BASE LISTING DOCUMENT DATED 19 APRIL 2010

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Base Listing Document relating to Structured Products to be issued by

THE ROYAL BANK OF SCOTLAND N.V.
(formerly known as "ABN AMRO BANK N.V.")

(Incorporated in The Netherlands with limited liability. Authorised by De Nederlandsche Bank.)

Sponsor

RBS ASIA LIMITED

(formerly known as "ABN AMRO ASIA LIMITED")

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is published for the purpose of giving information with regard to us and our warrants (the "**Warrants**"), callable bull/bear contracts (the "**Contracts**") and other structured products (together with the Warrants and the Contracts, the "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

The Structured Products involve derivatives. Investors should not invest in the Structured Products unless they fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying shares; (b) the trustee or the manager of the underlying unit trusts; or (c) the index compiler of any underlying index.

CONTENTS

IMPORTANT INFORMATION

What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

A supplemental listing document will be issued on the issue date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time) together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Products. You should carefully study the risk factors set out in the Listing Documents.

What are our credit ratings?

Our long term debt ratings are:

Rating agency	Rating as of the date of this document
Moody's Investors Service, Inc., New York	A2
Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc.	A+
Fitch Ratings	AA-

Rating agencies usually receive a fee from issuers that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;

(b) ratings of issuers may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and

(c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the date of this document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products.

The Structured Products are not rated.

Are we regulated by any bodies referred to in Rule 15A.13(2) or (3) of the Listing Rules?

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also regulated by, among others, the Dutch Central Bank (De Nederlandsche Bank N.V.).

Are we subject to any litigation?

In a number of jurisdictions, legal proceedings have been initiated against us or our group companies whose financial statements have been included in the consolidated financial statements for the year ended 31 December 2009 of RBS Holdings N.V. (formerly known as "ABN AMRO Holding N.V.") ("**RBS Holdings**") set out in Appendix 4 of this document.

On the basis of information currently available, and having taken counsel with our legal advisers, we are of the opinion that the outcome of these proceedings (including any such proceedings which are pending or threatened of which we or RBS Holdings are aware) is unlikely to have a significant effect on our consolidated financial position or profitability.

Authorisation for the issue of the Structured Products

Our management, pursuant to the authority delegated by our board of directors, authorised the issue of the Structured Products on 22 March 2005.

Has our financial position changed since last financial year-end?

Save as disclosed in Appendix 4 of this document, there has been no material adverse change in our financial or trading position since 31 December 2009.

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission charges a transaction levy of 0.004 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended. Your broker may charge commission or other fees. You should check with your broker what fees will be chargeable.

Do you need to pay any tax in Hong Kong?

No tax is payable in Hong Kong by way of withholding or otherwise in respect of any capital gains arising on the sale of the Structured Products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

Grey market dealings

Following the launch of a series of Structured Products, we may place all or part of that series with our related party. The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of the Stock Exchange at *www.hkex.com.hk.*

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of our Hong Kong Branch at 38th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong:

(a) the 2009 annual report of RBS Holdings;

(b) the consent letter of the auditors of RBS Holdings, Deloitte Accountants B.V. ("**Auditors**");

(c) this document and any addendum to this document;

(d) the supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and

(e) the instrument executed by us by way of deed poll on 16 April 2007 which constitutes the Structured Products.

Requests for photocopies of the above documents will be subject to a reasonable fee, which reflects the cost of providing such copies.

The Listing Documents are also available on the websites of the Stock Exchange at *http://www.hkex.com.hk/eng/dwrc/search/listsearch.asp or http://www.hkex.com.hk/eng/cbbc/search/listsearch.asp.*

各上市文件亦可於聯交所網站 (*http://www.hkex.com.hk/chi/dwrc/search/listsearch_c.asp*) 或 (*http://www.hkex.com.hk/chi/cbbc/search/listsearch_c.asp*) 瀏覽。

Have the Auditors consented to the inclusion of their report in the Listing Documents?

The Auditors have given and have not withdrawn their written consent to the inclusion of their report dated 26 March 2010 and/or the references to their name in this document, in the form and context in which they are included. Their report was not prepared exclusively for incorporation into this document. The Auditors do not hold our shares or shares in our subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

Authorised Representatives

Our authorised representatives are David Byrne and Lisa Leung of 38th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

The Sponsor is authorised to accept service of process on our behalf in Hong Kong (c/o 38th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong).

RBS Holdings N.V.

Under a declaration under Article 2:403 of the Netherlands Civil Code, RBS Holdings is jointly and severally liable with us for our obligations under the Structured Products.

How can you get further information about us or RBS Holdings?

You may visit *www.rbs.com* to obtain information about us, RBS Holdings and other companies of our group. You must note that the information on our website will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by us, including the Structured Products.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

HKEx, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions and the applicable Product Conditions (set out in Appendices 1 to 3, collectively the "**Conditions**") and/or the relevant Supplemental Listing Document.

PLACING AND SALE

General

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required.

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us.

The Netherlands

Structured Products which qualify as savings certificates as defined in the Savings Certificates Act ("*Wet inzake spaarbewijzen*") may only be transferred or accepted through our mediation or the mediation of an admitted institution of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act and its implementing regulations (including registration requirements), provided that no mediation is required in respect of:

(a) the initial issue of those Structured Products to the first holders of such Structured Products;

(b) any transfer and delivery by individuals who do not act in the conduct of a profession or trade; and

(c) the issue and trading of those Structured Products, if they are physically issued outside The Netherlands and are not distributed in The Netherlands in the course of primary trading or immediately thereafter.

Any Structured Products with a maturity of less than 12 months and a denomination of less than EUR 50,000 may only be offered in The Netherlands to professional market parties as defined in the Dutch Financial Supervision Act ("*Wet op het financieel toezicht*") and the decrees issued pursuant thereto.

United States of America

The Structured Products have not been and will not be registered under the Securities Act of 1933 (as amended) (the "**Securities Act**") and trading in the Structured Products has not been and will not be approved by the United States Commodity Futures Trading Commission under the United States Commodity Exchange Act of 1922. The Structured Products may not at any time be offered, sold, delivered, traded or exercised, directly or indirectly, in the United States or to, or for the account or benefit of, a U.S. person and a U.S. person may not, at any time, directly or indirectly, maintain a position in the Structured Products. Offers, sales, trading or delivery of the Structured Products in the United States or to, or for the account or benefit of, U.S. persons may constitute a violation of United States laws governing commodities trading. Exercise of the Structured Products will be conditional upon certification as to non-U.S. beneficial ownership. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

We will not offer, sell or deliver any Structured Products within the United States or to, or for the account or benefit of, U.S. persons, and we will require all those dealers participating in the distribution of the Structured Products not to offer, sell, deliver or trade, at any time, directly or indirectly, any Structured Products in the United States or to, or for the account or benefit of, any U.S. person. In addition, we will send to each dealer to which we sell Structured Products at any time a confirmation or other notice setting forth the restrictions on offers, sales and deliveries of the Structured Products in the United States or to, or for the account or benefit of, U.S. persons. As used herein, "**United States**" means the United States of America, its territories or possessions, any state of the United States, the District of Columbia or any other enclave of the United States government, its agencies or instrumentalities; and "**U.S. person**" means:

(a) any person who is a U.S. person as defined in Regulation S under the Securities Act;

(b) any person or entity other than one of the following:

  (1) a natural person who is not a resident of the United States;

  (2) a partnership, corporation or other entity, other than an entity organised principally for passive investment, organised under the laws of a jurisdiction other than the United States and which has its principal place of business in a jurisdiction other than the United States;

  (3) an estate or trust, the income of which is not subject to United States income tax regardless of source;

  (4) an entity organised principally for passive investment such as a pool, investment company or other similar entity, provided that units of participation in the entity held by U.S. persons represent in the aggregate less than 10 per cent. of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by U.S. persons; or

  (5) a pension plan for the employees, officers or principals of an entity organised and with its principal place of business outside the United States.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), we represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") we have not made and will not make an offer of Structured Products which are the subject of the listing contemplated in this document as completed by the relevant Supplemental Listing Document in relation thereto to the public in that Relevant Member State except that we may, with effect from and including the Relevant Implementation Date, make an offer of Structured Products to the public in that Relevant Member State:

(a) if the relevant Supplemental Listing Document specifies that an offer of the relevant Structured Products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Structured Products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the relevant Supplement Listing Document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Supplement Listing Document, as applicable;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in Structured Products;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Structured Products referred to in (b) to (e) above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Structured Products to the public**" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the "Prospectus Directive" in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) ("**FSMA**")) in connection with the issue or sale of any Structured Products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA would not, if we were not an authorised person, apply to us. All applicable provisions of the FSMA have been complied, and will be complied, with respect to anything done by us in relation to any Structured Product in, from or otherwise involving the United Kingdom.

OVERVIEW OF WARRANTS

What is a derivative warrant?

A derivative warrant linked to a share, a unit, a commodity, a commodity future, an index or other asset ("**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the exercise/strike price or strike level on the exercise date or the expiry date (as the case may be).

It usually costs a fraction of the price of the Underlying Asset and may provide leveraged return to you (but conversely, it could also magnify your losses).

For low strike price/level call warrants, as the strike price/level is set at a very low level (close to zero), such warrants do not provide a leverage for investors on their investment as in the case of other types of derivative warrants.

When can you get back your investment and what (if any) do you get back?

American style Warrants can be exercised on or before the Expiry Date. European style Warrants can only be exercised on the Expiry Date.

Our Warrants will be exercised on the Expiry Date or the Exercise Date (as the case may be), entitling you to:

(a) in the case of cash settled Warrants, a cash amount called the "**Cash Settlement Amount**" (if positive); or

(b) in the case of physically settled Warrants, physical delivery of a pre-fixed quantity of the Underlying Asset called the "**Entitlement**",

each according to the Product Conditions applicable to the Warrants.

For cash settled Warrants, you will receive the Cash Settlement Amount less any Exercise Expenses upon expiry or exercise. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry or exercise of your Warrants.

For physically settled Warrants, you must pay any Exercise Expenses to us and will receive the Entitlement (being a pre-fixed quantity of the Underlying Asset) from us. If the value of the Entitlement drops below your investment amount, you will suffer a loss or a substantial loss of your investment.

How do the Warrants work?

The potential payoff upon expiry or exercise of the Warrants is calculated by us by reference to the difference between:

(a) for a Warrant linked to a share or unit, the Exercise/Strike Price and the Average Price/Closing Price;

(b) for a Warrant linked to a basket of shares, the Exercise Price and the sum of the Average Price/Closing Price of each share in the basket multiplied by its corresponding weightings called the "**Basket Component**";

(c) for a Warrant linked to an index, the Strike Level and the Closing Level; and

(d) for a Warrant linked to a commodity, commodity future or currency, the Exercise/Strike Price and the Closing Price.

The relevant Supplemental Listing Document will specify the payoff upon expiry or exercise of the relevant series of Warrants.

Call warrants

A call Warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the Warrant.

A call Warrant will be exercised if the Average Price, Closing Price or Closing Level (as the case may be) is greater than the Exercise/Strike Price or Strike Level (as the case may be). The more the Average Price, Closing Price or Closing Level (as the case may be) exceeds the Exercise/Strike Price or Strike Level (as the case may be), the higher the payoff upon expiry or exercise. If the Average Price, Closing Price or Closing Level (as the case may be) is at or below the Exercise/Strike Price or Strike Level (as the case may be), an investor in the call Warrant will lose all of his investment.

Put warrants

A put Warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the Warrant.

A put Warrant will be exercised if the Average Price, Closing Price or Closing level (as the case may be) is below the Exercise/Strike Price or Strike Level (as the case may be). The more the Average Price, Closing Price or Closing Level (as the case may be) is below the Exercise/Strike Price or Strike Level (as the case may be), the higher the payoff upon expiry or exercise. If the Average Price, Closing Price or Closing Level (as the case may be) is at or above the Exercise/Strike Price or Strike Level (as the case may be), an investor in the put Warrant will lose all of his investment.

Low strike price/level call warrants

A low strike price/level call Warrant is suitable for an investor who wants to access the Underlying Asset and holds a bullish view of the price or level of the Underlying Asset during the term of the Warrant.

The price of a low strike price/level call Warrant with an entitlement ratio to the Underlying Asset of 1 to 1 tends to move virtually on a ratio of 1 to 1 with the value of the Underlying Asset. The trading price of a low strike price/level call Warrant tends to mirror the movement in the dollar value of the Underlying Asset.

A low strike price/level call Warrant will be exercised if the Closing Price or Closing Level (as the case may be) is greater than the Strike Price or Strike Level (as the case may be). The more the Closing Price or Closing Level is above the Strike Price or Strike Level, the higher the payoff upon expiry or exercise.

Other types of warrants

The supplemental listing document applicable to other types of warrants will specify the type of such warrants.

You must read the Conditions to understand the formula for calculation of the Cash Settlement Amount (for cash settled Warrants) or the Entitlement (for physically settled Warrants) applicable to the relevant Warrants at expiry.

The Product Conditions applicable to each type of Warrants are set out in Parts A to J of Appendix 2 (as may be supplemented by any addendum or the relevant Supplemental Listing Document).

What are the factors determining the price of a derivative warrant?

The price of a Warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of the Warrants, their price will be influenced by a number of factors, including:

(a) the Exercise/Strike Price or Strike Level of the Warrants;

(b) the volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset);

(c) the time remaining to expiry: a Warrant is generally more valuable the longer the remaining life of the Warrant;

(d) interest rates;

(e) expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

(f) the supply and demand for the Warrants; and

(g) our creditworthiness.

What is your maximum loss?

Your maximum loss in the Warrants will be limited to your investment amount plus any transaction costs.

How can you get information about the Warrants after issue?

You may visit the Stock Exchange website at *http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* to obtain further information on the Warrants or any notice given by us or the Stock Exchange in relation to the Warrants.

OVERVIEW OF CONTRACTS

What are Contracts?

A Contract is a type of Structured Product that tracks the performance of an Underlying Asset. Contracts can be issued on different types of Underlying Assets, including:

(a) securities listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index;

(c) overseas securities, overseas indices, currencies or commodities as prescribed by the Stock Exchange from time to time; or

(d) other assets as prescribed by the Stock Exchange from time to time.

A list of eligible Underlying Assets for Contracts is available on the website of the Stock Exchange at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/underlying_latest.htm.*

Contracts are issued either as callable bull contracts ("**Bull Contracts**") or callable bear contracts ("**Bear Contracts**").

Bull Contracts are designed for investors who have an optimistic view on the Underlying Asset.

Bear Contracts are designed for investors who have a pessimistic view on the Underlying Asset.

Your maximum potential loss in a Contract is limited to the purchase price for the Contract, which is generally a fraction of the value of the Underlying Asset, plus any cost involved in such purchase.

Contracts have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate the Contracts upon the occurrence of a Mandatory Call Event.

There are two categories of Contracts, namely Category N and Category R. Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the Contracts. See "What is the mandatory call feature of Contracts?" below for further details.

If no Mandatory Call Event occurs, the Contracts will be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if positive) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level.

You must read the Conditions to understand the payout formula applicable to the relevant Contracts at expiry.

The Product Conditions applicable to each type of Contracts are set out in Parts A, B and C of Appendix 3 (as may be supplemented by any addendum or the relevant Supplemental Listing Document).

What is the mandatory call feature of Contracts?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate the Contracts if a Mandatory Call Event occurs. A Mandatory Call Event occurs when the Spot Price/Spot Level of the Underlying Asset is:

(a) at or below the Call Price/Call Level (in the case of a series of Bull Contracts); or

(b) at or above the Call Price/Call Level (in the case of a series of Bear Contracts),

at any time during a Business Day or an Index Business Day, as the case may be, during the Observation Period.

The Observation Period is the period from and including the Observation Commencement Date up to the close of trading on the Stock Exchange on the Last Trading Day prior to the Expiry Date.

Cancellation of trades

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades of the Contracts concluded via auto-matching or manually after the time at which a Mandatory Call Event occurs; and

(b) if a Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades of the Contracts concluded in such session and all manual trades of the Contracts concluded after the end of the pre-order matching period in such session,

will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

Cancellation of trades in Contracts following a Mandatory Call Event will be:

(a) in respect of Contracts linked to single equities listed on the Stock Exchange ("**Single Equity Contracts**") or Contracts linked to single unit trusts ("**Single Unit Trust Contracts**"), based on the automatic order matching and execution system time on the Stock Exchange at which the Spot Price is at or below the Call Price (for a series of Bull Contracts) or is at or above the Call Price (for a series of Bear Contracts);

(b) in respect of Contracts linked to an index ("**Index Contracts**") quoted on the Stock Exchange, the time at which the relevant index level published by the relevant index compiler is at or below the Call Level (for a series of Bull Contracts) or is at or above the Call Level (for a series of Bear Contracts); or

(c) in respect of Contracts linked to other Underlying Assets, the time at which the relevant spot price/spot level of the Underlying Asset published by the relevant price source specified in the relevant Supplemental Listing Document is at or below the Call Price/Call Level (for a series of Bull Contracts) or is at or above the Call Price/Call Level (for a series of Bear Contracts),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category N Contracts vs. Category R Contracts

The relevant Supplemental Listing Document will specify whether the Contracts are Category N Contracts or Category R Contracts.

"**Category N Contracts**" refers to Contracts of which the Call Price/Call Level is equal to the Strike Price/Strike Level. In respect of a series of Category N Contracts, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

"**Category R Contracts**" refers to Contracts of which the Call Price/Call Level is different from the Strike Price/Strike Level. In respect of a series of Category R Contracts, you may receive a cash payment (if any) called the "**Residual Value**" upon the occurrence of a Mandatory Call Event. In any case, the Residual Value cannot be lower than the Minimum Residual Value which is calculated by reference to the difference between the Minimum Trade Price/Minimum Index Level (in the case of a series of Bull Contracts) or the Maximum Trade Price/Maximum Index Level (in the case of a series of Bear Contracts) of the Underlying Asset during a specified period after the Mandatory Call Event and the Strike Price/Strike Level, and may be nil in the worst case scenario. The formula for calculation of the Minimum Residual Value will be set out in the applicable Product Conditions and the relevant Supplemental Listing Document.

You must read the relevant Conditions carefully to understand your entitlement (if any) following a Mandatory Call Event.

How is the Residual Value calculated?

In respect of a series of Category N Contracts, you will not receive any cash payment upon termination of the Contracts after a Mandatory Call Event.

In respect of a series of Category R Contracts, you may receive a Residual Value upon termination of the Contracts after a Mandatory Call Event. The Residual Value will be determined by us by reference to:

(a) in respect of a series of Bull Contracts, the difference between the price at which hedging transactions in the Underlying

Asset with respect to Contracts are unwound and the Strike Price/Strike Level, subject to the Minimum Residual Value, being the difference between the Minimum Trade Price/Minimum Index Level of the Underlying Asset and the Strike Price/Strike Level; and

(b) in respect of a series of Bear Contracts, the difference between the price at which hedging transactions in the Underlying Asset with respect to the Contracts are unwound and the Strike Price/Strike Level, subject to the Minimum Residual Value, being the difference between the Maximum Trade Price/Maximum Index Level of the Underlying Asset and the Strike Price/Strike Level.

The Minimum Residual Value could be nil if the Minimum Trade Price/Minimum Index Level (in respect of Bull Contracts) is equal to or lower than the Strike Price/Strike Level or if the Maximum Trade Price/Maximum Index Level (in respect of Bear Contracts) is equal to or higher than the Strike Price/Strike Level. We may, at our absolute discretion, pay a higher amount than the Minimum Residual Value specified above.

You must read the relevant Conditions to understand the calculation formula of the Minimum Residual Value applicable to Category R Contracts.

How is the funding cost calculated?

The Issue Price of a Contract represents:

(a) the difference between the initial reference spot price or level of the Underlying Asset as at the launch date of the Contract and the Strike Price/Strike Level, plus

(b) the applicable funding cost. The initial funding cost applicable to each series of Contracts as of the launch date will be specified in the relevant Supplemental Listing Document. The funding cost is an amount determined by us based on a number of factors, including but not limited to the Strike Price/Strike Level (representing the margin financing provided by us in respect of the Contract), the prevailing interest rate and, for Single Equity Contracts or Single Unit Trust Contracts, the expected dividend/distribution yield in respect of the Underlying Asset.

There is a possibility that the funding cost may fluctuate over the life of a Contract.

Further details about the funding cost applicable to a series of Contracts will be described in the relevant Supplemental Listing Document.

We may not hold the Underlying Asset

We may choose not to hold the Underlying Asset or any derivative contracts linked to the Underlying Asset. There is no restriction through the issue of the Contracts on our and/or our affiliates' ability to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivative products linked to the Underlying Asset.

What are the factors determining the price of a Contract?

The value of a Contract with an entitlement ratio to the Underlying Asset of 1 to 1 tends to move virtually on a ratio of 1 to 1 with the value of the Underlying Asset. The trading price of a Contract tends to mirror the movement in the dollar value of the Underlying Asset. However, throughout the term of a Contract, its price will be influenced by a number of factors, including:

(a) the Strike Price/Strike Level and the Call Price/Call Level of the Contract;

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R Contracts only, the residual funding costs and the probable range of the Residual Value payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) any change(s) in interim interest rates;

(f) expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

(g) the supply and demand for the Contracts;

(h) the depth of the market or liquidity of future contracts relating to the Underlying Asset;

(i) any related transaction costs; and

(j) our creditworthiness.

What is your maximum loss?

Your maximum loss in a Contract is limited to the purchase price for the Contract plus any transaction costs.

How can you get information about the Contracts after issue?

You may visit the Stock Exchange website at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/intro.htm* to obtain further information on the Contracts or any notice given by us or the Stock Exchange in relation to the Contracts.

INFORMATION ABOUT US

History and Incorporation

The origin of The Royal Bank of Scotland N.V. ("**RBS N.V.**") can be traced to the formation of "Nederlandsche Handel-Maatschappij, N.V." in 1825 pursuant to a Dutch Royal Decree of 1824. Our Articles of Association were last amended by deed of 5 February 2010 executed before a deputy of B.J. Kuck, civil law notary in Amsterdam, which amendment became effective on 6 February 2010. We are registered in the Commercial Register of Amsterdam under number 33002587. Our registered office is at Gustav Mahlerlaan 10, 1082 PP Amsterdam, The Netherlands.

Our place of business in Hong Kong is at 38th Floor, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

We are a wholly-owned subsidiary of RBS Holdings which is incorporated as a limited liability company under Dutch law by deed of 30 May 1990 as our holding company. The registered office of RBS Holdings is at Gustav Mahlerlaan 10, 1082 PP Amsterdam, The Netherlands.

On 17 October 2007 RBS Holdings (then known as ABN AMRO Holding N.V.) was acquired through RFS Holdings B.V. ("**RFS Holdings**"), a company incorporated by a consortium (the "**Consortium**" or the "**Consortium Members**") consisting of the Royal Bank of Scotland Group plc ("**RBS**"), Fortis N.V., Fortis SA/NV ("**Fortis**") and Banco Santander S.A. ("**Santander**"). RBS Holdings applied for de-listing of its ordinary shares from Euronext Amsterdam and the New York Stock Exchange. The de-listing of RBS Holdings' ordinary shares and the (formerly convertible) preference shares with a nominal value of €2.24 each from Euronext Amsterdam and the de-listing of its American Depositary Shares from the New York Stock Exchange was effected on 25 April 2008. Through subsequent purchases RFS Holdings became the sole shareholder of RBS Holdings.

RFS Holdings is controlled by RBS Group plc, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland.

On 3 October 2008, the State of the Netherlands ("**Dutch State**") acquired all Fortis' businesses in The Netherlands, including the Fortis share in RFS Holdings. On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland (Holding) N.V. its investment in RFS Holdings, to become a direct shareholder in RFS Holdings.

On 1 April 2010, RBS Holdings and RBS N.V. published a press release announcing the completion of the process of legal separation of ABN AMRO Bank N.V. (an independent bank owned by the Dutch State's holding company ABN AMRO Group N.V.) from RBS Holdings.

Following legal separation RBS Holdings has one direct subsidiary, RBS N.V. and its consolidated subsidiaries. RBS Holdings and RBS N.V. form part of the RBS Group plc.

Business Overview

RBS N.V. operates on a significant scale across Europe, the Middle East and Africa, the Americas and Asia. At legal separation on 1 April 2010, RBS N.V. has a sizeable balance sheet, a significant staff presence and a broad set of products; provided by a sales force operating in approximately 50 countries (reducing over time following intended asset sales or exits of selected network countries). As at 31 December 2009, the RBS acquired businesses within RBS N.V. reported total consolidated assets of €275 billion and had more than 27,000 full time staff through a network of 264 offices and branches.

RBS N.V. comprises the following core businesses:

— Global Banking & Markets: Global Lending, Equities, Short Term Markets & Funding, and Local Markets;

— Global Transaction Services: Global Trade Finance, Transaction Banking and International Cash Management;

— Risk & Restructuring: The Non-Core Division in Risk & Restructuring contains assets that are no longer core to RBS Group's strategic objectives and include Trading, Wholesale Banking and Retail & Commercial Business Units, as well as selected network countries.

The assets will reduce over time through wind-down, sale or transfer. As a full operating bank, RBS N.V. will rank alongside the main operating banks within the RBS Group plc. It will be part of the multi-legal entity approach adopted by the RBS Group plc and its businesses will principally contain international lending, international transaction services and equities businesses.

More information can be found on *www.rbs.com*

RBS Holdings' and our Managing Boards and Supervisory Boards

RBS N.V. has appointed new Supervisory and Managing Boards. RBS Holdings is governed by the same boards. The Supervisory Board will initially consist of three executives from RBS Group, Bruce Van Saun (Chairman), Ron Teerlink and Miller McLean, who will retire as an executive on 30 April 2010. A fourth external Supervisory Board member is expected to be appointed during the second quarter of 2010.

The members of the Managing Board are:

Jan de Ruiter	Chairman
Michael Geslak	Chief Administration Officer
Petri Hofsté	Chief Financial Officer
Jeroen Kremers	Chief Risk Officer
Marco Mazzucchelli	Head of Global Banking and Markets
Brian Stevenson	Head of Corporate Banking and Global Transaction Services

The business address of the Supervisory and Managing Boards is the registered office of RBS Holdings. The Managing Board makes policy and manages RBS Holdings and RBS N.V. (and its consolidated subsidiaries) on a daily basis.

Statutory Auditors

RBS Holdings' financial year is the calendar year. RBS Holdings is required by Dutch law to have statutory auditors. Deloitte Accountants B.V. were appointed to act as the auditors of the financial statements of RBS Holdings for the financial year 2009.

Use of Proceeds

We intend to add the net proceeds from the sale of the Structured Products to our general funds to be used for general corporate purposes including hedging of the Structured Products.

Prior to investing in any Structured Products, you should consider carefully all relevant risks and whether the Structured Products are suitable for you in light of your experience, objectives, financial position and other relevant circumstances, and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please read the following section together with the risk factors set out in the relevant Supplemental Listing Document.

General risks relating to us as the issuer of the Structured Products

Structured Products are unsecured obligations

Each series of Structured Products will constitute our general unsecured contractual obligations and of no other person and will rank on a parity with our other unsecured contractual obligations and unsecured and unsubordinated debt. At any given time, the number of Structured Products outstanding may be substantial.

Repurchase of the Structured Products

We may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

Our creditworthiness

If you purchase Structured Products you are relying upon our creditworthiness and have no rights under these products against:

(a) any company which has issued any underlying shares;

(b) the trustee or the manager of any underlying unit trusts;

(c) any index compiler of any underlying index.

We do not guarantee the repayment of your investment in any Structured Products.

Any downgrading of our rating by rating agencies such as Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc., or Fitch Ratings could result in a reduction in the value of the Structured Products.

No deposit liability or debt obligation

We have an obligation to deliver to you in accordance with the Conditions of each series of the Structured Products either the Underlying Asset or the Cash Settlement Amount upon expiry or maturity, as the case may be. We do not intend (express, implicit or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

Conflicts of interest

We, our subsidiaries or affiliates (the "**Group**") engage in a wide range of activities and may possess material information about the Underlying Assets to which the relevant Structured Products is linked. Such activities and/or information may involve or affect the Structured Products and may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of the Structured Products. Our Group:

(a) have no obligation to disclose such information about the Underlying Assets and may engage in any such activities without regard to the issue of the Structured Products;

(b) may engage in transactions involving the Underlying Assets for our respective proprietary accounts and/or for accounts under our respective management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the value of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and/or

(e) may act as underwriter in connection with future offerings of shares or other securities or may act as the sponsor's or our financial adviser, as the case may be, of any such share or other security or in a commercial banking capacity for us of any share or other security. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

Additional risks relating to the Group

For more information on additional risk factors relating to the Group, please refer to pages 61-68 of the 2009 annual report of RBS Holdings as extracted in Appendix 5 to this document.

General risks relating to Structured Products

You may lose all or part of your investment in the Structured Product

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest, foreign exchange, time value, market, and/or political risks. You should recognise that certain Structured Products may expire worthless.

Options, warrants and index/equity linked instruments are priced primarily on the basis of the price or level of the Underlying Asset, the volatility of the Underlying Asset's price or level and the time remaining to expiry of the Structured Product.

The price of Structured Products may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Changes in the price or level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price or level of the Underlying Asset moving in a direction which will negatively impact upon the return on an investment. Assuming all other factors are held constant, the more the price of the assets underlying a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

"European Style" Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price or level of the Underlying Assets.

Correlation between the price of Structured Products and the value of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Assets. The market values of Structured Products are linked to the relevant Underlying Asset(s) and will be influenced (positively or negatively) by it or them but any change may be incomparable and disproportionate with the movements in the price or level of the Underlying Asset(s). It is possible that while the price or level of the Underlying Assets is increasing, the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset, you should recognise the complexities of utilising Structured Products of any series in this manner. There is no assurance that their value will correlate with movements of the Underlying Asset. Therefore, it is possible that you could suffer substantial losses in the Structured Products notwithstanding any losses suffered with respect to investments in or exposure to the Underlying Assets.

Minimum exercise amount

In respect of American Style Structured Products and if so indicated in the relevant Supplemental Listing Document, you may have to tender a specified number of Structured Products at any one time in order to exercise or close out your Structured Products. If you have fewer than the specified minimum number of a Structured Product to a particular series, you will either have to sell your Structured Products or purchase additional Structured Products, incurring transaction costs in each case, in order to realise your investment.

Maximum exercise amount

In respect of American Style Structured Products and if so indicated in the relevant Supplemental Listing Document, we will have the option to limit the number of Structured Products exercisable or maturing on any Exercise Date to the maximum number specified therein and, in conjunction with such limitation, to limit the number of Structured Products exercisable or being closed out by any holder on such day. In the event that the total number of Structured Products being exercised or being closed out exceeds such specified maximum number, you may not be able to realise the value of your investment in all the Structured Products on that day.

Possible illiquidity of secondary market

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products or at what price such series of Structured Products will trade in the secondary market or whether such market will be liquid or illiquid. The fact that the Structured Products may be so listed does not necessarily lead to greater liquidity than if they were not so listed.

In the event of a delisting of any series of Structured Products on the Stock Exchange (other than at expiry or maturity), we will use all reasonable efforts to list the affected series of Structured Products on another exchange. If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may involve greater risks than dealing in exchange-traded Structured Products. To the extent that Structured Products of any series are exercised or closed out, the number of Structured Products outstanding to that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will, to the extent practicable, use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time value

The settlement amount of certain series of Structured Products at any time prior to expiration or maturity, as the case may be, may be less than the trading price of such Structured Products at that time. The difference between the trading price/level and the settlement amount as the case may be, will reflect, among other things, a "time value" for the Structured Products. The "time value" of the Structured Products will depend partly upon the length of the period remaining to expiration or maturity and expectations concerning the value of the Underlying Asset.

Exchange rate risk

There may be an exchange rate risk in the case of Structured Products where the Cash Settlement Amount will be converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the

Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies which are current rates at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See "Do you need to pay any tax in Hong Kong?" in the section headed "Important Information" on page 4 for further information.

Modification to the Conditions

Under the Conditions, we may without your consent, modify the terms and conditions applicable to the Structured Products if such modification is not materially prejudicial to the interests of the Holders, of a formal, minor or technical nature, made to correct an obvious error, necessary for compliance with mandatory provisions of applicable laws and regulations, or considered appropriate by us and is approved by the Stock Exchange.

Possible early termination for illegality or impracticality

If the Conditions provide for termination due to illegality or impracticality and we determine that the performance of our obligations under the relevant Structured Products has become illegal or impractical in whole or in part, we may at our sole and absolute discretion and without obligation terminate early the relevant Structured Products. In such event, we will, if and to the extent permitted by applicable law, pay an amount determined by us to be the fair market value of the relevant Structured Products notwithstanding the illegality or impracticality.

General risks relating to the Underlying Asset

You are expected to be experienced with dealing in Structured Products and should understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the Structured Products may relate.

You have no right to the Underlying Asset

Structured Products convey no interest in the Underlying Asset. You will not be entitled to, in the case of shares or units, voting rights or rights to receive dividends or other distributions or any other rights that a holder of the shares or units would normally be entitled to or, in the case of other assets, the benefit from any rights or benefits to which the owner of (or investor in) the Underlying Assets is entitled unless specifically indicated as otherwise in the Supplemental Listing Document relating to such series of Structured Product.

Valuation risk

An investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The value of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors and speculation.

Where the Underlying Asset is a basket comprised of various securities, indices, currencies, commodities, interest rates or other assets, instruments or prices, fluctuations in the value of any one component item in such basket may be offset or intensified by fluctuations in the value of the other component items which comprise the relevant basket.

Where the Underlying Asset is an Index, the value of the Index may increase or decrease by reference to various factors which may include changes in the formula for or the method of calculating the Index.

Adjustment related risk

Certain events relating to the Underlying Asset permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions of the Structured Products. We may in our sole discretion adjust, among other things, the Entitlement, the Exercise Price or any other terms (including without limitation the closing price of the Underlying Asset) of any series of Structured Product for events such as rights issue, bonus issue, subdivision, consolidation, restructuring event or certain cash distribution.

However, we are not required to make an adjustment for every event that can affect the Underlying Asset. If an event occurs that does not require us to adjust the Conditions, the market price of the Structured Products and the return upon the exercise of the Structured Products may be affected.

Suspension of trading

Prior to the Expiry Date if trading or dealing in the Underlying Assets or any component part of the Underlying Assets is suspended on the Stock Exchange or any other relevant stock exchange, trading in the relevant series of Structured Products may be suspended for a similar period.

Delisting of Underlying Asset

If at any time the Underlying Asset ceases to be listed on the Stock Exchange, we may, in our absolute discretion, make adjustments and amendments to the rights attaching to the Structured Products pursuant to the Conditions. Such adjustments and amendments are conclusive and binding on you.

Delay in settlement

Unless otherwise specified in the applicable Product Conditions, in the case of any exercise or maturity, as the case may be, of Structured Products, there may be a time lag between the date on which the Structured Products are exercised or matured, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of exercise or maturity and the determination of the settlement amount will be specified in the applicable Product Conditions. However, such delay could be significantly longer, particularly in the case of a delay in the exercise or maturity of such Structured Products arising from, our determination that a Market Disruption Event, Settlement Disruption Event or delisting of the underlying shares or units has occurred at any relevant time or that adjustments are required in accordance with the applicable Product Conditions. That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

If there is a Settlement Disruption Event or a Market Disruption Event, determination of the Closing Price/Closing Level on the Valuation Date and payment of the Cash Settlement Amount or delivery of share certificates to underlying shares, electronic settlement of the underlying shares through CCASS, as the case may be, may be delayed, all as more fully described in the Conditions. We will not be liable to you for any interest in respect of the Cash Settlement Amount or any loss or damage that you may suffer as a result of a delay in such payment due to a Settlement Disruption Event or a Market Disruption Event.

Risks relating to Structured Products over indices

Where the Underlying Asset is an index, the level for the underlying index may be published by the index compiler at a time when one or more components comprising the index are not trading. If this occurs on a Valuation Date but such occurrence does not constitute a Market Disruption Event under the applicable Conditions then the value of such components may not be included in the closing level of the index. This may have an unforeseen adverse impact on the value of your investment.

In addition, certain events relating to the underlying index (including a material change in the formula or the method of calculating the underlying index or a failure to publish the underlying index) permits us to determine the level of the underlying index on the basis of the formula or method last in effect prior to such change or failure. In making any such decision, we will not take into account your individual interest in the Structured Products. Therefore, you should be aware that any decision made by us may have an unforeseen adverse impact on the value of your investment.

Risks relating to Structured Products over trusts

In the case of Structured Products which relate to units in a trust:

(a) neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee or the manager of the relevant trust (i) is involved in the offer of the Structured Products in any way, or (ii) has any obligation to consider the interest of the holders of Structured Products in taking any corporate actions that might affect the value of the Structured Products; and

(b) we have no role in the relevant trust. The trustee or the manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and/or investment restrictions as set out in its constitutive documents. The manner in which the relevant trust is managed and the timing of such decisions will have a significant impact on the performance of the Underlying Asset. Hence, the price which is used to calculate the performance of the Underlying Asset is also subject to these risks.

Risks relating to Contracts

Correlation between the price of a Contract and the value of the Underlying Asset

When the Underlying Asset of a Contract is trading at a price or level close to its Call Price/Call Level, the price of that Contract tends to be more volatile and any change in the value of that Contract at such time may be incomparable and disproportionate with the change in the value of the Underlying Asset.

Delay in announcement of Mandatory Call Event

We will notify the market as soon as practicable after the Contract has been called. You must however be aware that there may be a delay in the announcement of a Mandatory Call Event due to technical errors, system failures, different time zones and other factors that are beyond our control or the control of the Stock Exchange.

Mandatory Call Event is irrevocable

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Price or Call Level and other parameters); or

(b) manifest errors caused by the relevant third party price source (such as miscalculation of the index level by the relevant index compiler);

in each case, subject to mutual agreement between the Stock Exchange and ourselves which must be reached by such time as specified in the relevant Conditions in which a Mandatory Call Event may be reversed. Upon the revocation of the Mandatory Call Event, trading of the Contracts will resume and any cancelled Post MCE Trades reinstated in accordance with the Conditions.

Disclaimers relating to Mandatory Call Event

The Stock Exchange and its recognised exchange controller, HKEx, shall not incur any liability (whether based on contract, tort, (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEx) for, any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We are not responsible for any losses you suffer as a result of Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event or the resumption of trading of the Contracts or reinstatement of any Post MCE Trades cancelled in connection with the reversal of any Mandatory Call Event notwithstanding that such Trading Suspension and/or Non-Recognition of Post MCE Trades occurs as a result of an error in the observation of the event.

Unwinding activities may affect value of Contracts

In respect of Category N Contracts, we or our affiliates may unwind our respective hedging transactions in relation to the Contracts at any time. Such unwinding activities may cause a fall or rise in the trading price or level of the Underlying Asset and trigger the occurrence of a Mandatory Call Event for the Contracts.

In respect of Category R Contracts, before the occurrence of a Mandatory Call Event, we or our affiliates can unwind our respective hedging transactions in the Underlying Asset relating to the number of Contracts that we or our affiliates respectively repurchase from the market from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates can only unwind our respective hedging transactions relating to the Contracts after the occurrence of the Mandatory Call Event. The unwinding of hedges after the occurrence of a Mandatory Call Event may affect the value of the Underlying Asset and consequently the Residual Value for the Contracts.

Our trading and/or hedging activities and those of our affiliates and/or our respective related parties related to Contracts and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset and may affect the likelihood that relevant Call Price or Call Level (as the case may be) is reached triggering a Mandatory Call Event. In particular, when the Underlying Asset is trading close to its Call Price/Call Level, any unwind of our hedging activities in relation to such Underlying Asset may cause a fall or rise (as the case may be) in the value of the Underlying Asset to the Call Price/Call Level at such time, triggering a Mandatory Call Event as a result of such unwinding activities.

Residual Value as a result of early termination of Contracts

For Category R Contracts, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event may or may not include the residual funding cost for the Contracts. You may not receive any residual funding cost back from us upon early termination of the Contracts after the occurrence of the Mandatory Call Event.

Risks relating to the legal form of the Structured Products

Each Structured Product will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS). You should note that a risk of investing in a security that is issued in global registered form and held on your behalf within a clearing system effectively means that evidence of title to your interest, as well as the efficiency of ultimate delivery of the Settlement Amount, will be subject to the CCASS Rules. Amongst the risks you should be aware of are:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by any investor, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your broker/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEx website and/or released by HKSCC to its participants via CCASS. You will need to check the HKEx website regularly and/or rely on your brokers/custodians to obtain such notices/ announcements; and

(e) following the Expiry Date and our determination as to the Cash Settlement Amount or Entitlement, our obligations to you will be duly performed by the payment of the Cash Settlement Amount or delivery of the Entitlement in accordance with the applicable Product Conditions to HKSCC Nominees Limited as the “holder” of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount or Entitlement to the respective CCASS participants in accordance with the CCASS Rules.

Effect of the combination of risk factors is unpredictable

Two or more risk factors may simultaneously have an effect on the value of a Structured Product such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Structured Product or Underlying Asset.

APPENDIX 1 — GENERAL CONDITIONS OF STRUCTURED PRODUCTS

These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the Product Conditions and the supplemental terms and conditions contained in the Supplemental Listing Document relating to the particular series of Structured Products. These General Conditions and the Product Conditions (as supplemented, amended, modified and/or replaced by the relevant provisions of the relevant Supplemental Listing Document) together constitute the Conditions of the relevant Structured Products. Except for the relevant provisions in the Supplemental Listing Document which will appear on the front of the Global Certificate, the Conditions will be endorsed on the Global Certificate representing the relevant Structured Products.

In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, the Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and the Product Conditions, and the Product Conditions shall prevail over the General Conditions.

1. Definitions

"**Base Listing Document**" means the base listing document relating to Structured Products dated 19 April 2010 and issued by The Royal Bank of Scotland N.V. including any addenda to such base listing document issued by The Royal Bank of Scotland N.V. from time to time;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" has the meaning given to it in the applicable Product Conditions;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**Conditions**" means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" has the meaning given to it in the applicable Product Conditions;

"**Exercise Date**" means:

(a) the date on which a Structured Product is, or is to be treated as, exercised; and

(b) in respect of American Style Structured Products, the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Structured Products in accordance with the requirements of the applicable Product Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day;

"**Exercise Expenses**" means, in respect of the Structured Products, any charges or expenses including any taxes or duties which are incurred in respect of the exercise or early expiration (as the case may be) of one Board Lot of such Structured Products;

"**Exercise Notice**" means an exercise notice in the form prescribed by the Sponsor;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**General Conditions**" means these general terms and conditions. These General Conditions apply to each series of Structured Products;

"**Global Certificate**" means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**HKSCC**" means Hong Kong Securities Clearing Company Limited;

"**Holder**" means, in respect of each series of Structured Products, each person who is for the time being shown in the register kept by the Issuer outside of Hong Kong as the holder of the relevant Structured Products;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Instrument**" means an instrument by way of deed poll dated 16 April 2007 executed by the Issuer pursuant to which the Issuer creates and grants to the Holders rights in relation to the Structured Products;

"**Issuer**" means The Royal Bank of Scotland N.V., acting through its principal office in Amsterdam or its branch in London or such further or other branches as it may specify from time to time;

"**Nominee**" means HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC) in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS;

"**Product Conditions**" in respect of each series of Structured Product, means the product specific terms and conditions that apply to that Structured Product;

"**Settlement Date**" means three Business Days following:

(a) with respect to Warrants exercised on the Expiry Date in accordance with the relevant Product Conditions, the date specified as such in the relevant Supplemental Listing Document; or

(b) with respect to American Style Warrants exercised on any Exercise Date in accordance with the relevant Product Conditions, the Valuation Date;

"**Settlement Disruption Event**" means, if as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS to the Designated Bank Account on the original Settlement Date;

"**Sponsor**" means RBS Asia Limited, subject to General Condition 4.2;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Structured Products**" means derivative warrants ("**Warrants**"), callable bull/bear contracts ("**Contracts**") or such other structured products to be issued by the Issuer from time to time, as specified in the relevant Supplemental Listing Document. References to "**Structured Products**" are to be construed as references to a particular series of Structured Products; and

"**Supplemental Listing Document**" means the supplemental listing document relating to a particular series of Structured Products.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the applicable Product Conditions, the relevant Supplemental Listing Document and/or the relevant Global Certificate.

2. Form, Status, Transfer and Trading

2.1 *Form.* The Structured Products (which expression shall, unless the context otherwise requires, include any further structured products issued pursuant to General Condition 10) are issued by the Issuer in registered form, subject to and with the benefit of the Instrument. The Holders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the Hong Kong Branch of the Issuer at 38th Floor, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong.

Each person who is for the time being a Holder shall be treated by the Issuer and the Sponsor as the absolute owner of the Structured Products.

