bank of New York Mellon Trust Company, N.A., a Delaware Trustee, (“Trustee”) is the Trustee, Registrar, Property Trustee, and Paying Agent.

In the ordinary course of business, the Trust has transactions with affiliates. The Trust defines affiliates as wholly owned subsidiaries or branches of RBS unless otherwise indicated in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions regarding the fair value of the investment securities and the amortized cost basis of the Trust Securities that affect the amounts reported in the financial statements and accompanying disclosures. These estimates and assumptions are based on management’s judgment and available information. Actual results could differ from those estimates.

The Trust’s policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock unless it does not control the entity. However, the Trust did not have a controlling financial interest in any entity in the periods presented in the accompanying financial statements. Further, the Trust consolidates any variable interest entity for which the Trust is the primary beneficiary. However, the Trust has determined that it was not the primary beneficiary of any variable interest entity in the periods presented in the accompanying financial statements.

RBS CAPITAL FUNDING TRUST V

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands unless otherwise noted)

Investment Securities — The securities are classified as debt securities as they represent a preferred ownership interest in Funding LLC and by their terms must be redeemed by Funding LLC. The LLC Securities are classified as available-for-sale securities and measured at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income included in stockholder's equity. Interest income on the securities is recognized at the effective interest rate which is calculated using the interest rate method. Any changes in expectations of future cash flows are applied prospectively by adjusting the current effective interest rate. The investment securities are evaluated for impairment at each reporting date. With respect to the Trust investment securities, an other-than-temporary impairment is recognized if the Trust (a) intends to sell or expects to be required to sell the debt security before amortized cost is recovered or (b) does not expect to ultimately recover the amortized cost basis even if it does not intend to sell the security. Losses under (a) are recognized in earnings. Under (b) the credit loss component is recognized in earnings and any difference between fair value and the amortized cost basis net of the credit loss is reflected in other comprehensive income.

Fair Value Measurement — The Trust's available-for-sale investment securities are recorded at fair value on the Trust's statements of financial condition.

Fair value is defined as the price that could be received in an asset sale, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Control Environment

The control environment for the determination of the fair value of financial instruments includes the development and review of the appropriate pricing model for the financial instruments. The Company ensures that this model has been appropriately reviewed and accepted as appropriate for the financial instruments being valued.

Valuation Hierarchy

The accounting guidance for fair value measurements establishes a framework for measuring fair value using a three level hierarchy based upon the market observability and reliability of inputs used to value assets and liabilities, and requires enhanced disclosures about fair value measurements. Fair value measurement accounting guidance does not dictate when fair value should be the basis to account for a financial instrument, nor does it prescribe which valuation technique should be used. An entity is required to choose appropriate valuation techniques based upon market conditions, availability, reliability, and observability of valuation inputs.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value based upon the transparency and observability of such inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Valuations are based upon unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

RBS CAPITAL FUNDING TRUST V

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands unless otherwise noted)

Level 2 – Valuations are based upon either quoted prices for the same or like asset or liability in markets that are not active, or significant model inputs all of which are observable, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Valuations are based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Such inputs reflect assumptions that the reporting entity believes would be used by market participants in valuing the asset or liability but that are unobservable.

The level within which a financial instrument is categorized under the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. The Trust reviews its fair value hierarchy classifications periodically and changes in the observability of valuation inputs and in the significance of valuation inputs may result in a transfer between fair value hierarchy level categories. Any reclassifications are treated as if they occurred at the beginning of the reporting period.

The Trust's investment securities are classified as Level 2 at December 31, 2014 and December 31, 2013. The fair value of the investment securities was derived from the quoted price of a similar exchange-traded security.

Trust Securities — The Trust Securities are classified as a liability as the Trust Securities are mandatorily redeemable financial instruments with a redemption price equal to \$25 per security. The Trust Securities are held at amortized cost.

Federal Income Taxes — The Trust is a grantor trust for United States federal income tax purposes. As such, the Trust is considered a pass through entity and is not subject to federal or state income taxes.

3. INVESTMENT SECURITIES

A comparison of the cost and fair value of the available-for-sale securities at December 31, 2014 and December 31, 2013, respectively, is as follows:

Investment Securities	Available-for-Sale		
	Cost	Cumulative Unrealized Losses	Fair Value
December 31, 2014	\$ 1,285,000	\$ (35,980)	\$ 1,249,020
December 31, 2013	\$ 1,285,000	\$ (234,384)	\$ 1,050,616

The cumulative unrealized losses for the investment securities have been in a continuous unrealized loss position for greater than twelve months. The unrealized losses on the Trust's investments securities are considered to be temporary as the Trust has the ability and intent to hold these

RBS CAPITAL FUNDING TRUST V

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands unless otherwise noted)

investments until a recovery of fair value occurs, which may be upon redemption, and the redemption of such investment securities, at cost, is guaranteed by Holdings.