2.2 *Status of the Issuer's obligations.* The settlement obligation of the Issuer in respect of the Structured Products represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Structured Products represent general contractual obligations of the Issuer, and are not, nor is it the intention (express, implicit or otherwise) of the Issuer to create by the issue of Structured Products deposit liabilities of the Issuer or a debt obligation of any kind.

2.3 *Transfer and trading of Structured Products.* Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

Trading in Structured Products on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

3. Entitlement of Holders, Exercise Expenses and Payments

3.1 *Entitlement of Holders.* Every Board Lot initially entitles the Holder, upon due exercise or early expiration (as the case may be) and upon compliance with these General Conditions and the applicable Product Conditions, to:

3.1.1 in respect of cash settled Structured Products, payment of the Cash Settlement Amount, if any; or

3.1.2 in respect of physically settled Structured Products, delivery of the Entitlement in accordance with the applicable Product Conditions.

3.2 *Holders responsible for Exercise Expenses.*

3.2.1 Upon exercise or early expiration of the Structured Products (as the case may be), the Holders of such Structured Products will be required to pay a sum equal to all the expenses resulting from such exercise or early expiration (as the case may be).

To effect such payment, an amount equivalent to the Exercise Expenses shall be:

(a) in the case of cash settled Structured Products, deducted from the Cash Settlement Amount in accordance with General Condition 3.4; or

(b) in the case of physically settled Structured Products, paid by the Holders to the Issuer prior to the Settlement Date in accordance with the applicable Product Conditions.

3.2.2 The Holders are responsible for additional costs and expenses in connection with any exercise or early expiration of the Structured Products (as the case may be) including the Exercise Expenses which amount shall, subject to General Condition 3.2.1 and to the extent necessary, be payable to the Issuer and collected from the Holders.

3.3 *Payment of Exercise Expenses.* Any Exercise Expenses which were not determined by the Issuer on the Exercise Date, the Expiry Date or such other early expiration date (as the case may be) and were not deducted from the applicable Cash Settlement Amount prior to delivery to the Holder in accordance with this General Condition 3, shall be notified to the Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the Holder to the Issuer immediately upon demand.

3.4 Settlement

3.4.1 *Payment of Cash Settlement Amount.* Upon exercise or early expiration (as the case may be) of cash settled Structured Products, the Issuer will pay the applicable Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no amount is payable by the Issuer.

The aggregate Cash Settlement Amount (if any) minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

Upon the occurrence of a Settlement Disruption Event, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

3.4.2 *Delivery of Entitlement.* Upon exercise or early expiration (as the case may be) of physically settled Structured Products and payment of the Exercise Expenses (if any) in accordance with General Condition 3.2, the Issuer will deliver the Entitlement to the relevant Holder in accordance with the applicable Product Conditions.

The Entitlement will be delivered no later than the Settlement Date in accordance with the CCASS Rules.

Upon the occurrence of a Settlement Disruption Event, the Issuer shall use its reasonable endeavours to procure delivery electronically through CCASS as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

3.5 *Discharge of Issuer's obligations*. The Issuer's obligations to pay the Cash Settlement Amount (if any) or delivery of the Entitlement shall be discharged by payment or delivery in accordance with General Condition 3.4.

3.6 *Liability of Issuer and Sponsor.* Termination, exercise and settlement of the Structured Products are subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the Structured Products.

4. Sponsor

4.1 The Sponsor will not assume any obligation or duty to or any relationship of agency or trust for the Holder.

4.2 The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Structured Products are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with General Condition 9.

5. Adjustments

5.1 *Other Adjustments.* Except as provided in General Condition 8 and in the applicable Product Conditions, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events (including the specific events which have already been contemplated in the applicable Product Conditions) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the adjustment provisions as may be contemplated in the applicable Product Conditions should, in the context of the issue of the Structured Products and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is:

(a) considered by the Issuer not to be materially prejudicial to the Holder generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

5.2 *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 9.

6. Purchase

The Issuer or any of its subsidiaries may at any time purchase Structured Products at any price in the open market or by tender or by private treaty. Any Structured Products so purchased may be held or resold or surrendered for cancellation.

7. Global Certificate

The Structured Products are represented by a Global Certificate. No definitive certificate will be issued. The Structured Products may only be exercised by the Nominee.

The Global Certificate representing the relevant Structured Products will be deposited with CCASS in the name of the Nominee. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

8. Meetings of Holders and Modification

8.1 *Meetings of Holders.* The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting, save for those Structured Products remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Structured Products which are expressed to be American Style, Structured Products which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Holders.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

8.2 *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the provisions of the Structured Products or the Instrument which is not materially prejudicial to the interests of the Holders; of a formal, minor or technical nature; made to correct an obvious error; necessary in order to comply with mandatory provisions of applicable laws and regulations; or otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with General Condition 9.

9. Notices

9.1 *Website publication.* All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

9.2 *Request for copies.* If so requested by the Holders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to General Condition 9.1 by post addressed to such Holder at the address recorded in the register of Holders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this General Condition shall be sent or delivered at the risk of such Holders.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further structured products so as to form a single series with the Structured Products.

11. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Structured Products.

12. Governing Law

The Structured Products and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the Structured Products) shall be deemed to have submitted for all purposes in connection with the Structured Products and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13. Language

A Chinese translation of these General Conditions and the Product Conditions will be made available for collection during normal office hours from the Hong Kong Branch of the Issuer at 38th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these General Conditions and of the Product Conditions respectively, the English version of these General Conditions and of the Product Conditions respectively shall prevail.

14. Prescription

Claims against the Issuer for payment of any amount in respect of the Structured Products will become void unless made within ten years of the Exercise Date, MCE Valuation Date or Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Structured Products shall be forfeited and shall revert to the Issuer.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS

The following pages set out the Product Conditions in respect of different types of Warrants:

PART A — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means, with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, the arithmetic mean of the closing prices of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) for each Valuation Date;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(c) in the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(d) in the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) on the Valuation Date;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the sixth Business Day immediately preceding the Expiry Date, subject to prior termination of the Warrants as provided for in Product Condition 5. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in the Shares, or any options or futures contracts relating to the Shares if, in any such case, that such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single equities;

"**Share**" means the share of the Company specified as such in the relevant Supplemental Listing Document;

"**Valuation Date**" means:

(a) with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

    For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with this paragraph (a), the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price; or

(b) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the Exercise Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five Business Days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

    (i) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

    (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event,

provided further that if the postponement of the Valuation Date in accordance with paragraphs (a) or (b) above would result in the Valuation Date falling on or after the Expiry Date, then:

(aa) the Business Day immediately preceding the Expiry Date ("**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* The Warrants may be exercised as follows:

    2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or

    2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 Delivery of Exercise Notice.

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

4.3 *Subdivision and Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

4.4 *Restructuring Events.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

4.5 *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

5. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

6. Delisting

6.1 *Adjustments following delisting.* If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange.* Without prejudice to the generality of Product Condition 6.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the General Conditions and these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

7. Termination for illegality

7.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

7.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART B — PRODUCT CONDITIONS OF BASKET WARRANTS

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means, with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, the arithmetic mean of the closing prices of the relevant Share to which each Basket Component relates (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) for each Valuation Date;

"**Basket**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Basket Components**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Cash Settlement Amount**" means, for every Board Lot, an amount in Hong Kong dollars calculated by the Issuer as follows:

(a) in the case of a series of call Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

(i) the sum of each of the Basket Components of the Companies that comprise the Basket (subject to adjustment as provided for in Product Condition 4) multiplied by the Average Price of the relevant Share to which each Basket Component relates less (ii) the Exercise Price;

(b) in the case of a series of put Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

(i) the Exercise Price less (ii) the sum of each of the Basket Components of the Companies that comprise the Basket (subject to adjustment as provided for in Product Condition 4) multiplied by the Average Price of the relevant Share to which each Basket Component relates;

(c) in the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

(i) the sum of each of the Basket Components of the Companies that comprise the Basket (subject to adjustment as provided for in Product Condition 4) multiplied by the Closing Price of the relevant Share to which each Basket Component relates less (ii) the Exercise Price; or

(d) in the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

(i) the Exercise Price less (ii) the sum of each of the Basket Components of the Companies that comprise the Basket (subject to adjustment as provided for in Product Condition 4) multiplied by the Closing Price of the relevant Share to which each Basket Component relates;

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the closing price of the relevant Share to which each Basket Component relates (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) on the Valuation Date;

"**Company**" means each company in the Basket specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the sixth Business Day immediately preceding the Expiry Date, subject to prior termination of the Warrants as provided for in Product Condition 5. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange or any Related Exchange in any Share in the Basket, or any options or futures contracts relating to any Share in the Basket if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Stock Exchange or any Related Exchange due to any other unforeseen circumstances; or

(d) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of Basket Warrants;

"**Related Exchange**" means the exchange(s) specified as such in the relevant Supplemental Listing Document;

"**Share**" means the shares of the Companies or, as the context requires, the share of a particular Company specified as such in the relevant Supplemental Listing Document;

"**Valuation Date**" means:

(a) with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred in respect of any Share, then that Valuation Date for that Share shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with this paragraph (a), the closing price of that Share on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price; or

(b) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the Exercise Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five Business Days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

(i) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event,

provided further that if the postponement of the Valuation Date in accordance with paragraphs (a) or (b) above would result in the Valuation Date falling on or after the Expiry Date, then:

(aa) the Business Day immediately preceding the Expiry Date ("**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* The Warrants may be exercised as follows:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or;

2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 Delivery of Exercise Notice.

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Rights Issues.* If and whenever any of the Companies shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Basket Component that relates to the Share(s) of the Company making the Rights Offer shall be adjusted to take effect on the Business Day on which trading in the relevant Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share of the Company making the Rights Offer as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Basket Component which would amount to less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to such Basket Component.

For the purposes of these Product Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 *Bonus Issues.* If and whenever any of the Companies shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the relevant Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Basket Component that relates to the Share(s) of the Company making the Bonus Issue shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Basket Component which would amount to less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to such Basket Component.

4.3 *Subdivision and Consolidations*. If and whenever any of the Companies shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then (i) in the case of a subdivision, the Basket Component insofar as it relates to the Share(s) of the Company making the Subdivision in effect immediately prior thereto shall be increased in the same ratio as the Subdivision; and (ii) in the case of a consolidation, the Basket Component insofar as it relates to the Share(s) of the Company making the Consolidation in effect immediately prior thereto shall be decreased in the same ratio as the Consolidation, in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

4.4 *Restructuring Events.* If it is announced that any of the Companies is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where that Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

4.5 *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by any of the Companies, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the relevant Company.

If and whenever any of the Companies shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Basket Component that relates to the Share(s) of the relevant Company making the Cash Distribution shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Cash Distribution} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Basket Component insofar as it relates to the Share(s) of the Company making the Cash Distribution immediately prior to the Cash Distribution

CD: The Cash Distribution per Share of the Company making the Cash Distribution

OD: The Ordinary Dividend per Share of the Company making the Cash Distribution, provided that the OD shall be zero if the date on which the relevant Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Share of the Company making the Cash Distribution as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

5. Liquidation

In the event of a liquidation or dissolution of all of the Companies or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of their undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation of the last Company to be so affected, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution of the last Company to be so affected, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

6. Delisting

6.1 *Adjustments following delisting.* If at any time any of the Shares ceases to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange.* Without prejudice to the generality of Product Condition 6.1, where any of the Shares are, or, upon the delisting, become, listed on any other stock exchange, the General Conditions and these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

7. Termination for illegality

7.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

7.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
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40th Floor
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2 Queen’s Road Central
Hong Kong

PART C — PRODUCT CONDITIONS OF INDEX WARRANTS

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate; or, as the case may be (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending on the Expiry Date; and

(b) in the case of European Style Warrants, 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index is scheduled to be published by the Index Compiler or, as the case may be, the Successor Index Compiler (as defined below);

"**Index Compiler**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on a Valuation Date during the one-half hour period that ends at the close of trading, of any of:

  (i) the suspension or material limitation of the trading of a material number of constituent securities, contracts, commodities or currencies that comprise the Index; or

  (ii) the suspension or material limitation of the trading of constituent securities, contracts, commodities or currencies (aa) on the Relevant Exchange; or (bb) generally; or

  (iii) the suspension or material limitation of the trading of (aa) options or futures contracts relating to the Index on any Related Exchange; or (bb) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or

  (iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

  For the purposes of this definition:

  (A) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange; and

  (B) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Index Exchange, the Relevant Exchange, any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of Warrants over an index;

"**Related Exchange**" means the exchange(s) specified in the relevant Supplemental Listing Document;

"**Relevant Exchange**" means the exchange specified in the relevant Supplemental Listing Document;

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to adjustment in accordance with General Condition 5 and Product Condition 4; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the Closing Level.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* The Warrants may be exercised as follows:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or

2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 Delivery of Exercise Notice.

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments to the Index

4.1 Successor *Index Compiler Calculates and Reports Index.* If the Index is:

4.1.1 not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler ("**Successor Index Compiler**") acceptable to the Issuer; or

4.1.2 replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

4.2 *Modification and Cessation of Calculation of Index.* If:

4.2.1 on or prior to any Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or

4.2.2 on any Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those constituent securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those constituent securities, contracts, commodities or currencies that have since ceased to be listed or traded on the relevant exchange).

4.3 *Market Disruption Events.* Without limiting the Issuer's discretion to determine the Closing Level as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.4 *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.4.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.4.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.4.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders who have exercised their Warrants in accordance with Product Condition 3 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer.

5. Termination for illegality

5.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART D — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER COMMODITIES

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount converted (if applicable) into the Settlement Currency at the Exchange Rate calculated as follows:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Commodity**" means the commodity specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means any of the following:

(a) the occurrence or existence on any Valuation Date of any suspension of or limitation imposed on, trading on any Related Exchange in any options or futures contracts relating to the Commodity if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) the disappearance of, or disappearance of trading in, the Commodity; or

(e) a Price Source Disruption Event; or

(f) any circumstances beyond the control of the Issuer in which the Closing Price or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplemental Listing Document;

"**Price Source Disruption Event**" means:

(a) the failure of the Price Source to announce or publish any relevant level, value or price in relation to the Commodity (or the information necessary for determining the Closing Price); or

(b) the temporary or permanent discontinuance or unavailability of the Price Source;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over commodities;

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Commodity is traded, as determined by the Issuer;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date(s) specified as such in the relevant Supplemental Listing Document.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants*. The Warrants may be exercised as follows:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or

2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice.*

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Market Disruption Events.* Without limiting the Issuer's discretion to determine the Closing Level as referred to in the definition of "Valuation Date" above, if a Market Disruption Event occurs, the Issuer has the right to adjust the Entitlement, the Exercise Price, the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.2 *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.2.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.2.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.2.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders who have exercised their Warrants in accordance with Product Condition 3 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer.

5. Termination for illegality

5.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART E — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER COMMODITY FUTURES

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount converted (if applicable) into the Settlement Currency at the Exchange Rate calculated as follows:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" means the price specified as such in the relevant Supplemental Listing Document;

"**Commodity**" means the commodity specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Commodity Futures**" means the contract for future delivery specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means any of the following:

(a) the occurrence or existence on any Valuation Date of any suspension of or limitation imposed on trading:

  (i) on the Relevant Exchange in the Commodity Futures or securities generally; or

  (ii) on any Related Exchange in any options or futures contracts relating to the Commodity or the Commodity Futures if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Relevant Exchange, any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) the disappearance of trading in, the Commodity Futures; or

(e) a Price Source Disruption Event; or

(f) any circumstances beyond the control of the Issuer in which the Closing Price or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplemental Listing Document;

"**Price Source Disruption Event**" means:

(a) the failure of the Price Source to announce or publish any relevant level, value or price in relation to the Commodity Futures(or the information necessary for determining the Closing Price); or

(b) the temporary or permanent discontinuance or unavailability of the Price Source;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over commodity futures;

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Commodity is traded, as determined by the Issuer;

"**Relevant Exchange**" means the exchange specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date(s) specified as such in the relevant Supplemental Listing Document.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* The Warrants may be exercised as follow:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or

2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice.*

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Market Disruption Events.* Without limiting the Issuer's discretion to determine the Closing Level as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Entitlement, the Exercise Price, the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.2 *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.2.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.2.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.2.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders who have exercised their Warrants in accordance with Product Condition 3 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer.

5. Termination for illegality

5.1 *Illegality.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART F — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER CURRENCIES

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount converted (if applicable) into the Settlement Currency at the Exchange Rate calculated as follows:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Currencies**" means the currencies specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means any of the following:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading on any Related Exchange in any options or futures contracts relating to the Currency if, in any such case, that such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Price or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over currencies;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Currency is traded, as determined by the Issuer;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date(s) specified as such in the relevant Supplemental Listing Document provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then:

(a) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the Closing Price on the basis of its good faith estimate of the Closing Price that would have prevailed on that fifth Business Day but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* The Warrants may be exercised as follows:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time; or

2.1.2 subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice.*

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of the Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Market Disruption Events.* Without limiting the Issuer's discretion to determine the Closing Level as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Entitlement, the Exercise Price, the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.2 *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.2.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.2.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.2.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders who have exercised their Warrants in accordance with Product Condition 3 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer.

5. Termination for illegality

5.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART G — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means, with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, the arithmetic mean of the closing prices of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) for each Valuation Date;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(b) in the case of a series of put Warrants exercised on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(c) in the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(d) in the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) on the Valuation Date;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means:

(a) in the case of American Style Warrants, the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the sixth Business Day immediately preceding the Expiry Date, subject to prior termination of the Warrants as provided for in Product Condition 5. If the Expiry Date is not a Business Day the immediately succeeding Business Day shall be deemed the Expiry Date for the purposes of Product Condition 2.1.1; and

(b) in the case of European Style Warrants, 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in the Units any options or futures contracts relating to the Units if, in any such case, that such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single unit trusts;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means:

(a) with respect to the exercise of Warrants on the Expiry Date in accordance with Product Conditions 3.2.4 or 3.4, each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date, a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with this paragraph (a), the closing price of the Units on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price; or

(b) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Product Conditions 3.2.1 and 3.2.3, the Exercise Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

(i) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event,

provided further that if the postponement of the Valuation Date in accordance with paragraphs (a) or (b) above would result in the Valuation Date falling on or after the Expiry Date then:

(aa) the Business Day immediately preceding the Expiry Date ("**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants*. The Warrants may be exercised as follows:

2.1.1 in the case of an exercise of American Style Warrants, by valid delivery of an Exercise Notice at any time during the Exercise Period. Warrants may not be exercised at any other time;

2.1.2 Subject to Product Condition 3.4, in the case of an exercise of European Style Warrants, the Warrants will be automatically exercised at 10:00 a.m. on the Expiry Date only.

2.2 *Expiry of Warrants not exercised.* Subject to Product Conditions 3.2.4 and 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots.* Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 Delivery of Exercise Notice.

3.2.1 In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Holder shall deliver to the Sponsor a duly completed Exercise Notice at any time during the Exercise Period.

3.2.2 In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.2.3 In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised shall be the Exercise Date.

3.2.4 Any Warrants with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Holder). The Holder will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with General Condition 3.4.

3.2.5 Delivery of an Exercise Notice in accordance with this Product Condition 3.2 shall constitute an irrevocable election and undertaking by the Holder to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

3.3 *Record in the register of Holders.* Subject to a valid exercise or deemed exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Holder from the register of Holders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless (as the case may be) and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise.* Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date, without notice to the Holder or the requirement of the delivery of an Exercise Notice if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Rights Issues.* If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 *Bonus Issues.* If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

4.3 *Subdivisions and Consolidations.* If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

4.4 *Restructuring Events.* If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving trust in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

4.5 *Cash Distribution.* No capital adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

5. Termination or Liquidation

5.1 In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

5.2 For the purpose of this Product Condition 5, "**Termination**" means:

5.2.1 the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences;

5.2.2 the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted;

5.2.3 the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or

5.2.4 the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) to offer Units to the public in Hong Kong.

6. Delisting

6.1 *Adjustments following delisting.* If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange.* Without prejudice to the generality of Product Condition 6.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the General Conditions and these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

7. Termination for illegality

7.1 *Illegality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

7.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

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PART H — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED LOW STRIKE LEVEL INDEX CALL WARRANTS (INDEX PARTICIPATION CERTIFICATES)

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index is scheduled to be calculated and published by the Index Compiler or, as the case may be, the Successor Index Compiler (as defined below);

"**Index Compiler**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on a Valuation Date of any of:

(i) the suspension or limitation of the trading of a material number of shares, securities or commodities that comprise the Index or any constituent sub-index underlying the Index; or

(ii) the suspension or limitation of the trading of constituent securities, contracts, commodities or currencies (aa) on the Relevant Exchange; or (bb) generally; or

(iii) the suspension or limitation of the trading of (aa) options or futures contracts relating to the Index on any options or futures exchanges; or (bb) options or futures generally on any options and/or futures exchanges on which options or futures relating to the Index are traded; or

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

For the purposes of this definition:

(A) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange; and

(B) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any Relevant Exchange will constitute a Market Disruption Event; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Index Exchange, the Relevant Exchange, any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) (i) the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index level; or (ii) the Price Source fails to publish the Index level on such Valuation Date; or

(e) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount; or

(f) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplement Listing Document;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Cash Settled Low Strike Level Index Call Warrants (Index Participation Certificates);

"**Related Exchange**" means the exchange(s) specified in the relevant Supplemental Listing Document;

"**Relevant Exchange**" means the exchange specified in the relevant Supplemental Listing Document;

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to adjustment in accordance with General Condition 5 and Product Condition 4; and

"**Valuation Date**" means each date specified as such in the relevant Supplemental Listing Document provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the closing level of the Index on such Valuation Date on the basis of its good faith estimate of the value of the Index that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such closing level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the value of the Index.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants.* Subject to Product Condition 3.4, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised*. Subject to Product Condition 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots*. Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice*. There will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.3 *Record in the register of Holders*. In the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the register of Holders in respect of the number of Warrants which have expired worthless and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise*. Any Warrants which have not been exercised in the manner set out in Product Condition 3.2 before the Expiry Date shall be automatically exercised on the Expiry Date without notice to the Holder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments to the Index

4.1 *Successor Index Compiler Calculates and Reports Index*. If the Index is:

4.1.1 not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler ("**Successor Index Compiler**") acceptable to the Issuer; or

4.1.2 replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

4.2 *Modification and Cessation of Calculation of Index*. If:

4.2.1 on or prior to any Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or

4.2.2 on any Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index,

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those constituent securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those constituent securities, contracts, commodities or currencies that have since ceased to be listed or traded on the relevant exchange).

4.3 *Market Disruption Events*. Without limiting the Issuer's discretion to determine the closing level of the Index as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.4 *Foreign Currency Controls*. If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.4.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.4.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.4.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

5. Termination for force majeure, illegality and impracticality

5.1 *Force majeure*, *illegality and impracticality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination*. If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

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PART I — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED LOW STRIKE PRICE COMMODITY CALL WARRANTS (COMMODITY PARTICIPATION CERTIFICATES)

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount converted (if applicable) into the Settlement Currency at the Exchange Rate calculated as follows:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be deemed to be zero;

"**Closing Price**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Commodity**" means the commodity specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means any of the following:

(a) the occurrence or existence on a Valuation Date of any suspension of or limitation imposed on, trading on any Related Exchange in any options or futures contracts relating to the Commodity if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) the disappearance of, or disappearance of trading in, the Commodity; or

(e) a Price Source Disruption Event; or

(f) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount; or

(g) any circumstances beyond the control of the Issuer in which the Closing Price or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplemental Listing Document;

"**Price Source Disruption Event**" means:

(a) the failure of the Price Source to announce or publish any relevant level, value or price in relation to the Commodity (or the information necessary for determining the Closing Price); or

(b) the temporary or permanent discontinuance or unavailability of the Price Source;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Cash Settled Low Strike Price Commodity Call Warrants (Commodity Participation Certificates);

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Commodity is traded, as determined by the Issuer;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date(s) specified as such in the relevant Supplemental Listing Document.

2. Exercise Period

2.1 *Exercise of Warrants*. Subject to Product Condition 3.4, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised*. Subject to Product Condition 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots*. Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice*. There will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.3 *Record in the register of Holders*. In the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the register of Holders in respect of the number of Warrants which have expired worthless and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise*. The Warrants shall be automatically exercised on the Expiry Date, without notice to the Holder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Market Disruption Events*. Without limiting the Issuer's discretion to determine the closing price as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Entitlement, the Strike Price, the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.2 *Foreign Currency Controls*. If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.2.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.2.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.2.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

5. Termination for force majeure, illegality and impracticality

5.1 *Force majeure, illegality and impracticality.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination.* If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
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PART J — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED LOW STRIKE PRICE COMMODITY FUTURES CALL WARRANTS (COMMODITY FUTURES PARTICIPATION CERTIFICATES)

These Product Conditions will, together with the General Conditions, the supplemental terms and conditions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Cash Settlement Amount**" means an amount converted (if applicable) into the Settlement Currency at the Exchange Rate calculated as follows:

$$\text{Cash Settlement Amount per Board Lot in the Settlement Currency} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot x Exchange Rate}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Price**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Commodity**" means the commodity specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Commodity Futures**" means the contract for future delivery specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Exercise Period**" means 10:00 a.m. (Hong Kong time) on the Expiry Date;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Market Disruption Event**" means any of the following:

(a) the occurrence or existence on a Valuation Date of any suspension of or limitation imposed on, trading:

(i) on the Relevant Exchange in the Commodity Futures or securities generally; or

(ii) on any Related Exchange in any options or futures contracts relating to the Commodity or the Commodity Futures if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Relevant Exchange, any Related Exchange or the Stock Exchange due to any other unforeseen circumstances; or

(d) the disappearance of trading in the Commodity Futures; or

(e) a Price Source Disruption Event; or

(f) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount; or

(g) any circumstances beyond the control of the Issuer in which the Closing Price or the Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Price Source**" means the publication (or such other origin of price source reference) (if any) specified as such in the relevant Supplemental Listing Document;

"**Price Source Disruption Event**" means:

(a) the failure of the Price Source to announce or publish any relevant level, value or price in relation to the Commodity Futures (or the information necessary for determining the Closing Price); or

(b) the temporary or permanent discontinuance or unavailability of the Price Source;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Cash Settled Low Strike Price Commodity Futures Call Warrants (Commodity Futures Participation Certificates);

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Related Exchange**" means any exchange or quotation system in a major international market (including but not limited to New York, Chicago, London, Australia and Frankfurt) on which options contracts or futures contracts or other derivatives contracts relating to the Commodity is traded, as determined by the Issuer;

"**Relevant Exchange**" means the exchange specified as such in the relevant Supplement Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 4;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date(s) specified as such in the relevant Supplemental Listing Document.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Exercise Period

2.1 *Exercise of Warrants*. Subject to Product Condition 3.4, the Warrants will be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date only.

2.2 *Expiry of Warrants not exercised*. Subject to Product Condition 3.4, any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

3. Exercise of Warrants

3.1 *Exercise of Warrants in Board Lots*. Warrants may only be exercised in Board Lots or integral multiples thereof.

3.2 *Delivery of Exercise Notice*. There will be no requirement to deliver an Exercise Notice and the Warrants will be automatically exercised (if in the money) in accordance with Product Condition 3.4.

3.3 *Record in the register of Holders*. In the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the register of Holders in respect of the number of Warrants which have expired worthless and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

3.4 *Automatic exercise*. The Warrants shall be automatically exercised on the Expiry Date, without notice to the Holder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) will be positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in General Condition 3.4.

4. Adjustments

4.1 *Market Disruption Events*. Without limiting the Issuer's discretion to determine the closing price as referred to in the definition of "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to adjust the Entitlement, the Strike Price, the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

4.2 *Foreign Currency Controls*. If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

4.2.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

4.2.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

4.2.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount in any other currency as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

5. Termination for force majeure, illegality and impracticality

5.1 *Force majeure, illegality and impracticality.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Warrants early by giving notice to the Holders in accordance with General Condition 9.

5.2 *Termination.* If the Issuer terminates the Warrants prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Warrant held by such Holder equal to the fair market value of a Warrant immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

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APPENDIX 3 — PRODUCT CONDITIONS OF CALLABLE BULL/BEAR CONTRACTS

The following pages set out the Product Conditions in respect of different types of Contracts:

PART A — PRODUCT CONDITIONS OF EUROPEAN STYLE CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions, the supplemental provisions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means:

(a) upon the occurrence of a Mandatory Call Event:

(i) in respect of a series of Category R Contracts, the Residual Value determined solely by the Issuer at its discretion, which in any case cannot be lower than the Minimum Residual Value;

(ii) in respect of a series of Category N Contracts, zero; and

(b) upon automatic exercise at expiry:

(i) in the case of a series of bull Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

(ii) in the case of a series of bear Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N Contracts**" means a series of Contracts where the Call Price is equal to the Strike Price;

"**Category R Contracts**" means a series of Contracts where the Call Price is not equal to the Strike Price;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event, cash dividend or the like) on the Valuation Date;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Contracts**" means the contracts specified as such in the relevant Supplemental Listing Document;

"**Day of Notification**" means the trading day of the Stock Exchange immediately following the day on which a Mandatory Call Event occurs;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 3;

"**Funding Cost**" means an amount, as determined by the Issuer, based on:

(a) the Strike Price;

(b) the prevailing interest rate;

(c) the expected dividend yield in respect of the Shares; and

(d) the margin charged by the Issuer.

The Funding Cost can be a negative number and there is a possibility that the Funding Cost may fluctuate over the life of a Contract;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Price of the Shares on any Business Day from and including the Observation Commencement Date up to and including the close of trading on the Last Trading Day:

(a) in the case of a series of bull Contracts, at or below the Call Price; or

(b) in the case of a series of bear Contracts, at or above the Call Price;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Business Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in the Shares, or any options or futures contracts relating to the Shares if, in any such case, that such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Maximum Trade Price**" only applies to Category R Contracts and means the highest Spot Price of the Shares in the MCE Valuation Period;

"**MCE Valuation Date**" means the last Business Day during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from the Trading Session in which the Mandatory Call Event occurs ("**1st Session**") and up to the end of the Trading Session immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, there is no continuous period of at least 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed during the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session), in which case the MCE Valuation Period shall be extended to the end of the subsequent Trading Session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour (whether or not a Market Disruption Event exists or continues in such postponed Trading Session), unless the Issuer determines in its good faith that there is no continuous period of at least 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed in each Trading Session on each of the four Business Days immediately following the day on which the Mandatory Call Event occurs. In that case:

(i) the end of the last Trading Session on the fourth Business Day following the day on which the Mandatory Call Event occurs shall be deemed to be the end of the MCE Valuation Period (whether or not a Market Disruption Event exists or continues in such postponed Trading Session); and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported trading price of the Shares on the Stock Exchange and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Minimum Residual Value.

For the purposes of this definition:

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one session only;

"**Minimum Residual Value**" only applies to Category R Contracts and means:

(a) in the case of a series of bull Contracts:

$$\text{Minimum Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

(b) in the case of a series of bear Contracts:

$$\text{Minimum Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Minimum Residual Value is a negative figure, it shall be deemed to be zero;

"**Minimum Trade Price**" only applies to Category R Contracts and means the lowest Spot Price of the Shares in the MCE Valuation Period;

"**Number of Contracts per Entitlement**" has the meaning given to it the relevant Supplemental Listing Document;

"**Observation Commencement Date**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Contracts over single equities;

"**Residual Value**" only applies to Category R Contracts and means an amount (if any) determined solely by the Issuer following a Mandatory Call Event, provided that the Residual Value must not be lower than the Minimum Residual Value. The Residual Value is determined by the Issuer by reference to the difference between the price at which hedging transactions in the Shares with respect to the Contracts are unwound (the "**MCE Valuation Price**") and the Strike Price;

"**Settlement Date**" means the third CCASS Settlement Day following the MCE Valuation Date or the Valuation Date (as the case may be);

"**Share**" means the share of the Company and "**Shares**" shall be construed accordingly;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during a continuous trading session of the Stock Exchange in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (IEP) (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 3;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trading Session**" means the session specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the Business Day immediately preceding the Expiry Date.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Valuation Date shall be the first succeeding Business Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Business Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Business Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fourth Business Day but for the occurrence of the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Rights, Valuation, Settlement and Payment

2.1 *Cessation of Trading and Exercise.* Trading in Contracts on the Stock Exchange shall cease:

2.1.1 immediately upon the occurrence of a Mandatory Call Event; or

2.1.2 at the close of the Last Trading Day,

whichever is earlier to occur in accordance with the requirements of the Stock Exchange.

Provided no Mandatory Call Event has occurred, the Contracts will be deemed to be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date.

2.2 Mandatory Call Event.

2.2.1 Subject to Product Condition 2.2.2, following a Mandatory Call Event, the Contracts will terminate automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the Contracts ("**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 9. Trading in the Contracts will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R Contracts, the Issuer will give a notice of the valuation of the Residual Value ("**Announcement on Valuation of Residual Value**") to the Holders before the end of the Trading Session immediately after the MCE Valuation Period in accordance with General Condition 9.

2.2.2 A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx; or

(b) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of paragraph (a) above, such event is reported by the Stock Exchange to the Issuer, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of paragraph (b) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case:

(aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;

(bb) the Mandatory Call Event so triggered will be reversed; and

(cc) all cancelled trades (if any) will be reinstated and trading of the Contracts will resume no later than the trading day of the Stock Exchange immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.3 *Cash Settlement upon the occurrence of a Mandatory Call Event.* Every Board Lot entitles the Holder of Category R Contracts, upon the occurrence of a Mandatory Call Event and upon compliance with these Product Conditions, to payment of the Cash Settlement Amount, if any. No Cash Settlement Amount will be paid to the Holder of Category N Contracts upon the occurrence of a Mandatory Call Event.

2.4 *Record in the register of Holders.* Upon early expiration of Contracts at the occurrence of a Mandatory Call Event or exercise of Contracts at expiry, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the register of Holders in respect of the number of Contracts which have expired or exercised (as the case may be) and thereby cancel the relevant Contracts and, if applicable, the Global Certificate.

3. Adjustments

3.1 *Rights Issues.* If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 *Restructuring Events.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Contracts may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Contracts shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Contracts related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 *Cash Distribution.* No capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Contracts will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

5. Delisting

5.1 *Adjustments following delisting.* If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Contracts as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 *Listing on another exchange.* Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the General Conditions and these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

5.3 *Adjustments binding.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 9 as soon as practicable after they are determined.

6. Termination for force majeure, illegality and impracticality

6.1 *Force majeure, illegality and impracticality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Contracts has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Contracts early by giving notice to the Holders in accordance with General Condition 9.

6.2 *Termination*. If the Issuer terminates the Contracts prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Contract held by such Holder equal to the fair market value of a Contract immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

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PART B — PRODUCT CONDITIONS OF EUROPEAN STYLE CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

These Product Conditions will, together with the General Conditions, the supplemental provisions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Call Level**" means the level specified as such in the relevant Supplemental Listing Document;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(a) upon the occurrence of a Mandatory Call Event:

  (i) in respect of a series of Category R Contracts, the Residual Value determined solely by the Issuer at its discretion, which in any case cannot be lower than the Minimum Residual Value;

  (ii) in respect of a series of Category N Contracts, zero; and

(b) upon automatic exercise at expiry:

  (i) in the case of a series of bull Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Number of Contracts per Entitlement}}$$

  (ii) in the case of a series of bear Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N Contracts**" means a series of Contracts where the Call Level is equal to the Strike Level;

"**Category R Contracts**" means a series of Contracts where the Call Level is not equal to the Strike Level;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Contracts**" means the contracts specified as such in the relevant Supplemental Listing Document;

"**Day of Notification**" means the trading day of the Stock Exchange immediately following the day on which a Mandatory Call Event occurs;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 3;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Funding Cost**" means an amount, as determined by the Issuer, based on:

(a) the Strike Level;

(b) the prevailing interest rate; and

(c) the margin charged by the Issuer.

The Funding Cost can be a negative number and there is a possibility that the Funding Cost may fluctuate over the life of a Contract;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index or, as the case may be, the Successor Index is scheduled to be published by the Index Compiler or, as the case may be, the Successor Index Compiler and the Index Exchange is scheduled to open for dealings;

"**Index Compiler**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Level of the Index on any Index Business Day from and including the Observation Commencement Date (Hong Kong time) up to and including the close of trading on the Last Trading Day (Hong Kong time):

(a) in the case of a series of bull Contracts, at or below the Call Level; or

(b) in the case of a series of bear Contracts, at or above the Call Level;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Index Business Day or Business Day during the one-half hour period that ends at the close of trading, of any of:

(i) the suspension or material limitation of the trading of a material number of constituent securities, contracts, commodities or currencies that comprise the Index; or

(ii) the suspension or material limitation of the trading of constituent securities, contracts, commodities or currencies (aa) on the Relevant Exchange; or (bb) generally; or

(iii) the suspension or material limitation of the trading of (aa) options or futures contracts relating to the Index on any Related Exchange; or (bb) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the applicable Cash Settlement Amount.

For the purposes of this definition, a limitation on the hours and number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the Stock Exchange, the Index Exchange, the Relevant Exchange or any Related Exchange, but a limitation on trading imposed during the course of the day by reason of movements in price otherwise exceeding levels permitted by the Stock Exchange, the Index Exchange, the Relevant Exchange or any Related Exchange may, if so determined by the Issuer, constitute a Market Disruption Event;

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued;

(c) a limitation or closure of the Stock Exchange, the Index Exchange, the Relevant Exchange or any Related Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" only applies to Category R Contracts and means the highest Spot Level of the Index in the MCE Valuation Period;

"**MCE Valuation Date**" means the last Business Day (Hong Kong time) during the MCE Valuation Period;

"**MCE Valuation Period**" means, unless otherwise specified in the relevant Supplemental Listing Document:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from the Trading Session of the Index Exchange in which the Mandatory Call Event occurs ("**1st Session**") and up to the end of the Trading Session of the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, there is no continuous period of at least 1 hour during which Spot Level(s) is/are available during the 2nd Session for any reason (including without limitation a Market Disruption Event occurring and subsisting for the entire 2nd Session), in which case the MCE Valuation Period shall be extended to the end of the subsequent Trading Session of the Index Exchange following the 2nd Session during which Spot Level(s) is/are available for a continuous period of at least 1 hour during such postponed Trading Session (whether or not a Market Disruption Event exists or continues in such postponed trading session), unless the Issuer determines in its good faith that there is no continuous period of at least 1 hour during which Spot Level(s) is/are available in each Trading Session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs. In that case:

(i) the end of the last Trading Session of the Index Exchange on the fourth Index Business Day following the day on which Mandatory Call Event occurs shall be deemed to be the end of the MCE Valuation Period (whether or not a Market Disruption Event exists or continues in such postponed Trading Session); and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Index level published by the Index Compiler and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Level(s) available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Minimum Residual Value.

For the purposes of this definition:

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one session only; and

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

"**Minimum Residual Value**" only applies to Category R Contracts and means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull Contracts:

$$\begin{array}{c}\text{Minimum Residual Value}\\ \text{per Board Lot}\end{array} = \frac{\begin{array}{c}\text{Entitlement x (Minimum Index Level - Strike Level) x}\\ \text{one Board Lot x Index Currency Amount}\end{array}}{\text{Number of Contracts per Entitlement}}$$

(ii) in the case of a series of bear Contracts:

$$\begin{array}{c}\text{Minimum Residual Value}\\ \text{per Board Lot}\end{array} = \frac{\begin{array}{c}\text{Entitlement x (Strike Level - Maximum Index Level) x}\\ \text{one Board Lot x Index Currency Amount}\end{array}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Minimum Residual Value is a negative figure, it shall be deemed to be zero;

"**Minimum Index Level**" only applies to Category R Contracts and means the lowest Spot Level of the Index in the MCE Valuation Period;

"**Number of Contracts per Entitlement**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Observation Commencement Date**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Price Source**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Contracts over an index;

"**Related Exchange**" means an options or futures exchange or quotation system on which options contracts or futures contracts or other derivatives contracts on the Index are traded specified in the relevant Supplemental Listing Document;

"**Relevant Exchange**" means the exchange specified as such in the relevant Supplemental Listing Document;

"**Relevant Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Residual Value**" only applies to a series of Category R Contracts and means an amount (if any) determined solely by the Issuer following a Mandatory Call Event, provided that the Residual Value must not be lower than the Minimum Residual Value. The Residual Value is determined by the Issuer by reference to the difference between the price at which hedging transactions in the Index or the constituent stocks comprising the Index with respect to the Contracts are unwound (the "**MCE Valuation Price**") and the Strike Level;

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day following the MCE Valuation Date or the Expiry Date (as the case may be);

"**Spot Level**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trading Session**" means the session specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date specified as such in the relevant Supplement Listing Document.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the Closing Level.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Rights, Valuation, Settlement and Payment

2.1 *Cessation of Trading and Exercise.* Trading in Contracts on the Stock Exchange shall cease:

2.1.1 immediately upon the occurrence of a Mandatory Call Event; and

2.1.2 at the close of the Last Trading Day (Hong Kong time), whichever is the earlier to occur in accordance with the requirements of the Stock Exchange.

Provided no Mandatory Call Event has occurred, the Contracts will be deemed to be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date.

2.2 Mandatory Call Event

2.2.1 Subject to Product Condition 2.2.2, following a Mandatory Call Event, the Contracts will terminate automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the Contracts ("**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 9. Trading in the Contracts will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R Contracts, the Issuer will give a notice of the valuation of the Residual Value (the "**Announcement on Valuation of Residual Value**") to the Holders before the end of the trading session of the Stock Exchange immediately after the corresponding trading session of the Stock Exchange during which the MCE Valuation Period ends, in accordance with General Condition 9.

2.2.2 A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx; or

(b) manifest errors caused by the Price Source or the Index Compiler where applicable;

and

(A) in the case of paragraph (a) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of paragraph (b) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case:

(aa) in respect of an Index Exchange located in Hong Kong, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification; or

(bb) in respect of an Index Exchange located outside Hong Kong:

(1) such event is communicated to the other party by 9:00 a.m. (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification; and

(2) the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked on the Day of Notification.

In the case of paragraphs (aa) and (bb) above:

(x) the Mandatory Call Event so triggered will be reversed; and

(y) all cancelled trades (if any) will be reinstated and trading of the Contracts will resume no later than the trading day of the Stock Exchange immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.3 *Cash Settlement upon the occurrence of a Mandatory Call Event.* Every Board Lot entitles the Holder of Category R Contracts, upon the occurrence of a Mandatory Call Event and upon compliance with these Product Conditions, to payment of the Cash Settlement Amount, if any. No Cash Settlement Amount will be paid to the Holder of Category N Contracts upon the occurrence of a Mandatory Call Event.

2.4 *Record in the register of Holders.* Upon early expiration of Contracts at the occurrence of a Mandatory Call Event or exercise of Contracts at expiry, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the register of Holders in respect of the number of Contracts which have expired or exercised (as the case may be) and thereby cancel the relevant Contracts and, if applicable, the Global Certificate.

3. Adjustments to the Index

3.1 *Successor Index Compiler Calculates and Reports Index.* If the Index is:

3.1.1 not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or

3.1.2 replaced by a successor index (the "**Successor Index**") using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that Successor Index, as the case may be.

3.2 *Modification and Cessation of Calculation of Index.* If:

3.2.1 on any Index Business Day before the Expiry Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events), or

3.2.2 on any Index Business Day before the Expiry Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the level of the Index using, in lieu of a published level for the Index, the level for the Index as at that Index Business Day as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those constituent securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the Relevant Exchange).

3.3 *Market Disruption Events.* Without limiting the provisions under the definitions of "MCE Valuation Date" and "Valuation Date" in Product Condition 1, if a Market Disruption Event occurs, the Issuer has the right to determine the Exchange Rate, the Closing Level and/or the Spot Level of the Index in its good faith accordingly. The Issuer shall as soon as reasonably practicable under the circumstances notify the Holders in accordance with General Condition 9 if it determines that a Market Disruption Event has occurred.

3.4 *Foreign Currency Controls.* If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

3.4.1 requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;

3.4.2 otherwise restricts the Issuer's ability to obtain the Settlement Currency; or

3.4.3 otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 9 to such effect, Holders of the Contracts which have expired upon the occurrence of the Mandatory Call Event or have been exercised in accordance with Product Condition 2 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the applicable Cash Settlement Amount (if any) in any other currency as determined by the Issuer.

4. Termination for force majeure, illegality and impracticality

4.1 *Force majeure, illegality and impracticality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Contracts has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Contracts early by giving notice to the Holders in accordance with General Condition 9.

4.2 *Termination*. If the Issuer terminates the Contracts prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Contract held by such Holder equal to the fair market value of a Contract immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

PART C — PRODUCT CONDITIONS OF EUROPEAN STYLE CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions, the supplemental provisions contained in the relevant Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. In respect of each series of Structured Products, in the event of any inconsistency between the General Conditions, these Product Conditions and the relevant provisions in the Supplemental Listing Document, or any two or more of them, the relevant provisions in the Supplemental Listing Document shall prevail over the General Conditions and these Product Conditions, and these Product Conditions shall prevail over the General Conditions.

1. Definitions

For the purposes of these Product Conditions:

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means:

(a) upon the occurrence of a Mandatory Call Event:

(i) in respect of a series of Category R Contracts, the Residual Value determined solely by the Issuer at its discretion, which in any case cannot be lower than the Minimum Residual Value;

(ii) in respect of a series of Category N Contracts, zero; and

(b) upon automatic exercise at expiry:

(i) in the case of a series of bull Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

(ii) in the case of a series of bear Contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N Contracts**" means a series of Contracts where the Call Price is equal to the Strike Price;

"**Category R Contracts**" means a series of Contracts where the Call Price is not equal to the Strike Price;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the General Conditions and these Product Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) on the Valuation Date;

"**Contracts**" means the contracts specified as such in the relevant Supplemental Listing Document;

"**Day of Notification**" means the trading day of the Stock Exchange immediately following the day on which a Mandatory Call Event occurs;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 3;

"**Funding Cost**" means an amount, as determined by the Issuer, based on:

(a) the Strike Price;

(b) the prevailing interest rate;

(c) the expected distribution in respect of the Units; and

(d) the margin charged by the Issuer.

The Funding Cost can be a negative number and there is a possibility that the Funding Cost may fluctuate over the life of a Contract;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Price of the Units on any Business Day from and including the Observation Commencement Date up to and including the close of trading on the Last Trading Day:

(a) in the case of a series of bull Contracts, at or below the Call Price; or

(b) in the case of a series of bear Contracts, at or above the Call Price;

"Market Disruption Event" means:

(a) the occurrence or existence on any Business Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in the Units, any options or futures contracts relating to the Units if, in any such case, that such suspension or limitation is, in the determination of the Issuer, material; or

(b) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading on any day, PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Maximum Trade Price**" only applies to Category R Contracts and means the highest Spot Price of the Units in the MCE Valuation Period;

"**MCE Valuation Date**" means the last Business Day during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from the Trading Session in which the Mandatory Call Event occurs ("**1st Session**") and up to the end of the Trading Session immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, there is no continuous period of at least 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed during the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session), in which case the MCE Valuation Period shall be extended to the end of the subsequent Trading Session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour (whether or not a Market Disruption Event exists or continues in such postponed Trading Session), unless the Issuer determines in its good faith that there is no continuous period of at least 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed in each Trading Session on each of the four Business Days immediately following the day on which the Mandatory Call Event occurs. In that case:

(i) the end of the last Trading Session on the fourth Business Day following the day on which the Mandatory Call Event occurs shall be deemed to be the end of the MCE Valuation Period (whether or not a Market Disruption Event exists or continues in such postponed Trading Session); and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported trading price of the Units on the Stock Exchange and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Minimum Residual Value.

For the purposes of this definition:

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(B) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one session only;

"**Minimum Residual Value**" only applies to Category R Contracts and means:

(a) in the case of a series of bull Contracts:

$$\text{Minimum Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

(b) in the case of a series of bear Contracts:

$$\text{Minimum Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x one Board Lot}}{\text{Number of Contracts per Entitlement}}$$

For the avoidance of doubt, if the Minimum Residual Value is a negative figure, it shall be deemed to be zero;

"**Minimum Trade Price**" only applies to Category R Contracts and means the lowest Spot Price of the Units in the MCE Valuation Period;

"**Number of Contracts per Entitlement**" has the meaning given to it the relevant Supplemental Listing Document;

"**Observation Commencement Date**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of European Style Contracts over single unit trusts;

"**Residual Value**" only applies to Category R Contracts and means an amount (if any) determined solely by the Issuer following a Mandatory Call Event, provided that the Residual Value must not be lower than the Minimum Residual Value. The Residual Value is determined by the Issuer by reference to the difference between the price at which hedging transactions in the Units with respect to the Contracts are unwound (the "**MCE Valuation Price**") and the Strike Price;

"**Settlement Date**" means the third CCASS Settlement Day following the MCE Valuation Date or the Valuation Date (as the case may be);

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during a continuous trading session of the Stock Exchange in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (IEP) (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with General Condition 5 and Product Condition 3;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trading Session**" means the session specified as such in the relevant Supplemental Listing Document;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the Business Day immediately preceding the Expiry Date.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Valuation Date shall be the first succeeding Business Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Business Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Business Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on that fourth Business Day but for the occurrence of the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meanings ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

2. Rights, Valuation, Settlement and Payment

2.1 *Cessation of Trading and Exercise.* Trading in Contracts on the Stock Exchange shall cease:

2.1.1 immediately upon the occurrence of a Mandatory Call Event; or

2.1.2 at the close of the Last Trading Day,

whichever is earlier to occur in accordance with the requirements of the Stock Exchange.

Provided no Mandatory Call Event has occurred, the Contracts will be deemed to be automatically exercised at 10:00 a.m. (Hong Kong time) on the Expiry Date.

2.2 *Mandatory Call Event*.

2.2.1 Subject to Product Condition 2.2.2, following a Mandatory Call Event, the Contracts will terminate automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the Contracts ("**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 9. Trading in the Contracts will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R Contracts, the Issuer will give a notice of the valuation of the Residual Value ("**Announcement on Valuation of Residual Value**") to the Holders before the end of the Trading Session immediately after the MCE Valuation Period in accordance with General Condition 9.

2.2.2 A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx; or

(b) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of paragraph (a) above, such event is reported by the Stock Exchange to the Issuer, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of paragraph (b) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case:

(aa) such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) or such other time frame as prescribed by the Stock Exchange from time to time on the Day of Notification;

(bb) the Mandatory Call Event so triggered will be reversed; and

(cc) all cancelled trades (if any) will be reinstated and trading of the Contracts will resume no later than the trading day of the Stock Exchange immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.3 *Cash Settlement upon the occurrence of a Mandatory Call Event.* Every Board Lot entitles the Holder of Category R Contracts, upon the occurrence of a Mandatory Call Event and upon compliance with these Product Conditions, to payment of the Cash Settlement Amount, if any. No Cash Settlement Amount will be paid to the Holder of Category N Contracts upon the occurrence of a Mandatory Call Event.

2.4 *Record in the register of Holders.* Upon early expiration of Contracts at the occurrence of a Mandatory Call Event or exercise of Contracts at expiry, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the register of Holders in respect of the number of Contracts which have expired or exercised (as the case may be) and thereby cancel the relevant Contracts and, if applicable, the Global Certificate.

3. Adjustments

3.1 *Rights Issues.* If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues.* If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations.* If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 *Restructuring Events.* If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Contracts may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Contracts shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Contracts related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 *Cash Distribution.* No capital adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

4. Termination of the Trust or Liquidation of the Trustee

4.1 In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Contracts will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Contracts will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised Contracts will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

4.2 For the purpose of this Product Condition 4, "**Termination**" means:

4.2.1 the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences;

4.2.2 the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted;

4.2.3 the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or

4.2.4 the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) to offer Units to the public in Hong Kong.

5. Delisting

5.1 *Adjustments following delisting.* If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Contracts as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 *Listing on another exchange.* Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the General Conditions and these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

5.3 *Adjustments binding.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 9 as soon as practicable after they are determined.

6. Termination for force majeure, illegality and impracticality

6.1 *Force majeure, illegality and impracticality*. If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Contracts has become illegal or impractical in whole or in part for any reason, the Issuer may at its sole and absolute discretion and without obligation terminate the Contracts early by giving notice to the Holders in accordance with General Condition 9.

6.2 *Termination*. If the Issuer terminates the Contracts prior to the Expiry Date, then the Issuer will, if and to the extent permitted by any relevant applicable law, pay an amount to each Holder in respect of each Contract held by such Holder equal to the fair market value of a Contract immediately prior to termination notwithstanding such illegality or impracticality, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with General Condition 9.

Sponsor:
RBS Asia Limited
40th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

APPENDIX 4 — AUDITORS REPORT AND ANNUAL CONSOLIDATED FINANCIAL STATEMENTS RELATING TO RBS HOLDINGS N.V. AND ITS GROUP OF COMPANIES FOR THE YEAR ENDED 31 DECEMBER 2009

The information in this Appendix 4 has been extracted from the annual report of RBS Holdings for the year ended 31 December 2009. References to page numbers on the following pages are to pages of such report. The auditors' report included in this Appendix 4 relates to the 2009 annual report of RBS Holdings as a whole, extracts of which are included in this Appendix 4.

We have not prepared our own consolidated accounts for the year ended 31 December 2009 but we expect that there will be no material difference between the consolidated accounts of RBS Holdings and our consolidated accounts (if prepared).

Our financial statements are consolidated in RBS Holdings' accounts. RBS Holdings, after the legal separation, continues to include assets and liabilities that have not yet been settled between the Consortium Members, the so-called 'Shared Assets ', in which each of the consortium shareholders has a joint and indirect interest. The net asset value of the assets and liabilities that are currently expected to remain for an interim period in RBS Holdings and consolidated subsidiaries amounts to approximately EUR 500 million at 31 December 2009. Sufficient capital remains in RBS Holdings to cover the Dutch State interest and the Santander interest in the remaining Shared Assets until such time that these are sold, redeemed or otherwise settled.

Section 6 Financial Statements

SECTION 6 FINANCIAL STATEMENTS

Consolidated Financial Statements

Accounting policies

Corporate Information
ABN AMRO Holding N.V. (‘ABN AMRO Holding’) is the parent company of the ABN AMRO consolidated group of companies (referred to as ‘ABN AMRO’). ABN AMRO Holding is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands. ABN AMRO provides a broad range of financial services on a worldwide basis, including consumer, commercial and investment banking.

On 17 October 2007 RFS Holdings B.V. (‘RFS Holdings’), a company incorporated by The Royal Bank of Scotland Group plc (‘RBS Group’), Fortis N.V., Fortis SA/NV (‘Fortis’) and Banco Santander S.A. (‘Santander’), acquired 85.6% of ABN AMRO Holding and applied for de-listing of its ordinary shares from Euronext Amsterdam and the New York Stock Exchange. The de-listing of the ABN AMRO Holding ordinary shares and the (formerly convertible) preference shares with a nominal value of €2.24 each from Euronext Amsterdam and the de-listing of its American Depositary Shares (‘ADSs’) from the New York Stock Exchange was effected on 25 April 2008. Through subsequent purchases RFS Holdings completed the acquisition of the remainder of the shares in ABN AMRO Holding from minority shareholders in 2008. As a result RFS Holdings is the sole shareholder of ABN AMRO Holding.

On 3 October 2008, the Dutch State acquired all Fortis’ businesses in the Netherlands, including the Fortis share in RFS Holdings. On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland (Holding) N.V. its investment in RFS Holdings, to become a direct shareholder in RFS Holdings.

RFS Holdings is controlled by RBS Group, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBS Group is the ultimate parent company of ABN AMRO Holding. The consolidated financial statements of ABN AMRO are included in the consolidated financial statements of RBS Group.

As debt securities issued by ABN AMRO Holding or its subsidiaries are listed on the New York Stock Exchange the rules of the Securities and Exchange Commission (‘SEC’) are applicable. This annual report complies with the SEC rules for foreign registrants and a cross reference table to the sections of the Form 20-F is included on page 189 of this report.

The consolidated financial statements of ABN AMRO for the year ended 31 December 2009 incorporate financial information of ABN AMRO Holding, its controlled entities, and interests in associates and joint ventures. The consolidated financial statements were signed and authorised for issue by the Managing Board on 22 March 2010 and Supervisory Board on 25 March 2010. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for a revision of the financial statements.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union (‘EU’). ABN AMRO does not utilise the portfolio hedging ‘carve out’ permitted by the EU. Accordingly, the accounting policies applied by ABN AMRO comply fully with IFRS issued by the International Accounting Standards Board (‘IASB’).

Summary significant accounting policies

Basis of preparation

The consolidated financial statements are prepared in accordance with IFRS on a mixed valuation model basis as follows:

- Fair value is used for: derivative financial instruments, financial assets and liabilities held for trading or designated as measured at fair value through profit or loss, and available-for-sale financial assets,
- Other financial assets (including 'loans and receivables') and liabilities are valued at amortised cost,
- The carrying value of assets and liabilities measured at amortised cost included in a fair value hedge relationship is adjusted with respect to fair value changes resulting from the hedged risk,
- Non-financial assets and liabilities are generally stated at historical cost.

The consolidated financial statements are presented in euros, which is the presentation currency of ABN AMRO, rounded to the nearest million (unless otherwise noted).

Adoption of IFRS standards and interpretations

IAS 1 (revised 2007) Presentation of Financial Statements
(effective for annual periods beginning on or after 1 January 2009)
The revised IAS 1 affects the presentation of owner changes in equity and of comprehensive income. Information is to be aggregated based on shared characteristics, specifically requiring disclosure of changes in equity arising from transactions with owners separate from other changes in equity. The Standard requires the entity to present all items of recognised income and expense including gains and losses either in one single statement or in two linked statements. In order to implement the revised IAS 1, ABN AMRO presents two statements, a separate income statement displaying components of profit or loss and a second statement, the statement of comprehensive income, which begins with profit or loss and displays components of other comprehensive income. The 'owner' changes in equity remain in the statement of changes in equity.

In addition, the revised IAS 1 requires the entity to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. ABN AMRO has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the statement of financial position.

The Standard has also introduced a number of terminology changes, including revised titles for the financial statements. ABN AMRO has renamed the balance sheet to 'statement of financial position' and the cash flow statement to 'statement of cash flows'. Adoption of the revised Standard has had no impact on the reported results or financial position of ABN AMRO.

As described in note 1, ABN AMRO has made changes to the operating segments. The changes do not affect ABN AMRO's results. Comparative data for the operating segments have been restated accordingly. IAS 1 'Presentation of Financial Statements' requires the presentation of a balance sheet as at the beginning of the earliest period when a company applies an accounting policy retrospectively. For ABN AMRO, this balance sheet would be as at 31 December 2007. However, the retrospective accounting for the changes made to the operating segments had no impact on the balance sheet as at 31 December 2007, and therefore that third balance sheet has not been represented in these Consolidated Financial Statements.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
(effective for periods beginning on or after 1 January 2009)
The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. ABN AMRO has applied these amendments from 1 January 2009. The amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value, specific disclosures related to transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The notes to the consolidated financial statements provide detailed disclosures as required by the amendments.

Adoption of amendments to the following standards and interpretations did not have an impact on the accounting policies, financial position or performance of ABN AMRO:

IAS 23 Borrowing costs
(effective for annual periods beginning on or after 1 January 2009)
The revised standard eliminates the option of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The current ABN AMRO policy requires capitalisation of borrowing costs where material related to the qualifying asset.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
(effective for annual periods beginning on or after 1 January 2009)
The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. ABN AMRO does not have such puttable instruments.

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations
(effective for periods beginning on or after 1 January 2009)
The amendment clarifies that vesting conditions comprise only service conditions and performance conditions. It also specifies the accounting treatment for a failure to meet a non-vesting condition.

IFRS 8 Operating segments
(effective for periods beginning on or after 1 January 2009)
ABN AMRO adopted IFRS 8 on 1 January 2007. The Standard replaces IAS 14 ‘Segment Reporting’ in setting out requirements for disclosure of information about an entity’s operating segments, revenues derived from its products and services, the geographical areas in which it operates and its major customers.

Improvements to IFRSs issued in May 2008
In May 2008, the IASB issued its first collection of amendments to its Standards, primarily with a view to remove inconsistencies and clarify wording. The amendments are generally effective for annual periods beginning on or after 1 January 2009. However, there are separate transitional provisions for each Standard.

IFRIC 9 Reassessment of Embedded Derivatives
(amendment issued in March 2009, effective for annual periods ending on or after 30 June 2009)
This amendment of the interpretation clarifies that the assessment whether an embedded derivative is required to be separated from the host contract on reclassification of a financial asset out of the fair value through profit or loss category shall be made on the basis of the circumstances that existed when the entity first became a party to the contract or when the contract was significantly modified, whichever is the later.

IFRIC 13 Customer Loyalty Programmes
(effective for annual periods beginning on or after 1 July 2008)
This interpretation addresses how companies that grant their customers loyalty credits (often called ‘points’) when buying goods or services should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. Customer loyalty credits are required to be accounted for as a separate component of the sales transaction in which they are granted.

IFRIC 15 Agreements for the Construction of Real Estate
(effective for annual periods beginning on or after 1 January 2009)
This interpretation standardises accounting practice across jurisdictions for the recognition of revenue by real estate developers before construction is complete.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
(effective for annual periods beginning on or after 1 October 2008)
IFRIC 16 addresses three main issues. Firstly, the interpretation considers whether risk arises from (a) the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from (b) the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. Secondly, it determines which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular

whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. Finally it discusses how an entity should determine the amounts to be reclassified from equity to profit or loss or both the hedging instrument and the hedged item when the entity disposes of the investment.

IFRIC 18 Transfers of Assets from Customers
(effective for annual periods beginning on or after 1 July 2009)
The IFRIC issued interpretation IFRIC 18 'Transfers of Assets from Customers' in January 2009. The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value. The interpretation is effective for assets received from customers on or after 1 July 2009.

Critical accounting policies
The preparation of financial statements in conformity with IFRS requires management to make difficult, complex or subjective judgements and estimates, at times, regarding matters that are inherently uncertain. These judgements and estimates affect reported amounts and disclosures. Actual results could differ from those judgements and estimates. The most significant areas requiring management to make judgements and estimates that affect reported amounts and disclosures are as follows:

Allowance for loan losses
Allowances for loan losses are made for estimated losses in outstanding loans for which there is doubt about the borrower's capacity to repay the principal and/or the interest. The allowance for loan losses is intended to adjust the value of ABN AMRO's loan assets for probable credit losses as of the balance sheet date. Allowances are determined through a combination of specific reviews, statistical modelling and estimates. Certain aspects require judgement, such as the identification of loans that are deteriorating, the determination of the probability of default, the expected loss, the value of collateral and current economic conditions. Though we consider the allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to allowances may be required in the future, as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events. For a further discussion on our allowance for loan losses, see note 18 to our consolidated financial statements.

Fair value of financial instruments
For financial instruments that are actively traded and for which quoted market prices or market parameters are readily available, there is little subjectivity in the determination of fair value. However, when observable market prices and parameters do not exist, management judgement is necessary to estimate fair value.

For instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimated using a variety of valuation techniques – including reference to similar instruments for which market prices do exist or valuation models, such as discounted cash flow calculations or Black-Scholes.

ABN AMRO refines and modifies its valuation techniques as markets and products develop and the pricing for such products becomes more or less transparent. Financial markets are sometimes subject to significant stress conditions where steep falls in perceived or actual asset values are accompanied by a severe reduction in market liquidity, such as the events in the US sub-prime residential mortgage market starting in 2007. In such cases, observable market data may become less reliable or disappear altogether. Where there is doubt over the reliability of the market data due to either market illiquidity or unavailability, other valuation techniques are used. These alternative techniques would include scenario analysis and discounted cash flow calculations.

Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data. Where inputs to the valuation of a new transaction cannot be reliably sourced from external providers, the transaction is initially recognised at its transaction price. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to income at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions. Subsequent changes in fair value as calculated by the valuation model are reported in income.

Fair values include appropriate adjustments to account for known inadequacies in the valuation models or to reflect the credit quality of the instrument or counterparty. Factors that could affect estimates are incorrect model assumptions, market dislocations and unexpected correlation. We believe our estimates of fair value are adequate. However, the use of different models or assumptions could result in changes in our reported results. For a further discussion on the use of fair values and the impact of applying reasonable possible alternative assumptions as inputs, see note 37 to the consolidated financial statements.

Impairment of available-for-sale instruments

A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset or on reclassification into available-for-sale from trading have adversely affected the amount or timing of future cash flows from the assets.

Significant management judgement is involved where the determination of future cash flows requires consideration of a number of variables, some of which may be unobservable in current market conditions. This is the case for more complex instruments such as asset backed securities, where factors such as the estimated cash flows on underlying pools of collateral and changes in national or local conditions that correlate with defaults on the assets are considered.

Assessment of risks and rewards

Whenever ABN AMRO is required to assess risks and rewards, when considering the recognition and derecognition of assets or liabilities and the consolidation and deconsolidation of subsidiaries, ABN AMRO may sometimes be required to use judgement. Although management uses its best knowledge of current events and actions in making assessments of expected risks and rewards, actual risks and rewards may ultimately differ.

Pension and post-retirement benefits

Significant pension and post-retirement benefit costs are based on actuarial calculations. Inherent within these calculations are assumptions including: discount rates, salary increases and the expected return on plan assets. Changes in pension and post-retirement costs may occur in the future as a consequence of changes in interest rates, the return on assets or other factors. For a further discussion on the underlying assumptions, see note 27 to our consolidated financial statements.

Deferred tax

Deferred tax assets arise from a variety of sources, the most significant being: (a) tax losses that can be carried forward to be utilised against profits in future years; and (b) valuation changes of assets which need to be tax effected for accounting purposes but are taxable only when the valuation change is realised.

The level of deferred tax asset recognition is influenced by management's assessment of ABN AMRO's historic and future profitability profile. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. In a situation where recent losses have been incurred, the relevant accounting standards require convincing evidence that there will be sufficient future tax capacity.

Basis of consolidation

The consolidated financial statements are prepared annually for the year ended 31 December and include the parent company and its controlled subsidiaries as well as joint ventures on a proportionate share basis. Subsidiaries are included using the same reporting period and consistent accounting policies.

Subsidiaries

Subsidiaries are those enterprises controlled by ABN AMRO. Control is deemed to exist when ABN AMRO has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The existence and effect of potential voting rights that are presently exercisable or convertible are taken into account when assessing whether control exists. ABN AMRO sponsors the formation of entities, including certain special purpose entities, which may or may not be directly owned, for the purpose of asset securitisation transactions and other narrow and well-defined objectives. Particularly in the case of securitisations these entities may acquire assets from other group companies. Some of these entities hold assets that are not available to meet the claims of creditors of ABN AMRO or any of its subsidiaries. Such entities are consolidated in ABN AMRO’s financial statements when the substance of the relationship between ABN AMRO and the entity indicates that control is held by ABN AMRO.

The financial statements of subsidiaries and special purpose entities are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Equity attributable to non-controlling interests is shown separately in the consolidated balance sheet as part of total equity. Current period profit or loss attributable to non-controlling interests is presented as an attribution of profit for the year.

Business combinations

IFRS 3 ‘Business combinations’ was adopted for all business combinations taking place after 1 January 2004. Goodwill on acquisitions prior to this date was charged against equity. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over ABN AMRO’s share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill.

In a step acquisition, where a business combination occurs in stages and control of the business is obtained in stages, all assets and liabilities of the acquired business, excluding goodwill, are adjusted to their fair values at the date of the latest share acquisition transaction. Fair value adjustments relating to existing holdings are recorded directly in equity.

Equity accounted investments

Equity accounted investments comprises associates. Associates are those enterprises in which ABN AMRO has significant influence (this is generally assumed when ABN AMRO holds between 20% and 50% of the voting rights), but not control, over the operating and financial policies.

Investments in associates of a private equity nature are designated to be held at fair value with changes through profit or loss, consistent with the management basis for such investments.

Other investments in associates including ABN AMRO’s strategic investments, are accounted for using the ‘Net equity method’ and presented as ‘Equity accounted investments’. Under this method the investment is initially recorded at cost and subsequently increased (or decreased) for post acquisition net income (or loss), other movements impacting the equity of the investee and any adjustments required for impairment. ABN AMRO’s share of profit or loss of the investee is recognised and separately disclosed in ABN AMRO’s income statement. When ABN AMRO’s share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to zero, including any other unsecured receivables, and recognition of further losses is discontinued except to the extent that ABN AMRO has incurred obligations or made payments on behalf of the investee.

Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities ABN AMRO has joint control, established by contractual agreement. The consolidated financial statements include ABN AMRO’s proportionate share of these enterprises’ assets, liabilities, equity, income and expenses on a line-by-line basis, from the date on which joint control commences until the date on which joint control ceases.

Non-current assets held for sale and discontinued operations

A non-current asset (or disposal groups) is classified as held for sale if its carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. The asset must be available for immediate sale in its present condition and its sale must be highly probable. Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities of a business held for sale are separately presented. Businesses that may be transferred to shareholders by means of a distribution will not be presented as businesses held for sale.

The results of discontinued operations, an operation held for sale that represents a separate major line of business or a geographical area of operation, are presented in the income statement as a single amount comprising the net results of the discontinued operations and the after tax gain or loss realised on disposal. Comparative income statement data is re-presented if in the current period an activity qualifies as a discontinued operation and qualifies for separate presentation.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any related unrealised gains, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of ABN AMRO's interest in the enterprise. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

Currency translation differences
The financial performance of ABN AMRO's foreign operations, conducted through branches, subsidiaries, associates and joint ventures, is reported using the currency ('functional currency') that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The assets and liabilities of foreign operations, including goodwill and purchase accounting adjustments, are translated to ABN AMRO's presentation currency, the euro, at the foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to the euro at the rates prevailing at the end of the month. Currency translation differences arising on these translations are recognised directly in equity ('currency translation account'). Exchange differences recorded in equity, arising after transition to IFRS on 1 January 2004, are included in the income statement on disposal or partial disposal of a foreign operation.

Transactions in a currency that differs from the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets accounted for at cost and denominated in foreign currency are translated to the functional currency at the foreign exchange rate prevailing at the date of initial recognition.

Non-monetary assets accounted for at fair value in a foreign currency are translated to the functional currency using the exchange rate at the date when the fair value was determined.

Currency translation differences on all monetary financial assets and liabilities are included in foreign exchange gains and losses in trading income. Translation differences on non-monetary items (such as equities) held at fair value through profit or loss are also reported through income and, for those classified as available-for-sale, directly in equity within 'Net unrealised gains and losses on available-for-sale assets'.

Fiduciary activities
ABN AMRO commonly acts as trustee and in other fiduciary capacities that entail either the holding or placing of assets on behalf of individuals, trusts or other institutions. These assets are not assets of ABN AMRO and are therefore not included in these financial statements.

Income statement

Interest income and expenses
Interest income and expense is recognised in the income statement using the effective interest rate method. The application of this method includes the amortisation of any discount or premium or other differences, including transaction costs and qualifying fees and commissions, between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. This item does not include interest income and expense in relation to trading balances which is included within net trading income.

Fee and commission income
Fees and commissions are recognised as follows:
- Fees and commissions generated as an integral part of negotiating and arranging a funding transaction with customers, such as the issuance of loans are included in the calculation of the effective interest rate and are included in interest income and expense.
- Fees and commissions generated for transactions or discrete acts are recognised when the transaction or act is completed.
- Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the relevant criteria have been met.

- Service fees are typically recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts.
- Asset management fees related to investment funds are also recognised over the period the service is provided. This principle is also applied to the recognition of income from wealth management, financial planning and custody services that are provided over an extended period.

Net trading income
Net trading income includes gains and losses arising from changes in the fair value of financial assets and liabilities held for trading, interest income, dividends received from trading instruments as well as related funding costs. Dividend income from trading instruments is recognised when entitlement is established. Net trading income also includes changes in fair value arising from changes in counter-party credit spreads and changes in ABN AMRO's credit spreads where it impacts the value of ABN AMRO's derivative liabilities. The charge related to the write-off of trading instruments is included in trading income.

Results from financial transactions
Results from financial transactions include gains and losses on the sale of non-trading financial assets and liabilities, ineffectiveness of certain hedging programmes, the change in fair value of derivatives used to hedge credit risks that are not included in hedge accounting relationships, fair value changes relating to assets and liabilities designated at fair value through profit or loss and changes in the value of any related derivatives. For liabilities designated at fair value through profit or loss it includes changes in ABN AMRO credit spreads. Dividend income from non-trading equity investments, excluding associated companies is recognised in results from financial transactions when entitlement is established.

Segment reporting
Operating segments are the segments that engage in business activities from which the bank earns income and incurs expenses. These segments are the reporting segments whose operating results are reviewed by the Managing Board on a monthly basis. Geographical data is presented according to the location of the transacting group entity.

Financial assets and liabilities

Measurement classifications
ABN AMRO classifies its financial assets and liabilities into the following measurement ('valuation') categories:

Financial instruments held for trading are those that ABN AMRO holds primarily for the purpose of short-term profit-taking. These include shares, interest-earning securities, derivatives held for trading and liabilities from short sales of financial instruments. Derivatives are financial instruments that require little or no initial net investment, with future settlements dependent on a reference benchmark index, rate or price (such as interest rates or equity prices). Changes in expected future cash flows in response to changes in the underlying benchmark determine the fair value of derivatives.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They generally arise when ABN AMRO provides money or services directly to a customer with no intention of trading or selling the loan.

Held-to-maturity assets are non-derivative financial assets quoted on an active market with fixed or determinable payments (i.e. debt instruments) and a fixed maturity that ABN AMRO has the intention and ability to hold to maturity. As of 31 December 2008 ABN AMRO no longer classifies financial assets into the held-to-maturity category and due to tainting rules can not do so until 31 December 2010.

Designated at fair value through profit or loss are financial assets and financial liabilities that ABN AMRO upon initial recognition designates to be measured at fair value with changes reported in profit or loss. Such a designation is done if:
- The instrument includes an embedded derivative that would otherwise require separation. This applies to certain structured notes issued with hybrid features. Fair value measurement helps to achieve offset against changes in the value of derivatives and other fair value positions used to economically hedge these notes.

- The designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise. In this regard unit-linked investments held for the account and risk of policyholders and the related obligation to policyholders are designated at fair value with changes through profit or loss.
- It relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. This is applied to equity investments of a private equity nature.

Available-for-sale assets include interest-earning assets that have either been designated as available for sale or do not fit into one of the categories described above. Equity investments held without significant influence, which are not held for trading or designated at fair value through profit or loss are classified as available-for-sale.

Non-trading financial liabilities that are not designated at fair value through profit or loss are measured at amortised cost.

Recognition and derecognition

Traded instruments are recognised on trade date, defined as the date on which ABN AMRO commits to purchase or sell the underlying instrument. In the infrequent event when settlement terms are non-standard the commitment is accounted for as a derivative between trade and settlement date. Loans and receivables are recognised when they are acquired or funded by ABN AMRO and derecognised when settled. Issued debt is recognised when issued and deposits are recognised when the cash is deposited with ABN AMRO. Other financial assets and liabilities, including derivatives, are recognised in the balance sheet when ABN AMRO becomes party to the contractual provisions of the asset or liability.

Financial assets are generally derecognised when ABN AMRO loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, substantially all risk and rewards are transferred, or not substantially all risk and rewards are transferred nor retained, although control is transferred. If a servicing function is retained, which is profitable, a servicing asset is recognised. A financial liability is derecognised when the obligations specified in the contract are discharged, cancelled or expire.

Financial assets continue to be recognised in the balance sheet, and liabilities recognised for the proceeds of any related funding transaction, unless a fully proportional share of all or specifically identified cash flows are transferred to the lender without material delay and the lender’s claim is limited to those cash flows and substantially all the risks and returns and control associated with the financial instruments have been transferred, in which case that proportion of the asset is derecognised.

ABN AMRO derecognises financial liabilities when settled or if ABN AMRO repurchases its own debt. The difference between the former carrying amount and the consideration paid is included in results from financial transactions in income. Any subsequent resale is treated as a new issuance.

ABN AMRO has securitised various consumer and commercial financial assets. This process generally necessitates a sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors. ABN AMRO’s interests in securitised assets may be retained in the form of senior or subordinated tranches, issued guarantees, interest-only strips or other residual interests, together referred to as retained interest. In many cases these retained interests convey control, such that the SPE is consolidated, and the securitised assets continue to be recognised in the consolidated balance sheet.

Measurement

All trading instruments and financial assets and liabilities designated at fair value are measured at fair value, with transaction costs related to the purchase as well as fair value changes recorded through profit or loss.

The measurement of liabilities held at fair value includes the effect of changes in own credit spreads. The change in fair value applies to those financial liabilities designated at fair value where ABN AMRO’s own credit risk would be considered by market participants and excludes instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The fair value changes are calculated based on a yield curve generated from observed external pricing for funding and quoted CDS data.

All derivatives are recorded in the balance sheet at fair value with changes recorded through profit or loss except when designated in a cash flow or net investment hedge relationship (see hedge accounting below).

Available-for-sale assets are held at fair value with unrealised gains and losses recognised directly in equity, net of applicable taxes. Premiums, discounts and qualifying transaction costs of interest-earning available-for-sale assets are amortised to interest income on an effective interest rate basis. When available-for-sale assets are sold, collected or impaired the cumulative gain or loss recognised in equity is transferred to results from financial transactions in income.

All other financial assets and liabilities are initially measured at cost including directly attributable incremental transaction costs. They are subsequently valued at amortised cost using the effective interest rate method. Through use of the effective interest rate method, premiums and discounts, including qualifying transaction costs, included in the carrying amount of the related instrument are amortised over the period to maturity or expected prepayment on the basis of the instrument's original effective interest rate.

When available, fair values are obtained from quoted market prices in active liquid markets. For instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimated using a variety of valuation techniques – including reference to similar instruments for which market prices do exist or valuation models, such as discounted cash flow or Black-Scholes. ABN AMRO refines and modifies its valuation techniques as markets and products develop and the pricing for individual products becomes more transparent.

Valuation models are validated prior to use by staff independent of the initial selection or creation of the models. Wherever possible, inputs to valuation models represent observable market data from reliable external data sources. Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data.

Where significant inputs to the valuation of a new transaction cannot be reliably sourced from external providers, the transaction is initially recognised at its transaction price. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to income at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions. Subsequent changes in fair value as calculated by the valuation model are reported in income.

Fair values include appropriate adjustments to account for known inadequacies and uncertainties in valuation models or to reflect the credit quality of the instrument or counterparty.

The change in fair value of notes designated at fair value through profit or loss attributable to changes in credit risk are calculated by reference to the credit spread implicit in the market value of ABN AMRO's senior notes.

Reclassifications

Derivatives are not reclassified into and out of the fair value through profit or loss category whilst they are held or issued. Financial instruments designated at fair value through profit or loss upon initial recognition may not be reclassified out of that category. Non-derivative financial assets classified as held for trading upon initial recognition, if they are no longer held for the purpose of selling or repurchasing in the near term, may be reclassified out of the fair value through profit or loss category if certain requirements are met. No financial instrument may be reclassified into the fair value through profit or loss category after initial recognition.

Professional securities transactions

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with securities usually advanced or received as collateral. The transfer of the securities themselves is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred. If cash is advanced or received, securities borrowing and lending activities are recorded at the amount of cash advanced (included in loans and receivables) or received (due to banks or customers). The market value of the securities borrowed and lent is monitored on a daily basis, and the collateral levels are adjusted in accordance with the underlying transactions. Fees and interest received or paid are recognised on an effective interest basis and recorded as interest income or interest expense.

Sale and repurchase transactions involve purchases (sales) of investments with agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and receivables to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase price is recognised over the period of the transaction and recorded as interest income or interest expense.

Netting and collateral

ABN AMRO enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. If ABN AMRO has the right on the grounds of either legal or contractual provisions and the intention to settle financial assets and liabilities net or simultaneously, these are offset and the net amount is reported in the balance sheet. Due to differences in the timing of actual cash flows, derivatives with positive and negative fair values are generally not netted, even if they are held with the same counterparty.

Hedge accounting

Derivative instruments are used to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. Fair value, cash flow or net investment hedging is applied to qualifying transactions that are documented as such at inception.

The hedged item can be an asset, liability, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged. The risk being hedged (the ‘hedged risk’) is typically changes in interest rates or foreign currency rates. ABN AMRO also enters into credit risk derivatives (sometimes referred to as ‘credit default swaps’) for managing portfolio credit risk. However, these are generally not included in hedge accounting relationships.

Both at the inception of the hedge and on an ongoing basis, ABN AMRO formally assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item, by assessing and measuring whether changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the derivative are in excess of changes:

- in the fair value of the hedged item in a fair value hedge, or
- in the value of a net investment in a foreign operation hedge, or
- in the fair value change of the expected cash flow in a cash flow hedge.

Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in profit or loss.

Hedge accounting is discontinued when the hedge relationship has ceased to be effective or is no longer expected to be effective, or when the derivative or hedged item is sold or otherwise terminated.

Fair value hedges

Where a derivative financial instrument hedges the exposure to changes in the fair value of recognised or committed assets or liabilities, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the income statement, typically within results from financial transactions.

When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged asset or liability is amortised to income over the original designated hedging period or taken directly to income if the hedged item is sold, settled or impaired.

Cash flow hedges

When a derivative financial instrument hedges the exposure to variability in the cash flows from recognised assets, liabilities or anticipated transactions, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity.

The cumulative gain or loss recognised in equity is transferred to the income statement at the time when the hedged transaction affects net profit or loss and included in the same line item as the gain or loss on the hedged transaction. In the exceptional case that the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

Hedge of a net investment in a foreign operation
ABN AMRO uses foreign currency derivatives and currency borrowings to hedge various net investments in foreign operations. For such hedges, currency translation differences arising on translation of these instruments to euro are recognised directly in the currency translation account in equity, insofar as they are effective. The cumulative gain or loss recognised in equity is transferred to profit or loss on the disposal of the foreign operation.

Derivatives upon which ABN AMRO applies hedge accounting have been disclosed in note 22 ‘Other assets’ and note 29 ‘Other liabilities’.

Impairment of financial assets
ABN AMRO assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and prior to the balance sheet date (‘a loss event’) and that event adversely impacts estimated future cash flows of the financial asset or the portfolio.

Loans and receivables
An indication that a loan may be impaired is obtained through ABN AMRO’s credit review processes, which include monitoring customer payments and regular loan reviews of commercial clients every 6 or 12 months depending on the rating of the facility.

ABN AMRO first assesses whether objective evidence of impairment exists for loans (including any related facilities and guarantees) that are individually significant, and individually or collectively for loans that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the asset is included in a portfolio of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are evaluated individually for impairment are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows discounted at the loan’s original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement line loan impairment and other credit risk provisions.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that are likely to result from foreclosure less costs for obtaining and selling the collateral.

Future cash flows of a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the portfolio and historical loss experience for loans with credit risk characteristics similar to those in ABN AMRO. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical data and to remove the effects of conditions in the historical data that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The impact of changes in estimates and recoveries is recorded in the income statement line loan impairment and other credit risk provisions.

Following impairment, interest income continues to be recognised using the original effective rate of interest. When a loan is deemed no longer collectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement line loan impairment and other credit risk provisions. Assets acquired in exchange for loans to achieve an orderly realisation are reflected in the balance sheet as a disposal of the loan and an acquisition of a new asset, initially booked at fair value.

Although the decrease in estimated future cash flows from a portfolio of loans cannot yet be identified with the individual loans in the portfolio, there may be indications that there is a measurable decrease. These include adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults in the portfolio. This is dealt with through an allowance for incurred but not identified losses.

Renegotiated loans
Where possible, ABN AMRO seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the items have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

Other financial assets
In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is moved from equity and recognised in the income statement within results from financial transactions.

ABN AMRO performs a review of individual available-for-sale securities on a regular basis to determine whether any evidence of impairment exists. This review considers factors such as any reduction in fair value below cost, its direction and whether the reduction is significant or prolonged, and the credit standing and prospects of the issuer.

Property and equipment

Own use assets
Property and equipment is stated at cost less accumulated depreciation and any amount for impairment. If an item of property and equipment is comprised of several major components with different useful lives, each component is accounted for separately. Additions and subsequent expenditures (including interest) are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. Expenditure incurred to replace a component of an asset is separately capitalised and the replaced component is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefit of the item of property and equipment. All other expenditure, including maintenance, is recognised in the income statement as incurred. When an item of property and equipment is retired or disposed, the difference between the carrying amount and the disposal proceeds net of costs is recognised in other operating income.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. ABN AMRO generally uses the following estimated useful lives:

- Land — not depreciated
- Buildings — 25 to 50 years
- Equipment — 5 to 12 years
- Computer installations — 2 to 5 years.

Depreciation rates and residual values are reviewed at least annually to take into account any change in circumstances. Capitalised leasehold improvements are depreciated in a manner that takes into account the term and renewal conditions of the related lease.

Leasing
As lessee: most of the leases that ABN AMRO has entered into are classified as operating leases (including property rental). The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income

statement as an integral part of the total lease expense. When it is decided that an operating lease will be terminated or vacated before the lease period has expired, the lesser of any penalty payments required and the remaining payments due once vacated (less sub-leasing income) is recognised as an expense.

As lessor: assets subject to operational leases are included in property and equipment. The asset is depreciated on a straight-line basis over its useful life to its estimated residual value. Leases where ABN AMRO transfers substantially all the risks and rewards resulting from ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, using the implicit interest rate, including any guaranteed residual value, is recognised. Finance lease receivables are included in loans and receivables to customers.

Intangible assets

Goodwill
Goodwill, being the excess of the cost of an acquisition over the fair value of ABN AMRO's share of the acquired entity's net identifiable assets at the date of acquisition, is capitalised and stated at cost less any accumulated impairment losses. For the purpose of calculating goodwill, the fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. If the recognition of the assessed fair value of acquired assets and liabilities at the time of acquisition took place on the basis of provisional amounts any changes in the assessed fair value of acquired assets and liabilities at the time of acquisition identified within one year following the acquisition are corrected against goodwill. Any revisions identified after one year are recorded in income.

Goodwill on the acquisition of equity accounted investments is included in the carrying amount of the investment.

Gains and losses on the disposal of an entity, including equity accounted investments, are determined as the difference between the sale proceeds and the carrying amount of the entity including related goodwill and any currency translation differences recorded in equity.

Goodwill is not amortised but is subject to an annual test for impairment or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test.

Software
Costs that are directly associated with identifiable software products that are controlled by ABN AMRO, and likely to generate future economic benefits exceeding these costs, are recognised as intangible assets and stated at cost less accumulated amortisation and any adjustment for impairment losses. Expenditure that enhances or extends the performance of computer software beyond its original specification is recognised as a capital improvement and added to the original cost of the software. Software is amortised over 3 to 7 years. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Other intangible assets
Other intangible assets that are acquired by ABN AMRO are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. Amortisation is charged to the income statement systematically over the estimated useful lives of the intangible asset. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

Impairment of property and equipment and intangible assets
Property and equipment and intangibles are assessed at each balance sheet date or more frequently, to determine whether there is any indication of impairment. If any such indication exists, the assets are subject to an impairment review.

Regardless of any indications of potential impairment, the carrying amount of goodwill is subject to a detailed impairment review at least annually. An impairment loss is recognised whenever the carrying amount of an asset that generates largely independent cash flows or the cash-generating unit to which it belongs exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To calculate value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. When conducting impairment reviews, particularly for goodwill, cash-generating units are the lowest level at which management monitors the return on investment on assets.

The impairment analysis of goodwill and other intangibles requires management to make subjective judgements concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviours and attrition, changes in revenue growth trends and changes in discount rates and specific industry or market sector conditions.

Impairment losses are recognised in the income statement as a component of depreciation and amortisation expense. An impairment loss with respect to goodwill is not reversible. Other impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had previously been recognised.

Pension and other post-retirement benefits

For employees in the Netherlands and the majority of staff employed outside the Netherlands, pension or other retirement plans have been established in accordance with the regulations and practices of the countries in question. Separate pension funds or third parties administer most of these plans. The plans include both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, contributions are charged directly to the income statement in the year to which they relate.

The net obligations under defined benefit plans are regarded as ABN AMRO's own commitments regardless of whether these are administered by a pension fund or in some other manner. The net obligation of each plan is determined as the difference between the benefit obligations and the plan assets. Defined benefit plan pension commitments are calculated in accordance with the projected unit credit method of actuarial cost allocation. Under this method, the present value of pension commitments is determined on the basis of the number of active years of service up to the balance sheet date and the estimated employee salary at the time of the expected retirement date, and is discounted using the market rate of interest on high-quality corporate bonds. The plan assets are measured at fair value.

Pension costs for the year are established at the beginning of the year based on the expected service and interest costs and the expected return on the plan assets, plus the impact of any current period curtailments or plan changes. Differences between the expected and the actual return on plan assets, as well as actuarial gains and losses, are only recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the greater of the commitments under the plan and the fair value of the related plan assets. The part in excess of 10% is recognised in income over the expected remaining years of service of the employees participating in the plans. Differences between the pension costs determined in this way and the contributions payable are accounted for as provisions or prepayments. Commitments relating to early retirement of employees are treated as pension commitments.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the past service cost is recognised immediately in the income statement.

ABN AMRO's net obligation with respect to long-term service benefits and post-retirement healthcare is the amount of future benefit that employees have earned in return for their service in current and prior periods. The obligation is calculated using the projected unit credit method. It is then discounted to its present value and the fair value of any related assets is deducted.