The investment securities are LLC Securities, issued by Funding LLC, that receive quarterly interest payments in arrears, when deemed declared by the Funding LLC's board of directors, at an annual rate of 5.90%. The LLC Securities are redeemable, at the option of the Funding LLC and with prior approval of Holdings and the Dutch Central Bank, in whole or in part, as of July 3, 2008 and at any time thereafter at the redemption price of \$25 per security. The LLC Securities are also redeemable at the redemption price of \$25 per security if a LLC special redemption event occurs. A LLC special redemption event would occur when the Dutch Central Bank notifies Holdings that the LLC Securities may not be included in the Tier 1 Capital of Holdings, if there is insubstantial risk that the LLC would be considered an "investment company" under the 1940 Act, or there is insubstantial risk that the Funding LLC will be subject to taxes due to a change in tax law.

Interest payments on the LLC Securities were suspended effective April 1, 2011 through March 31, 2013 and resumed effective April 1, 2013.

4. TRUST SECURITIES

A total of 51.4 million Trust Securities were issued and are outstanding at December 31, 2014 and December 31, 2013, with an initial price of \$25 per security (the liquidation preference), representing a total value of \$1.285 billion. The Trust Securities are non-cumulative and pay interest quarterly on the last day of March, June, September and December of each year, commencing in September 2003, at an annual rate of 5.90%. Interest payments on the Trust Securities will be made to the extent that the Trust has funds available for the payment of interest. Interest is paid through the property trustee who holds the interest received in respect to the LLC Securities for the benefit of the holders of the Trust Securities. Amounts available to the Trust for payment to the holders of the Trust Securities are limited to payments received by the Trust from Funding LLC or from Holdings. Upon the redemption of the LLC Securities, the proceeds from such repayment will simultaneously be applied to redeem a corresponding number of Trust Securities at the redemption price of \$25 per security.

As the Trust did not receive interest payments during the period from April 1, 2011 through and including March 31, 2013, it suspended interest payments on the Trust Securities. In December 2010, the carrying value of the Trust Securities was reduced by \$139 million to reflect the impact of the change in future cash flows. The related gain was amortized as interest expense from April 1, 2011 through March 31, 2013. Interest payments on the Trust Securities resumed effective April 1, 2013.

The Trust Securities are traded on the Euronext exchange and have readily determinable fair values and are classified as Level 1 as of December 31, 2014 and December 31, 2013. The amortized cost and fair value of the Trust Securities as of December 31, 2014 and December 31, 2013 are as follows:

RBS CAPITAL FUNDING TRUST V

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in thousands unless otherwise noted)

Trust Securities	Carrying Value	Fair Value
December 31, 2014	<u>\$ 1,285,000</u>	<u>\$ 1,249,020</u>
December 31, 2013	<u>\$ 1,285,000</u>	<u>\$ 1,050,616</u>

In the event the Bank is notified by the Dutch Central Bank that the Bank's capital adequacy ratio would, after payment of the interest payment on the Initial Intercompany Securities, be less than the minimum capital adequacy requirements, a "Regulatory Event" would occur. Upon the occurrence of a Regulatory Event, the Trust Securities will be exchanged for perpetual, non-cumulative "Capital Securities" of the Bank, having equivalent liquidation preference, rights and restrictions in all material respects to the rights and restrictions of the Trust Securities.

5. GUARANTEES

Holdings irrevocably and unconditionally guarantees, on a subordinated basis, payment obligations under the LLC Securities, the Trust Securities and the Capital Securities.

6. SERVICING AGREEMENT

Pursuant to the Services Agreement, dated July 3, 2003 (and further amended on September 27, 2007 and May 23, 2012), RBS WCS Holding Company, in its capacity as "Advisor", renders various services to the Trust. Under the Services Agreement, the Advisor pays all of the Operating Expenses of the Trust. The services that are provided, but not limited to, are to administer the day-to-day operations and provide administrative, accounting and security holder relations. The Trust does not pay a service fee to RBS WCS Holding Company nor are such servicing costs allocated to the Trust or the holders of the Trust Securities.

7. SUBSEQUENT EVENTS

The Trust has evaluated subsequent events for adjustment to or disclosure in its financial statements through April 29, 2015, the date the audited financial statements were available to be issued.

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