Share-based payments to employees

Until 2007, ABN AMRO engaged in equity and cash settled share-based payment transactions in respect of services received from certain of its employees. The cost of the services received was measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost related to the shares or share options granted was recognised in the income statement over the period that the services of the employees were received, which was the vesting period, with a corresponding credit in equity for equity settled schemes and a credit in liabilities for cash settled schemes. For cash settled schemes the fair value of the plan was determined for each reporting period and the changes were recognised in the income statement. In addition, ABN AMRO recognised the effects of modifications that increased the total fair value of the share-based payment arrangements or were otherwise beneficial to the employee in the income statement.

The fair value of the options granted was determined using option pricing models, which took into account the exercise price of the option, the current share price, the risk free interest rate, the volatility of the ABN AMRO share price over the life of the option and the terms and conditions of the grant. Non-market vesting conditions were taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services, so that ultimately the amount cumulatively recognised in the income statement would reflect the number of shares or share options that eventually vested. Where vesting conditions were related to market conditions, these were fully reflected in the fair value initially determined at grant date and as a result, the charges for the services received were recognised regardless of whether or not the market related vesting condition was met, provided that the non-market vesting conditions were met.

In case of cancellation or settlement of a grant of shares or share options during the vesting period, the amount that otherwise would be recognised over the remainder of the vesting period was immediately recognised in the income statement. Any payment made to the employee upon the cancellation or settlement of the grant was accounted for as a deduction from equity for equity settled schemes and as a deduction from the liability for the cash settled schemes.

Provisions

A provision is recognised in the balance sheet when ABN AMRO has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect of time value is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when an obligation exists. An obligation exists when ABN AMRO has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for.

Provisions for insurance risks are determined by actuarial methods, which include the use of statistics, interest rate data and settlement costs expectations.

Other liabilities

Obligations to policyholders, whose return is dependent on the return of unit linked investments recognised in the balance sheet, are measured at fair value with changes through income.

Tax – current and deferred

Tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The future tax benefit of tax losses available for carry forward is recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is also recognised for qualifying temporary differences. Temporary differences represent the difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates, to the extent that they will probably not reverse in the foreseeable future and the timing of such reversals is controlled by ABN AMRO. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and liability simultaneously.

Issued debt and equity securities
Issued debt securities are recorded on an amortised cost basis using the effective interest rate method, unless they are of a hybrid/structured nature and designated to be held at fair value through profit or loss.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in ABN AMRO having a present obligation to either deliver cash or another financial asset or to satisfy the obligation other than by the exchange of a fixed number of equity shares. Preference shares that carry a non-discretionary coupon or are redeemable on a specific date or at the option of the holder are classified as liabilities. The dividends and fees on preference shares classified as a liability are recognised as interest expense.

Issued financial instruments, or their components, are classified as equity when they do not qualify as a liability and represent a residual interest in the assets of ABN AMRO. Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary. The components of issued financial instruments that contain both liability and equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument's initial value the fair value of the liability component.

Dividends on ordinary shares and preference shares classified as equity are recognised as a distribution of equity in the period in which they are approved by shareholders.

Share capital
Incremental external costs directly attributable to the issue of new shares are deducted from equity net of any related taxes. When share capital recognised as equity is repurchased, the amount of the consideration paid, including incremental directly attributable costs net of taxes, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. Where such shares are subsequently sold or reissued, any consideration received is added to shareholders' equity.

Other equity components

Currency translation account
The currency translation account is comprised of all currency differences arising from the translation of the financial statements of foreign operations net of the translation impact on liabilities or foreign exchange derivatives held to hedge ABN AMRO's net investment. These currency differences are included in profit or loss on disposal of the operation.

Cash flow hedging reserve
The cash flow hedging reserve is comprised of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxes, related to hedged transactions that have not yet occurred.

Net unrealised gains and losses on available-for-sale assets
In this component, gains and losses arising from a change in the fair value of available-for-sale assets are recognised, net of taxes. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognised in equity is transferred to the income statement.

Statement of cash flows
Cash and cash equivalents for the purpose of the statement of cash flows include cash in hand, deposits available on demand with central banks and net credit balances on current accounts with other banks.

The statement of cash flows, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures. The cash flows of discontinued operations are separately reported in the period in which the operation qualifies as a held for sale business.

The presentation of the statement of cash flows for 2007 has been amended to conform to the 2009 and 2008 presentation which does not separately disclose discontinued operations.

Future changes in accounting policies

ABN AMRO expects to adopt the following amended standards and interpretations with effect from 1 January 2010, where applicable pending their endorsement by the EU.

The International Accounting Standards Board published a revised IFRS 3 ‘Business Combinations’ and related revisions to IAS 27 ‘Consolidated and Separate Financial Statements’ following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries. The cost of an acquisition will comprise only consideration paid to vendors for equity; other costs will be expensed immediately. Acquirers will only account for goodwill on acquisition on obtaining control; subsequent changes in interest will be recognised in other comprehensive income and only on a loss of control will a profit or loss on disposal be recognised in profit or loss. The changes are effective for accounting periods beginning on or after 1 July 2009. These changes will affect ABN AMRO’s accounting for future acquisitions and disposals of subsidiaries.

In May 2008, the IASB issued amendments to IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ and IAS 27 ‘Consolidated and Separate Financial Statements’ that change the investor’s accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. It does not affect the consolidated accounts but may prospectively affect the ABN AMRO Holding’s accounting and presentation of receipts of dividends from such entities.

The IASB issued amendments to a number of standards in April 2009 as part of its annual improvements project. The amendments are effective for accounting periods beginning on or after 1 January 2010 and are not expected to have a material effect on ABN AMRO.

The IASB issued an amendment, ‘Group Cash-settled Share-based Payment Transactions‘, to IFRS 2 ‘Share-based Payment’ in June 2009 that will change the accounting for share awards by permitting accounting for equity settlement only by entities that either grant awards over their own equity or have no obligation to settle a share-based payment transaction. The amendment is effective for accounting periods beginning on or after 1 January 2010 and is not expected to have a material effect on ABN AMRO.

The IASB published an amendment ‘Classification of Rights Issues’ to IAS 32 ‘Financial Instruments: Presentation’ and consequential revisions to other standards in October 2009 to improve the accounting for issues of equity for consideration fixed other than in the reporting entity’s functional currency. The amendment is effective for accounting periods beginning on or after 1 February 2010. It is not expected to have a material affect on ABN AMRO.

The International Financial Reporting Interpretations Committee (IFRIC) issued interpretation IFRIC 17 ‘Distributions of Non-Cash Assets to Owners’ and the IASB made consequential amendments to IFRS 5 ‘Non-Current Assets Held for Sale and Discontinued Operations’ in December 2008. The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in profit or loss. The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution. The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IAS 27 (as amended in May 2008). The implementation of IFRIC 17 is expected to have a material effect on ABN AMRO if a distribution in kind or a sale that in substance must be considered a distribution in kind is adopted as the mechanism for the legal separation for the Dutch State acquired businesses.

Consolidated Financial Statements

Consolidated income statement for the year ended 31 December

(in millions of euros)	**2009**	2008	2007
Interest income	**13,295**	22,080	22,734
Interest expense	**8,647**	16,297	18,139
Net interest income [3]	**4,648**	5,783	4,595
Fee and commission income	**2,742**	3,068	4,181
Fee and commission expense	**521**	439	329
Net fee and commission income [4]	**2,221**	2,629	3,852
Net trading income/(loss) [5]	**1,562**	(9,324)	1,119
Results from financial transactions [6]	**(2,206)**	(1,684)	1,134
Share of result in equity accounted investments [19]	**25**	106	223
Other operating income [7]	**8**	306	1,239
Income of consolidated private equity holdings [41]	**436**	1,726	3,836
Total income/(loss)	**6,694**	(458)	15,998
Personnel expenses [8]	**4,119**	5,236	6,363
General and administrative expenses [9]	**3,486**	4,070	4,821
Depreciation and amortisation [10]	**982**	1,045	857
Goods and materials of consolidated private equity holdings [41]	**228**	1,278	2,744
Operating expenses	**8,815**	11,629	14,785
Loan impairment and other credit risk provisions [18]	**2,793**	3,387	717
Total expenses	**11,608**	15,016	15,502
Operating profit/(loss) before tax	**(4,914)**	(15,474)	496
Tax [11]	**(415)**	(2,580)	(458)
Profit/(loss) from continuing operations	**(4,499)**	(12,894)	954
Profit from discontinued operations net of tax [45]	**99**	16,489	9,021
Profit/(loss) for the year	**(4,400)**	3,595	9,975
Attributable to:			
Shareholders of the parent company	**(4,399)**	3,580	9,848
Non-controlling interests	**(1)**	15	127

Numbers stated against items refer to notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of comprehensive income for the year ended 31 December

(in millions of euros)	**2009**	2008	2007
Profit/(loss) for the period	**(4,400)**	3,595	9,975
Other comprehensive income/(loss):			
Currency translation account	**(296)**	(244)	(17)
Available-for-sale financial assets	**20**	(429)	(1,209)
Cash flow hedging reserve	**(254)**	(1,218)	492
Income tax relating to components of other comprehensive income	**138**	422	247
Other comprehensive loss for the period, net of tax [12]	**(392)**	(1,469)	(487)
Total comprehensive income/(loss) for the period, net of tax	**(4,792)**	2,126	9,488
Total comprehensive income/(loss) attributable to:			
Owners of the parent company	**(4,797)**	2,218	9,499
Non-controlling interests	**5**	(92)	(11)
	(4,792)	2,126	9,488

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of financial position at 31 December

(in millions of euros)	**2009**	2008
Assets		
Cash and balances at central banks [13]	**28,382**	5,854
Financial assets held for trading [14]	**78,058**	212,653
Financial investments [15]	**74,897**	67,061
Loans and receivables - banks [16]	**39,659**	75,566
Loans and receivables - customers [17]	**218,246**	270,507
Equity accounted investments [19]	**856**	796
Property and equipment [20]	**1,961**	2,035
Goodwill and other intangibles [21]	**645**	924
Assets of businesses held for sale [45]	**4,889**	1,583
Accrued income and prepaid expenses	**5,871**	7,011
Tax assets [28]	**6,022**	5,100
Other assets [22]	**9,859**	17,727
Total assets	**469,345**	666,817
Liabilities		
Financial liabilities held for trading [14]	**62,687**	192,087
Due to banks [23]	**46,145**	94,620
Due to customers [24]	**196,648**	209,004
Issued debt securities [25]	**95,660**	111,296
Provisions [26]	**4,790**	4,144
Liabilities of businesses held for sale [45]	**8,894**	864
Accrued expenses and deferred income	**6,994**	8,418
Tax liabilities [28]	**578**	700
Other liabilities [29]	**13,489**	15,012
Subordinated liabilities [30]	**14,544**	13,549
Total Liabilities	**450,429**	649,694
Equity		
Share capital [31]	**1,852**	1,852
Share premium [31]	**11,943**	5,343
Retained earnings	**6,697**	11,096
Net gains/(losses) not recognised in the income statement	**(1,612)**	(1,214)
Equity attributable to shareholders of the parent company	**18,880**	17,077
Equity attributable to non-controlling interests	**36**	46
Total equity	**18,916**	17,123
Total equity and liabilities	**469,345**	666,817
Guarantees and other commitments [34]	**36,767**	42,148
Committed credit facilities [34]	**51,520**	63,436

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of changes in equity for the year ended 31 December

(in millions of euros)	**2009**	2008	2007
Share capital [31]			
Balance at 1 January	**1,852**	1,085	1,085
Conversion of preference shares to ordinary shares	**-**	767	-
Balance at 31 December	**1,852**	1,852	1,085
Share premium			
Balance at 1 January	**5,343**	5,332	5,245
Share-based payments	**-**	10	145
Conversion of preference shares to ordinary shares	**-**	1	-
Dividends paid in shares	**-**	-	(58)
Share premium increase [31]	**6,600**	-	-
Balance at 31 December	**11,943**	5,343	5,332
Treasury shares [31]			
Balance at 1 January	**-**	(2,640)	(1,829)
Share buy back	**-**	-	(1,847)
Utilised for dividends paid in shares	**-**	-	412
Utilised for exercise of options and performance share plans	**-**	-	624
Sale of treasury shares	**-**	3,708	-
Gain on sale of treasury shares	**-**	(1,068)	-
Balance at 31 December	**-**	-	(2,640)
Other reserves including retained earnings			
Balance at 1 January	**11,096**	25,650	18,599
Profit/(loss) attributable to shareholders of the parent company	**(4,399)**	3,580	9,848
Dividends paid to shareholders of the parent company	**-**	(19,213)	(1,540)
Dividends paid in shares to shareholders of the parent company	**-**	-	(586)
Gain on sale of treasury shares	**-**	1,068	-
Settlement of share option and awards in cash [44]	**-**	-	(743)
Other changes	**-**	11	72
Balance at 31 December	**6,697**	11,096	25,650
Net gains/(losses) not recognised in the income statement			
Currency translation account			
Balance at 1 January	**517**	597	408
Other comprehensive gain/(loss) for the period [12]	**(218)**	(80)	189
Balance at 31 December	**299**	517	597
Net unrealised gains/(losses) on available-for-sale assets			
Balance at 1 January	**(865)**	(543)	364
Other comprehensive gain/(loss) for the period [12]	**25**	(322)	(907)
Balance at 31 December	**(840)**	(865)	(543)
Cash flow hedging reserve			
Balance at 1 January	**(866)**	94	(275)
Other comprehensive gain/(loss) for the period [12]	**(205)**	(960)	369
Balance at 31 December	**(1,071)**	(866)	94
Equity attributable to shareholders of the parent company at 31 December	**18,880**	17,077	29,575
Non-controlling interest			
Balance at 1 January	**46**	1,134	2,298
Other comprehensive gain/(loss) for the period	**5**	(92)	(11)
Repayment to non-controlling interests	**(15)**	(996)	(1,153)
Equity attributable to non-controlling interests at 31 December	**36**	46	1,134
Total equity at 31 December	**18,916**	17,123	30,709

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of cash flows for the year ended 31 December

(in millions of euros)	**2009**	2008	2007 [1]
Operating activities			
Profit/(loss) for the period	**(4,400)**	3,595	9,975
Adjustments for			
Depreciation, amortisation and impairment	**982**	1,152	1,271
Loan impairment losses	**2,803**	4,332	2,794
Share of result in equity accounted investments	**(25)**	(171)	(278)
Movements in operating assets and liabilities			
Movement in operating assets [35]	**224,174**	199,957	(133,448)
Movement in operating liabilities [35]	**(178,308)**	(246,314)	114,722
Other adjustments			
Dividends received from equity accounted investments	**33**	34	81
Net cash flows from operating activities	**45,259**	(37,415)	(4,883)
Investing activities			
Acquisition of financial investments	**(85,270)**	(245,561)	(201,808)
Sales and redemption of investments	**77,354**	263,840	197,850
Acquisition of property and equipment	**(323)**	(436)	(888)
Sales of property and equipment	**109**	94	674
Acquisition of intangibles (excluding goodwill)	**(167)**	(284)	(549)
Disposal of intangibles (excluding goodwill)	**7**	5	24
Acquisition of subsidiaries and equity accounted investments	**(13)**	(45)	(501)
Disposal of subsidiaries and equity accounted investments	**41**	23,907	15,736
Net cash flows from investing activities	**(8,262)**	41,520	10,538
Financing activities			
Issuance of subordinated liabilities	**2,619**	508	1,523
Repayment of subordinated liabilities	**(1,566)**	(918)	(1,225)
Issuance of other long-term funding	**9,797**	37,952	39,635
Repayment of other long-term funding	**(19,816)**	(56,323)	(33,284)
Sale of treasury shares	**-**	3,708	-
Share buy back	**-**	-	(1,847)
Utilised for exercise of options and performance share plans	**-**	-	624
Increase in share premium	**6,600**		
Other	**6**	7	(1,723)
Dividends paid	**-**	(19,213)	(1,540)
Net cash flows from financing activities	**(2,360)**	(34,279)	2,163
Currency translation differences on cash and cash equivalents	**(414)**	3,975	62
Movement in cash and cash equivalents	**34,223**	(26,199)	7,880
Cash and cash equivalents at 1 January	**(13,447)**	12,752	4,872
Cash and cash equivalents at 31 December [35]	**20,776**	(13,447)	12,752

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

(1) The comparative amounts for 2007 have been restated to conform to the 2009 and 2008 presentation of cash flows.

Notes to the consolidated financial statements

(unless otherwise stated, all amounts are in millions of euros)

1 Segment reporting

Segment information is presented in respect of ABN AMRO's business.

From 1 January 2009, ABN AMRO is comprised of three reportable segments, namely the "RBS acquired", "Dutch State acquired" and "Central Items" segments. This segmentation reflects the focus of and the governance created by the Managing Board on the separate identification and subsequent legal separation of the Dutch State acquired businesses from the residual RBS acquired businesses and remaining Shared Assets in order to create two separate independent banks.

The "RBS acquired" segment represents the businesses acquired by the RBS Group and not sold or transferred to RBS plc. It principally contains international lending, international transaction services with operations in Europe, Asia and the Americas and the equities business. It also includes some retail and commercial businesses in Asia and South America that are to be divested.

The "Dutch State acquired" segment serves Dutch commercial clients, Dutch consumer clients, and Dutch and international private clients, and includes the International Diamond and Jewelry business.

The "Central Items" segment includes items that are not allocated to but are economically shared by the Consortium Members as well as settlement amounts accruing to Santander arising from the disposal of Banco Real and other sales and settlements of Santander acquired businesses completed in 2008. In addition, prior to April 2008, the majority of the Group Asset and Liability Management portfolios were economically shared. Since the allocation of these portfolios was effected on the basis of prospective agreements between Consortium Members, the results on these portfolios prior to this date are reported in Central Items.

Measurement of segment assets, liabilities, income and results is based on ABN AMRO's accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment.

Operating segment information for the year ended 31 December 2009 (2)

	RBS acquired	Dutch State acquired	Central Items	Subtotal	Discontinued Operations	Reconciling items (1)	Total
Net interest income – external	1,894	2,803	(34)	4,663		(15)	4,648
Net interest income - other segments	(183)	191	(8)	-		-	-
Net fee and commission income - external	1,071	1,150	-	2,221		-	2,221
Net fee and commission income- other segments	(47)	48	(1)	-		-	-
Net trading income	1,449	110	3	1,562		-	1,562
Result from financial transactions	(2,261)	299	(250)	(2,212)		6	(2,206)
Share of result in equity accounted investments	(65)	83	7	25		-	25
Other operating income	(284)	215	77	8		-	8
Income of consolidated private equity holdings	-	-	-	-		436	436
Total operating income	1,574	4,899	(206)	6,267		427	6,694
Total operating expenses	4,457	3,796	140	8,393		422	8,815
Loan impairment and credit risk provisions	1,621	1,172	-	2,793		-	2,793
Total expenses	6,078	4,968	140	11,186		422	11,608
Operating profit/(loss) before tax	(4,504)	(69)	(346)	(4,919)		5	(4,914)
Tax	(336)	48	(132)	(420)		5	(415)
Profit/(loss) from continuing operations	(4,168)	(117)	(214)	(4,499)		-	(4,499)
Profit from discontinued operations net of tax	-	-	-	-	99	-	99
Profit/(loss) for the year	(4,168)	(117)	(214)	(4,499)	99	-	(4,400)
Other information at 31 December 2009							
Total assets	274,860	201,824	8,776	485,460	-	(16,115)	469,345
Of which equity accounted investments	73	363	420	856	-	-	856
Total liabilities	269,532	197,550	(535)	466,547	-	(16,118)	450,429
Capital expenditure	206	337	5	548	-	-	548
Depreciation and amortisation	607	325	37	969	-	13	982
Impairment of available-for-sale securities	3	7	-	10	-	-	10

(1) Segments are stated as they are reviewed by management and therefore exclude the effect of the consolidation of Private Equity businesses which is shown as a reconciling item. Inter-segment balances are shown as external balances in the segments and eliminated as a reconciling item.
(2) Changes have been made to ABN AMRO's operating segments in 2009. Comparative data have been restated accordingly.

Operating segment information for the year ended 31 December 2008 [2]

	RBS acquired	Dutch State acquired	Central Items	Subtotal	Discontinued Operations	Reconciling items[1]	Total
Net interest income - external	1,401	3,758	669	5,828		(45)	5,783
Net interest income - other segments	1,147	(535)	(612)	-		-	-
Net fee and commission income - external	1,461	1,223	(55)	2,629		-	2,629
Net fee and commission income - other segments	(103)	99	4	-		-	-
Net trading income	(9,115)	190	(399)	(9,324)		-	(9,324)
Result from financial transactions	(1,518)	181	(311)	(1,648)		(36)	(1,684)
Share of result in equity accounted investments	9	31	66	106		-	106
Other operating income	54	242	10	306		-	306
Income of consolidated private equity holdings	-	-	-	-		1.726	1,726
Total operating income	(6,664)	5,189	(628)	(2,103)		1,645	(458)
Total operating expenses	5,718	3,786	490	9,994		1,635	11,629
Loan impairment and credit risk provisions	2,609	776	2	3,387		-	3,387
Total expenses	8,327	4,562	492	13,381		1,635	15,016
Operating profit/(loss) before tax	(14,991)	627	(1,120)	(15,484)		10	(15,474)
Tax	(2,442)	156	(304)	(2,590)		10	(2,580)
Profit/(loss) from continuing operations	(12,549)	471	(816)	(12,894)		-	(12,894)
Profit from discontinued operations net of tax	-	-	-	-	16,489	-	16,489
Profit/(loss) for the year	(12,549)	471	(816)	(12,894)	16,489	-	3,595
Other information at 31 December 2008							
Total assets	478,195	183,539	9,490	671,224	1,583	(5,990)	666,817
Of which equity accounted investments	158	210	428	796	-	-	796
Total liabilities	472,244	176,494	6,517	655,255	864	(6,425)	649,694
Capital expenditure	192	273	111	576	-	-	576
Depreciation and amortisation	481	334	230	1,045	-	-	1,045
Impairment of available-for-sale securities	333	-	-	333	-	-	333

(1) Segments are stated as they are reviewed by management and therefore exclude the effect of the consolidation of Private Equity businesses which is shown as a reconciling item. Inter-segment balances are shown as external balances in the segments and eliminated as a reconciling item.
(2) Changes have been made to ABN AMRO's operating segments in 2009. Comparative data have been restated accordingly.

Operating segment information for the year ended 31 December 2007 (2)

	RBS acquired	Dutch State acquired	Central Items	Subtotal	Discontinued Operations	Reconciling items(1)	Total
Net interest income – external	1,714	3,598	(497)	4,815		(220)	4,595
Net interest income - other segments	451	(158)	(293)	-		-	-
Net fee and commission income - external	2,543	1,346	(37)	3,852		-	3,852
Net fee and commission income- other segments	(436)	195	241	-		-	-
Net trading income	1,089	155	(128)	1,116		3	1,119
Result from financial transactions	191	37	860	1,088		46	1,134
Share of result in equity accounted investments	48	54	120	222		1	223
Other operating income	139	335	765	1,239		-	1,239
Income of consolidated private equity holdings	-	-	-	-		3,836	3,836
Total operating income	5,739	5,562	1,031	12,332		3,666	15,998
Total operating expenses	6,122	3,610	1,419	11,151		3,634	14,785
Loan impairment and credit risk provisions	346	378	(7)	717		-	717
Total expenses	6,468	3,988	1,412	11,868		3,634	15,502
Operating profit/(loss) before tax	(729)	1,574	(381)	464		32	496
Tax	(298)	394	(586)	(490)		32	(458)
Profit/(loss) from continuing operations	(431)	1,180	205	954		-	954
Profit from discontinued operations net of tax	-	-	-	-	9,021	-	9,021
Profit/(loss) for the year	(431)	1,180	205	954	9,021	-	9,975
Other information at 31 December 2007							
Total assets	686,791	161,335	114,931	963,057	60,458	1,698	1,025,213
Of which equity accounted investments	257	230	360	847	24	-	871
Total liabilities	668,185	157,748	128,791	954,724	39,780	-	994,504
Capital expenditure	274	373	454	1,101	-	-	1,101
Depreciation and amortisation	226	287	344	857	-	-	857
Impairment of available-for-sale securities	-	-	-	-	-	-	-

(1) Segments are stated as they are reviewed by management and therefore exclude the effect of the consolidation of Private Equity businesses which is shown as a reconciling item. Inter-segment balances are shown as external balances in the segments and eliminated as a reconciling item.
(2) Changes have been made to ABN AMRO's operating segments in 2009. Comparative data have been restated accordingly.

Geographical information

The geographical analysis presented below is based on the location of the ABN AMRO entity in which the transactions are recorded.

	The Netherlands	Europe	North America	Latin America	Asia /Pacific	Total
2009						
Net interest income	2,689	846	238	55	820	4,648
Net commission income	684	1,035	111	12	379	2,221
Other income	895	(1,327)	108	33	116	(175)
Operating income	4,268	554	457	100	1,315	6,694
Total assets	276,171	148,215	8,875	1,229	34,855	469,345
Capital expenditure	442	57	6	1	42	548
2008						
Net interest income	3,674	841	256	80	932	5,783
Net commission income	915	947	199	10	558	2,629
Other income	(239)	(9,076)	(84)	44	485	(8,870)
Operating income	4,350	(7,288)	371	134	1,975	(458)
Total assets	280,960	305,429	19,170	1,817	59,441	666,817
Capital expenditure	418	75	25	1	57	576
2007						
Net interest income	2,654	857	134	65	885	4,595
Net commission income	964	1,070	448	80	1,290	3,852
Other income	5,732	922	336	9	552	7,551
Operating income	9,350	2,849	918	154	2,727	15,998
Total assets	309,659	510,540	80,526	46,581	77,907	1,025,213
Capital expenditure	464	180	130	239	88	1,101

2 Acquisitions and disposals of subsidiaries

Acquisitions 2009

During 2009 there were no material acquisitions.

Disposals 2009

Sale of remaining Santander businesses
In April 2009 Banco ABN AMRO Paraguay S.A. was sold to Banco Regional for EUR 36 million resulting in a loss on sale of EUR 1 million.

Acquisitions 2008

During 2008 there were no acquisitions.

Disposals 2008

Sale of Asset Management
The sale of the shares in ABN AMRO Asset Management NV to Fortis Bank was completed in April. The sale price was EUR 3,699 million, resulting in a gain on sale of EUR 3,073 million.

Sale of Banca Antonveneta
The sale of Banca Antonveneta to Banca Monte dei Paschi di Siena was completed in May. The sale price was EUR 9,894 million, resulting in a gain on sale of EUR 2,357 million.

Sale of businesses to Santander
In July 2008 Banco ABN AMRO Real S.A. ('Banco Real'), Interbanca SpA and other entities acquired by Santander were sold to Santander for EUR 15,431 million resulting in a gain on sale of EUR 10,647 million.

Acquisitions 2007

Taitung Business Bank Taiwan
In September 2007 ABN AMRO acquired 100% of the shares of Taitung Business Bank Taiwan. The total consideration received amounted to EUR 147 million, resulting in goodwill recognised of EUR 160 million.

Prime Bank Ltd (Pakistan)
In April 2007 ABN AMRO completed the acquisition resulting in a 96.2% stake in Prime Bank. The total consideration paid amounted to EUR 176 million with goodwill of EUR 139 million recognised on acquisition.

Disposals 2007

ABN AMRO North America Holding Company
In October 2007 ABN AMRO completed the sale of ABN AMRO North America Holding Company ('LaSalle Bank') which principally consisted of the retail and commercial banking activities of LaSalle Bank Corporation to Bank of America. ABN AMRO's North American Asset Management businesses and certain businesses within ABN AMRO's North American Global Markets and Global Clients operations did not form part of the sale. The sale price was USD 21 billion and resulted in a gain of EUR 7,163 million after tax.

ABN AMRO Capital Holdings B.V.
During the second quarter of 2007, ABN AMRO sold a majority of the shares of AAC Capital Holdings B.V., the management company of a significant portion of the private equity investments held by ABN AMRO, to the executives of the management company. Also as part of the sale, the Bank transferred all power to govern the financial and operating policies of the management company and all investment decisions related to the portion of ABN AMRO's private equity investments included in the transaction (the Netherlands, Nordic and UK business of ABN AMRO Capital) to a management company outside of ABN AMRO resulting in the loss of control over these investments. The ownership of the underlying investments

and therefore the economic interest in the investments was not changed. The loss of control over the management company resulted in the managed investments no longer being consolidated in the financial statements. As of the date of the transaction the investments are recognised and carried at fair value with changes through income. This transaction resulted in a gain of EUR 108 million reported in results from financial transactions.

ABN AMRO Mellon Global Securities Services
In December 2007, ABN AMRO sold its 50% share in the joint venture ABN AMRO Mellon Global Securities B.V. (ABN AMRO Mellon) to Mellon Bank N.A., Pittsburgh. The sale price amounted to EUR 387 million and resulted in a net gain of EUR 139 million.

Private Banking operations in Miami and Montevideo
In April 2007, the Private Clients business disposed of its operations in Miami and Montevideo to Banco Itau. The profit recognised on the sale included in other operating income, amounted to EUR 72 million after tax.

ABN AMRO Mortgage Group, Inc.
In February 2007 ABN AMRO closed the sale of ABN AMRO Mortgage Group, Inc., its US-based residential mortgage broker origination platform and servicing business, which includes ABN AMRO Mortgage Group, InterFirst and Mortgage.com, to Citigroup. Citigroup purchased approximately EUR 7.8 billion of net assets. The profit of the sale amounted to EUR 93 million after tax.

Interbank (NL) and DMC Groep
In November 2007 ABN AMRO closed the sale of Interbank N.V. and DMC Groep N.V. to SOFINCO for an amount of EUR 98 million. The gain on the sale amounted to EUR 56 million after tax.

3 Net interest income

	2009	2008	2007
Interest income from:			
Cash and balances at central banks	**110**	311	282
Financial investments available-for-sale	**2,426**	3,929	3,835
Financial investments held-to-maturity	**-**	105	121
Loans and receivables-banks	**418**	1,216	1,422
Loans and receivables-customers	**10,341**	16,519	17,074
Subtotal	**13,295**	22,080	22,734
Interest expense from:			
Due to banks	**1,366**	4,270	4,656
Due to customers	**4,591**	7,508	9,114
Issued debt securities	**2,445**	5,156	6,521
Subordinated liabilities	**500**	703	759
Funding of the trading business	**(255)**	(1,340)	(2,911)
Subtotal	**8,647**	16,297	18,139
Total	**4,648**	5,783	4,595

The interest income recognised on impaired financial assets is EUR 104 million (2008: EUR 30 million).

4 Net fee and commission income

	2009	2008	2007
Fee and commission income			
Securities brokerage fees	**795**	876	1,399
Payment and transaction services fees	**767**	836	764
Asset management and trust fees	**276**	359	495
Fees generated on financing arrangements	**130**	130	278
Advisory fees	**216**	321	578
Other fees and commissions	**558**	546	667
Subtotal	**2,742**	3,068	4,181
Fee and commission expense			
Securities brokerage expense	**65**	103	83
Other fee and commission expense	**456**	336	246
Subtotal	**521**	439	329
Total	**2,221**	2,629	3,852

5 Net trading income

	2009	2008	2007
Interest instruments and credit trading	**75**	(9,276)	(1,531)
Foreign exchange trading	**884**	915	1,152
Equity and commodity trading	**651**	(1,017)	1,438
Other	**(48)**	54	60
Total	**1,562**	(9,324)	1,119

6 Results from financial transactions

	2009	2008	2007
Net result on the sale of available-for-sale debt securities	**48**	(1,453)	157
Net result on the sale of loans and advances	**(625)**	(428)	(23)
Impairment of available-for-sale debt securities	**(10)**	(333)	-
Net result on available-for-sale equity investments	**16**	(67)	35
Net results on fair value changes in own credit risk and repurchase of own debt	**233**	490	251
Dividends on available-for-sale equity investments	**15**	54	9
Net result on other equity investments	**(108)**	(1,185)	669
Net result on risk mitigants	**(1,680)**	1,545	116
Other	**(95)**	(307)	(80)
Total	**(2,206)**	(1,684)	1,134

The net result on risk mitigants is related to swaps that are entered into to economically and on a portfolio basis hedge credit risks on loans and advances. It also includes the realised result on the settlement of purchased guarantees.

7 Other operating income

	2009	2008	2007
Insurance activities	**11**	45	36
Leasing activities	**69**	78	82
Disposal of operating activities and equity accounted investments	**(198)**	(6)	894
Other	**126**	189	227
Total	**8**	306	1,239

In 2009 results from disposal of operating activities included losses on sales in progress in relation to the RBS acquired businesses in Asia and South America. The results from the disposal of operating activities and equity accounted investments for 2007 includes a gain on the sale of the Capitalia shares, of EUR 624 million, which were settled in Unicredit shares and the gain on sale of ABN AMRO Mellon of EUR 139 million.

Income from insurance activities can be analysed as follows:

	2009	2008	2007
Premium income	**741**	618	799
Investment income	**271**	(74)	161
Settlement and claims	**(1,001)**	(499)	(924)
Total	**11**	45	36

8 Personnel expenses

	2009	2008	2007
Salaries (including bonuses and allowances)	**2,877**	3,486	4,676
Social security expenses	**289**	353	447
Pension and post-retirement healthcare costs	**393**	294	330
Share-based payment expenses	**-**	(16)	296
Temporary staff costs	**211**	248	260
Termination and restructuring related costs	**177**	469	65
Other employee costs	**172**	402	289
Total	**4,119**	5,236	6,363
Average number of employees (fte) excluding discontinued operations:			
Banking activities Netherlands	**21,902**	24,044	26,041
Banking activities foreign countries	**31,418**	33,934	31,949
Consolidated private equity holdings	**2,590**	11,769	19,621
Total	**55,910**	69,747	77,611

9 General and administrative expenses

	2009	2008	2007
Professional fees	**731**	1,025	1,113
Information, communication and technology expenses	**1,234**	1,071	1,240
Property costs	**457**	507	491
Expenses of consolidated private equity holdings	**73**	136	332
Other general and administrative expenses	**991**	1,331	1,645
Total	**3,486**	4,070	4,821

Following is a summary of the fees to our independent auditors for the years ended 31 December 2009, 2008 and 2007.

	2009	2008	2007
Audit fees	**24.0**	30.0	45.2
Audit-related fees	**1.6**	1.2	13.2
Tax fees	**0.8**	0.6	2.5
All other fees	**3.0**	0.7	0.6
Total fees	**29.4**	32.5	61.5

ABN AMRO Holding N.V. changed auditors in 2008. The audit fee for 2007 included costs relating to the audit of activities which were discontinued in 2008. Deloitte Accountants B.V. provided audit services to the amount of EUR 12.2 million in 2009. The remaining amounts relate to services provided by other Deloitte Member Firms.

Audit related fees consist mainly of accounting consultation and audits in connection with acquisitions and disposals of businesses, review of internal controls and advice on accounting control policies and procedures, attestation services not required by statute or regulation and consultation concerning financial accounting and reporting standards. Tax fees consist of tax compliance, tax advice and tax planning services and assistance and advice related to tax audits and appeals. Other fees are related to risk management and corporate finance advisory services, and other services. In line with the pre-approval policy, the Audit Committee has pre-approved all audit and non-audit fees.

10 Depreciation and amortisation

	2009	2008	2007
Property depreciation	**106**	111	117
Equipment depreciation	**224**	274	339
Software amortisation	**222**	307	328
Amortisation of other intangible assets (note 21)	**8**	11	23
Impairment losses on goodwill	**240**	163	11
Impairment losses on property and equipment (note 20)	**26**	22	35
Impairment losses on software (note 21)	**156**	157	4
Total	**982**	1,045	857

Impairment losses on goodwill includes EUR 43 million (2008: EUR 72 million) impairment losses on Private Equity goodwill (of which EUR 30 million relates to businesses held for sale) and EUR 196 million (2008: EUR 91 million) impairment losses on other consolidated companies all relating to businesses held for sale (see note 21).

11 Tax

Recognised in the income statement

	2009	2008	2007
Current tax expense			
Current year	**112**	684	1,306
Under/(over) provided in prior years	**4**	28	97
Subtotal	**116**	712	1,403
Deferred tax (benefit)/expense			
Origination and reversal of timing differences	**(533)**	(3,024)	(930)
Reduction in tax rate	**2**	46	55
Subtotal	**(531)**	(2,978)	(875)
Total	**(415)**	(2,266)	528
Continuing operations	**(415)**	(2,580)	(458)
Discontinued operations	**-**	314	930
Taxation on disposal	**-**	-	56
Total	**(415)**	(2,266)	528

Reconciliation of the total tax charge

Total tax charge continuing operations
The effective tax rate on ABN AMRO's result before tax differs from the theoretical amount that would arise using the statutory tax rate of the Netherlands of 25.5% (2008: 25.5%, 2007: 25.5%). This difference can be explained as follows:

	2009	2008	2007
Dutch tax rate	**25.5%**	25.5%	25.5%
Current tax charge/(credit) at statutory rate on ordinary activities	**(1,253)**	(3,946)	126
Foreign profit at other rates	**(42)**	204	(19)
Total tax exempt income effect	**15**	(43)	(299)
Tax related to adjustments to prior years' tax calculations	**4**	28	97
Effect of deferred tax assets not recognised	**785**	1,403	47
Effect of changes in tax legislation and tax rates	**6**	55	81
Amount of benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period used to reduce current tax expense	**(7)**	(32)	(65)
Amount of benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period used to reduce deferred tax expense	**(57)**	(1)	(93)
Other differences	**134**	(248)	(333)
Total	**(415)**	(2,580)	(458)

The effective tax rate for the year was 8.4% (2008: 16.7%, 2007: 92.7%)

The effect of deferred tax assets not recognised mainly relates to unrecognised tax losses available for carry-forward (refer to note 28).

12 Other comprehensive income

	2009	2008	2007
Other comprehensive income/(loss):			
Currency translation account			
(Losses) arising during the period	**(194)**	907	(276)
Less: Reclassification adjustments for (gains)/losses included in profit or loss	**(102)**	(1,151)	259
Subtotal	**(296)**	(244)	(17)
Available-for-sale financial assets			
(Losses) arising during the period	**75**	(2,282)	(523)
Less: Reclassification adjustments for (gains)/losses included in profit or loss	**(55)**	1,853	(686)
Subtotal	**20**	(429)	(1,209)
Cash flow hedging reserve			
(Losses)/gains arising during the period	**(253)**	(1,207)	420
Less: Reclassification adjustments for (gains)/losses included in profit or loss	**(1)**	(11)	72
Subtotal	**(254)**	(1,218)	492
Other comprehensive loss	**(530)**	(1,891)	(734)
Income tax relating to components of other comprehensive expense	**138**	422	247
Other comprehensive loss for the period, net of tax	**(392)**	(1,469)	(487)

Available-for-sale financial assets includes other comprehensive income of EUR 3 million (net of tax) from available-for-sale financial assets which have been classified as held for sale (2008: nil, 2007: (25) million).

Tax effects of each component of other comprehensive income

	2009			2008			2007		
	Before tax amount	Tax	Net of tax amount	Before tax amount	Tax	Net of tax amount	Before tax amount	Tax	Net of tax amount
Currency translation account	**(296)**	**84**	**(212)**	(244)	57	(187)	(17)	68	51
Available-for-sale financial assets	**20**	**5**	**25**	(429)	107	(322)	(1,209)	302	(907)
Cash flow hedging reserve	**(254)**	**49**	**(205)**	(1,218)	258	(960)	492	(123)	369
Other comprehensive loss	**(530)**	**138**	**(392)**	(1,891)	422	(1,469)	(734)	247	(487)

The currency translation account includes other comprehensive income / (loss) attributable to non-controlling interests of EUR 6 million (2008: EUR (107) million; 2007: EUR (138) million).

13 Cash and balances at central banks

	2009	2008
Cash on hand	**724**	670
Balances at central bank	**27,658**	5,184
Total	**28,382**	5,854

The deposit balances with the central banks in which the bank has a presence includes EUR 4,791 million (2008: EUR 3,414 million) of mandatory reserve deposits. These are therefore not available for use in ABN AMRO's day-to-day operations.

14 Financial assets and liabilities held for trading

	2009	2008
Financial assets held for trading		
Dutch State	**71**	203
US Treasury and US Government	**19**	29
Other OECD governments	**2,337**	2,392
Non-OECD governments	**569**	1,598
Mortgage and other asset backed securities	**3,079**	9,170
Financial institutions	**1,788**	3,966
Non financial institutions	**1,920**	2,382
Other securities	**1,695**	1,587
Subtotal interest earning financial assets	**11,478**	21,327
Equity instruments	**12,346**	12,430
Derivative financial instruments	**54,234**	178,896
Total assets held for trading	**78,058**	212,653
Financial liabilities held for trading		
Short positions in financial assets	**4,536**	5,413
Derivative financial instruments	**58,151**	186,674
Total liabilities held for trading	**62,687**	192,087

ABN AMRO has executed master netting agreements with the majority of its derivative counterparties resulting in a significant reduction in its net exposure to derivative assets.

Mortgage and other asset backed securities comprise mainly of prime RMBS (EUR 3.1 billion).

The decrease in derivative balances and in mortgage and other asset backed securities is largely explained by transfers of various business activities to the RBS Group. For further information refer to note 46.

Trading portfolio derivative financial instruments

		2009			2008		
		Notional amounts	Fair values		Notional amounts	Fair values	
			Assets	Liabilities		Assets	Liabilities
Interest rate derivatives							
OTC	Swaps	**934,908**	**17,769**	**19,804**	2,643,789	70,922	68,508
	Forwards	**4,195**	**-**	**-**	643,275	930	1,208
	Options (purchased)	**40,219**	**9,071**	**1**	165,738	12,890	-
	Options (sold)	**35,229**	**-**	**8,709**	146,059	-	18,365
Exchange	Futures	**3,257**	**2**	**-**	9,292	321	199
	Options (purchased)	**-**	**-**	**-**	-	-	-
	Options (sold)	**-**	**-**	**-**	-	-	-
	Subtotal	**1,017,808**	**26,842**	**28,514**	3,608,153	85,063	88,280
Currency derivatives							
OTC	Swaps	**63,446**	**2,389**	**2,535**	439,902	20,122	17,986
	Forwards	**385,224**	**11,853**	**10,230**	442,946	14,567	17,123
	Options (purchased)	**14,277**	**995**	**-**	61,709	8,360	-
	Options (sold)	**14,257**	**-**	**1,015**	72,733	-	8,951
Exchange	Futures	**-**	**-**	**-**	-	-	-
	Options (sold/purchased)	**68**	**-**	**-**	317	55	48
	Subtotal	**477,272**	**15,237**	**13,780**	1,017,607	43,104	44,108
Credit derivatives							
OTC	Swaps	**311,501**	**4,937**	**6,901**	509,322	41,246	42,585
Other							
OTC	Equity, commodity and other	**11,901**	**1,954**	**872**	16,172	2,889	2,094
	Equity options (purchased)	**20,342**	**4,583**	**-**	21,359	5,702	-
	Equity options (sold)	**19,770**	**-**	**6,383**	21,237	-	7,774
Exchange	Equity, commodity and other	**17,022**	**219**	**965**	14,509	537	1,379
	Equity options (purchased)	**37,173**	**462**	**-**	25,638	355	-
	Equity options (sold)	**40,176**	**-**	**736**	26,538	-	454
	Subtotal	**146,384**	**7,218**	**8,956**	125,453	9,483	11,701
Total		**1,952,965**	**54,234**	**58,151**	5,260,535	178,896	186,674

15 Financial investments

	2009	2008
Interest-earning securities: available-for-sale		
Dutch State	**6,800**	3,866
US Treasury and US Government	**4,325**	5,204
Other OECD governments	**31,416**	23,552
Non-OECD governments	**2,365**	4,152
Mortgage and other asset backed securities	**21,258**	22,572
Financial institutions	**5,192**	3,942
Non financial institutions	**1,726**	2,058
Other interest-earning securities	**444**	218
Subtotal	**73,526**	65,564
Equity instruments		
Available-for-sale	**805**	837
Designated at fair value through income	**566**	660
Subtotal	**1,371**	1,497
Total	**74,897**	67,061

The mortgage and other asset backed securities of EUR 21.3 billion (2008: EUR 22.6 billion) consists mainly of EUR 10.9 billion (2008: EUR 10.9 billion) European mortgage covered bonds and EUR 7.7 billion (2008: EUR 8.0 billion) RMBS of mortgages covered by the Dutch mortgage guarantee scheme. Furthermore, EUR 2.4 billion (2008: EUR 3.3 billion) European covered bonds, backed by assets other than mortgages, are included in this position. At 31 December 2009 these were primarily AAA rated. The majority of the positions are held as part of the asset and liability management activities of the bank.

16 Loans and receivables – banks

This item is comprised of amounts due from or deposited with banking institutions.

	2009	2008
Current accounts	**3,817**	4,254
Time deposits placed	**12,488**	11,012
Professional securities transactions	**8,615**	39,453
Loans	**14,814**	20,893
Subtotal	**39,734**	75,612
Allowances for impairment (see note 18)	**(75)**	(46)
Total	**39,659**	75,566

17 Loans and receivables – customers

This item is comprised of amounts receivable from non-bank customers.

	2009	2008
Public sector	**2,722**	8,786
Commercial	**103,418**	138,484
Consumer	**107,341**	109,298
Professional securities transactions	**10,136**	13,193
Multi-seller conduits	**265**	5,264
Subtotal	**223,882**	275,025
Allowances for impairment (see note 18)	**(5,636)**	(4,518)
Total	**218,246**	270,507

During 2009 ABN AMRO’s remaining multi-seller conduits and the related issuance and sponsorship role were transferred to the RBS Group.

18 Loan impairment charges and allowances

Loan provisioning-commercial loans

ABN AMRO reviews the status of credit facilities issued to commercial clients at least every 12 months. The frequency of review increases to semi-annual or monthly when the creditworthiness of the obligor is below certain internal (rating) thresholds. Additionally, credit officers continually monitor the quality of the credit, the client and the adherence to contractual conditions. Should the quality of a loan or the borrower's financial position deteriorate to the extent that doubts arise over the borrower's ability to meet its contractual obligations, management of the relationship is transferred to a specialised department responsible to restructure and/or recover the loans and other financial obligations the client may have to ABN AMRO.

After making an assessment, this specialised department determines the amount, if any, of the specific allowances that should be made, taking into account the value of collateral. Specific allowances are partly or fully released when the debt is repaid or expected future cash flows improve due to positive changes in economic or financial circumstances.

Loan provisioning-consumer loan products

The bank offers a wide range of consumer loan products and programs such as personal loans, home mortgages, credit cards and home improvement loans. Provisioning for these products is carried out on a portfolio basis with a provision for each product being determined by the portfolio's size and loss experience.

Our consumer loan portfolio policy states that, in general, when interest or principal on a consumer loan is 90 days past due (180 days past due, if mortgages), such loans are classified as non-performing and as a result the loans are considered impaired.

Allowances against a given portfolio may be released where there is improvement in the quality of the portfolio. For consumer loans, the write-off rules are determined on days past due and vary by type of product and legal jurisdiction.

Allowance for incurred but not identified losses

In addition to impairment allowances calculated on a specific or portfolio basis, ABN AMRO also maintains an allowance to cover undetected impairments existing within loans due to delays in obtaining information that would indicate that losses exist at the balance sheet date. This process includes an estimate by management to reflect current market conditions. This estimate takes into account loan impairment levels forecasted by business owners, expected loss trends and market views on the expected future direction of the economies in which ABN AMRO operates.

Allowances

	Banks	Commercial	Consumer	Total
2009				
Balance at 1 January	46	3,654	863	4,563
Reclassification related to businesses held for sale/discontinued operations	-	(48)	(12)	(60)
Subtotal	46	3,606	851	4,503
New impairment allowances	30	2,475	671	3,176
Reversal of impairment allowances no longer required	-	(332)	(41)	(373)
Recoveries of amounts previously written off	-	(4)	(6)	(10)
Total loan impairment and other credit risk provisions	30	2,139	624	2,793
Interest income from unwinding of discounting	-	(43)	-	(43)
Currency translation differences	(1)	35	20	54
Amounts written off (net)	-	(799)	(466)	(1,265)
Effect of (de)- consolidating entities	-	-	(83)	(83)
Reclassfied to held for sale	-	(18)	(255)	(273)
Disposals of businesses	-	(73)	-	(73)
Reserve for unearned interest accrued on impaired loans	-	95	3	98
Balance at 31 December	75	4,942	694	5,711

The new impairment allowances recorded in 2009 of EUR 2,475 million include EUR 548 million in relation to the exposure to LyondellBasell Industries.

	Banks	Commercial	Consumer	Total
2008				
Balance at 1 January	2	1,774	1,227	3,003
Reclassification related to businesses held for sale/discontinued operations	-	(351)	(711)	(1,062)
Subtotal	2	1,423	516	1,941
New impairment allowances	46	2,951	584	3,581
Reversal of impairment allowances no longer required	-	(141)	(10)	(151)
Recoveries of amounts previously written off	-	(32)	(11)	(43)
Total loan impairment and other credit risk provisions	46	2,778	563	3,387
Interest income from unwinding of discounting	-	(24)	-	(24)
Currency translation differences	-	4	9	13
Amounts written off (net)	(2)	(605)	(207)	(814)
Effect of (de)consolidating entities	-	12	(19)	(7)
Reserve for unearned interest accrued on impaired loans	-	66	1	67
Balance at 31 December	**46**	**3,654**	**863**	**4,563**

The impairment allowances recorded in 2008 of EUR 2,951 million include EUR 1,154 million in relation to the exposure to LyondellBasell Industries.

The reconciliation of the allowance for impairment losses for loans and receivables:

Impairment

	Banks	Commercial	Consumer				Total
			Mortgages	Personal loans	Credit cards	Other consumer	
2009							
Individual impairment	75	4,243	3	25	21	73	4,440
Collective impairment	-	699	145	1	-	426	1,271
Balance at 31 December	**75**	**4,942**	**148**	**26**	**21**	**499**	**5,711**
Carrying amount of loans, determined to be impaired, before deducting any assessed impairment allowance	118	6,834	473	192	25	447	8,089

	Banks	Commercial	Consumer				Total
			Mortgages	Personal loans	Credit cards	Other consumer	
2008							
Individual impairment	46	3,026	3	22	27	39	3,163
Collective impairment	-	628	105	132	27	508	1,400
Balance at 31 December	**46**	**3,654**	**108**	**154**	**54**	**547**	**4,563**
Carrying amount of loans, determined to be impaired, before deducting any assessed impairment allowance	48	4,772	468	321	53	359	6,021

Collective impairment of personal loans and credit cards has significantly decreased due to the reclassification of the related held for sale portfolios of consumer businesses in Asia.

19 Equity accounted investments

	2009	2008
Banking institutions	**719**	658
Other investments	**137**	138
Total	**856**	796

The balance in 2009 and 2008 changed as follows:

	2009	2008
Balance at 1 January	**796**	871
Reclassification related to businesses held for sale/discontinued operations	**-**	(51)
Subtotal	**796**	820
Movements:		
Purchases	**12**	3
Sales/reclassifications	**(44)**	(19)
Share of results in equity accounted investments	**25**	106
Dividends received from equity accounted investments	**(33)**	(33)
Recognised directly in equity	**107**	(82)
Currency translation differences	**(7)**	1
Balance at 31 December	**856**	796

The principal equity accounted investments of ABN AMRO on an aggregated basis (not adjusted for ABN AMRO's proportionate interest) have the following balance sheet and income statement totals:

	2009	2008
Total assets	**18,423**	19,035
Total liabilities	**16,073**	15,761
Operating income	**1,938**	1,039
Operating results after tax	**129**	338

Included in equity accounted investments is ABN AMRO's 40% holding in Saudi Hollandi Bank which is an entity with quoted shares. The fair value of the holding based on the share price as at the year end amounts to EUR 734 million (2008: EUR 808 million).

The majority of ABN AMRO's equity accounted investments are regulated entities and therefore their ability to transfer funds to ABN AMRO is subject to regulatory approvals.

20 Property and equipment

The book value of property and equipment in 2009 and 2008 changed as follows:

	Property		Equipment	Total
	Used in operations	Other		
Balance at 1 January 2009	1,377	17	641	2,035
Reclassification related to businesses held for sale/discontinued operations	16	73	41	130
	1,393	90	682	2,165
Movements:				
Divestment of businesses	(31)	-	(26)	(57)
Additions	73	3	250	326
Disposals	(18)	(5)	(91)	(114)
Impairment losses	(4)	-	(22)	(26)
Depreciation	(105)	(1)	(224)	(330)
Currency translation differences	-	-	1	1
Other	2	(5)	(1)	(4)
Balance at 31 December 2009	**1,310**	**82**	**569**	**1,961**
Representing:				
Cost	2,447	88	2,348	4,883
Cumulative impairment	(32)	-	(10)	(42)
Cumulative depreciation	(1,105)	(6)	(1,769)	(2,880)

	Property		Equipment	Total
	Used in operations	Other		
Balance at 1 January 2008	1,802	68	877	2,747
Reclassification related to businesses held for sale/discontinued operations	(304)	(40)	(168)	(512)
	1,498	28	709	2,235
Movements:				
Acquired in business combinations	4	-	36	40
Divestment of businesses	(6)	-	-	(6)
Additions	74	6	252	332
Disposals	(13)	(22)	(74)	(109)
Impairment losses	(21)	-	(1)	(22)
Depreciation	(109)	(2)	(274)	(385)
Currency translation differences	(16)	-	(16)	(32)
Other	(34)	7	9	(18)
Balance at 31 December 2008	**1,377**	**17**	**641**	**2,035**
Representing:				
Cost	2,457	28	2,146	4,631
Cumulative impairment	(31)	-	(4)	(35)
Cumulative depreciation	(1,049)	(11)	(1,501)	(2,561)

As lessor

ABN AMRO leases out various assets, included in ‘Other’, under operating leases. Non-cancellable operating lease rentals are as follows:

	2009	2008
Less than one year	**21**	23
Between one and five years	**187**	181
More than five years	**80**	87
Total	**288**	291

During the year ended 31 December 2009, EUR 66 million (2008: EUR 77 million) was recognised as rental income in the income statement and EUR 60 million (2008: EUR 61 million) in respect of directly related expenses.

21 Goodwill and other intangible assets

	2009	2008
Goodwill	**238**	301
Software	**375**	583
Other intangibles	**32**	40
Total	**645**	924

The book value of goodwill and other intangibles changed as follows:

	Goodwill	Private Equity Goodwill	Software	Other intangibles	Total
Balance at 1 January 2009	301	-	583	40	924
Reclassification related to businesses held for sale/discontinued operations	-	174	-	24	198
	301	174	583	64	1,122
Movements:					
Divestment of businesses	-	-	(3)	(13)	(16)
Additions	1	-	167	-	168
Disposals	-	-	(1)	(6)	(7)
Impairment losses	(196)	(43)	(156)	(1)	(396)
Amortisation	-	-	(222)	(8)	(230)
Currency translation differences	1	-	7	(4)	4
Balance at 31 December 2009	**107**	**131**	**375**	**32**	**645**
Representing:					
Cost	277	234	2,204	44	2,759
Cumulative impairment	(170)	(103)	(319)	-	(592)
Cumulative amortisation	-	-	(1,510)	(12)	(1,522)

	Goodwill	Private Equity Goodwill	Software	Other intangibles	Total
Balance at 1 January 2008	474	-	904	46	1,424
Reclassification related to businesses held for sale/discontinued operations	(69)	-	(79)	-	(148)
	405	-	825	46	1,276
Movements:					
Business combinations	6	-	-	5	11
Divestment of businesses	-	-	(11)	-	(11)
Additions	1	-	250	5	256
Disposals	-	-	(3)	(2)	(5)
Impairment losses	(91)	-	(157)	-	(248)
Amortisation	-	-	(307)	(11)	(318)
Currency translation differences	(20)	-	(25)	(3)	(48)
Other	-	-	11	-	11
Balance at 31 December 2008	301	-	583	40	924
Representing:					
Cost	392	-	2,125	48	2,565
Cumulative impairment	(91)	-	(200)	-	(291)
Cumulative amortisation	-	-	(1,342)	(8)	(1,350)

Impairment testing

Goodwill is allocated for impairment testing purposes to individual cash generating units. At 31 December 2009 goodwill is allocated across multiple cash generating units and various Private Equity investments whose recoverable amounts are assessed independently of one another.

Cash generating units and Private Equity investments with significant goodwill balances were as follows:

Segment	Entity	Basis of recoverable amount	Discount rate	Impairment loss	Goodwill	
					2009	2008
Dutch State acquired	Private Equity investments portfolios	Value in use	15%	13	87	-
Dutch State acquired	Delbrueck Bethmann Maffei AG	Fair value less costs to sell	n/a	-	63	63
Dutch State acquired	ABN AMRO Belgian Branch	Fair value less costs to sell	n/a	-	20	20
RBS acquired	Prime Bank	Fair value less costs to sell	n/a	34	-	34
RBS acquired	Taitung Business Bank Taiwan	Fair value less costs to sell	n/a	162	-	162

For Private Equity investments, the recoverable amount is determined based on a value in use basis, calculated by using a discounted cash flow model. Key assumptions impacting the recoverable amount based on the value in use are the discount rate and exit value. The values assigned to each key assumption reflect past experience that was modified based on management's expectation for the future and are consistent with external sources of information. The recognition of the impairment losses was mainly driven by the economic recession affecting some Private Equity investments. If the discount rate increases to 20%, the goodwill of more Private Equity entities will be impaired.

Fair value less costs to sell is based upon market conform multiples for different classes of assets under current management at Delbrueck Bethmann Maffei AG and AA Belgian Branch. For Delbrueck Bethmann Maffei AG, the recoverable amount of this cash generating unit exceeds its carrying value by EUR 9 million. Securities are the largest class of assets under management at the cash generating unit and the respective expected multiple for these assets would need to fall by 0.2 percentage point to cause its recoverable amount to fall below the carrying value. For ABN AMRO Belgian Branch the recoverable amount exceeds its carrying value by EUR 33 million. The securities would need to fall by 1.0 percentage point to cause its recoverable amount to fall below the carrying value.

Sales agreements entered into in 2009 between ABN AMRO and ANZ for the disposal of Taitung Business Bank Taiwan and ABN AMRO and MCB for the disposal of Prime Pakistan resulted in a full impairment of goodwill balances related to those cash generating units.

Impairment of software was caused mainly by the migration of various platforms to the RBS environment due to restructuring activities, as well as changes in the planned software roll-out schedule.

22 Other assets

	2009	2008
Non-trading derivative assets (see note 37)	**2,312**	6,222
Unit-linked investments held for policy holder accounts (see note 37)	**3,714**	3,898
Pension assets (see note 27)	**214**	71
Sundry assets and other receivables	**3,619**	7,536
Total	**9,859**	17,727

Unit-linked investments held for policy holders are designated at fair value through the profit and loss.

23 Due to banks

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

	2009	2008
Professional securities transactions	**5,760**	26,650
Current accounts	**13,373**	24,909
Time deposits	**26,533**	42,423
Other	**479**	638
Total	**46,145**	94,620

24 Due to customers

This item is comprised of amounts due to non-banking customers.

	2009	2008
Consumer current accounts	**19,710**	17,706
Commercial current accounts	**65,131**	60,531
Consumer savings accounts	**65,243**	64,429
Commercial deposit accounts	**40,615**	58,248
Professional securities transactions	**4,040**	6,053
Other	**1,909**	2,037
Total	**196,648**	209,004

25 Issued debt securities

	2009		2008	
	Effective rate %		Effective rate %	
Bonds and notes issued	2.5	73,232	5.1	75,198
Certificates of deposit and commercial paper	1.4	21,179	3.7	30,020
Cash notes, savings certificates and bank certificates	4.5	1,249	4.6	1,222
Subtotal		95,660		106,440
Commercial paper issued by multi-seller conduits	-	-	4.3	4,856
Total		95,660		111,296

Bonds and notes are issued in the capital markets with a focus on the euro market and are denominated mostly in euros and US dollars.

Issued debt securities in (currency):

	2009	2008
EUR	**64,108**	64,857
USD	**19,242**	35,955
Other	**12,310**	10,484
Total	**95,660**	111,296

The balance above includes various structured liabilities that have been designated at fair value through income of EUR 40,535 million (2008: EUR 36,856 million).

Financial liabilities designated at fair value through income

The carrying amount at 31 December 2009 of issued debt securities designated at fair value was EUR 145 million lower than the contractual amount at maturity (2008: EUR 502 million lower). The following table presents the change in fair value attributable to changes in own credit risk of issued debt securities designated at fair value through profit and loss (decrease/(increase)):

Own credit component:	2009	2008
During the year	**175**	352
Foreign currency translation difference	**47**	102
Cumulative	**937**	715

26 Provisions

	2009	2008
Insurance fund liabilities	**3,001**	2,461
Provisions for contributions to post-retirement healthcare	**5**	10
Provision for pension commitments (see note 27)	**154**	167
Other staff provision	**297**	374
Restructuring provision	**112**	186
Other provisions	**1,221**	946
Total	**4,790**	4,144

The other staff provisions relate in particular to occupational disability and other benefits, except early retirement benefits payable to non-active employees which are included in Provision for pension commitments. Other provisions include provision for claims and litigation. Insurance fund liabilities include the actuarial reserves, the premium and claims reserves of ABN AMRO's insurance companies.

Insurance fund liabilities

Movements in insurance fund liabilities are as follows:

	2009	2008
Balance at 1 January	**2,461**	3,652
Premium carried from income statement	**452**	372
Claims paid	**(204)**	(295)
Interest	**86**	79
Acquisitions/disposals	**5**	(1,091)
Changes in estimates and other movements	**171**	(239)
Currency translation differences	**30**	(17)
Balance at 31 December	**3,001**	2,461

The assumptions that have the greatest effect in calculating actuarial reserves are future mortality, morbidity, persistency and levels of expenses. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect ABN AMRO's own experience. Other key metrics include interest (2009: 3.47%, 2008: 3.77%), unit growth (2009: 14.34%, 2008: 3.70%) and expense inflation (2009: 3.15%, 2008: 2.00%). Changes in assumptions during the year were not significant to the profit recognised. The amount and timing of claims payment is typically resolved within one year.

There are no options and guarantees relating to life insurance contracts that could in aggregate have a material effect on the amount, timing and uncertainty of the future cash flows.

ABN AMRO is exposed to insurance risk, either directly through its businesses or through using insurance to reduce other risk exposures. Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting. ABN AMRO uses base tables of standard mortality appropriate to the type of contract being written and the territory in which the insured person resides.

Had changes in the relevant risk variable that were reasonably possible at the balance sheet date occurred, there would have been no material impact on ABN AMRO's profit or loss and equity.

Movements in provisions are as follows:

	Other staff provisions	Restructuring	Other Provisions
Balance at 1 January 2009	374	186	946
Reclassification related to businesses held for sale/discontinued operations	-	-	(42)
	374	**186**	**904**
Movements:			
Additions	56	116	666
Utilised	(51)	(102)	(180)
Acquisitions/disposals	(25)	(85)	(157)
Currency translation differences	-	2	6
Released	(45)	(18)	(87)
Other	(12)	13	69
Balance at 31 December 2009	**297**	**112**	**1,221**
Balance at 1 January 2008	109	124	2,264
Reclassification related to businesses held for sale/discontinued operations	6	-	(1,547)
	115	**124**	**717**
Movements:			
Additions	458	179	381
Utilised	(131)	(82)	(153)
Acquisitions/disposals	5	(4)	(21)
Currency translation differences	1	(2)	(4)
Released	(112)	(29)	(143)
Other	38	-	169
Balance at 31 December 2008	**374**	**186**	**946**

Whilst the sale of the EC Remedy business is highly probable of occurring as at balance sheet date 31 December 2009, the business cannot be sold in its current form. A number of the conditions of the Share Purchase Agreement (‘SPA’) are not usual and customary for the sale of such assets and were not met at 31 December 2009. Therefore, the EC Remedy business is not presented as held for sale under IFRS 5 as at 31 December 2009.

The expected loss on the sale of EC Remedy business will be recognised by ABN AMRO Bank N.V. immediately after legal separation, when all conditions precedent under the contract are met.

The potential capital shortfall on the recognition of the loss on the sale of the EC Remedy business in ABN AMRO Bank N.V. has been addressed through the issuance of a Mandatory Convertible Security (issued on 23 December 2009) that can convert into share capital only at legal separation. As a result, it is not within management’s control to effect the sale of the EC Remedy business before the legal separation.

As at 31 December 2009 a provision has been recorded for the unavoidable costs of the contract, a penalty of EUR 35 million, if the sale would not be closed and the contract would be terminated.

27 Pension and other post-retirement employee benefits

ABN AMRO sponsors a number of pension schemes. These schemes include both defined contribution and defined benefit plans. Most of ABN AMRO's defined benefit plans provide pensions that are based on average or final salary with annual price evaluation of vested rights. In general, employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits. The majority of the beneficiaries of the defined benefit plans are located in The Netherlands, the United Kingdom, India and Switzerland. Plans in all countries comply with applicable local regulations concerning investments and funding levels.

Following the disposal of LaSalle in 2007 and Banco Real in 2008 ABN AMRO no longer has material post-retirement benefit obligations other than pensions.

Amounts recognised in the profit and loss

Pension costs and contributions for post-retirement healthcare are included in personnel expenses and are shown in the following table:

	2009	2008
Current service cost	**209**	226
Interest cost	**540**	540
Expected return on plan assets	**(447)**	(580)
Net amortisation of net actuarial (gains)/losses	**4**	(15)
Net amortisation of past service cost	**13**	7
(Gain)/loss on curtailment or settlements	**(15)**	6
Defined benefit plans	**304**	184
Defined contribution plans	**70**	94
Healthcare contributions	**3**	2
Total costs	**377**	280

Reconciliation to balance sheet

Contributions were made to 31 (2008: 33) defined benefit plans that provide pension benefits for employees upon retirement. The amounts recognised in the balance sheet are as follows:

	2009	2008
Present value of funded obligations	**10,486**	10,002
Present value of unfunded obligations	**80**	93
Fair value of plan assets	**(10,211)**	(9,489)
Present value of net obligations/(assets)	**355**	606
Unrecognised past service cost	**(18)**	(1)
Unrecognised actuarial (losses)/gains	**(397)**	(508)
Net liability/(asset) for defined benefit obligations	**(60)**	97
Provision for pension commitments	**154**	167
Pension assets	**(214)**	(70)
Net recognised liability/(asset) for defined benefit obligations	**(60)**	97

Explanation of the assets and liabilities

Movements in defined benefit obligations are as follows:

	2009	2008
Balance at 1 January	**10,095**	9,742
Current service cost	**209**	226
Interest cost	**540**	540
Employee contributions	**5**	3
Actuarial (gains)/losses	**180**	74
Benefits paid	**(361)**	(351)
Acquisitions/(disposals)	**(13)**	(2)
Recognised settlement and curtailment	**(22)**	(1)
Currency translation differences	**44**	(179)
Other	**(111)**	43
Balance at 31 December	**10,566**	10,095

Movements in the fair value of plan assets are as follows:

	2009	2008
Balance at 1 January	**9,489**	9,969
Expected return on plan assets	**447**	579
Actuarial gains/(losses)	**203**	(909)
Employers contribution	**439**	370
Employee contributions/refunds	**4**	3
Benefits paid	**(348)**	(333)
Acquisitions/(disposals)	**2**	(2)
Recognised settlement and curtailment	**(11)**	-
Currency translation differences	**47**	(191)
Other	**(61)**	3
Balance at 31 December	**10,211**	9,489

Principal actuarial assumptions

The weighted averages of the main actuarial assumptions used to determine the value of the provisions for pension obligations and the pension costs as at 31 December were as follows:

	2009	2008
Discount rate	**5.2%**	5.4%
Inflation rate	**2.0%**	2.0%
Expected increment in salaries	**2.4%**	2.6%
Expected return on investments	**4.8%**	4.8%

The expected return on plan assets is weighted on the basis of the fair value of these investments. All other assumptions are weighted on the basis of the defined benefit plan obligations. The discount rate is determined based on the average annual yield for AA rated corporate bonds with a term of 10 years or more.

For the pension plans, the expected return on the major classes of plan assets are as follows:

	2009			2008		
Plan asset category:	Value in millions of euro	% of total fair value of scheme assets	Expected rate of return %	Value in millions of euro	% of total fair value of scheme assets	Expected rate of return %
Equity securities	**2,914**	**28.5%**	**7.1%**	1,210	12.8%	7.6%
Issued debt securities	**6,604**	**64.7%**	**3.9%**	7.609	80.2%	4.3%
Real estate	**355**	**3.5%**	**5.9%**	350	3.6%	6.3%
Other	**338**	**3.3%**	**1.5%**	320	3.4%	4.9%
Total	**10,211**			9,489		

For both 2009 and 2008, the schemes have not invested in ordinary shares or debt issued by ABN AMRO, or invested in property occupied or other assets used by ABN AMRO.

Forecast of pension benefits payments

2010	373
2011	359
2012	350
2013	354
2014	367
Years 2015 - 2019	2,030

The expected contribution to be paid to defined pension schemes in 2010 amounts to EUR 282 million (2009: EUR 423 million).

Actuarial gains and losses

The actuarial gains and losses arising on plan liabilities and plan assets (pension plans only) are as follows:

	2009	2008	2007	2006	2005
Present value of obligations	**(10,566)**	(10,095)	(9,742)	(12,301)	(12,403)
Fair value of plan assets	**10,211**	9,489	9,969	11,149	10,212
Net surplus/ (deficit) in the plans	**(355)**	(606)	227	(1,152)	(2,191)
Actuarial (losses)/gains					
- arising on benefit obligation	**(180)**	(74)	1,501	518	(925)
- arising on benefit obligation (in % of plan liabilities)	**(1.7)**	(0.7)	15.4	4.2	(7.5)
Actuarial (losses)/gains					
- arising on plan assets	**203**	(909)	(288)	150	399
- arising on plan assets (% in of plan assets)	**2.0**	(9.5)	(2.9)	1.3	3.9
Experience adjustments on plan liabilities	**212**	81	212	81	(925)
Experience adjustments on plan assets	**203**	(909)	(288)	150	399
Actual return on plan assets	**649**	(303)	332	782	984

Contingent liabilities

There are no contingent liabilities arising from post-employment obligations.

28 Recognised tax assets and liabilities

The components of tax balances are as follows:

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Current tax	**595**	**337**	583	450
Deferred tax	**5,427**	**241**	4,517	250
Total	**6,022**	**578**	5,100	700

Deferred tax assets and liabilities are attributable to the following items. In the table below only movements related to continuing operations are shown.

	Assets		Liabilities		Recognised in Tax expense	
	2009	2008	**2009**	2008	**2009**	2008
Property and equipment	**(122)**	(172)	**18**	25	**(35)**	63
Derivatives	**419**	388	**12**	54	**4**	62
Investment securities	**425**	477	**114**	95	**(114)**	29
Employee benefits	**19**	21	**2**	2	**(4)**	(73)
Servicing rights	**34**	40	**-**	-	**(5)**	2
Allowances for loan losses	**243**	124	**26**	27	**114**	17
Other	**135**	206	**69**	47	**(84)**	454
Tax value of carry-forward losses recognised (1)	**4,274**	3,433	**-**	-	**655**	2,424
Total	**5,427**	4,517	**241**	250	**531**	2,978

(1) see note 46: Related parties.

Deferred tax assets that have not been recognised in respect of carry-forward losses amount to EUR 2,317 million (2008: EUR 1,780 million) where it is uncertain that future taxable profits will be available to utilise these losses. Unrecognised deferred tax assets related to deductible temporary differences amounts to EUR 331 million. The increase in 2009 relates to the Netherlands and the United States.

Expiration of carry-forward losses

At 31 December 2009 carry-forward losses, both recognised and not recognised, expire as follows:

2010	19
2011	-
2012	1
2013	-
2014	-
Years after 2014	7,765
No expiration	15,667
Total	23,452

Tax exposure to distributable reserves

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately EUR 4.2 billion (2008: EUR 3.5 billion). The estimated impact of foreign withholding tax is EUR 113 million (2008: EUR 103 million). No liability has been recognised in respect of these differences because ABN AMRO is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

29 Other liabilities

	2009	2008
Non-trading derivative liabilities (see note 36)	**4,550**	7,144
Liabilities to unit-linked policyholders	**3,714**	3,898
Sundry liabilities and other payables	**5,225**	3,970
Total	**13,489**	15,012

Liabilities to unit-linked policy holders are designated at fair value through profit and loss.

30 Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of ABN AMRO Holding N.V and its subsidiaries.

As at 31 December 2009 the majority of the subordinated liabilties were issued by ABN AMRO Holding's subsidiary, ABN AMRO Bank N.V. As at 6 February 2010, the Dutch State acquired businesses were legally demerged from this entity and ABN AMRO Bank N.V. was renamed to Royal Bank of Scotland N.V. ('RBS N.V.'). The Dutch State acquired businesses transferred at or around 6 February 2010 into a separate legal entity ABN AMRO II N.V., also a subsidiary of ABN AMRO Holding, ABN AMRO II N.V. was renamed to ABN AMRO Bank N.V. on 6 February 2010 and is referred to as the 'new ABN AMRO Bank'.

The following tables show the balance of subordinated liabilities as at 31 December 2009. Therefore the references to ABN AMRO Bank N.V. relate to the situation prior to the legal demerger in 2010.

The following table analyses the subordinated liabilities by issuer:

	2009	2008
ABN AMRO Bank N.V. – RBS acquired allocation	**5,085**	5,522
ABN AMRO Bank N.V. – Dutch State acquired allocation	**6,380**	5,673
Subtotal	**11,465**	11,195
Other ABN AMRO companies – RBS acquired allocation	**2,246**	2,354
Other ABN AMRO companies – Dutch State acquired allocation	**833**	-
Subtotal	**3,079**	2,354
Total	**14,544**	13,549

The following table lists the subordinated liabilities issued by ABN AMRO Bank N.V.:

By issuance	2009		2008	
	RBS acquired	Dutch State acquired	RBS acquired	Dutch State acquired
EUR 182 million 6.00% subordinated notes 2009	**-**	**-**	176	-
EUR 182 million 6.13% subordinated notes 2009	**-**	**-**	172	-
EUR 1,150 million 4.625% subordinated lower tier 2 notes 2009	**-**	**-**	-	1,148
EUR 250 million 4.70% CMS linked subordinated notes 2019	**212**	**-**	202	-
EUR 800 million 6.25% subordinated notes 2010	**819**	**-**	838	-
EUR 100 million 5.125% flip flop Bermudan callable subordinated notes 2017 (callable December 2012)	**94**	**-**	92	-
EUR 500 million floating rate Bermudan callable subordinated lower tier 2 notes 2018 (callable May 2013)	**-**	**499**	-	498
EUR 1,000 million floating rate Bermudan callable subordinated lower tier 2 notes 2016 (callable September 2011)	**-**	**997**	-	997
EUR 13 million zero coupon subordinated notes 2029 (callable June 2009)	**4**	**-**	8	-
EUR 82 million floating rate subordinated notes 2017	**-**	**82**	-	82
EUR 103 million floating rate subordinated lower tier 2 notes 2020	**-**	**103**	-	103
EUR 170 million floating rate sinkable subordinated notes 2041	**213**	**-**	213	-
EUR 15 million CMS linked floating rate subordinated lower tier 2 notes 2020	**11**	**-**	10	-
EUR 1,500 million floating rate Bermudan callable subordinated lower tier 2 notes 2015 (callable June 2010)	**1,495**	**-**	1,495	-
EUR 5 million floating rate Bermudan callable subordinated lower tier 2 notes 2015 (callable October 2010)	**5**	**-**	5	-
EUR 65 million floating rate Bermudan callable subordinated lower tier 2 notes 2015 (callable October 2010)	**-**	**65**	-	65
EUR 26 million 7.42% subordinated notes 2016	**32**	**-**	32	-
EUR 7 million 7.38% subordinated notes 2016	**9**	**-**	9	-
EUR 1,000 million 4.31% perpetual Bermudan callable subordinated tier 1 notes (callable March 2016)	**-**	**1,027**	-	960
EUR 800 million 10.00% fixed perpetual mandatory convertible tier 1 notes 2099	**-**	**800**	-	-
EUR 967 million 10.00% fixed perpetual mandatory convertible tier 1 notes 2072	**-**	**967**	-	-
USD 165 million 6.14% subordinated notes 2019	**148**	**-**	158	-
USD 72 million 5.98% subordinated notes 2019	**38**	**-**	52	-
USD 500 million 4.65% subordinated notes 2018	**359**	**-**	411	-
USD 1,500 million floating rate Bermudan callable subordinated notes 2015 (callable March 2010)	**1,004**	**-**	1,036	-
USD 100 million floating rate Bermudan callable subordinated lower tier 2 notes 2015 (callable October 2010)	**-**	**69**	-	72
USD 36 million floating rate Bermudan callable subordinated lower tier 2 notes 2015 (callable October 2010)	**-**	**25**	-	26
USD 1,000 million floating rate Bermudan callable subordinated lower tier 2 notes 2017 (callable January 2012)	**-**	**692**	-	714
USD 250 million 7.75% subordinated lower tier 2 notes 2023	**-**	**174**	-	179
USD 150 million 7.13% subordinated notes 2093	**104**	**-**	107	-
AUD 575 million 6.50% Bermudan callable subordinated lower tier 2 notes 2018 (callable May 2013)	**371**	**-**	311	-
AUD 175 million floating rate Bermudan callable subordinated lower tier 2 notes 2018 (callable May 2013)	**109**	**-**	86	-
GBP 42 million amortising MTN subordinated lower tier 2 notes 2010	**8**	**-**	16	-
GBP 25 million amortising MTN subordinated lower tier 2 notes 2011	**9**	**-**	9	-
GBP 750 million 5.0% Bermudan callable perpetual subordinated upper tier 2 notes issued for an indefinite period (callable February 2016)	**-**	**880**	-	829
PKR 800 million floating rate subordinated notes 2012	**-**	**-**	7	-
MYR 200 million subordinated notes 2017	**41**	**-**	42	-
TRY 60 million floating rate callable subordinated notes 2017 (callable 2012)	**-**	**-**	35	-
Total	**5,085**	**6,380**	5,522	5,673

As at date of signing of this annual report, all Dutch State acquired allocated subordinated liabilities, with the exception of the USD 250 million 7.75% subordinated lower tier 2 notes 2023, had been transferred to the new ABN AMRO Bank.

At legal separation, the EUR 800 million and EUR 967 million 10.00% fixed perpetual mandatory convertible tier 1 notes held by the Dutch State convert to equity of the new ABN AMRO Bank.

The following table lists the subordinated liabilities issued by other ABN AMRO companies:

By issuance	**2009**		2008	
	RBS acquired	Dutch State acquired	RBS acquired	Dutch State acquired
EUR 833 million 10.00% fixed perpetual mandatory convertible tier 1 notes 2073	**-**	**833**	-	-
USD 1,285 million 5.90% Trust Preferred V	**891**	**-**	921	-
USD 200 million 6.25% Trust Preferred VI	**135**	**-**	143	-
USD 1,800 million 6.08% Trust Preferred VII	**1,220**	**-**	1,290	-
Total	**2,246**	**833**	2,354	-

At legal separation, the EUR 833 million 10.00% fixed perpetual mandatory convertible tier 1 notes held by the Dutch State convert to equity of the new ABN AMRO Bank.

The RBS acquired subordinated liabilities in the table above will be subject to a restriction on the payment of dividends and coupons and on the exercise of any call rights, unless in any such case there is a legal obligation to do so, for an effective period of two years after the proposed capital restructuring of RFS Holdings B.V. (which is intended to take place soon after separation) and following the expiry of any “pusher” periods (which will last for 12 months) following separation and such capital restructuring.

Of the total subordinated liabilities EUR 5,014 million (2008: EUR 3,317 million) qualifies as tier 1 capital for capital adequacy purposes when taking into account remaining maturities.

The maturity profile of subordinated liabilities is as follows:

	2009		2008	
	RBS acquired	Dutch State acquired	RBS acquired	Dutch State acquired
Within one year	**827**	**-**	348	1,148
After one and within two years	**9**	**-**	854	-
After two and within three years	**-**	**-**	9	-
After three and within four years	**-**	**-**	7	-
After four and within five years	**-**	**-**	-	-
After five years	**6,495**	**7,213**	6,658	4,525
Total	**7,331**	**7,213**	7,876	5,673

The 10.00% fixed mandatory convertible tier 1 notes of EUR 2,600 million are perpetual and included in the category “after five years” despite their agreed conversion at legal separation to equity.

The carrying amount at 31 December 2009 of subordinated liabilities designated at fair value was EUR 2 million lower than the contractual amount at maturity (2008: zero). The following table presents the change in fair value attributable to changes in own credit risk of issued debt securities (decrease/(increase)):

Own credit component	**2009**	2008
During the year	**(2)**	138
Cumulative	**234**	236

Preference financing shares (including formerly convertible preference shares)

As at 24 November 2008, 1,369,815,864 Preference financing shares with a nominal value of EUR 0.56 per share have been converted into ordinary shares at a 1:1 rate. At the same date 44,988 (formerly convertible) Preference shares with a nominal value of EUR 2.24 per share have been converted into ordinary shares at a 4:1 rate. As a result of the conversion the number of issued and fully paid shares is 3,306,843,332 (nominal value EUR 1,851,832,266) per 24 November 2008.

31 Share capital

The table below provides a breakdown of ABN AMRO Holding's issued and fully paid ordinary shares and treasury shares.

Ordinary shares

	Number	In millions of euros
Issued and fully paid		
At 1 January 2009	**3,306,843,332**	1,852
Balance at 31 December 2009	**3,306,843,332**	1,852
Issued and fully paid		
At 1 January 2008	1,936,847,516	1,085
Conversion of preference shares to ordinary shares	1,369,995,816	767
Balance at 31 December 2008	**3,306,843,332**	1,852
Issued and fully paid		
At 1 January 2007	**1,936,847,516**	1,085
Balance at 31 December 2007	**1,936,847,516**	1,085

There are no issued ordinary shares that have not been fully paid. Par value per share is EUR 0.56.

Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the articles of association, resolutions are passed by an absolute majority of the votes cast.

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of ABN AMRO or of a group company.

In the event of the dissolution and liquidation of ABN AMRO Holding, the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Treasury shares

	Number	In millions of euros
Issued and fully paid		
At 1 January 2009	-	-
Balance at 31 December 2009	-	-
Issued and fully paid		
At 1 January 2008	92,719,820	2,640
Sold to RFS Holdings B.V.	(92,719,820)	(3,708)
Gain on sale of treasury shares	-	1,068
Balance at 31 December 2008	**-**	-
Issued and fully paid		
At 1 January 2007	83,060,725	1,829
Used for options exercised and performance share plans	(27,649,180)	(624)
Share buy back	55,512,333	1,847
Dividends paid in shares	(18,204,058)	(412)
Balance at 31 December 2007	**92,719,820**	2,640

Share premium reserve

During 2009 RFS Holdings B.V. contributed EUR 6.6 billion of share premium.

32 Professional securities transactions

Professional security transactions include balances relating to reverse repurchase activities, cash collateral on securities borrowed and security settlement accounts. ABN AMRO controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to ABN AMRO when deemed necessary.

	2009		2008	
	Banks	Customers	Banks	Customers
Assets				
Cash advanced under securities borrowing	**2,230**	**2,085**	739	4,408
Reverse repurchase agreements	**4,130**	**6,977**	32,716	7,236
Unsettled securities transactions	**2,255**	**1,074**	5,998	1,549
Total	**8,615**	**10,136**	39,453	13,193
Liabilities				
Cash received under securities lending	**165**	**523**	564	1,711
Repurchase agreements	**3,903**	**2,187**	24,555	2,525
Unsettled securities transactions	**1,692**	**1,330**	1,531	1,817
Total	**5,760**	**4,040**	26,650	6,053

Under reverse repurchase, securities borrowing, and other collateralised arrangements, ABN AMRO obtains securities on terms which permit it to repledge or resell the securities to others.

	2009	2008
Securities received under reverse repurchase and/or securities borrowing arrangements which can be repledged or resold	**7,257**	35,982
Of the above amount, the amount that has either been repledged or otherwise transferred to others in connection with ABN AMRO's financing activities or to satisfy its commitments under short sale transactions	**6,465**	32,055

These transactions are conducted under terms that are usual and customary to standard securities borrowing and reverse repurchase agreements.

In 2009, ABN AMRO does not have any obligation to return any amount of securities borrowings (2008: EUR 3,458 million).

Please refer to note 33 for an overview of the assets pledged to secure ABN AMRO's liabilities.

33 Assets pledged as security

ABN AMRO trades in debt instruments, equity instruments and derivatives. These transactions are conducted under terms that are usual and customary to standard lending and stock borrowing activities. ABN AMRO has therefore financial assets pledged as security to third parties for liabilities.

Financial assets pledged to secure liabilities are as follows:

	2009	2008
Financial assets held for trading	-	74
Interest earnings securities available-for-sale	-	400
Loans and receivables – customers	1,086	6,794
Total	**1,086**	7,268

These assets have been pledged in respect of the following liabilities and contingent liabilities:

	2009	2008
Due to banks	130	4,298
Issued debt securities	894	2,064
Total	**1,024**	6,362

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

Please refer to note 32 for an overview of the assets repledged to secure liabilities relating to reverse repurchase agreements and to note 40 for an overview of assets charged as security for liabilities relating to securitisations.

34 Commitments and contingent liabilities

Credit facilities

At any time ABN AMRO has outstanding commitments to extend credit. These commitments take the form of approved but undrawn loans, overdraft revolving and underwriting facilities and credit card limits. New loan offers have a commitment period that does not extend beyond the normal underwriting and settlement period.

Guarantees and other commitments

ABN AMRO provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These transactions have fixed limits and generally extend for periods of up to five years. Expirations are not concentrated in any particular period. ABN AMRO also provides guarantees by acting as a settlement agent in securities borrowing and lending transactions. In addition, ABN AMRO has entered into transactions to guarantee various liabilities in respect to insurance related regulatory reserve financing transactions.

The contractual amounts of commitments and contingent liabilities are set out by category in the following table. The amounts stated in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the relevant contract parties completely failed to perform as contracted.

Many of the contingent liabilities and commitments are expected to expire without being advanced in whole or in part. This means that the amounts stated do not represent expected future cash flows. Additionally, guarantees and letters of credit are supported by varying levels of collateral.

Aside from the items stated above, non-quantified guarantees have been given for ABN AMRO's securities custody operations, for interbank bodies and institutions and for participating interests. Collective guarantee schemes are applicable to ABN AMRO's companies in various countries. Furthermore, statements of liability have been issued for a number of companies, including ABN AMRO Bank N.V.

Our committed credit facilities, guarantees and other commitments at 31 December 2009 and 2008 are summarised below.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
2009					
Committed facilities	**51,520**	10,811	24,881	9,390	6,438
Guarantees and other commitments:					
Guarantees granted	**33,567**	20,411	5,336	1,892	5,928
Irrevocable letters of credit	**3,199**	3,189	9	-	1
Recourse risks arising from discounted bills	**1**	1	-	-	-
2008					
Committed facilities	63,436	14,231	27,336	17,616	4,253
Guarantees and other commitments:					
Guarantees granted	37,509	22,377	5,890	2,021	7,221
Irrevocable letters of credit	4,515	4,280	217	6	12
Recourse risks arising from discounted bills	124	124	-	-	-

Leasing

ABN AMRO is lessee under finance and operating leases, providing asset financing for its customers and leasing assets for its own use. In addition, assets leased by ABN AMRO may be sublet to other parties. An analysis of the impact of these transactions on the statement of financial position and income statement is provided below.

Operating lease commitments

ABN AMRO leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payables. ABN AMRO also leases equipment under non-cancellable lease arrangements.

Where ABN AMRO is the lessee, the future minimum lease payment under non-cancellable operating leases are as follows:

	Property	
	2009	2008
Not more than one year	**182**	165
Over one year but not more than five years	**391**	337
More than five years	**323**	254
Total	**896**	756

Transactions involving the legal form of a lease
ABN AMRO has entered into IT outsourcing arrangements that involve leases in form but not in substance. The life of the arrangement is for 5 years through 2010, where the total amount of underlying assets is EUR 130 million.

Contractual and contingent obligations
The table below shows the discounted contractual expiry by maturity of ABN AMRO's obligations.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
2009					
Issued debt securities	**95,660**	39,591	13,245	13,245	29,579
Subordinated liabilities	**14,544**	827	9	-	13,708
Purchase obligations	**61**	44	17	-	-
Other obligations	**305,480**	292,775	3,158	3,158	6,389
2008					
Issued debt securities	111,296	44,944	21,044	21,044	24,264
Subordinated liabilities	13,549	1,513	825	47	11,164
Purchase obligations	44	44	-	-	-
Other obligations	495,711	477,317	5,863	5,864	6,667

Other contingencies
ABN AMRO is involved in a number of legal proceedings in the ordinary course of our business in a number of jurisdictions. In presenting our consolidated financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters, and takes a charge to income when losses with respect to such matters are probable. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated.

In November 2009, the Supreme Court in the Netherlands gave a declaratory judgement against World Online International N.V., Goldman Sachs International and ABN AMRO Bank N.V. in relation to claims arising out of the World Online initial public offering of 2000. It held that these defendants had committed certain wrongful acts in connection with the initial public offering. The judgement does not establish liability or the amount of any loss. Management does not believe that any final liability or loss will have a significant effect on ABN AMRO’s financial position or profitability.

On the basis of information currently available, and having taken legal counsel with legal advisors, ABN AMRO is of the opinion that the outcome of the proceedings that ABN AMRO is involved in is unlikely to have a material adverse effect on the consolidated financial position and the consolidated results of ABN AMRO.

35 Statement of cash flows

The following table analyses the determination of cash and cash equivalents at 31 December:

	2009	2008	2007
Cash and balances at central banks	**28,382**	5,854	12,469
Loans and receivables - banks	**3,794**	4,237	9,165
Due to banks	**(11,582)**	(23,588)	(14,376)
Cash and cash equivalents from continued operations	**20,594**	(13,497)	7,258
Cash and balances at central banks	**146**	-	-
Loans and receivables - banks	**40**	8	43
Due to banks	**(4)**	-	-
Cash and cash equivalents from businesses held for sale	**182**	8	43
Cash and balances at central banks	**-**	37	4,707
Loans and receivables - banks	**-**	6	788
Due to banks	**-**	(1)	(44)
Cash and cash equivalents from discontinued operations	**-**	42	5,451
Total	**20,776**	(13,447)	12,752

The following table states the interest, tax and dividend amounts included in the cash flow from operating activities:

	2009	2008	2007
Interest received	**14,617**	31,067	34,304
Interest paid	**9,139**	20,092	24,960
Taxation paid	**-**	790	1,544
Dividends received	**53**	121	155

The following table analyses movements in operating assets and liabilities:

	2009	2008	2007
Movement in operating assets:			
Financial assets held for trading	**134,101**	27,065	(37,865)
Loans and receivables	**81,914**	171,870	(87,918)
Net (increase)/decrease in accrued income and prepaid expenses	**1,111**	4,015	(4,121)
Net (increase)/decrease in other assets	**7,048**	(2,993)	(3,544)
Total movement in operating assets	**224,174**	199,957	(133,448)
Movement in operating liabilities:			
Financial liabilities held for trading	**(128,926)**	37,222	10,559
Due to banks	**(36,414)**	(119,407)	82,462
Due to customers	**(4,911)**	(87,941)	27,816
Issued debt securities maturing within 1 year	**(11,606)**	(42,235)	(6,475)
Provisions	**376**	700	61
Net increase/(decrease) in accrued expense and deferred income	**(1,363)**	(1,970)	2,981
Net increase/(decrease) in other liabilities	**4,536**	(32,683)	(2,682)
Total movement in operating liabilities	**(178,308)**	(246,314)	114,722

36 Hedge accounting

ABN AMRO enters into various derivative instrument transactions to hedge risks on assets, liabilities, net investments and forecasted cash flows. The accounting treatment of the hedged item and the hedging derivative is dependent on whether the hedge relationship qualifies for hedge accounting. Qualifying hedges may be designated as either fair value or cash flow hedges.

Hedges not qualifying for hedge accounting
The fair value changes of derivative transactions used to hedge against economic risk exposures that do not qualify for hedge accounting, or for which it is not cost beneficial to apply hedge accounting, are recognised directly through income.

ABN AMRO enters into credit default swaps for managing credit risk in the loan portfolio. However, these are generally not included in hedge accounting relationships due to difficulties in demonstrating that the relationship will be highly effective. Accordingly any fair value changes in the swaps are recorded directly in income, while the gains and losses on the credit positions hedged are recognised in interest income and as impairment charges if appropriate.

Derivatives designated and accounted for as hedging instruments

Fair value hedges
Fair value hedges principally consist of interest rate swaps and cross currency interest rate swaps used to protect against changes in the fair value of fixed-rate assets, notably available-for-sale securities, and liabilities due to changes in market interest rates.

For qualifying fair values hedges, all changes in the fair value of the derivative and in the fair value of the hedged item for the risk being hedged are recognised in the income statement.

Life-to-date gains/(losses) arising from fair value hedges:

	2009	2008
Gains/(losses) on the hedged assets attributable to the fair value hedged risk	**2,084**	2,812
Gains/(losses) on hedging instruments used for the hedged assets	**(2,084)**	(2,812)
Gains/(losses) on the hedged liabilities attributable to the fair value hedged risk	**(915)**	(2,619)
Gains/(losses) on hedging instruments used for the hedged liabilities	**915**	2,619
Net effect fair value hedge	**-**	-

Cash flow hedges
Cash flow hedge accounting for Group Asset and Liability Management
ABN AMRO uses derivatives, mainly interest rate swaps, to offset identified exposures to interest rate risk in the projected balance sheet. For asset liability management purposes, assets and liabilities in a similar interest rate index cluster in a particular month are first considered as a natural offset for economic hedging. A swap transaction may be entered into to risk manage the remaining interest income sensitivity. The notional amount of a pay- or receive-floating swap is designated to hedge the re-pricing cash flow exposure of a designated portion of current and forecasted assets and current and forecasted liabilities, respectively, in the clusters described above. The swap transaction is designated for hedge accounting purposes as a hedge of a gross position of a cluster of projected assets or a cluster of projected liabilities. As a result, the swap will only hedge an identified portion of a cluster of projected assets or projected liabilities. Also the swap will only hedge the applicable floating swap rate portion of the interest re-pricing and re-investment risk of the cluster.

Cash flow hedge accounting operated by Group Asset and Liability Management relates to portfolio cash flow hedge accounting for the hedging activities of ABN AMRO’s non-trading financial assets and liabilities.

The Group Asset and Liability Committee is the governing body for the risk management of ABN AMRO’s banking portfolio and determines the interest rate risk level, sets risk measurement and modelling including applicable assumptions, sets limits, and is responsible for the asset and liability management policy.

ABN AMRO manages its exposure to interest rate risk per currency in the non-trading portfolios on a group wide basis distinguished between RBS and Dutch State acquired businesses. In order to manage the sensitivity of the interest income per currency, ABN AMRO projects future interest income under different growth and interest rate scenarios. Systems are available to accumulate the relevant critical information throughout ABN AMRO about the existing financial assets, financial liabilities and forward commitments, including loan commitments. For the major currencies these positions are placed into a projected balance sheet available for asset liability management activities. The primary interest sensitive positions in the balance sheet stemming from the non-trading book are: loans and receivables, liabilities due to banks and customers, and issued debt securities.

The information gathered in the Group Asset and Liability Management's systems relates to the contractual terms and conditions, such as nominal amounts, currency, duration, interest basis, effective interest rate and interest re-pricing date. In addition other information such as estimates of prepayments, growth rate and interest scenarios is used in the interest sensitivity models of Group Asset and Liability Management. These assumptions are determined following agreed upon principles based amongst others on statistical market and client data and an economic outlook. Projected assets and liabilities are superimposed on the run-off of the currently existing positions. This information is used to create projected balance sheets that form the basis for measuring interest rate sensitivity. The new assets and liabilities and the future re-pricing of existing assets and liabilities are mapped to specific interest rate indices at the yield curve (i.e. one month, two months, three months, six months, one year, etc). In this way a new asset or liability that is for example based on a three month rate, is mapped to a specific three-month rate index. For each projected month into the future, the assets and liabilities are grouped per interest rate-index and currency. The balance sheet projection that is embedded in ABN AMRO's interest rate risk management, not only allows ABN AMRO to estimate future interest income and perform scenario analysis, but also provides the opportunity to define the projected transactions that are eligible as hedged items in a cash flow hedge. The hedged positions are the monthly asset and liability clusters per currency and per interest rate index. These clusters are homogeneous in respect of the interest rate risk that is being hedged, because they are designed to:

- share the interest rate risk exposure that is being hedged, and
- be sensitive to interest rate changes proportional to the overall sensitivity to interest rate changes in the cluster.

The longer the term of the hedge, the larger the excess of available cash flows from projected assets or liabilities in the clusters has to be, given that the cash flow projections further in the future are inherently less certain. The availability of an excess of cash flows in the clusters and the increase of excess over time is evaluated on a monthly basis.

Furthermore back testing is performed on the sensitivity model for interest risk management purposes. This back testing also supports cash flow hedge accounting. The back testing relates to the interest sensitivity models applied and the assumptions used in the information gathering process for the balance sheet projection. Historical data are used to review the assumptions applied.

The schedule of undiscounted cash flows for cash flow hedges are expected to impact profit or loss as follows:

	≤ 3 months	> 3 months and ≤ 1 year	> 1 year and ≤ 5 years	> 5 years and ≤ 10 years	> 10 years	Total
At 31 December 2009						
Cash inflow from hedging derivative assets	42	127	1,234	207	(166)	1,444
Cash outflow from hedging derivative liabilities	(74)	(223)	(1,498)	(906)	(862)	(3,563)
Net cash (outflow)/inflow	(32)	(96)	(264)	(699)	(1,028)	(2,119)
At 31 December 2008 (1)						
Cash inflow from hedging derivative assets	17	43	291	259	85	695
Cash outflow from hedging derivative liabilities	(36)	(90)	(399)	(303)	(129)	(957)
Net cash (outflow)/inflow	(19)	(47)	(108)	(44)	(44)	(262)

(1) Prior year comparatives have been restated to conform with current year presentation.

Net gain/(loss) on cash flow hedges transferred from equity to the income statement are as follows:

	2009	2008
Interest income	**184**	43
Interest expense	**(139)**	(42)
Other operating income	**(43)**	-
Taxation	**-**	-
Total	**2**	1

Hedges of net investments in foreign operations

As explained in note 38, ABN AMRO limits its exposure to investments in foreign operations by hedging its net investment in its foreign operations with currency borrowings and with forward foreign exchange contracts in the currency of the foreign operations or a closely correlated currency to mitigate foreign exchange risk.

For qualifying net investment hedges, changes in the fair value of the derivative hedging instrument are recorded in the currency translation account differences reserve within equity. There is no hedge ineffectiveness recorded relating to net investment hedges.

Overview of the fair value of hedging derivatives

	2009		2008	
	Positive	**Negative**	Positive	Negative
Qualifying for hedge accounting				
Fair value hedges				
Interest				
Swaps	**625**	**2,360**	737	2,146
Foreign currency				
Swaps	**170**	**43**	1,072	1,540
Forwards	**-**	**-**	244	302
Cash flow hedges				
Interest swaps	**331**	**1,337**	351	687
Foreign currency				
Forwards	**-**	**8**	2	14
Net investment hedges	**11**	**89**	119	40
Total	**1,137**	**3,837**	2,525	4,729
Hedges not qualifying for hedge accounting	**1,175**	**713**	3,697	2,414

Notional amounts

	2009	2008
Interest rate risk	**133,963**	95,699
Foreign currency risk	**4,579**	13,115
Net investment hedge	**3,057**	2,245

37 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. Valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

Internal controls over fair valuation

ABN AMRO has designated controls and processes for the determination of the fair value of financial instruments. A process has been designed to ensure there are formalised review protocols for independent review and validation of fair values separate from those businesses entering into the transactions. This includes specific controls to ensure consistent pricing policies and procedures, incorporating disciplined price verification for both proprietary and counterparty risk trades.

The business entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are daily controls over the profit or loss recorded by trading and treasury front office staff.

A key element of the control environment, segregated from the recording of the transaction's valuation, is the independent price verification process. Valuations are first calculated by the business. Such valuations may be direct prices, or may be derived using a model and variable model inputs. These valuations are reviewed, and if necessary amended, by the independent price verification process. This process involves a team independent of those trading the financial instruments performing a review of valuations in the light of available pricing evidence. Independent price verification is performed at a frequency to match the availability of independent data and the size of the exposure. For liquid instruments the process is performed daily. The minimum frequency of review is monthly for trading positions, and six monthly for non-trading positions. The independent price verification control includes formalised reporting and escalation of any valuation differences in breach of defined thresholds. When models are used to value products, those models are subject to a model review process. This process requires different levels of model documentation, testing and review, depending on the complexity of the model and the size of ABN AMRO's exposure to the model.

Valuation techniques

ABN AMRO uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include relative value methodologies based on observable prices for similar instruments, present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate, option pricing models such as Black-Scholes or binomial option pricing models and simulation models such as Monte-Carlo.

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly impacted by the choice of valuation model and underlying assumptions made concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are listed below.

- Bond prices – quoted prices are generally available for certain government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads – where available, these are derived from prices of credit default swaps (CDS) or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates – these are principally benchmark interest rate curves such as the interbank rates and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates – there are observable markets both for spot and forward contracts and futures in the world's major currencies.
- Equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.
- Commodity prices – many commodities are actively traded in spot and forward contracts and futures on exchanges in London, New York and other commercial centres.

- Price volatilities and correlations – volatility is a measure of the tendency of a price to change with time. Correlation measures the degree to which two or more prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Volatility is a key input in valuing options and the valuation of certain products such as derivatives with more than one underlying variable that are correlation-dependent. Volatility and correlation values are obtained from broker quotations, pricing services or derived from option prices.
- Prepayment rates – the fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. In valuing prepayable instruments that are not quoted in active markets, ABN AMRO includes the value of the prepayment option in the fair value.
- Counterparty credit spreads – adjustments are made to market prices (or parameters) when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameters).
- Recovery rates / loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.

ABN AMRO refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While ABN AMRO believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in different estimates of fair value at the balance sheet date.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information derived from the above sources. These adjustments reflect management's assessment of factors that market participants would consider in setting a price, to the extent that these factors have not already been included in the information from the above sources. Furthermore, on an ongoing basis, management assesses the appropriateness of any model used. To the extent that the price provided by internal models does not represent the fair value of the instrument, for instance in highly stressed market conditions, management makes adjustments to the model valuation to calibrate to other available pricing sources. Where unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step ABN AMRO considers the need for further adjustments to the modelled price to reflect how market participants would price instruments. Such adjustments include the credit quality of the counterparty and adjustments to correct model valuations for any known limitations. In addition, ABN AMRO makes adjustments to defer income for financial instruments valued at inception where the valuation of that financial instrument materially depends on one or more unobservable model inputs.

Valuation hierarchy
ABN AMRO analyses financial instruments held at fair value into the three categories as outlined below.

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These financial instruments consist primarily of liquid listed equity shares, certain exchange-traded derivatives, and G10 government securities.

Level 2 financial instruments are those valued using techniques based significantly on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments included are other government agency securities, investment grade corporate bonds, repurchase agreements and reverse repurchase agreements, less liquid listed equities, state and municipal obligations, certain money market securities and most OTC derivatives.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Financial instruments included are primarily cash instruments which trade infrequently, unlisted equity shares, super senior tranches of high grade and mezzanine CDOs, and other less liquid debt securities. Also included are certain structured issued debt securities, OTC derivatives where valuation depends upon unobservable exotic and credit derivatives including those with Credit Derivative Product Company counterparties.

The following table presents the valuation methods used in determining the fair values of financial instruments carried at fair value. Financial instruments recorded in assets and liabilities of businesses held for sale are not included in these tables.

	2009			
	Quoted market price (Level 1)	Valuation techniques - observable market inputs (Level 2)	Valuation techniques - unobservable inputs (Level 3)	Total
Financial assets				
Financial assets held-for-trading	14,477	61,656	1,925	**78,058**
Available-for-sale interest earning securities	31,178	42,296	52	**73,526**
Available-for-sale equities	282	371	152	**805**
Equities designated at fair value through income	13	17	536	**566**
Derivatives not held for trading	-	2,312	-	**2,312**
Unit-linked investments	700	3,014	-	**3,714**
Other assets	-	706	-	**706**
Total assets at fair value	46,650	110,372	2,665	**159,687**
Financial liabilities				
Financial liabilities held for trading	6,769	55,113	805	**62,687**
Due to customers	-	-	-	**-**
Issued debt securities	-	38,566	1,969	**40,535**
Derivatives not held for trading	-	4,550	-	**4,550**
Unit-linked liabilities	700	3,043	-	**3,743**
Subordinated liabilities	-	704	-	**704**
Total liabilities at fair value	7,469	101,976	2,774	**112,219**

	2008			
	Quoted market price (Level 1)	Valuation techniques - observable market inputs (Level 2)	Valuation techniques - unobservable inputs (Level 3)	Total
Financial assets				
Financial assets held-for-trading	14,091	193,458	5,104	212,653
Available-for-sale interest earning securities	4,923	60,621	20	65,564
Available-for-sale equities	192	546	99	837
Equities designated at fair value through income	5	193	462	660
Derivatives held not held for trading	-	6,222	-	6,222
Unit-linked investments	-	3,899	-	3,899
Other assets	-	1,468	-	1,468
Total assets at fair value	19,211	266,407	5,685	291,303
Financial liabilities				
Financial liabilities held for trading	6,587	184,194	1,306	192,087
Due to customers	-	22	-	22
Issued debt securities	-	33,133	3,723	36,856
Derivatives not held for trading	-	7,143	-	7,143
Unit-linked liabilities	-	3,898	-	3,898
Subordinated liabilities	-	722	-	722
Total liabilities at fair value	6,587	229,112	5,029	240,728

Transfers between level 1 and 2

The movement between levels 1 and 2 is attributable to amongst others a move of EUR 15 billion interest earning securities from level 2 to level 1 due to increased liquidity of the markets and availability of prices. Additionally certain OTC foreign exchange derivatives (assets of EUR 2.1 billion and liabilities of EUR 2.1 billion) and Asian government debt securities (EUR 1.5 billion) were transferred from level 1 to level 2 reflecting refinements of hierarchy level classification in 2009.

Level 3 sensitivity analysis

The tables below present the Level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions and unobservable inputs used in the valuation of these instruments for which the reasonably possible alternative assumptions would have a significant impact on the fair value of the instrument.

(in millions of euros)				**Reasonably possible alternative assumptions**	
	Valuation technique	**Main assumptions**	**Carrying value**	**Increase in fair value**	**Decrease in fair value**
Financial assets					
Debt securities:					
Structured loans	Proprietary model	Credit spreads, indices	575	51	29
Other	Proprietary model	Credit spreads, indices	148	28	7
Derivatives:					
Credit	Proprietary CVA model, industry option models, correlation model	Counterparty credit risk, correlation, volatility	813	39	39
Other			401	35	34
Equity shares	Private equity – valuation statements	Fund valuations	728	178	122
Balance at 31 December 2009			**2,665**	**331**	**231**
Financial liabilities					
Derivatives:					
Credit	Proprietary CVA model, industry option models, correlation model	Correlation, volatility, counterparty credit risk	279	52	39
Other			526	107	31
Issued debt securities	Proprietary model	Credit spreads, volatility, correlation	1,969	13	53
Balance at 31 December 2009			**2,774**	**172**	**123**

(in millions of euros)				Reasonably possible alternative assumptions	
	Valuation technique	Main assumptions	Carrying value	Increase in fair value	Decrease in fair value
Financial assets					
Debt securities:			1,059	117	151
CDOs	Proprietary model, industry standard, simulation model	Implied collateral valuation, default rates, housing prices, correlation, credit spreads and recovery rates	670	107	107
CLOs			105	2	10
Other			284	8	34
Derivatives:			4,065	629	830
Credit	Proprietary CVA model, industry option models, correlation model	Counterparty credit risk, correlation, volatility	1,645	208	371
Other			2,420	421	459
Equity shares	Private equity – valuation statements	Fund valuations	561	40	80
Balance at 31 December 2008			5,685	786	1,061
Financial liabilities					
Derivatives:			1,306	175	199
Credit	Proprietary CVA model, industry option models, correlation model	Correlation, volatility, counterparty credit risk	1,029	130	147
Other			277	45	52
Issued debt securities	Proprietary model	Credit spreads, volatility, correlation	3,723	151	166
Balance at 31 December 2008			5,029	326	365

The total estimated change in fair value using a valuation technique with unobservable inputs recognised in the profit and loss account for the year 2009 is a loss of EUR 421 million (2008: loss of EUR 662 million).

For each of the portfolio categories shown in the above table, set out below is a description of the types of products that comprise the portfolio and the valuation techniques that are applied in determining fair value, including a description of models used and inputs to those models. Where reasonably possible alternative assumptions of unobservable inputs used in models would change the fair value of the portfolio significantly, the alternative inputs are indicated along with the impact these would have on the fair value. Where there have been significant changes to valuation techniques during the year a discussion of the reasons for this is also included.

Financial assets in level 3 in 2009 primarily comprise derivatives and equity shares.

Derivatives

Level 3 derivative assets and liabilities are comprised of credit derivatives and other derivatives.

Derivatives are priced using quoted prices for the same or similar instruments where these are available. Certain derivatives are valued using pricing models. Inputs for these models are usually observed directly in the market, or derived from observed prices. However, it is not always possible to observe or corroborate all model inputs. Unobservable inputs used are based on estimates taking into account a range of available information including historic analysis, historic traded levels, market practice, comparison to other relevant benchmark observable data and consensus pricing data.

Credit derivatives

ABN AMRO's credit derivatives include vanilla and bespoke portfolio tranches, gap risk products and certain other unique trades. The bespoke portfolio tranches are synthetic tranches referenced to a portfolio of corporate names on which ABN AMRO purchases credit protection. Bespoke portfolio tranches are valued using Gaussian Copula, a standard method which uses observable market inputs (credit spreads, index tranche prices and recovery rates) to generate an output price for the tranche via a mapping methodology. In essence this method takes the expected loss of the tranche expressed as a fraction of the expected loss of the whole underlying portfolio and calculates which detachment point on the liquid index, and hence which correlation level, coincides with this expected loss fraction. Where the inputs into the valuation technique used are observable in the market, bespoke tranches are considered to be level 2 assets. Where inputs are not observable, bespoke tranches are considered to be level 3 assets.

Gap risk products are leveraged trades with the counterparty's potential loss capped at the amount of the initial principal invested. Gap risk is the probability that the market will move discontinuously too quickly to exit a portfolio and return the principal to the counterparty without incurring losses, should an unwind event be triggered. This optionality is embedded within these portfolio structures and is very rarely traded outright in the market. Gap risk is not observable in the markets and, as such, these structures are deemed to be level 3 instruments.

Other unique trades are valued using a specialised model for each instrument and the same market data inputs as all other trades where applicable. By their nature, the valuation is also driven by a variety of other model inputs, many of which are unobservable in the market. Where these instruments have embedded optionality it is valued using a variation of the Black-Scholes option pricing formula, and where they have correlation exposure it is valued using a variant of the Gaussian Copula model. The volatility or unique correlation inputs required to value these products are generally unobservable and the instruments are therefore deemed to be level 3 instruments.

Equity derivatives
Equity derivative products are split into equity exotic derivatives and equity hybrids. Equity exotic derivatives have payouts based on the performance of one or more stocks, equity funds or indices. Most payouts are based on the performance of a single asset and are valued using observable market option data. Unobservable equity derivative trades are typically complex basket options on stocks. Such basket option payouts depend on the performance of more than one equity asset and require correlations for their valuation. Valuation is then performed using industry standard valuation models, with unobservable correlation inputs calculated by reference to correlations observed between similar underlyings.

Equity hybrids have payouts based on the performance of a basket of underlyings where the underlyings are from different asset classes. Correlations between these different underlyings are typically unobservable with no market information for closely related assets available. Where no market for the correlation input exists, these inputs are based on historical time series.

Interest rate, commodity and foreign exchange derivatives
Interest rate, commodity and foreign exchange options provide a payout (or series of payouts) linked to the performance of one or more underlying, including interest rates, foreign exchange rates and commodities.
Exotic options do not trade in active markets except in a small number of cases. Consequently, ABN AMRO uses models to determine fair value using valuation techniques typical for the industry. These techniques can be divided, firstly, into modelling approaches and, secondly, into methods of assessing appropriate levels for model inputs. ABN AMRO uses a variety of proprietary models for valuing exotic trades.

Exotic valuation inputs include correlation between interest rates, foreign exchange rates and commodity prices. Correlations for more liquid rate pairs are valued using independently sourced consensus pricing levels. Where a consensus pricing benchmark is unavailable, these instruments are categorised as level 3.

Reasonably possible alternative assumptions
For all level 3 derivatives, unobservable inputs are principally comprised of correlations, volatilities and counterparty credit risks. Where a derivative valuation relies significantly on an unobservable input, the valuation is shown in level 3. It is usual for such derivative valuations to depend on several observable, and one or few unobservable model inputs. In determining reasonably possible alternative assumptions, the relative impact of unobservable inputs as compared to those which may be observed was considered within a certain range.

Equities designated at fair value through income
Equities designated at fair value through income classified as level 3 include mainly private equity investments. In general private equity investments cannot be valued directly from quoted market prices or

by using valuation techniques supported by observable market prices or other market data. The fair value is determined using a valuation technique applied in accordance with the European Private Equity and Venture Capitalist Association guidelines (EVCA). Reasonably possible alternative assumptions relate mainly to terminal and explicit growth rates, as well as a range of observable price multiples.

Other assets

Other level 3 financial instruments comprise mainly trading customer structured debt securities. Where observable market prices for a particular debt security are not available, the fair value will typically be determined with reference to observable market transactions in other related products, such as similar debt securities or credit derivatives.These loans are primarily traded alongside a CDS hedge to eliminate the credit risk and valued at the traded spread over LIBOR using standard discounted cashflow methodology. In determining reasonable possible alternative assumptions ABN AMRO considered spreads from available market prices in determining the inputs to the valuation methodology applied.

Issued debt securities

Issued debt securities classified as level 3 are valued using independent quotes from market participants for the debt issuance spreads above average interbank rates (at a range of tenors) which the market would demand when purchasing new senior or sub-debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

The movements in level 3 assets and liabilities are presented below.

	Level 3 movements								
	At 01 January 2009	Gains and losses recognised in income statement or OCI	Transfers in/(out) of level 3	Transfers to RBS	Purchases and issues	Sales and settlements	Foreign exchange	At 31 December 2009	Gains and losses relating to instruments held at year end
Financial assets									
Debt Securities									
Held for trading	1,039	4	44	(1,020)	12	(64)	80	95	(85)
Available-for-sale	17	(4)	54	(70)	70	(13)	(1)	53	(1)
Designated at fair value	3	-	-	-	-	(3)	-	-	-
Equity shares									
Held for trading	-	-	41	-	-	-	-	41	-
Available-for-sale	99	84	(29)	-	-	(2)	-	152	85
Designated at fair value	462	(10)	147	-	(10)	(50)	(3)	536	(32)
Derivatives	4,065	(783)	(647)	(1,951)	238	(28)	319	1,213	(784)
Other assets	-	29	546	-	-	-	-	575	4
Total assets	5,685	(680)	156	(3,041)	310	(160)	395	2,665	(813)
Financial liabilities									
Derivatives	1,306	(254)	(214)	-	-	(119)	86	805	(238)
Issued debt securities	3,723	37	(1,933)	-	472	(409)	79	1,969	37
Total liabilities	5,029	(217)	(2,147)	-	472	(528)	165	2,774	(201)

Net gains and losses relating to assets recognised in the income statement and other comprehensive income were EUR 764 million loss and EUR 84 million respectively. Net gains and losses relating to liabilities have been recognised in the income statement.

Gains and losses recognised on assets held for trading and derivatives have been included in income from trading activities. Gains and losses on available-for-sale assets have been included in results from financial transactions and interest income.

Level 3 movements

Level 3 assets and liabilities decreased in the year mainly due to novations of positions to RBS Group, disposals, write downs and reclassifications in 2009.

The decrease in debt securities and derivatives of respectively EUR 0.9 billion and EUR 2.9 billion was primarily due to novations to RBS Group of portfolios that are not part of the RBS acquired businesses included in ABN AMRO in the future.

Issued debt securities show a decrease of EUR 1.9 billion mainly due to a transfer from level 3 to level 2 of constant proportion portfolio insurance notes reflecting the expiration of the derivatives embedded in these notes in 2009.

In addition refinements of hierarchy levels resulted in transfers to level 2 of derivative assets and liabilities as well as from level 2 to level 3 of trading book loans.

Day one profits

Where model inputs are considered unobservable and have more than an insignificant impact on the valuation, any gains on initial recognition are deferred on the balance sheet, as a Day 1 profit and loss reserve, and amortised over the life of the instruments. The table below shows the movement in the reserve:

	2009	2008
Unamortised balance at 1 January	**124**	191
Deferral of profit on new transactions	**18**	107
Recognised in the income statement during the period:		
Subsequent to observability	**(4)**	(3)
Amortisation	**(17)**	(58)
Maturity or termination	**(78)**	(83)
Exchange differences	**6**	(30)
Unamortised balance at 31 December	**49**	124

Own credit

In certain circumstances ABN AMRO designates financial liabilities at fair value through profit and loss. Designation is performed either to eliminate an accounting mismatch, for example, where the liability funds trading positions, or because the debt is managed and assessed on a fair value basis. When valuing financial liabilities recorded at fair value, IFRS requires that an entity take into account the impact of its own credit standing, which, in aggregate, could have a significant impact on the valuation of the liabilities. The categories of financial liabilities on which own credit spread adjustments are made include issued debt securities, subordinated liabilities, and derivatives. An own credit adjustment is applied to positions where it is believed that counterparties will consider ABN AMRO's creditworthiness when pricing trades including retail notes issuances.

ABN AMRO's trading systems discount future cash outflows for liabilities measured at fair value at interbank offer rates. The adjustment for own credit spread represents the difference between the interbank offer rate and the rate which includes ABN AMRO's own market-perceived risk of default. In general, it is anticipated that gains and losses arising from changes in ABN AMRO's own credit spread will reverse over the life of the instrument unless repurchased.

For issued debt securities, this adjustment is based on independent quotes from market participants for the debt issuance spreads above average interbank rates (at a range of tenors) which the market would demand when purchasing new debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices. For subordinated liabilities and covered bonds the own credit adjustment is based on the fair values of ABN AMRO's senior notes which are observable.

ABN AMRO also considers the impact of own credit spreads when valuing derivative liabilities. In general, the impact is significant only for derivative liabilities that are not collateralised. In these circumstances, the own credit spread is calculated using credit spreads implied by CDSs.

The table below shows the own credit spread adjustments on liabilities recorded in the income statement during the year and a cumulative adjustment as at year end.

	Subordinated liabilities	Issued debt securities	Subtotal	Derivatives	**Total 2009**	2008
Cumulative at 1 January	236	715	951	75	**1,026**	359
Effect of changes to credit spreads	(2)	175	173	(18)	**155**	565
Foreign exchange effect	-	47	47	1	**48**	102
At 31 December	234	937	1,171	58	**1,229**	1,026

Financial assets and liabilities not carried at fair value

The following methods and significant assumptions have been applied to estimate the fair values of financial instruments carried at cost:

- The fair value of variable rate financial instruments and those of a fixed rate nature maturing within 6 months of the balance sheet date are assumed to approximate their carrying amounts. In the case of such loans, the fair value estimate does not reflect changes in credit quality, as the main impact of credit risk is already recognised separately through the deduction of the allowances for credit losses from the carrying amounts.
- The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the specific credit quality of loans within the portfolio are not taken into account in determining fair values, as the main impact of specific credit risk is already recognised separately through the deduction of the allowances for credit losses from the carrying amounts and the latent loss provisions.
- The fair value of demand deposits and savings accounts (included in due to customers) with no specific maturity is assumed to be the amount payable on demand at the balance sheet date. The fair value of the other loans to customers and loans to banks is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans.
- The fair value of issued debt securities and subordinated liabilities is based on quoted prices. Where these are not available, fair value is based on expected cashflows discounted using independent quotes from market participants for the debt issuance spreads above average interbank rates (at a range of tenors) which the market would demand when purchasing new senior or sub-debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

The following table compares the carrying amount of financial assets and liabilities recorded at amortised cost to their estimated fair values(1):

	2009			2008		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Cash and balances at central banks	28,382	28,382	-	5,854	5,854	-
Interest earning securities HTM	-	-	-	-	-	-
Loans and receivables - banks	39,659	39,357	(302)	75,566	75,322	(244)
Loans and receivables - customers	218,246	210,698	(7,548)	270,119	267,258	(2,861)
Total	**286,287**	**278,437**	**(7,850)**	351,539	348,434	(3,105)
Financial liabilities						
Due to banks	46,145	45,960	185	94,620	94,627	(7)
Due to customers	196,648	196,597	51	208,984	210,392	(1,408)
Issued debt securities	55,124	54,469	655	74,440	72,030	2,410
Subordinated liabilities	13,839	13,059	780	12,837	8,183	4,654
Total	**311,756**	**310,085**	**1,671**	390,881	385,232	5,649

(1) Negative amounts represent a reduction to net assets. Positive amounts represent an increase to net assets.

38 Financial risk management

Financial instrument risk disclosures

This section provides details of the exposure to risk arising from financial instruments and how those risks are managed. In addition, this note includes a discussion on the extent to which financial instruments are used, the associated risks and the business purpose served.

The most important types of risk associated with financial instruments are:

- Credit risk and country event risk;
- Liquidity risk;
- Interest rate risk (banking book positions); and
- Market risk (trading portfolio) including liquidity risk, currency risk, interest rate risk, equity price risk and commodity risk of the trading book.

Below is a short description of credit, liquidity, interest rate and market risk within ABN AMRO's financial instruments portfolio and their impact on ABN AMRO's financial position and performance as shown in the quantitative tables.

Credit risk

Measurement and control

ABN AMRO is subject to credit risk through its lending, trading, hedging and investing activities as well as in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Senior management is responsible for establishing the credit policies and the mechanisms, organisation and procedures required to analyse, manage and control credit risk. In this respect, counterparty limits are set and an internal system of credit ratings is applied.

The primary exposure to credit risk arises through loans, credit facilities and guarantees issued, financial assets held for trading (interest earning securities and derivatives) and derivatives used for hedging.

The risk that counterparties might default on their obligations is monitored on an ongoing basis. For each transaction it is evaluated whether collateral or a master netting agreement is required to help mitigate the credit risk.

Maximum exposure to credit risk

The amounts stated in the table represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Consequently, the amounts significantly exceed expected losses in the event of counterparty default.

	2009	2008
Derivative assets held for trading	**54,234**	178,896
Interest earning securities	**73,526**	65,564
Loans and receivables – banks	**31,044**	36,113
Loans and receivables – customers	**207,845**	252,050
Professional securities transactions	**18,751**	52,646
Multi-seller conduits	**265**	5,264
Committed credit facilities	**51,520**	63,436
Credit related contingent liabilities	**36,767**	42,148
Total	**473,952**	696,117

The maximum credit exposure on derivative assets held for trading is measured as the current positive fair value. For interest-earning securities the amortised cost rather than the carrying value is included to reflect the credit risk exposure.

For a breakdown of counterparties for interest-earning securities in the available-for-sale category please refer to note 15. According to the requirements of the DNB, ABN AMRO has no individually significant exposure to any single counterparty in the category loans and receivables.

Credit risk concentrations

Concentrations of credit risk (whether on- or off-balance sheet) that share similar characteristics such that their ability to meet contractual obligations is likely to be affected in a similar way to changes in economic or other conditions. As part of managing risk concentrations, country risk and sector risk are managed on a portfolio basis. Refer to the following tables for details of the credit risk concentrations on the customer portfolio.

Credit risk concentrations by geography and sector

	2009		2008	
	Outstanding	%[1]	Outstanding	%[1]
Netherlands				
Loans and receivables to banks	**10,404**	**26**	15,041	20
Loans and receivables to public sector	**1,678**	**61**	1,590	18
Loans and receivables to commercial	**56,504**	**55**	66,043	48
Loans and receivables to consumer	**103,822**	**97**	102,727	94
Total	**172,408**		185,401	
Europe (excluding Netherlands)				
Loans and receivables to banks	**23,921**	**60**	56,815	75
Loans and receivables to public sector	**478**	**18**	544	6
Loans and receivables to commercial	**30,081**	**29**	45,477	33
Loans and receivables to consumer	**110**	**-**	2,384	2
Total	**54,590**		105,220	
North America				
Loans and receivables to banks	**663**	**2**	902	1
Loans and receivables to public sector	**89**	**3**	105	1
Loans and receivables to commercial	**5,032**	**5**	9,206	7
Loans and receivables to consumer	**1**	**-**	–	
Total	**5,785**		10,213	
Latin America				
Loans and receivables to banks	**181**	**1**	156	-
Loans and receivables to public sector	**-**	**-**	–	
Loans and receivables to commercial	**368**	**-**	531	-
Loans and receivables to consumer	**3**	**-**	4	-
Total	**552**		691	
Asia Pacific				
Loans and receivables to banks	**4,565**	**11**	2,698	4
Loans and receivables to public sector	**477**	**18**	6,547	75
Loans and receivables to commercial	**11,433**	**11**	17,227	12
Loans and receivables to consumer	**3,405**	**3**	4,183	4
Total	**19,880**		30,655	
Total				
Loans and receivables to banks[2]	**39,734**		75,612	
Loans and receivables to public sector	**2,722**		8,786	
Loans and receivables to commercial	**103,418**		138,484	
Loans and receivables to consumer	**107,341**		109,298	
Total	**253,215**		332,180	
Professional securities transactions - customers	**10,136**		13,193	
Multi-seller conduits	**265**		5,264	
Total loans and receivables	**263,616**		350,637	

(1) Calculated as a percentage of the total for banks, public, commercial and consumer sectors respectively.
(2) Includes professional securities transactions - banks amounting to EUR 8,615 million (2008: EUR 39,453 million)

Credit risk concentrations from credit facilities and guarantees issued by geography:

	2009		2008	
	Outstanding	%[(1)]	Outstanding	%[(1)]
Netherlands				
Guarantees and other commitment	**4,703**	**13**	4,228	10
Committed credit facilities	**14,053**	**27**	17,552	28
Total	**18,756**		21,780	
Europe (excluding Netherlands)				
Guarantees and other commitment	**21,055**	**57**	25,083	59
Committed credit facilities	**20,570**	**40**	23,351	36
Total	**41,625**		48,434	
North America				
Guarantees and other commitment	**6,423**	**17**	6,884	16
Committed credit facilities	**14,115**	**28**	18,220	29
Total	**20,538**		25,104	
Latin America				
Guarantees and other commitment	**154**	**1**	230	1
Committed credit facilities	**220**	**-**	320	1
Total	**374**		550	
Asia Pacific				
Guarantees and other commitment	**4,432**	**12**	5,723	14
Committed credit facilities	**2,562**	**5**	3,993	6
Total	**6,994**		9,716	
Total				
Guarantees and other commitment	**36,767**		42,148	
Committed credit facilities	**51,520**		63,436	
Total	**88,287**		105,584	

(1) Calculated as a percentage of the totals for credit related contingent liabilities and committed credit facilities respectively.

Total commercial loans and receivables by industry are presented in the table below:

	2009		2008	
	Outstanding	%	Outstanding	%
Central and local government	**663**	**1**	523	-
Manufacturing	**19,530**	**19**	30,980	22
Construction	**1,638**	**1**	1,967	1
Finance	**25,784**	**25**	33,996	25
Service industries and other business activities	**45,599**	**44**	56,353	41
Agriculture, forestry and fishing	**5,216**	**5**	5,099	4
Property and mortgages	**4,988**	**5**	9,566	7
Total	**103,418**		138,484	

Total consumer loans and receivables by product type are presented in table below:

	2009		2008	
	Outstanding	%	Outstanding	%
Mortgages	**95,069**	**89**	94,147	86
Personal lending	**740**	**1**	1,667	2
Credit Card	**327**	**-**	1,394	1
Other consumer loans	**11,205**	**10**	12,090	11
Total	**107,341**		109,298	

Collateral

It is ABN AMRO's policy to reduce or mitigate credit risk on credit facilities or exposure, as much as possible in a given commercial environment by securing credit facilities or exposure with collateral. To correctly assess the extent to which the collateral mitigates the credit risk the collateral must be valued according to a specified valuation method and properly documented and monitored.

Collateral is obtained if and when required prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The extent of collateral held for guarantees and letters of credit is on average 13% (2008: 16%).

ABN AMRO does not disclose the fair value of collateral held as security or other credit enhancements on loans and advances past due but not impaired, or on individually assessed impaired loans and advances, as it is not practicable to do so.

The following table details loans and receivables from commercial and consumer clients by type of collateral obtained.

	2009	2008
Commercial customers		
Public authority guarantees	**7,484**	5,712
Mortgages	**5,553**	5,687
Securities	**1,827**	2,291
Bank guarantees	**3,673**	5,082
Other types of collateral	**23,665**	48,289
Unsecured	**61,216**	71,423
Total	**103,418**	138,484
Consumer customers		
Public authority guarantees	**498**	187
Mortgages	**95,069**	94,146
Securities	**560**	804
Bank guarantees	**13**	19
Other types of collateral	**2,408**	4,861
Unsecured	**8,793**	9,281
Total	**107,341**	109,298

Credit quality of financial assets that are neither past due nor impaired 31 December 2009

The credit quality of the portfolio of financial assets can be assessed with reference to ABN AMRO's internal credit rating system which reflects the probability of default of an obligor, i.e. the likelihood that a counterparty fails to pay interest and/or principal and/or other financial obligations to the bank.

ABN AMRO's internal counterparty ratings are a crucial tool for managing and monitoring the credit risk of the bank, both at counterparty and portfolio level. The counterparty rating is based on many aspects including both a financial and non-financial analysis of the counterparty.

Each counterparty to whom ABN AMRO grants any type of credit facility or who has an exposure is assigned a Uniform Counterparty Rating (UCR) on a scale of 1 to 8, whereby UCR 1 is of prime quality while UCR 6-8 is, by definition, 'in default' according to the ABN AMRO definition of default.

The table below gives an overview of the relation between the internal ratings of ABN AMRO (UCR) and the counterparty's long-term average (through-the-cycle) probability of default and an indication of how the internal ratings of ABN AMRO compare to the external rating agencies Standards & Poor's, Fitch and Moody's.

	1	2+ till 2-	3+ till 3-	4+ till 4-	5+ till 5-	6+	6-8
UCR							
Expected default rates (%) 2009	0-0.03	0.04-0.10	0.19-0.42	0.68-1.96	3.54-12.92	26.18	100
Standards & Poor's / Fitch	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	CCC+/C	–
Moody's	AAA/Aa3	A1/A3	Baa1/Baa3	Ba1/-Ba3	B1-B3	Caa1/C	–

The following tables show the credit quality of the financial assets that are neither past due nor impaired on respectively 31 December 2009 and 2008:

Neither past due nor impaired at 31 December 2009(1):

	1	2+ till 2-	3+ till 3-	4+ till 4-	5+ till 5-	6+	Not rated	**Total 2009**
UCR								
Interest earning securities in Banking Book	61,475	5,754	1,868	631	2	264	3,532	**73,526**
Loans and receivables - Banks	25,473	6,880	872	4,744	129	407	1,111	**39,616**
Loans and receivables - Public sector	962	1,148	11	325	208	60	8	**2,722**
Loans and receivables - Commercial	5,949	8,172	19,443	33,437	12,843	8,485	7,632	**95,961**
Derivatives	20,470	17,611	6,091	6,029	866	1,023	4,456	**56,546**
Off-balance instruments	2,625	15,678	18,591	8,237	2,147	3,480	762	**51,520**
Total	116,954	55,243	46,876	53,403	16,195	13,719	17,501	**319,891**

(1) Excluding discontinued operations

Neither past due nor impaired at 31 December 2008(1):

	1	2+ till 2-	3+ till 3-	4+ till 4-	5+ till 5-	6+	Not rated	Total 2008
UCR								
Interest earning securities in Banking Book	53,518	4,103	874	1,710	42	388	4,930	65,565
Loans and receivables - Banks	54,495	10,402	2,499	1,416	247	879	5,626	75,564
Loans and receivables - Public sector	7,562	236	175	462	196	29	125	8,785
Loans and receivables - Commercial	8,934	15,872	34,947	43,852	11,710	6,692	11,204	133,211
Derivatives	117,976	31,868	6,011	7,895	1,014	3,440	16,914	185,118
Off-balance instruments	7,841	17,576	19,058	4,497	1,235	8,132	5,097	63,436
Total	250,326	80,057	63,564	59,832	14,444	19,560	43,896	531,679

(1) Excluding discontinued operations

Credit quality of consumer loans

Loans and receivables consumer of EUR 104,200 million (2008: EUR 106,457 million) are not rated. An indication of the credit quality of these loans and receivables can be derived from the table below and the collateral obtained for the loans and receivables as well as the geographical breakdown of the underlying products of the portfolio as included in the earlier table within this note.

Credit quality of financial assets that are past due but not impaired

The tables below show the analysis of the financial assets that are past due but not impaired:

	Past due ≤ 30 days	Past due > 30 - ≤90 days	Past due > 90 - ≤180 days	Past due > 180 days - ≤ 1 year	Past due > 1 year	**Total**
31 December 2009						
Loans and receivables – commercial	360	122	106	28	7	**623**
Loans and receivables – consumer	1,357	635	4	5	1	**2,002**

	Past due ≤ 30 days	Past due > 30 - ≤90 days	Past due > 90 - ≤180 days	Past due > 180 days - ≤ 1 year	Past due > 1 year	Total
31 December 2008						
Loans and receivables – commercial	191	229	66	9	6	501
Loans and receivables – consumer	1,554	912	28	5	4	2,503

ABN AMRO does not disclose the fair value of collateral held as security or other credit enhancements on loans and advances past due but not impaired, or on individually assessed impaired loans and advances, as it is not practicable to do so.

Credit structuring
ABN AMRO structures investments to provide specific risk profiles to investors. This may involve the sale of credit exposures, often by way of credit derivatives, to an entity which subsequently funds the credit exposures by issuing securities. These securities may initially be held by ABN AMRO prior to a sale to external parties.

Liquidity risk

Measurement and control
Liquidity risk arises in any bank’s general funding of its activities. For example, a bank may be unable to fund its portfolio of assets at appropriate maturities and rates, or may find itself unable to liquidate a position in a timely manner at a reasonable price. ABN AMRO holds capital to absorb unexpected losses, and manages liquidity to ensure that sufficient funds are available to meet not only the known cash funding requirements, but also any unanticipated ones that may arise. At all times, ABN AMRO maintains what we believe to be adequate levels of liquidity on a group-wide basis to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

ABN AMRO manages liquidity on a daily basis in all the countries in which it operates. Each national market is unique in terms of the scope and depth of its financial markets, competitive environment, products and customer profile. Therefore local line management is responsible for managing our local liquidity requirements under the supervision of Group Asset and Liability Management on behalf of the Group Asset and Liability Committee.

On a day-to-day basis ABN AMRO’s liquidity management depends on, among other things, the effective functioning of local and international financial markets. As this is not always the case, group-wide contingency funding plans are in place. These plans are put into effect in the event of a dramatic change in the normal business activities or in the stability of the local or international financial markets. As part of this liquidity management contingency planning, ABN AMRO continually assess potential trends, demands, commitments, events and uncertainties that could reasonably result in increases or decreases in our liquidity. More specifically, ABN AMRO considers the impact of these potential changes on its sources of short-term funding and long-term liquidity planning.

As ABN AMRO has entered into committed credit facilities, the liquidity management process also involves assessing the potential effect of the contingencies inherent in these types of transactions on normal sources of liquidity and finance.

During the year the remainder of the multiseller conduits were transferred to RBS Group with only one own asset conduit remaining within ABN AMRO. The outstanding of this program as at 31 December 2009 was approximately EUR 8.7 billon (2008: EUR 17.8 billion)

Maturity analysis of assets and liabilities
The table below summarises the maturity profile of ABN AMRO's financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual remaining undiscounted cash flows. This is not consistent with how ABN AMRO looks at liquidity as the models used also take into account the expected behaviour of customers and other factors.

Maturity based on contractual undiscounted cash flows for the year ended 31 December 2009:

	On demand	Trading derivatives	≤ 1 year	> 1 year- < 5 years	> 5 years	Maturity not applicable	**Total**
Assets							
Cash and balances at central banks	7,208	-	21,325	-	30	-	**28,563**
Financial assets held for trading	11,478	54,234	-	-	-	12,346	**78,058**
Financial investments	74	-	12,316	25,183	52,306	1,371	**91,250**
Loans and receivables - banks	21,323	-	15,567	1,828	1,297	-	**40,015**
Loans and receivables - customers	27,143	-	39,808	40,274	169,458	-	**276,683**
Other assets - non derivatives	-	-	182	536	60	29,375*	**30,153**
Other assets - derivatives	-	-	690	2,974	511	-	**4,175**
Total	**67,226**	**54,234**	**89,888**	**70,795**	**223,662**	**43,092**	**548,897**
Liabilities							
Financial liabilities held for trading	4,536	58,151	-	-	-	-	**62,687**
Due to banks	14,435	-	28,241	3,150	1,201	-	**47,027**
Due to customers	94,190	-	94,732	3,652	6,758	-	**199,332**
Issued debt securities	245	-	40,005	29,152	39,486	-	**108,888**
Subordinated liabilities	-	-	843	47	18,869	-	**19,759**
Other liabilities - non derivatives	1,661	-	59	673	1,811	31,002	**35,206**
Other liabilities - derivatives	-	-	963	3,554	3,684	-	**8,201**
Total	**115,067**	**58,151**	**164,843**	**40,228**	**71,809**	**31,002**	**481,100**
Off-balance liabilities (see note 34)							
Guarantees	**33,568**						**33,568**
Irrevocable facilities	**3,199**						**3,199**
Committed facilities	**51,520**						**51,520**

** includes equity accounted investments, property and equipment, goodwill and other intangibles, assets which are held for sale, accrued income and prepaid expenses, tax and other assets.*

Maturity based on contractual undiscounted cash flows for the year ended 31 December 2008:

	On demand	Trading derivatives	≤ 1year	> 1 year- ≤ 5 years	> 5 years	Maturity not applicable	Total
Assets							
Cash and balances at central banks	5,400	-	426	-	50	-	5,876
Financial assets held for trading	21,327	178,896		-	-	12,430	212,653
Financial investments	-	-	7,979	17,166	63,540	1,497	90,182
Loans and receivables - banks	4,237	-	69,445	3,005	1,317	-	78,004
Loans and receivables - customers	33,976	-	73,520	51,979	185,126	-	344,601
Other assets - non derivatives	21	-	509	57	60	32,027	32,674
Other assets - derivatives	-	-	1,976	151	547	-	2,674
Total	64,961	178,896	153,855	72,358	250,640	45,954	766,664
Liabilities							
Financial liabilities held for trading	5,413	186,674	-	-	-	-	192,087
Due to banks	25,309	-	65,461	4,816	1,376	-	96,962
Due to customers	79,226	-	118,548	8,204	7,599	-	213,577
Issued debt securities	608	-	45,360	47,921	35,474	-	129,363
Subordinated liabilities	-	-	1,551	1,005	16,835	-	19,391
Other liabilities - non derivatives	3,757	-	40	56	57	20,888	24,798
Other liabilities - derivatives	-	-	2,403	436	2,303	-	5,142
Total	114,313	186,674	233,363	62,438	63,644	20,888	681,320
Off-balance liabilities (see note 34)							
Guarantees	37,509						37,509
Irrevocable facilities	4,639						4,639
Committed facilities	63,436						63,436

Interest rate risk of the banking book

The Earnings Risk table below shows the cumulative sensitivity of net interest income and equity over a time horizon of 12 and 24 months, under 'rate rise' and 'rate fall' scenarios. Sensitivity is defined as the percentage change in net interest income relative to a base case scenario. The base case scenario assumes continuation of the present yield curve environment. The 'rates rise' and 'rates fall' scenarios assume a gradual parallel shift of the yield curve during 12 months, after which the curve remains unchanged. The sensitivity analysis is limited to the euro as this is the main currency in which ABN AMRO has its earnings. The rates rise and rates fall scenarios for the euro are 200 basis points for both years presented. In case of a rate fall there is an effective floor of 0%.

The following table shows the possible cumulative percentage change in income over the relevant time horizon.

Earnings Risk *(in percentages)*	Horizon	December 2009	December 2008
Rate rise	One year	(1.1%)	(4.1%)
	Two years	(1.6%)	(5.0%)
Rate fall	One year	(4.5%)	2.4%
	Two years	(9.2%)	0.5%

The Earnings risk table below gives the 2009 cumulative change in net interest income over the relevant time horizon in absolute numbers.

Earnings Risk *(in millions of euros)*	Horizon	December 2009	December 2008
Rate rise	One year	(35)	(105)
	Two years	(109)	(271)
Rate fall	One year	(146)	62
	Two years	(610)	26

The Market Value Risk table below shows the sensitivity of the market value of equity to changes in interest rates for the euro. Market value of equity is defined as the discounted value of assets, minus discounted value of liabilities, plus the market value of derivatives and other interest sensitive items in the banking book. Sensitivity is measured as the percentage value change due to an overnight interest rate change shock. The size of the shock is based on observed changes of the curve in a month and a 99% confidence level. The shock rate change for the euro was 50 basis points for both years. Due to the separation of ABN AMRO and related transfers of some portfolios after the take-over both years are not fully comparable.

Market Value Risk *(in percentages)*	December 2009	December 2008
Rate rise	(2.5%)	(3.8%)
Rate fall	1.7%	3.3%

Sensitivity analysis is based upon our interest rate risk modelling of assets and liabilities and is used for risk management purposes only. The model above assumes that during the course of the year no other changes are made in the respective portfolio. Earnings Risk shows one possible prediction based upon the model and actual changes in net interest income will vary from the model.

Market risk of the trading books

All trading portfolios are subject to market risk. Several major sources of market risk are interest rate, foreign exchange, equity price, commodity price, credit spread, volatility, and correlation risks. We define market risk as the risk that changes in financial market prices will decrease the value of our trading portfolios. The instruments in our trading portfolios are recognised at fair value and changes in market conditions directly affect net trading income.

Measurement and control

ABN AMRO applies a Value-at-Risk (VaR) methodology to estimate the market risk of its trading portfolios. ABN AMRO uses VaR as its primary tool for the day-to-day monitoring of market risks. The Group Asset and Liability Committee sets limits on the maximum level of VaR at an aggregate level. The risk committees may set VaR limits on lower aggregation levels.

Other control measures used in the market risk management process include historical and stress scenarios, limits on net open positions, interest rate sensitivity per basis point, spread sensitivities, option parameters, position concentrations, and position ageing.

Value-at-Risk

VaR is a methodology for assessing market risk exposure in a single number. VaR is a statistical measure that estimates potential losses and is defined as the predicted loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time, and at a specified level of statistical confidence. ABN AMRO uses a proprietary VaR model that has been approved by the DNB.

The VaR methodology adopted by ABN AMRO for its VaR calculation is historical simulation, using approximately 1.5 years of weighted (exponential decay method) historical data. The VaR is calculated at a 99% confidence level for a one-day holding period using absolute changes for interest rate-related and all implied volatility risk factors, and relative changes for other risk factors. The positions captured by our VaR calculations include derivative and cash positions that are reported as assets and liabilities held for trading. The VaR is reported daily per trading portfolio, per product line, and for ABN AMRO as a whole. It is reported daily to the senior management of the businesses, Group Risk Management, and the responsible members of the Managing Board.

The table below provides the 2009 and 2008 Value at Risk per risk category (99% confidence level, one-day holding period):

(in millions of euros)	**For the year ended 31 December 2009**				For the year ended 31 December 2008			
	Minimum	**Maximum**	**Average**	**Year-end**	Minimum	Maximum	Average	Year-end
Interest rate risk	**9.0**	**74.6**	**25.8**	**14.1**	28.5	93.8	49.6	68.8
Equity price risk	**2.6**	**21.0**	**11.2**	**12.0**	12.6	79.9	29.7	19.4
Foreign exchange risk	**0.4**	**16.4**	**5.1**	**1.7**	2.7	19.6	8.5	13.9
Commodity price risk	**0.3**	**2.5**	**0.8**	**0.6**	0.4	12.7	2.2	2.0
Diversification effect	**-**	**-**	**-**	**(14.3)**	-	-	-	(33.4)
Aggregate VaR (1)	**7.0**	**70.7**	**24.4**	**14.1**	30.7	113.5	57.4	70.7

(1) The maximum (and minimum) for each category occurred on different days and therefore have no direct relation to the maximum (and minimum) of the aggregate Value-at-Risk. The aggregate Value-at-Risk includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate Value-at-Risk can be lower than the sum of the individual risk types on the same day (e.g. year-end).

Back testing is performed on the actual and hypothetical profit and loss and the results are reported to the DNB on a quarterly basis. At a 99% confidence level, the statistical expectation is that on one out of every 100 trading days a loss exceeding the VaR occurs. Back testing is an essential instrument for the ex post validation of our internal VaR model.

Stress testing

The limitations of the VaR model mean that it must be supplemented with other statistical tests. These include a series of stress tests, scenarios, and sensitivity stress tests that shed light on the hypothetical behaviour of our portfolio and the impact of extreme market movements on our financial results. Sensitivity stress tests and stress scenarios have been developed internally to reflect specific characteristics of ABN AMRO's portfolios and are performed daily for each trading portfolio and at several aggregation levels. These apply parallel increases and decreases in a number of risk elements or in one risk element, actual historical scenarios (non-parallel moves in a number of risk elements) or plausible future shocks.

Capital management

ABN AMRO manages capital to comply with the rules on capital adequacy based on the Bank for International Settlements' guidelines and Dutch Central Bank ('DNB') directives. These requirements compare ABN AMRO's capital with its assets and off-balance sheet exposures, weighted according to the relative risk involved. Capital is also set aside for market risk associated with trading activities. The potential loss on derivatives, which is assessed as the fair value based on market conditions at balance sheet date, is increased by a percentage of the relevant notional amounts, depending on the nature and remaining term of the contract. This method takes into account the possible adverse development of the fair value during the remaining term of the contract.

The primary capital measure, referred to as 'Tier 1 capital' consists of shareholders' equity (net of gains/losses not recognised in income) and qualifying subordinated liabilities less goodwill and capital deductions. Tier 2 capital represents additional qualifying subordinated liabilities, taking into account the remaining maturities. Core tier 1 capital is tier 1 capital excluding qualifying subordinated liabilities.

Subsequent to its acquisition by RFS Holdings, ABN AMRO received approval for a transitional period from the DNB to report figures on the basis of Basel I until legal separation. In accordance with this, specific minimal requirements have been set for the tier 1 and total capital ratios, including a requirement to treat capital deductions in the same manner as required by Basel II.

In this respect the minimum required ratios, as determined by the DNB, were increased in 2008 and remained unchanged for 2009. The minimum Tier 1 ratio required is 9% (2007: 4%) and the minimum total capital ratio is 12.5% (2007: 8%). ABN AMRO has exceeded these standards throughout the year including at balance sheet date with a Tier 1 ratio of 19.9% (2008: 10.9%), of which the core Tier 1 ratio is 16.9% (2008: 10.1%). The total capital ratio is 25.5% (2008: 14.4%) at 31 December 2009.

The management of these ratios reflects a total capital base increase of 17.9% (2008: decreased by 25.1%) to EUR 29.9 billion at 31 December 2009 (2008: EUR 25.4 billion) and a Risk weighted assets reduction of EUR 58.5 billion to EUR 117.5 billion at 31 December 2009 (2008: 176.0 billion).

Capital ratios are significantly higher than the current minima set by the DNB. This reflects remaining amounts to be repatriated to Santander, and the capital actions undertaken by RBS Group and the Dutch State to enable legal separation. The increase in capital is to ensure standalone compliance; and to meet expected requirements on the transition to Basel II in 2010, for the two separated banks.

The following table analyses ABN AMRO's capital ratios at 31 December 2009, 2008 and 2007.

(in millions of euros)	**2009**	2008	2007
Tier 1 capital	**23,374**	19,152	28,850
Tier 2 capital	**6,575**	5,981	4,816
Tier 3 capital	**-**	272	272
Total capital base (including supervisory deductions)	**29,949**	25,405	33,938
Risk-weighted assets on balance	**83,892**	119,667	172,059
Off-balance	**32,061**	43,292	53,611
Market risks	**1,582**	13,069	6,642
Total risk-weighted assets	**117,535**	176,028	232,312
Tier 1 capital ratio	**19.89%**	10.88%	12.42%
Total capital ratio	**25.48%**	14.43%	14.61%

The following table analyses actual capital and the minimum standard needed in order to comply with supervisory requirements:

	2009		2008	
	Required	Actual	Required	Actual
Total capital	**14,692**	**29,949**	22,004	25,405
Total capital ratio	**12.50%**	**25.48%**	12.50%	14.43%
Tier 1 capital	**10,578**	**23,374**	15,843	19,152
Tier 1 capital ratio	**9.00%**	**19.89%**	9.00%	10.88%
Core tier 1	**n/a**	**19,845**	n/a	17,778
Core tier 1 ratio	**n/a**	**16.88%**	n/a	10.10%

As part of the management of capital, the ratios are hedged to mitigate the impact of any material changes in the EUR/USD exchange rate.

ABN AMRO's investments in foreign operations in currencies other than the USD are hedged on a selective basis. Hedging is considered in cases where the expected currency loss is larger than the interest rate differential between the two currencies that represents the cost of the hedge.

The table shows the sensitivity of our equity capital to a 10% appreciation and 10% depreciation, respectively, in the euro against all foreign currencies.

(in millions of euros)	**2009**	2008
Euro appreciates 10%	**(259)**	312
Euro depreciates 10%	**259**	(312)

39 Use of derivatives

Derivative instruments

ABN AMRO uses derivative instruments (a) to provide risk management solutions to its clients, (b) to manage ABN AMRO's own exposure to various risks (including interest, currency and credit risks) and (c) for proprietary trading purposes. A derivative is a financial instrument that is settled at a future date and requires little or no initial net investment, and whose value varies in response to changes in the price of another financial instrument, an index or some other variable.

The majority of derivative contracts are arranged as to amount ('notional'), tenor and price directly with the counterparty (over-the-counter). The remainder are standardised in terms of their amounts and settlement dates and are bought and sold in organised markets (exchange traded).

The notional, or contractual, amount of a derivative represents the reference quantity of the underlying financial instrument on which the derivative contract is based. The value of the derivative contract is typically determined by applying a calculated price to this notional amount, and is the basis upon which changes in the value of the contract are measured. The notional amount provides an indication of the underlying volume of business transacted by ABN AMRO but does not provide any measure of risk, and is not included on the balance sheet.

Positive and negative fair values on different transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis, and ABN AMRO has the legal right to offset separate transactions with that counterparty.

Types of derivative instruments

The most common types of derivatives used are as follows:

Forwards are binding contracts to buy or sell financial instruments, most typically currency, on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market.

Futures are exchange traded agreements to buy or sell a standard quantity of specified grade or type of financial instrument, currency or commodity at a specified future date.

Commodity derivatives are contracts to buy or sell a non-financial item. They can be either exchange traded or OTC.

Swaps are agreements between two parties to exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by ABN AMRO are as follows:

- Interest rate swap contracts – typically the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and a reference interest rate, most commonly LIBOR.
- Cross currency swaps – the exchange of interest payments based on two different currency principal balances and reference interest rates, and usually the exchange of principal amounts at the start and end of the contract.

- Credit default swaps (CDSs) – bilateral agreements under which one party (protection buyer) makes one or more payments to the other party (protection seller) in exchange for an undertaking by the seller to make a payment to the buyer following a specified credit event. Credit default swaps may be on a single name (counterparty) or on a multiple (or basket) of names (counterparties). Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss.
- Total rate of return swaps - these give the total return receiver exposure to all of the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, such as LIBOR. The total return payer has an equal and opposite position. A specific type of total return swap is an equity swap.

Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options may be traded OTC or on a regulated exchange, and may be traded in the form of a security (warrant).

Derivatives transacted for trading purposes

Most of the derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

Trading activities are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin, and include market-making, positioning and arbitrage activities:

- Market making involves quoting bid and offer prices to other market participants with the intention of generating income based on spread and volume
- Positioning means managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices
- Arbitrage activities involve identifying and profiting from price differentials between markets and products.

Derivatives transacted for hedging purposes

ABN AMRO enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies for accounting purposes (see accounting policies).

ABN AMRO also enters into derivative transactions which provide economic hedges for credit risk exposures but do not meet the requirements for hedge accounting treatment, for example, ABN AMRO uses CDSs as economic hedges for credit risk exposures in the loan and traded product portfolios, but generally do not apply hedge accounting to such positions.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. ABN AMRO's approach to market risk is described in the market risk section.

Derivative instruments are transacted with many different counterparties. The credit risk of derivatives is managed and controlled in the context of ABN AMRO's overall credit exposure to each counterparty. ABN AMRO's approach to credit risk is described in the financial credit risk section in note 38. It should be noted that although the values shown on the balance sheet can be an important component of ABN AMRO's credit exposure, the positive fair values for any one counterparty are rarely an adequate reflection of ABN AMRO's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, fair values can increase over time ('potential future exposure'), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties.

40 Securitisations and other credit risk mitigants

As part of ABN AMRO's funding and credit risk mitigation activities, the cash flows of selected financial assets may be transferred to third parties for funding purposes. Substantially all financial assets included in these transactions are typically mortgage or other loan portfolios. The extent of ABN AMRO's continuing involvement in these financial assets varies by transaction.

Full recognition and continuing involvement

ABN AMRO participates in sales transactions where financial assets and consequently the related cash flows are sold to a special purpose entity ('SPE'). When in these transactions neither substantially all risks and rewards nor control over the financial assets has been transferred, the entire asset continues to be recognised in the consolidated statement of financial position. In the case of sales transactions involving a consolidated SPE, the retained risks and rewards are usually an interest related spread and/or an exposure on first credit losses. The carrying amounts of the assets and associated liabilities approximated EUR 1,323 million, EUR 4,609 million, and EUR 5,437 million at 31 December 2009, 2008 and 2007, respectively. In the event of a credit downgrade ABN AMRO may be required to post additional collateral in respect of these transactions.

Additionally, ABN AMRO participates in various mortgage related transactions in the Netherlands that have been conducted without the involvement of an SPE. In these transactions, the derecognition criteria are not met and the entire asset continues to be recognised in the consolidated statement of financial position. ABN AMRO also retains exposure to certain interest rate risks. The carrying amounts of these mortgage assets and associated liabilities approximated EUR 146 million, EUR 151 million, and EUR 203 million at 31 December 2009, 2008 and 2007, respectively.

ABN AMRO has not participated in any transaction where partial derecognition of specified portions of an entire financial asset have occurred.

Synthetic transactions

ABN AMRO has synthetic securitisations for an amount of EUR 119 billion (2008: EUR 111 billion). Through a synthetic securitisation ABN AMRO is able to buy obtain protection without the actual transfer of any assets to an SPE. As a result, ABN AMRO as the owner of the assets buys protection to transfer a part of the credit risk on a portfolio of assets to another entity that sells the protection. Although a substantial part of the credit risk related to these loan portfolios is transferred, actual ownership and continued recognition of the portfolio of assets remains with ABN AMRO. If an SPE is involved, the securities are issued by the SPE only, and the third party investors that hold the securities have only recourse to the assets of the SPE and not to ABN AMRO.

The 31 December 2009 balance includes a EUR 34.4 billion transaction entered into in August 2009 with the Dutch State to reduce the credit risk, through a CDS, on the Netherlands mortgage portfolio.

Credit default swaps and guarantees

In addition to the transactions mentioned above, ABN AMRO also uses credit default swaps and guarantees to reduce credit risk for parts of the loan portfolio by selling these risks directly to the capital markets.

At 31 December 2009 ABN AMRO has bought credit protection, in the form of CDSs, for an amount of EUR 10,973 million (2008: EUR 23,413 million) directly from the capital markets. In order to mitigate the income statement volatility associated with the fair value changes of these credit default swaps and in line with ABN AMRO's risk appetite and hedging strategy, hedges of these credit default swaps are entered into that are based on credit risk indices. The correlation of these with the credit default swaps is monitored and the strategy is adapted where necessary.

On 26 November 2009, The Royal Bank of Scotland Group plc ('RBS Group') and The Royal Bank of Scotland plc ('RBS plc') signed an accession agreement to the UK Government's Asset Protection Scheme ('APS'). This scheme also encompasses some assets within the RBS acquired businesses of ABN AMRO. For these assets ABN AMRO has purchased credit protection through a guarantee and a CDS arrangement with RBS plc to strengthen the capital position and to de-risk future earnings. These arrangements relate to approximately EUR 30.0 billion of covered assets predominately commercial loan facilities.

41 Private equity investments

Private equity investments are either consolidated or held at fair value through income.

Consolidated private equity holdings
Investments of a private equity nature that are controlled by ABN AMRO are consolidated. These holdings represent a wide range of non-banking activities. Personnel and other costs relating to production and manufacturing activities are presented within material expenses. The impact on the income statement of consolidating these investments is set out in the following table.

	2009	2008	2007
Income of consolidated private equity holdings	**436**	1,726	3,836
Other income included in operating income	**(15)**	(45)	(226)
Total operating income of consolidated private equity holdings	**421**	1,681	3,610
Goods and material expenses of consolidated private equity holdings	**228**	1,278	2,744
Included in personnel expenses	**107**	176	390
Included in administrative costs	**73**	136	332
Included in depreciation and amortisation	**14**	45	168
Total operating expenses	**422**	1,635	3,634
Operating profit/(loss) before tax of consolidated private equity holdings	**(1)**	46	(24)

Goods and material expenses include personnel costs relating to manufacturing and production activities.

The assets and liabilities of the consolidated holdings that are allocated to Central items are included in the balance sheet as assets and liabilities of businesses held for sale as ABN AMRO has a plan to sell these private equity investments. The total assets of these consolidated entities at 31 December 2009 were EUR 50 million (2008: EUR 435 million), excluding goodwill.

Unconsolidated private equity investments
The private equity investments over which ABN AMRO does not have control are accounted for at fair value with changes through income. Although control is not with ABN AMRO, in many cases ABN AMRO has significant influence, usually evidenced by an equity stake of between 20% and 50%. Significant influence is held in approximately 18 (2008: 29) investments with a positive material fair value. The total fair value of these investments is EUR 244 million at 31 December 2009 (2008: EUR 271 million), operating in various sectors including information technology, life sciences, media and telecommunications.

42 Joint ventures

ABN AMRO's activities conducted through joint ventures include cash transfer, insurance, finance, lease, global custody and equity capital market transactions. The consolidated financial statements of the joint ventures include the following assets and liabilities, income and expenses, represent ABN AMRO's proportionate share:

	2009	2008
Assets		
Financial assets held for trading	**-**	203
Financial investments	**2,731**	1,946
Loans and receivables - banks and customers	**76**	34
Property and equipment	**19**	17
Accrued income and prepaid expenses	**64**	56
Other assets	**2,107**	2,391
Total	**4,997**	4,647
Liabilities		
Financial liabilities held for trading	**3**	4
Due to banks and customers	**9**	32
Issued debt securities	**51**	-
Provisions	**2,678**	2,142
Other liabilities	**2,117**	2,391
Total	**4,858**	4,569
Total operating income	**26**	56
Operating expenses	**18**	30
Operating profit	**8**	26
Tax expense	**3**	9
Net profit	**5**	17

Most significant joint ventures:

	Interest held (%)	Main activities
Neuflize Vie	60	Insurance

43 Remuneration of Managing Board and Supervisory Board

Remuneration Managing Board

The remuneration package, as it has been in place since 2001 for the ABN AMRO Managing Board, was only applicable to the Board members who were appointed before the takeover of ABN AMRO by the Consortium of RBS, Fortis and Santander. By the end of 2008 the last of these Managing Board members left ABN AMRO's employment.

The Managing Board in 2009 consists of members originating from ABN AMRO and from the Consortium Members, RBS Group and Santander. The remuneration for the Managing Board members from RBS Group and Santander is paid by the respective Consortium Members and is accordingly not included in the tables below.

For the remaining members of the Managing Board who are employed by ABN AMRO two remuneration packages apply. For those Board members who are also designated board members of the future ABN AMRO Bank N.V. integrated with Fortis Bank (Nederland) N.V., the remuneration in 2009 is based on the remuneration package for the Chairman and members of the new ABN AMRO Bank as approved by the designate Supervisory Board and shareholder of the new ABN AMRO Bank. The package currently consists of a base salary of EUR 600,000 for the members and EUR 750,000 for the Chairman. A variable income component as well as various benefits will form part of this remuneration package.

For those Board members who are not joining the Board of the combined bank their previous remuneration package as (Senior) Executive Vice President ('(S)EVP' - member of the Top Executive Group of ABN AMRO) is continued during the Managing Board membership. This remuneration package consists of a fixed salary component of EUR 418,000 per year, short and long term variable income and benefits.

The tables below summarise the salaries, other rewards and bonuses of individual ABN AMRO Managing Board members as they are employed by ABN AMRO and as far as these rewards are included in the income statement.

The following table summarises total reward, ABN AMRO options and shares, and outstanding loans of the members of the Managing Board and Supervisory Board.

(in thousands of euros)	Managing Board		Supervisory Board	
	2009	2008	**2009**	2008
Salaries and other short-term benefits	**3,055**	2,028	**779**	725
Pensions	**411**	353	**-**	-
Termination benefits	**2,571**	19,790	**-**	-
Profit-sharing and bonus payments	**875**	-	**-**	-
Share-based payments	**26**	83	**-**	-
Loans (outstanding)	**2,930**	2,868	**-**	-

The following table summarises the salaries, other rewards and bonuses of individual Managing Board members, as far as these rewards are included in the income statement.

(in thousands of euros)	2009					2008				
	Base salary	Other payments (1)	Bonus	Share based payments (2)	Pension costs (3)	Base salary	Other payments (1)	Bonus	Share based payments (2)	Pension costs (3)
G. Zalm	750	-	-	-	204	-	-	-	-	-
M.G.J. de Jong [4]	209	2,571	-	26	30	418	-	-	83	54
R. Teerlink [5]	-	-	-	-	-	171	-	-	-	25
D.A. Cole [6]	348	360	875	-	51	-	-	-	-	-
J. van Hall [7]	500	63	-	-	62	-	-	-	-	-
C.F.H.H. Vogelzang [8]	500	325	-	-	64	-	-	-	-	-
W.G. Jiskoot [9]	-	-	-	-	-	285	4,490	-	-	90
J.Ch.L. Kuiper [10]	-	-	-	-	-	114	-	-	-	52
H.G. Boumeester [11]	-	-	-	-	-	114	3,800	-	-	24
P.S. Overmars [12]	-	-	-	-	-	-	3,500	-	-	-
J.P. Schmittmann [13]	-	-	-	-	-	678	8,248	-	-	108

(1) Other payments are comprised of termination payments, long term incentive payments, deferred cash payments and jubilee gratification.
(2) Share-based payments are calculated in accordance with IFRS 2 by recognising the fair value of the originally equity settled shares or options at grant date over the vesting period. For originally cash-settled transactions these costs are measured at the fair value at settlement date.
(3) Pension costs exclusively comprise pension service cost for the year computed on the basis of IAS 19.
(4) M.G.J. de Jong joined the board on 1 January 2008. As at 28 February 2009 he became a member of the Managing Board on behalf of RBS Group and stepped down on 30 June 2009. Mr de Jong received a termination payment of EUR 2.5 million and currently is involved in a legal procedure claiming an additional termination payment of EUR 4 million. EUR 26 thousand share based payments in 2009 relates to the pro-rated award from RBS that was paid in cash upon the termination of employment. EUR 83 thousand in 2008 share based payment award relates to the RBS Group Restricted Share Plan.
(5) R. Teerlink stepped down on 31 March 2008 and at the same date his employment with ABN AMRO was terminated. As at 28 February 2009 he became a member of the Managing Board on behalf of RBS Group.
(6) D.A. Cole was appointed as Member of the Managing Board on 28 February 2009. Mr Cole's remuneration is based on the ABN AMRO SEVP contract of employment. On the basis of a retention package agreed in 2007 Mr Cole received a guaranteed bonus of EUR 1,050 thousand with respect to the 2009 performance year. Mr Cole received a long term incentive plan entitlement of EUR 390 thousand in 2008, which was fully accrued in 2009 and is conditionally payable in 2010. The amounts of the bonus and LTIP have been pro-rated to reflect the appointment date. In 2009 Mr Cole also received a jubilee gratification of EUR 35 thousand.
(7) J.van Hall was appointed as Member of the Managing Board on 28 February 2009. Mr Van Hall received a long term incentive plan entitlement of EUR 75 thousand in 2008, which was fully accrued in 2009, and is conditionally payable in 2010. The amount accrued in 2009 was pro-rated to reflect the appointment date.
(8) C.F.H.H. Vogelzang was appointed as Member of the Managing Board on 28 February 2009. Mr Vogelzang received a long term incentive plan entitlement of EUR 390 thousand in 2008, which was fully accrued in 2009, and is conditionally payable in 2010. The amount accrued in 2009 was pro-rated to reflect the appointment date.
(9) W.G. Jiskoot stepped down on 31 May 2008 and received a EUR 4.5 million termination payment (including pension costs).
(10) J.Ch.L. Kuiper retired on 1 March 2008.
(11) H.G. Boumeester stepped down on 29 February 2008 and received a EUR 3.8 million termination payment.
(12) P.S. Overmars stepped down on 31 December 2007 and received a EUR 3.5 million termination payment.
(13) J.P. Schmittmann stepped down on 30 December 2008 and received a EUR 8.0 million termination payment, EUR 192 thousand deferred cash award and EUR 56 thousand jubilee gratification.

Loans from ABN AMRO to Managing Board members

(in thousands of euros)	2009		2008	
	Outstanding at 31 December	Interest rate (%)	Outstanding at 31 December	Interest rate (%)
M.G.J. de Jong [1]	-	-	2,868	3.6
G. Zalm [2]	-	-	-	-
D.A. Cole [3]	1,171	3.7	-	-
J. van Hall [4]	284	5.3	-	-
C.F.H.H. Vogelzang [5]	1,475	3.9	-	-
R. Teerlink [6]	-	-	-	-

(1) M.G.J. de Jong was appointed on 1 January 2008 and stepped down on 30 June 2009.
(2) G. Zalm was appointed on 1 January 2009.
(3) D.A. Cole was appointed on 28 February 2009.
(4) J. van Hall was appointed on 28 February 2009.
(5) C.F.H.H. Vogelzang was appointed on 28 February 2009.
(6) R. Teerlink stepped down during 2008 and joined ABN AMRO again as at February 2009 on behalf of RBS Group.

Remuneration Supervisory Board

The table provides information on the remuneration of individual members of the Supervisory Board. As of 1 May 2006 the remuneration was adjusted. The members of the Supervisory Board receive an equal remuneration of EUR 60,000 per annum. For the Vice Chairman this remuneration is EUR 70,000 and for the Chairman EUR 85,000 per annum. For the membership of the Audit Committee an additional allowance of EUR 15,000 is applied on an annual basis. The annual allowance for the members of the Nomination & Compensation Committee and the Compliance Oversight Committee is EUR 10,000. The annual allowance for the Chairman of the Audit Committee is EUR 20,000 and for the Chairmen of the two other Committees EUR 15,000 per annum. The general expenses allowances were abolished and actual business expenses incurred can be declared and are eligible for reimbursement. Supervisory Board members that are not residents in the Netherlands are entitled to general allowances for each Supervisory Board meeting that they attend, namely EUR 7,500 for members who live outside Europe and EUR 5,000 for members who live in Europe. This allowance applies to meetings of both the Supervisory Board and the various committees and is paid only once when meetings are being held on the same day or on consecutive days and is only paid when the members physically attend the meetings.

All amounts are based on a full year, but the actual payment depends on the period of membership during the year. Members of the Supervisory Board are not entitled to emoluments in the form of ABN AMRO shares or options on ABN AMRO shares.

Remuneration of the Supervisory Board as far as chargeable to ABN AMRO (1)

(in thousands of euros)	**2009**	2008
A.C. Martinez	**125**	125
A.A. Olijslager	**90**	90
Mrs. T.A. Maas-de Brouwer	**85**	85
R.F. van den Bergh (2)	**35**	70
A. Ruys (2)	**35**	70
G.J. Kramer	**75**	75
Mrs. Llopis Rivas	**75**	75
M. Enthoven (3)	**95**	7

(1) The remuneration is excluding an attendance fee.
(2) Resigned on 25 June 2009
(3) Appointed on 21 November 2008.

Loans from ABN AMRO to Supervisory Board members

There a no loans from ABN AMRO to Supervisory Board members.

44 Share-based payment plans

Before the acquisition of ABN AMRO by the consortium of RBS, Fortis and Santander ABN AMRO granted long-term share-based incentive awards to members of the Managing Board, other Top Executives and Key Staff under a number of plans.

The plans for the Managing Board consisted of a Performance Share Plan (PSP) and a Share Investment & Matching Plan (SIMP). At a lower level, the PSP was also applicable to the second tier of Top Executives, the SEVPs. Both the SEVPs and the third level of Top Executives, the Corporate EVPs could defer a part of their bonus into the Bank's shares on the basis of the SIMP. Furthermore, there was a Restricted Share Plan (RSP) applicable for the Corporate EVPs/MDs and Key Staff. Until 2007 all these plans were equity based but the awards took place in the form of phantom shares. The last awards under the PSP and RSP plans were granted in the 2007 performance year, and also the participation in the SIMP took place for the last time in 2007.

Next to the above described plans there was also a cash-settled PSP for the Corporate EVPs for the performance cycle 2005-2008.

With effect from 2005 share options were no longer granted via the Top Executives Plan and from 2006 share options were no longer granted to Key Staff. The options were replaced by restricted shares in line with the changes for the Top Executives in 2005.

All outstanding awards and options under the Bank's LTIPs were cash settled on 17 October 2007 as a consequence of the take over of ABN AMRO. The total settlement amounted to EUR 1,013 million of which EUR 442 million related to share options, EUR 301 million to originally equity settled share plans and EUR 270 million to phantom shares. With respect to the calculation of the cash settlement amount, the value of an ABN AMRO share was the value of a tendered share on the settlement date, 17 October 2007. This value resulted in EUR 35.60 plus EUR 2.28 representing the value of 0,296 RBS share against the closing price of the RBS share on 17 October 2007. The value (further referred to as Settlement Price) per ABN AMRO Holding N.V. share (a 'Share') thus resulted in EUR 37.88.

45 Discontinued operations and assets and liabilities held for sale

The following tables provide a further analysis of the results reporting in the line Results from discontinued operations net of tax.

Discontinued operations

Profits from discontinued operations include the related operating results and when sold, the applicable gain on sale.

Income statement of discontinued operations:

	2009	2008	2007
Operating income	**9**	3,960	10,285
Operating expense	**6**	2,330	6,077
Loan impairment and other credit risk provisions	**-**	902	1,513
Operating profit before tax	**3**	728	2,695
Gain on disposal	**96**	16,075	7,312
Profit before tax	**99**	16,803	10,007
Tax on operating profit	**-**	314	930
Tax arising on disposal	**-**	-	56
Profit from discontinued operations net of tax	**99**	16,489	9,021

The tables below provide a further breakdown of the operating result and gain on disposal of discontinued operations in 2009 by major lines of business.

	2009	2008	2007
Banca Antonveneta, Banco Real and other Santander acquired businesses (including Interbanca)			
Operating income	**9**	3,781	6,917
Operating expense	**6**	2,173	4,156
Loan impairment and other credit risk provisions	**-**	902	1,444
Operating profit before tax	**3**	706	1,317
Gain on disposal	**96**	13,004	-
Profit before tax	**99**	13,710	1,317
Tax on operating profit	**-**	306	569
Profit from discontinued operations net of tax	**99**	13,404	748

	2009	2008	2007
Asset Management			
Operating income	**-**	179	891
Operating expense	**-**	157	629
Operating profit before tax	**-**	22	262
Gain on disposal	**-**	3,073	-
Profit before tax	**-**	3,095	262
Tax on operating profit	**-**	8	91
Profit from discontinued operations net of tax	**-**	3,087	171

	2009	2008	2007
ABN AMRO North America Holdings and ABN AMRO Mortgage Group Inc			
Operating income	**-**	-	2,477
Operating expense	**-**	-	1,344
Loan impairment and other credit risk provisions	**-**	-	69
Operating profit before tax	**-**	-	1,064
Gain / (loss) on disposal	**-**	(2)	7,312
Profit / (loss) from discontinued operations before tax	**-**	(2)	8,376
Tax on operating profit	**-**	-	270
Tax arising on disposal	**-**	-	56
Profit / (loss) from discontinued operations net of tax	**-**	(2)	8,050

	2009	2008	2007
Bouwfonds non-mortgage business			
Operating income	-	-	-
Operating expense	-	-	(52)
Loan impairment and other credit risk provisions	-	-	-
Operating profit before tax	-	-	52
Gain on disposal	-	-	-
Profit from discontinued operations before tax	-	-	52
Tax on operating profit	-	-	-
Tax arising on disposal	-	-	-
Profit from discontinued operations net of tax	-	-	52

Businesses held for sale

The major classes of assets and liabilities classified as held for sale as at 31 December are as follows:

	2009	2008
Assets		
Cash and balances at central banks	**146**	37
Financial assets held for trading	**494**	-
Financial investments	**582**	566
Loans and receivables-banks	**84**	79
Loans and receivables-customers	**3,284**	255
Property and equipment	**55**	72
Goodwill and other intangible assets	**30**	202
Accrued income and prepaid expenses	**46**	17
Other assets	**168**	355
Assets of businesses held for sale	**4,889**	1,583
Liabilities		
Financial assets held for trading	**474**	-
Due to banks	**66**	8
Due to customers	**7,823**	378
Issued debt securities	**(12)**	220
Provisions	**286**	12
Accrued expenses and deferred income	**74**	13
Other liabilities	**177**	233
Subordinated liabilities	**6**	-
Liabilities of businesses held for sale	**8,894**	864
Net assets directly associated with disposal business	**(4,005)**	719

Net assets directly associated with disposal businesses represent the balance of net assets and excludes intercompany balances.

As at 31 December 2009 the assets and liabilities of businesses held for sale represent balances of a number of RBS acquired businesses in the Asian region, loan portfolios in the Latin American region and remaining Private Equity portfolios within the Central Items business segment. As at 31 December 2008 these balances mainly consisted of the Private Equity businesses and some smaller businesses acquired by Santander in Latin America.

Cash flows attributable to discontinued operations:

	2009	2008	2007
Net cash flows from operating activities	**(42)**	(2,547)	4,409
Net cash flows from investing activities	**-**	(2,446)	(202)
Net cash flows from financing activities	**-**	(416)	(1,686)

46 Related parties

ABN AMRO has a related party relationship with associates, joint ventures, key management and shareholders of its parent company, RFS Holdings. The shareholders of RFS Holdings are RBS Group, Santander and the Dutch State. The ultimate consolidating parent of ABN AMRO, RBS Group, is controlled by the UK Government. Both the UK Government and the Dutch State are therefore related parties.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. ABN AMRO enters into a number of banking transactions with related parties in the normal course of business. These transactions, which include loans, deposits and foreign currency transactions, have taken place on an arm’s length basis. These transactions are carried out on commercial terms and at market rates. Employees are offered preferential terms for certain banking products. No allowances for loan losses have been recognised in respect of loans to related parties in 2009 and 2008.

Transactions conducted directly with the Dutch State and UK Government are limited to normal banking transactions, taxation and other administrative relationships with the exception of the mandatory convertible securities and guarantee of the Dutch State. In addition ABN AMRO participates in the Dutch State treasuries market and utilises the liquidity support made available to all banks regulated by the DNB.

There may be other significant transactions with entities under the common control of or subject to significant influence by the UK Government. These would include, amongst others, loans, deposits, guarantees, fee based relationships, or equity holdings. Disclosure is made of any significant transactions with these entities.

Balances with joint ventures and associates

	2009		2008	
	Joint Ventures	**Associates**	Joint Ventures	Associates
Receivables	**25**	**165**	143	201
Liabilities	**54**	**73**	-	139
Guarantees given	**-**	**7**	-	332
Irrevocable facilities	**-**	**22**	-	8
Income received	**28**	**70**	40	68
Expenses paid	**26**	**4**	37	2
Total	**133**	**341**	220	750

Balances with Consortium Members

	2009		2008	
	RBS	**Santander**	RBS	Santander
Financial assets held for trading	**25,537**	**232**	56,529	1,525
Loans and receivables	**10,306**	**7,911**	7,144	7,900
Other assets	**3,049**	**-**	211	-
Financial liabilities held for trading	**28,505**	**298**	59,436	1,519
Due to banks	**5,872**	**1**	8,026	2
Other liabilities	**4,502**	**-**	838	-
Guarantees given	**108**	**-**	23	-
Irrevocable facilities	**43**	**-**	-	-
Recoverable facilities	**-**	**-**	-	10
Payment commitments	**-**	**-**	2,181	-

Financial assets and liabilities positions held for trading with RBS include positions of which risks have been transferred to RBS in 2008. The assets and liabilities can not be offset under IFRS, however master netting agreements are in place that reduce the credit risk in the assets. As Fortis has left the Consortium, no balances have been included for 2009 and comparative balances have not been included to conform with current year presentation.

Refer to note 40: Securitisations and other credit risk mitigants for details on credit protection purchased from RBS plc in the form of a guarantee and a CDS.

Balances with the Dutch State

	2009	2008
Assets		
Balances at central banks	**22,994**	1,225
Financial assets held for trading	**72**	203
Financial investments – available-for-sale	**6,800**	3,866
Liabilities		
Deposits by banks	**7,637**	2,320
Subordinated liabilities (refer to note 30)	**2,600**	-
Tax balances		
Current tax asset	**351**	394
Current tax liability	**22**	-
Deferred tax asset	**740**	719
Deferred tax liability	**6**	-
Tax on profit	**63**	(21)
Receipts from tax authorities	**61**	42

Refer to note 40: Securitisations and other credit risk mitigants for details on credit protection purchased from the Dutch state in the form of a CDS.

Balances with the UK Government and its related parties

	2009			2008		
	Bank of England	Banks	**Total**	Bank of England	Banks	Total
Assets						
Balances at central banks	**19**	**-**	**19**	30	-	30
Debt securities	**-**	**-**	**-**	20	11	31
Loans and advances to banks	**-**	**-**	**-**	-	30	30
Derivatives	**-**	**-**	**-**	-	-	4
Liabilities						
Deposits by banks	**-**	**-**	**-**	-	30	30
Derivatives	**-**	**699**	**699**	-	-	3

UK central and local government

	2009	**2008**
Debt securities	**10**	9
Tax balances		
Current tax asset	**35**	28
Current tax liability	**10**	-
Deferred tax asset	**4,181**	3,320
Deferred tax liability	**13**	-
Tax on profit	**(634)**	(2,892)
Receipts from tax authorities	**-**	5

The deferred tax asset predominantly relates to losses incurred on businesses which are in the process of transferring to RBS plc. RBS Group has agreed to reimburse ABN AMRO for the value of the losses attached to the transferring businesses.

47 Post balance sheet events

On 5 February 2010 ABN AMRO made a distribution of EUR 7.5 billion of capital to the parent of ABN AMRO Holding, RFS Holdings B.V., for the benefit of Santander. The boards of ABN AMRO Holding have furthermore resolved to make a further distribution for an amount in the range of EUR 1.2 to 1.5 billion for the benefit of Santander, subject to Dutch Central Bank approval, immediately before legal separation. After such further distribution, the indirect interest of Santander in ABN AMRO will have decreased to its share in the remaining Shared Assets.

On 6 February 2010 the ABN AMRO Group announced the legal renaming of ABN AMRO Bank N.V. to The Royal Bank of Scotland N.V.

On 8 February 2010 ABN AMRO announced that on 6 February 2010, the businesses of ABN AMRO acquired by the Dutch State were legally demerged from the RBS acquired businesses in accordance with the demerger filing as lodged with the Chamber of Commerce on 30 September 2009. As a result, there are now two separate banks within ABN AMRO Holding N.V., The Royal Bank of Scotland N.V. ('RBS N.V.') and the new entity named ABN AMRO Bank N.V., each licensed separately by the Dutch Central Bank. Both banks are governed by the current managing and supervisory boards of ABN AMRO Holding N.V. until the legal separation of the new ABN AMRO Bank N.V. from ABN AMRO Holding N.V.

On 11 March 2010 a request for a Declaration of Non-Objection (‘DNO’) on the separation of ABN AMRO Bank N.V. from ABN AMRO Holding NV by means of sale to ABN AMRO Group N.V. was submitted to the DNB. The sale is planned to be executed on 1 April 2010.

On 4 January 2010 the RBS Group announced the lapse of sale of the sale of The Royal Bank of Scotland Limited (RBS Pakistan) to MCB Bank Limited (MCB). The RBS Group continues to pursue the sale of the Pakistan operations with other buyers.

On 8 January 2010 the RBS Group and ABN Bank N.V. reached an agreement to sell to The Bank of America certain offshore loans, loan participations, credit facilities or other extensions of credit generated by or related to its operations in Argentina, Chile and Venezuela. A loss relating to this sale of EUR 179 million was recognized in the 2009 results.

There have been no other significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

48 Major subsidiaries and participating interests

Unless otherwise stated, ABN AMRO's interest is 100% or almost 100%, on 17 March 2010. Those major subsidiaries and participating interests that are not 100% consolidated but are accounted for under the equity method (a) or proportionally consolidated (b) are indicated separately. For renamed entities, the entity names used are those applicable as at 26 March 2010.

As at 31 December 2009, ABN AMRO Holding had two subsidiaries: ABN AMRO Bank N.V. and ABN AMRO II N.V. renamed ABN AMRO Bank N.V. on 6 February 2010. ABN AMRO II N.V. did not have any subsidiaries as at 31 December 2009.

On 6 February 2010, the majority of the businesses acquired by the Dutch State were legally demerged from ABN AMRO Bank N.V. Effective at the same date, the existing legal entity, ABN AMRO Bank N.V. was renamed The Royal Bank of Scotland N.V. and the legal entity into which the Dutch State acquired businesses were demerged was also renamed from ABN AMRO II N.V. to ABN AMRO Bank N.V. (the 'new ABN AMRO Bank').

The Royal Bank of Scotland N.V., Amsterdam (formerly ABN AMRO Bank N.V.), Amsterdam

Netherlands
RBS Ventures II B.V., Amsterdam
RBS Participaties B.V., Amsterdam
Hollandsche Bank-Unie N.V., Rotterdam

Europe (Outside the Netherlands)
RBS Global Banking (Luxembourg) S.A., Luxembourg
RBS Bank (Polska) S.A., Warsaw
RBS Bank (Romania) S.A., Bucharest
The Royal Bank of Scotland ZAO, Moscow
RBS Corporate Finance Limited, London
CM Capital Markets Holding S.A., Madrid (45.20%) (a)
RBS Hoare Govett Limited, London

North America
RBS Capital Markets (Canada) Limited., Toronto
The Royal Bank of Scotland Mexico S.A. Institucion de Banca Multiple, Mexico City
RBS WCS Holding Company, New York
RBS Capital (USA) LLC, Chicago

South America
The Royal Bank of Scotland (Chile), Santiago de Chile
The Royal Bank of Scotland (Colombia) S.A., Bogota
RBS Securities (Venezuela) C.A., Caracas
RBS Finance (Chile) S.A., Santiago de Chile
RBS Securitizadora S.A., Santiago de Chile

Rest of the World
RBS Asia Limited, Hong Kong
RBS Asia Corporate Finance Ltd., Hong Kong
The Royal Bank of Scotland Berhad, Kuala Lumpur
ABN AMRO Bank (China) Co. Ltd., Shanghai
ABN AMRO Leasing (China) Co. Ltd., Beijing
JSC SB RBS (Kazakhstan) Ltd., Almaty (80%)
Royal Bank of Scotland Uzbekistan MB, Tashkent (58.82%)
The Royal Bank of Scotland Limited, Karachi (99.22%)
RBS Business Services Private Limited, Mumbai
RBS Financial Services (India) Private Limited, Mumbai
The Royal Bank of Scotland Securities (Kazakhstan) JSC, Almaty

RBS Group (Australia) Pty Limited, Sydney
RBS Asset Securitisation (Australia) Pty Limited, Sydney
RBS Corporate Finance (Australia) Limited, Sydney
RBS Nominees (Australia) Pty Limited., Sydney
RBS Equities (Australia) Limited, Sydney
RBS Equity Capital Markets (Australia) Limited, Sydney
RBS Funds Management (Australia) Limited, Sydney
RBS Group (New Zealand) Limited, Auckland
RBS (New Zealand) Limited, Auckland
Saudi Hollandi Bank, Riyadh (40%) (a)

ABN AMRO Bank N.V. (formerly ABN AMRO II N.V.), Amsterdam

Netherlands
AA Interfinance B.V., Amsterdam
ABN AMRO Arbo Services B.V., Amsterdam
ABN AMRO Groenbank B.V., Amsterdam
ABN AMRO Hypotheken Groep B.V., Amersfoort
ABN AMRO Jonge Bedrijven Fonds B.V., Amsterdam
ABN AMRO Participaties Fund I B.V., Amsterdam
Altajo B.V., Amsterdam (50%) (b)
Amstel Lease Maatschappij N.V., Utrecht
Delta Lloyd ABN AMRO Verzekeringen Holding B.V., Zwolle (49%) (a)
IFN Group B.V., Rotterdam
MoneYou B.V., Hoevelaken
New HBU II N.V., Amstelveen
Solveon Incasso B.V., Utrecht
Stater N.V., Amersfoort

Rest of the World
ABN AMRO Bank (Luxembourg) S.A., Luxembourg
ABN AMRO Bank (Switzerland) A.G., Zurich
ABN AMRO Life Capital Belgium N.V., Brussels
ABN AMRO Life S.A., Luxembourg
Banque Neuflize OBC SA, Paris (99.86%)
Delbrück Bethmann Maffei AG, Frankfurt am Main
Neuflize Vie (60%), Paris

The list of participating interests for which statements of liability have been issued, has been filed with the Chamber of Commerce in Amsterdam.

The majority of the ABN AMRO's subsidiaries and participating investments are regulated entities and therefore their ability to transfer funds to ABN AMRO is subject to regulatory approvals.

49 Supplemental condensed consolidating financial information

ABN AMRO Bank N.V. is a wholly owned subsidiary of ABN AMRO and is able to offer and sell certain securities in the US from time to time pursuant to a registration statement on Form F-3 filed with the SEC. ABN AMRO has fully and unconditionally guaranteed the obligations of ABN AMRO Bank N.V. that have been incurred: this guarantee includes all securities issued by ABN AMRO Bank N.V.

ABN AMRO Bank N.V. utilises an exception in Rule 3-10 of Regulation S-X and therefore does not file its financial statements with the SEC. In accordance with the requirement to qualify for the exception, presented below is condensed consolidating financial information for (i) ABN AMRO Holding N.V., on a standalone basis as guarantor ('Holding Company'); (ii) ABN AMRO Bank N.V. on a standalone basis ('Bank Company'); (iii) other subsidiaries of ABN AMRO on a combined basis ('Subsidiaries'); (iv) consolidation adjustments ('Eliminate and reclassify'); and total consolidated amounts ('ABN AMRO consolidated').

The condensed consolidated financial information is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and IFRS as issued by the IASB, where ABN AMRO has applied Rule 3-10 of Regulation S-X which requires a company to account for its investments in subsidiaries using the equity method, differing from IAS 27 which requires ABN AMRO account for investments in their subsidiaries at cost subject to impairment.

The following consolidating information presents condensed balance sheets at 31 December 2009 and 2008 and condensed statements of income and cash flows for the years ended 31 December 2009, 2008 and 2007 of Holding Company, Bank Company and its subsidiaries.

The condensed statement of financial position at 31 December 2009 and 2008 are presented in the following tables:

Supplemental condensed consolidating statement of financial position as at 31 December 2009

	Holding company	Bank company	Subsidiaries (1)	Eliminate and reclassify	ABN AMRO consolidated
Cash and balances at central banks	-	27,026	1,355	1	28,382
Financial assets held for trading	-	74,495	4,206	(643)	78,058
Financial investments	-	109,278	6,022	(40,403)	74,897
Loans and receivables-banks	6,600	142,272	139,926	(249,139)	39,659
Loans and receivables-customers	-	143,613	90,778	(16,145)	218,246
Equity accounted investments (2)	12,320	8,316	576	(20,356)	856
Property and equipment	-	1,187	773	1	1,961
Goodwill and other intangible assets	-	300	345	-	645
Assets of businesses held for sale	-	3,766	1,123	-	4,889
Accrued income and prepaid expenses	-	4,580	1,291	-	5,871
Tax assets	-	5,526	498	(2)	6,022
Other assets	-	4,266	5,591	2	9,859
Total assets	**18,920**	**524,625**	**252,484**	**(326,684)**	**469,345**
Financial liabilities held for trading	-	60,177	2,510	-	62,687
Due to banks	33	148,833	130,829	(233,550)	46,145
Due to customers	-	196,237	32,145	(31,734)	196,648
Issued debt securities	-	72,817	63,888	(41,045)	95,660
Provisions	-	1,275	3,516	(1)	4,790
Liabilities of businesses held for sale	-	6,573	2,321	-	8,894
Accrued expenses and deferred income	-	5,594	1,399	1	6,994
Tax liabilities	6	157	414	1	578
Other liabilities	1	8,424	5,066	(2)	13,489
Subordinated liabilities	-	12,223	2,320	1	14,544
Shareholders equity attributable to the parent company	18,880	12,315	8,039	(20,354)	18,880
Non-controlling interests	-	-	37	(1)	36
Total liabilities and equity	**18,920**	**524,625**	**252,484**	**(326,684)**	**469,345**

(1) Includes ABN AMRO II N.V.
(2) Includes participating interest in group companies which are eliminated.

Supplemental condensed consolidating statement of financial position as at 31 December 2008

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Cash and balances at central banks	-	4,184	1,670	-	5,854
Financial assets held for trading	-	208,132	5,199	(678)	212,653
Financial investments	-	94,144	6,593	(33,676)	67,061
Loans and receivables-banks	-	163,197	113,983	(201,614)	75,566
Loans and receivables-customers	-	193,527	94,339	(17,359)	270,507
Equity accounted investments (1)	17,130	10,097	587	(27,018)	796
Property and equipment	-	1,319	716	-	2,035
Goodwill and other intangible assets	-	674	250	-	924
Assets of businesses held for sale	-	418	1,165	-	1,583
Accrued income and prepaid expenses	-	5,499	1,512	-	7,011
Tax assets	-	4,653	447	-	5,100
Other assets	-	11,498	6,229	-	17,727
Total assets	**17,130**	**697,342**	**232,690**	**(280,345)**	**666,817**
Financial liabilities held for trading	-	189,886	2,201	-	192,087
Due to banks	8	154,423	111,344	(171,155)	94,620
Due to customers	-	232,367	24,456	(47,819)	209,004
Issued debt securities	-	74,674	70,976	(34,354)	111,296
Provisions	-	1,113	3,031	-	4,144
Liabilities of businesses held for sale	-	484	380	-	864
Accrued expenses and deferred income	-	6,880	1,538	-	8,418
Tax liabilities	45	278	377	-	700
Other liabilities	-	8,964	6,048	-	15,012
Subordinated liabilities	-	11,147	2,402	-	13,549
Shareholders equity attributable to the parent company	17,077	17,130	9,887	(27,017)	17,077
Non-controlling interests	-	(4)	50	-	46
Total liabilities and equity	**17,130**	**697,342**	**232,690**	**(280,345)**	**666,817**

(1) Includes participating interest in group companies which are eliminated.

The condensed income statements for 2009, 2008 and 2007 are presented in the following tables:

Supplemental condensed consolidating statement of income 2009

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Net interest income	26	3,283	1,339	-	4,648
Results from consolidated subsidiaries	(4,517)	250	-	4,267	-
Net commissions	-	1,233	988	-	2,221
Trading income	-	1,146	416	-	1,562
Results from financial transactions	-	(1,932)	(274)	-	(2,206)
Other operating income	-	(168)	637	-	469
Total operating income	**(4,491)**	**3,812**	**3,106**	**4,267**	**6,694**
Operating expenses	1	6,509	2,305	-	8,815
Provision loan losses	-	2,355	438	-	2,793
Operating profit/(loss) before tax	(4,492)	(5,052)	363	4,267	(4,914)
Taxes	6	(535)	114	-	(415)
Discontinued operations	99	3	3	(6)	99
Profit/(loss) for the year	**(4,399)**	**(4,514)**	**252**	**4,261**	**(4,400)**
Non-controlling interests	-	-	(1)	-	(1)
Net profit/(loss) attributable to shareholders of the parent company	**(4,399)**	**(4,514)**	**253**	**4,261**	**(4,399)**

Supplemental condensed consolidating statement of income 2008

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Net interest income	178	4,382	1,223	-	5,783
Results from consolidated subsidiaries	(13,041)	(509)	-	13,550	-
Net commissions	-	1,546	1,083	-	2,629
Trading income	-	(9,765)	441	-	(9,324)
Results from financial transactions	-	(565)	(1,119)	-	(1,684)
Other operating income	-	170	1,968	-	2,138
Total operating income	**(12,863)**	**(4,741)**	**3,596**	**13,550**	**(458)**
Operating expenses	1	7,888	3,740	-	11,629
Provision loan losses	-	3,169	218	-	3,387
Operating profit/(loss) before tax	(12,864)	(15,798)	(362)	13,550	(15,474)
Taxes	45	(2,757)	132	-	(2,580)
Discontinued operations	16,489	6,940	319	(7,259)	16,489
Profit/(loss) for the year	**3,580**	**(6,101)**	**(175)**	**6,291**	**3,595**
Non-controlling interests	-	-	15	-	15
Net profit/(loss) attributable to shareholders of the parent company	**3,580**	**(6,101)**	**(190)**	**6,291**	**3,580**

Supplemental condensed consolidating statement of income 2007

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Net interest income	26	3,545	1,024	–	4,595
Results from consolidated subsidiaries	818	2,151	–	(2,969)	–
Net commissions	–	2,454	1,398	–	3,852
Trading income	–	717	402	–	1,119
Results from financial transactions	–	446	688	–	1,134
Other operating income	–	293	5,005	–	5,298
Total operating income	**844**	**9,606**	**8,517**	**(2,969)**	**15,998**
Operating expenses	2	8,805	5,978	–	14,785
Provision loan losses	–	632	85	–	717
Operating profit before tax	842	169	2,454	(2,969)	496
Taxes	15	(649)	176	–	(458)
Discontinued operations	9,021	9,021	1,812	(10,833)	9,021
Profit for the year	**9,848**	**9,839**	**4,090**	**(13,802)**	**9,975**
Non-controlling interests	–	–	127	–	127
Net profit attributable to shareholders of the parent company	**9,848**	**9,839**	**3,963**	**(13,802)**	**9,848**

The condensed consolidating statement of cash flows 2009, 2008 and 2007 are presented in the following tables:

Supplemental condensed consolidating statement of cash flows 2009

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Total net cash flows from operating activities	**(20)**	**58,096**	**(11,783)**	**(1,034)**	**45,259**
Net outflow of investment/sale of securities investment portfolios	-	(8,527)	611	-	(7,916)
Net outflow of investment/sale of participating interests	-	22	6	-	28
Net outflow of investment/sale of property and equipment	-	(99)	(115)	-	(214)
Net outflow of investment of intangibles	-	(133)	(27)	-	(160)
Net cash flows from investing activities	**-**	**(8,737)**	**475**	**-**	**(8,262)**
Net increase (decrease) of subordinated liabilities	-	220	833	-	1,053
Net increase (decrease) of long-term funding	-	(15,496)	5,477	-	(10,019)
Net increase (decrease) of (treasury) shares	-	-	-	-	-
Other changes in equity	6,600	-	6	-	6,606
Cash dividends paid	-	-	(1,034)	1,034	-
Net cash flows from financing activities	**6,600**	**(15,276)**	**5,282**	**1,034**	**(2,360)**
Currency translation differences on cash and cash equivalents	-	(368)	(46)	-	(414)
Cash flows	**6,580**	**33,715**	**(6,072)**	**-**	**34,223**

Supplemental condensed consolidating statement of cash flows 2008

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Total net cash flows from operating activities	**16,403**	**(12,469)**	**(39,722)**	**(1,627)**	**(37,415)**
Net outflow of investment/sale of securities investment portfolios	-	9,178	9,101	-	18,279
Net outflow of investment/sale of participating interests	-	3	23,859	-	23,862
Net outflow of investment/sale of property and equipment	-	(116)	(226)	-	(342)
Net outflow of investment of intangibles	-	(201)	(78)	-	(279)
Net cash flows from investing activities	**-**	**8,864**	**32,656**	**-**	**41,520**
Net increase (decrease) of subordinated liabilities	-	(881)	471	-	(410)
Net increase (decrease) of long-term funding	-	(19,706)	1,335	-	(18,371)
Net increase (decrease) of (treasury) shares	3,708	-	-	-	3,708
Other changes in equity	-	-	7	-	7
Cash dividends paid	(19,213)	-	(1,627)	1,627	(19,213)
Net cash flows from financing activities	**(15,505)**	**(20,587)**	**186**	**1,627**	**(34,279)**
Currency translation differences on cash and cash equivalents	-	3,855	120	-	3,975
Cash flows	**898**	**(20,337)**	**(6,760)**	**-**	**(26,199)**

Supplemental condensed consolidating statement of cash flows 2007

	Holding company	Bank company	Subsidiaries	Eliminate and reclassify	ABN AMRO consolidated
Total net cash flows from operating activities	**113**	**9,541**	**(13,928)**	**(609)**	**(4,883)**
Net outflow of investment/sale of securities investment portfolios	–	148	(4,106)	–	(3,958)
Net outflow of investment/sale of participating interests	–	(27)	15,262	–	15,235
Net outflow of investment/sale of property and equipment	–	(114)	(100)	–	(214)
Net outflow of investment of intangibles	–	(280)	(245)	–	(525)
Net cash flows from investing activities	**–**	**(273)**	**10,811**	**–**	**10,538**
Net increase (decrease) of subordinated liabilities	–	(668)	966	–	298
Net increase (decrease) of long-term funding	–	(2,988)	9,339	–	6,351
Net increase (decrease) of (treasury) shares	(1,223)	–	–	–	(1,223)
Other changes in equity	(743)	–	(980)	–	(1,723)
Cash dividends paid	(1,540)	–	(609)	609	(1,540)
Net cash flows from financing activities	**(3,506)**	**(3,656)**	**8,716**	**609**	**2,163**
Currency translation differences on cash and cash equivalents	–	(75)	137	–	62
Cash flows	**(3,393)**	**5,537**	**5,736**	**–**	**7,880**

Other information

The parent company financial statements are included in this condensed consolidating footnote. The number of ordinary shares in issuance at 31 December 2009 was 3,306,843,332 (2008: 3,306,843,332 and 2007: 1,936,847,516). The total number of authorised ordinary shares amounts to 8,400,000,400.

Proposed profit appropriation of ABN AMRO Holding, pursuant to article 37.2 and 37.3 of the articles of association, is as follows:

(in millions of euros)	**2009**	2008	2007
(Release from) / addition to reserves	(4,399)	(15,633)	8,777
Dividends on ordinary shares	-	19,213	1,071
	(4,399)	3,580	9,848
Dividends on preference shares	-	-	36

Company Financial Statements ABN AMRO Holding N.V. (Parent Company) 2009

Accounting policies

The company financial statements of ABN AMRO Holding have been prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. ABN AMRO prepares its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and IFRS as issued by the IASB. The accounting policies applied in the company financial statements are the same as those applied in the consolidated financial statements. ABN AMRO Holding applies the exemption as included in the section 2:362 paragraph 8. Participating interests in group companies are valued at net asset value determined on the basis of IFRS as issued by the IASB. Reference is made to the accounting policies section in the consolidated financial statements.

Participating interests in ABN AMRO companies

At date of signing this report, ABN AMRO Holding has two participations and is the sole shareholder of RBS N.V. and the new ABN AMRO Bank, Amsterdam. ABN AMRO Holding guarantees all assets and liabilities of both entities until legal separation. At legal separation the guarantee for the new ABN AMRO Bank will be revoked and any remaining liabilties demerged.

Basis of preparation

The financial statements are presented in euros, which is the presentation currency of the company, rounded to the nearest million (unless otherwise noted). The income statement has been drawn up in accordance with Section 402, Book 2 of the Netherlands Civil Code.

Company income statement for the year ended 31 December

(in millions of euros)	**2009**	2008	2007
Profits of participating interests after taxes	**(4,514)**	(6,101)	9,839
Other profits after taxes	115	9,681	9
Net profit	**(4,399)**	3,580	9,848

Company balance sheet at 31 December

Before appropriation of result

(in millions of euros)	**2009**	2008
Assets		
Loans and receivables – banks a	**6,600**	-
Participating interests in group companies b	**12,320**	17,130
Total assets	**18,920**	17,130
Liabilities		
Due to banks a	**33**	8
Other liabilities c	**7**	45
Total liabilities	**40**	53
Equity d		
Share capital	1,852	1,852
Share premium	11,943	5,343
Treasury shares	-	-
Retained earnings	6,697	11,096
Net gains/(losses) not recognised in the income statement	(1,612)	(1,214)
Shareholders' equity	18,880	17,077
Total equity and liabilities	**18,920**	17,130

Letters stated against items refer to the notes. The notes to the company balance are an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December

(in millions of euros)	**2009**	2008	2007
Share capital[31]			
Balance at 1 January	**1,852**	1,085	1,085
Conversion of preference shares to ordinary shares	**-**	767	-
Balance at 31 December	**1,852**	1,852	1,085
Share premium			
Balance at 1 January	**5,343**	5,332	5,245
Share-based payments	**-**	10	145
Conversion of preference shares to ordinary shares	**-**	1	-
Dividends paid in shares	**-**	-	(58)
Share premium increase	**6,600**	-	-
Balance at 31 December	**11,943**	5,343	5,332
Treasury shares[31]			
Balance at 1 January	**-**	(2,640)	(1,829)
Share buy back	**-**	-	(1,847)
Utilised for dividends paid in shares	**-**	-	412
Utilised for exercise of options and performance share plans	**-**	-	624
Sale of treasury shares	**-**	3,708	-
Gain on sale of treasury shares	**-**	(1,068)	-
Balance at 31 December	**-**	-	(2,640)
Other reserves including retained earnings			
Balance at 1 January	**11,096**	25,650	18,599
Profit/(loss) attributable to shareholders of the parent company	**(4,399)**	3,580	9,848
Dividends paid to shareholders of the parent company	**-**	(19,213)	(1,540)
Dividends paid in shares to shareholders of the parent company	**-**	-	(586)
Gain on sale of treasury shares	**-**	1,068	-
Settlement of share option and awards in cash [44]	**-**	-	(743)
Other changes	**-**	11	72
Balance at 31 December	**6,697**	11,096	25,650
Net gains/(losses) not recognised in the income statement			
Currency translation account			
Balance at 1 January	**517**	597	408
Comprehensive gain/(loss) for the period [12]	**(218)**	(80)	189
Balance at 31 December	**299**	517	597
Net unrealised gains/(losses) on available-for-sale assets			
Balance at 1 January	**(865)**	(543)	364
Comprehensive gain/(loss) for the period [12]	**25**	(322)	(907)
Balance at 31 December	**(840)**	(865)	(543)
Cash flow hedging reserve			
Balance at 1 January	**(866)**	94	(275)
Comprehensive gain/(loss) for the period [12]	**(205)**	(960)	369
Balance at 31 December	**(1,071)**	(866)	94
Total comprehensive income/(expense) for the period	**(1,612)**	(1,214)	148
Equity attributable to shareholders of the parent company at 31 December	**18,880**	17,077	29,575

Numbers stated against items refer to the notes to the consolidated financial statements.

Notes to the company financial statements

(all amounts are in millions of euros)

a. Loans and receivables – banks / Due to banks

This item includes loans and deposits to and interbank relations with ABN AMRO companies. The maturity of these loans and receivables is less than one year. Conversion of the entire balance into 'Participating interests in group companies' took place in February 2010.

b. Participating interests in group companies

(in millions of euros)	**2009**	2008
Balance at 1 January	**17,130**	31,301
Net profit for the year	**(4,514)**	(6,101)
Dividends received	**-**	(1,044)
Demerger of Banco Real and other	**97**	(5,674)
Special component of equity	**(180)**	(1,283)
Currency translation differences	**(218)**	(80)
Other movements	**5**	11
Balance at 31 December	**12,320**	17,130

ABN AMRO Holding did not receive any dividends from ABN AMRO Bank N.V. (renamed RBS N.V. on 6 February 2010) in 2009 (2008: EUR 1,044 million).

c. Other liabilities

This item includes amongst others tax payable.

d. Shareholders' equity

Shareholders' equity

(in millions of euros)	**2009**	2008
Share capital	**1,852**	1,852
Reserves	**17,028**	15,225
Total	**18,880**	17,077

Share capital

	2009	2008
Movements in number of ordinary shares		
Balance 1 January	**3,306,843,332**	1,936,847,516
Conversion of preference shares to ordinary shares	**-**	1,369,995,816
Balance at 31 December	**3,306,843,332**	3,306,843,332
Movements in number of treasury shares		
At 1 January	**-**	92,719,820
Sale to RFS Holdings B.V.	**-**	(92,719,820)
Balance at 31 December	**-**	-

Reserves

(in millions of euros)	**2009**	2008
Share premium account	**11,943**	5,343
Non-distributable reserve shares	**11**	11
Non-distributable profit participations	**550**	550
Currency translation differences	**299**	517
Cash flow hedge reserve	**(1,071)**	(866)
Available–for-sale assets reserve	**(840)**	(865)
Other reserves	**6,136**	10,535
Total reserves	**17,028**	15,225

The share premium account is mainly regarded as paid-up capital for tax purposes. EUR 1,482 million (2008: EUR 2,232 million) is not distributable out of total reserves.

Guarantees

ABN AMRO Holding N.V. guarantees all liabilities of The Royal Bank of Scotland N.V. and ABN AMRO Bank N.V. At legal separation the guarantee for ABN AMRO Bank N.V. will be revoked and any remaining liabilties demerged.

Amsterdam, 26 March 2010

Supervisory Board	**Managing Board**
Arthur Martinez	Gerrit Zalm
André Olijslager	Ron Teerlink
Trude Maas-de Brouwer	David Cole
Gert-Jan Kramer	Johan van Hall
Ana Maria Llopis Rivas	Chris Vogelzang
Juan Rodriguez Inciarte	Donald Workman
Michael Enthoven	Javier Maldonado
Miller McLean	Jeroen Kremers
	Brian Stevenson

SEC Form 20-F Cross Reference

SEC Form 20-F cross reference and other information.
New disclosure for the combined report AR-20-F.

Section 7 Other Information

SECTION 7 OTHER INFORMATION

Management's report on internal control over financial reporting under the Dutch Code

Under Best practice provision II.1.5 of the Dutch Corporate Governance Code, the ABN AMRO Managing Board is requested to substantiate the operation of the internal risk management and control system during the year under review, and to state its adequacy and effectiveness.

ABN AMRO's internal risk management and control system is a process, effected by the Managing Board, management, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; and (iii) compliance with laws and regulations. It has been adjusted and improved during the year under review, to reflect changes resulting from transition of the ABN AMRO businesses.

Different sections of this Annual Report, including Section 4: 'Risk and the Capital Management', elaborate on ABN AMRO's identified risks, such as credit risk, funding liquidity risk, market risk, financial reporting risk, operational risk, compliance and regulatory risk, legal risk, financial reporting risk, and other risks.

Due to its inherent limitations, ABN AMRO's internal risk management and control system does not provide certainty on either the realisation of operational and financial business objectives, or that these systems can at all times prevent misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

ABN AMRO's assessment of the internal risk management and control system is based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The evaluation of the adequacy and effectiveness of the internal risk management and control system including changes and improvements of it during the year have been discussed with the Supervisory Board and its Audit Committee.

Based on the assessment of the adequacy and effectiveness of the internal risk management and control system, the Managing Board believes that best practice provision II.1.5 of the Dutch Corporate Governance Code is fulfilled.

Managing Board

Amsterdam, 26 March 2010

Management's report on the Annual Report

The Managing Board certifies that, to the best of their knowledge:

(i) the financial statements give a true and fair view, in all material respects, of the assets, liabilities, financial position and profit and loss of ABN AMRO Holding N.V. and its consolidated entities;

(ii) the annual report gives a true and fair view, in all material respects, of ABN AMRO Holding N.V. and its related entities as per 31 December 2009 and their state of affairs during 2009; and

(iii) the annual report describes the material risks that ABN AMRO Holding N.V. is facing.

Managing Board

Amsterdam, 26 March 2010

Management's report on internal control over financial reporting under section 404 of the Sarbanes-Oxley Act

Under Section 404 of The Sarbanes-Oxley Act of 2002, ABN AMRO is required to assess the effectiveness of its internal control over financial reporting as of 31 December 2009 and report, based on that assessment, whether ABN AMRO's internal controls over financial reporting are effective.

The management is responsible for establishing and maintaining adequate internal control over financial reporting for ABN AMRO as defined in Rule 13(a) - 15(f) under the Securities Exchange Act of 1934, as amended.

ABN AMRO's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. For ABN AMRO, generally accepted accounting principles refers to International Financial Reporting Standards as adopted by the EU and IFRS as issued by the IASB.

Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of ABN AMRO and its consolidated entities; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ABN AMRO are being made only in accordance with authorisations of management and directors of ABN AMRO; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of ABN AMRO's assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ABN AMRO's management assessed the effectiveness of internal controls over financial reporting as of 31 December 2009. In making this assessment, ABN AMRO used the criteria established by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. ABN AMRO's assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. The management of ABN AMRO reviewed the results of its assessment with the Supervisory Board and its Audit Committee.

The continuing transition of ABN AMRO to its new Consortium Members may have an impact on the control environment in 2010. This is incorporated and monitored as part of the transition management.

Based on this assessment, management concluded that, as of 31 December 2009, ABN AMRO's internal control over financial reporting was effective. The effectiveness of ABN AMRO's internal control over financial reporting as of 31 December 2009 has been audited by Deloitte Accountants B.V., an independent registered public accounting firm, as stated in their report appearing on page 196.

Gerrit Zalm
Chairman of the Managing Board

David Cole
Chief Financial Officer

Amsterdam, 26 March 2010

To the Shareholders, Supervisory Board and Managing Board of ABN AMRO Holding N.V.

Auditors' report

Report on the financial statements
We have audited the accompanying financial statements 2009 of ABN AMRO Holding N.V., Amsterdam. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2009, the company income statement for the year then ended and the notes to the company financial statements.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the information as defined in 2:391 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of ABN AMRO Holding N.V. as at 31 December 2009, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of ABN AMRO Holding N.V. as at 31 December 2009 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the information as defined in 2:391 of the Netherlands Civil Code as included in the Annual Report 2009 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.
Signed by J.G.C.M. Buné
Amsterdam, 26 March 2010

Stipulations of the Articles of Association with respect to profit appropriation

The Articles of Association of ABN AMRO Holding N.V. were last amended by a deed of amendment dated 24 November 2008.

Profit is appropriated in accordance with article 37 of the articles of association. The main stipulations with respect to shares currently in issue are as follows:

The Managing Board may decide to make appropriations to reserves, subject to the approval of the Supervisory Board (article 37.2.a.).

The allocation of the amount remaining after these appropriations shall be determined by the General Meeting of Shareholders. The Managing Board, subject to the approval of the Supervisory Board, shall make a proposal to that effect. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders (article 37.2.a.).

ABN AMRO Holding N.V.'s policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Managing Board. The adoption of and each subsequent amendment to the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item (article 37.2.b.).

Subject to approval of the Supervisory Board, the Managing Board may make the dividend or interim dividend on the shares payable, at the discretion of the holders, either in cash or, provided it is authorised to issue shares, partly or wholly in shares in the Company's capital or in a combination thereof, such combination to be determined by the Managing Board (article 37.3.).

Subject to the approval of the Supervisory Board, the Managing Board shall be authorised, in so far as such is permitted by the profit as evidenced by an interim balance sheet drawn up with due observance of the provisions of Section 105, Subsection 4 of Book 2 of the Netherlands Civil Code, to make payable an interim dividend on the shares once or more frequently in the course of any financial year and prior to the approval of the Annual Accounts by the General Meeting of Shareholders (article 37.4.).

Subject to the approval of the Supervisory Board, the Managing Board may decide on a distribution charged against reserves in cash or, if the Board is authorised to issue shares, in the form of shares (article 37.5.).

Proposed profit appropriation

Appropriation of net profit pursuant to article 37.2 and 37.3 of the articles of association:

(in millions of euros)	**2009**	2008
(Release from) / addition to reserves	**(4,399)**	(15,633)
Dividends on ordinary shares	**-**	19,213
	(4,399)	3,580
Dividends on preference shares	**-**	-

Stipulations of the Articles of Association of Holding with respect to shares and voting rights

Each ordinary share of EUR 0.56 face value in the capital of ABN AMRO Holding N.V. entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast.

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of the company or of a group company.

In the event of the dissolution and liquidation of ABN AMRO Holding N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

APPENDIX 5 — RISK AND CAPITAL MANAGEMENT

The information in this Appendix 5 has been extracted from the annual report of RBS Holdings for the year ended 31 December 2009. References to page numbers on the following pages are to pages of such report.

In this Appendix 5, references to "**ABN AMRO Holding**" shall mean RBS Holdings N.V. (formerly known as "ABN AMRO Holding N.V.") and references to "**ABN AMRO**", and "**RBS Group**" shall mean RBS Holdings and its consolidated subsidiaries (as appropriate prior to or after legal separation). "**RBS N.V.**" shall mean The Royal Bank of Scotland N.V. (formerly known as ABN AMRO Bank N.V., and its consolidated subsidiaries.

Section 4 Risk and Capital Management

SECTION 4 RISK AND CAPITAL MANAGEMENT

This risk and capital management section sets out the regulatory environment faced by ABN AMRO worldwide, explains how ABN AMRO manages risk and describes some of the risk factors affecting ABN AMRO which should be considered before making investment decisions.

Regulation and Supervision

Regulation and supervision in the Netherlands

General
ABN AMRO and its subsidiaries are regulated in the Netherlands by the Dutch Central Bank ('DNB') and the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten referred to as 'AFM').

ABN AMRO's regulatory system in the Netherlands is a comprehensive system based on the provisions of the Financial Supervision Act which came into effect on 1 January 2007. The Financial Supervision Act has replaced, amongst others, the Act on the Supervision of the Credit System 1992 without affecting the existing supervisory system.

The Financial Supervision Act sets out rules regarding prudential supervision (by the DNB) and supervision of conduct (by the AFM). Prudential supervision focuses on the solidity of financial undertakings and contributes to the stability of the financial sector. Supervision of conduct focuses on orderly and transparent financial market processes, clear relations between market participants and due care in the treatment of clients (including supervision of the securities and investment businesses).

ABN AMRO is a 'universal bank' under the terms of the Financial Supervision Act because it is engaged in the banking business as well as the securities business. Some of the provisions of the Financial Supervision Act may restrict a bank's ability to make capital contributions or loans to subsidiaries and to make distributions.

Prudential Supervision
Prudential supervision of credit institutions in the Netherlands is performed by the DNB under the Financial Supervision Act. No enterprise or institution established in the Netherlands may pursue the business of a credit institution unless it has obtained prior authorisation from the DNB. Its supervisory activities under the Financial Supervision Act focus on supervision of solvency, liquidity and administrative organisation, including risk management and internal control. If, in the opinion of the DNB, a credit institution fails to comply with the rules and regulations regarding the above mentioned subjects, the DNB will notify the credit institution and may instruct the credit institution to behave in a certain manner. If the credit institution does not respond to any such instructions to the satisfaction of the DNB, the DNB is allowed to exercise additional supervisory measures that may include the imposition of fines.

Prudential supervison also oversees calculation of significant intra-group agreements, adjusted solvency, calculation of capital adequacy and significant risk concentrations. It also determines the models used by the financial undertakings to report the calculations to the DNB. Finally, the regulation lays down reporting rules, for example reporting deadlines and reporting frequency.

Conduct of business supervision
The body responsible for carrying out this supervision in the Netherlands is the AFM.

Conduct-of-business supervision focuses on ensuring orderly and transparent financial market processes, proper relationships between market participants and the exercise of due care by financial undertakings in dealing with clients.

The Financial Supervision Act provides that each supervised credit institution must submit periodic reports to the DNB. In accordance with this requirement ABN AMRO files quarterly and monthly reports with the DNB. At least one submission for each given year must be certified by an external auditor. The report to be certified is selected by an external auditor at his or her discretion.

On 1 July 2008 a decree pursuant to the Financial Supervision Act was extended to incorporate the requirements for eligibility of covered bonds. Dutch issuers of covered bonds now have the facility to register their programs with the DNB. The new legislation is designed to protect the interest of covered bondholders through special supervision by the DNB of the recognised covered bond programs. An issuer must comply with several conditions when submitting a program for recognition and demonstrate compliance to these conditions through the provision of specific documentation and information. Once a program is registered, the issuer will have ongoing administration and reporting obligations to adhere to.

As at 14 August 2009 the Covered Bond programme of the new ABN AMRO Bank N.V became eligible under the new legislation and the outstanding covered bonds have been registered with the DNB.

Solvency supervision

Capital adequacy framework (Basel)

In 2004, the Basel Committee on Banking Supervision endorsed the publication of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework', commonly referred to as Basel II. The Capital Requirements Directive, representing the translation of Basel II to EU legislation and replacing the Capital Adequacy Directive, was approved by the European Parliament in 2005. This acceptance by the European Parliament cleared the way in Europe for the implementation of the Capital Requirements Directive, with a published compliance date of 1 January 2008.

The implementation process of Basel II into Dutch legislation (Financial Supervision Act) and regulation was completed in December 2006 when the DNB published its supervisory rules. The compliance date in the European Union was 1 January 2008.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital: the Standardised Approach, the Internal Ratings Based Foundation Approach, and the Internal Ratings Based Advanced Approach. Basel II also introduces capital requirements for operational risk for the first time. Basel II is structured around the three following 'pillars'.

Pillar 1 sets out minimum regulatory capital requirements, that is, the minimum amount of capital banks must hold against credit, operational and market risks.

Pillar 2 sets out the key principles for supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices. Pillar 2 requires that the institutions conduct an internal capital adequacy assessment process.

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

ABN AMRO's transitional agreement and current compliance with the Basel II capital adequacy framework

ABN AMRO is fully owned by RFS Holdings which is controlled by the RBS Group, incorporated in the United Kingdom. Consequently, ABN AMRO is under the supervision of the United Kingdom Financial Services Authority (FSA) as its home regulator, and the DNB as its host regulator, for Basel II compliance. For all other matters the DNB remains the home regulator.

ABN AMRO, subsequent to its acquisition by RFS Holdings in October 2007, received approval for a transitional period from its host, as well as its home regulator, for compliance to Basel II capital rules. ABN AMRO has agreed with the DNB and the FSA to continue to report figures on the basis of Basel I until legal separation. In accordance with this, revised minimum requirements have been set for the Tier 1 and total capital ratios, including the requirement to treat capital deductions in the same manner as required under Basel II. The minimum Tier 1 ratio required is 9% and the minimum total capital ratio is 12.5%. The stand alone banks have agreed plans with the DNB concerning Basel II compliance.

The solvency rules for Basel I require that ABN AMRO maintain a minimum level of total capital to support the risk-weighted total value of balance sheet assets and off-balance sheet items. These off–balance sheet items include guarantees, documentary credits, the credit equivalent of interest and currency-related contracts, unused portions of committed credit facilities with an original maturity of over one year, note issuance facilities and revolving underwriting facilities, as well as the market risk for financial instruments in the trading book. This minimum level of total capital is called the Capital Adequacy Ratio. The risk-weighting considers the debtor's risk, which depends on the debtor's classification, whether or not security is provided, and the country of origin of the debtor.

For ABN AMRO, total capital consists of core capital (Tier 1 capital) and secondary capital (upper and lower Tier 2 capital). ABN AMRO is also permitted to maintain an additional form of regulatory capital, Tier 3 capital, to support the market risk of financial instruments in ABN AMRO's trading book and foreign exchange risk of all business activities. The amount of lower Tier 2 capital may not exceed 50% of the amount of Tier 1 capital, and the amount of Tier 2 capital included in total capital may not exceed the amount of Tier 1 capital. In addition, Tier 3 capital may not exceed 250% of the amount of Tier 1 capital that is necessary to support market and foreign exchange risk and the sum of Tier 2 and Tier 3 capital may not exceed Tier 1 capital. Goodwill and interests of more than 10% in non-consolidated banking and financial subsidiaries are deducted from Tier 1 capital and total capital.

Exposure supervision

The DNB has issued specific rules with respect to large exposures to a single borrower or group of interconnected borrowers, or in relation to certain other businesses that involve a concentration of risk. Large exposures generally include all assets and off-balance sheet items of a credit institution with respect to a single borrower or group of interconnected borrowers which exceed 10% of a credit institution's total capital. Large exposures must be reported once every quarter to the DNB. There is a limit of 25% of total capital for a single large exposure as part of the banking book. Trading book positions may exceed this limit subject to additional solvency requirements. The aggregate amount of all large exposures of a credit institution may not exceed 800% of its total capital.

Liquidity supervision

Banks are required to report on a consolidated level on their liquidity position to the DNB monthly, on the basis of the liquidity supervision directive. The liquidity directive seeks to ensure that banks are in a position to cope with an acute short term liquidity shortage under the assumption that banks would remain solvent. In principle, the DNB liquidity directive covers all direct domestic and foreign establishments (subsidiaries/branches), including majority participations. The regulatory report also takes into consideration the liquidity effects of derivatives and the potential drawings under committed facilities.

The directive places emphasis on the short term in testing the liquidity position over a period of up to one month with a separate test of the liquidity position in the first week. For observation purposes, several additional maturity bands are included in the liquidity report (one to three months, three to six months, six months to one year and beyond one year).

Available liquidity must always exceed required liquidity. Available liquidity and required liquidity are calculated by applying weighting factors to the relevant on- and off-balance sheet items, i.e. irrevocable commitments. The liquidity test includes all currencies. Compliance reports concerning liquidity requirements of foreign subsidiaries are submitted to the appropriate foreign regulatory authorities as required. At a consolidated level, and in every country in which ABN AMRO operates, ABN AMRO adheres to the liquidity standards imposed by the applicable regulatory authorities.

As a result of the current turbulent times the DNB has required more frequent liquidity information from the banks with a shorter maturity bands. These reports are submitted on a weekly basis.

Structural supervision

Pursuant to the Financial Supervision Act, banks are prohibited to hold, acquire or increase a qualifying holding or exercise any control relating to a qualifying holding in a bank in the Netherlands, except if it has obtained a Declaration of No Objection ('DNO') from the DNB (or in certain specified cases from the Dutch Minister of Finance). Qualifying holding means a participation of at least 10% in the issued share capital of the related voting rights or similar influence. The DNO would be issued unless the qualifying holding in the bank concerned would lead to an influence which might jeopardise sound and prudent operations or the qualifying holding could or would lead to an undesirable development of the financial sector.

The DNB or the Dutch Minister of Finance can, on request, grant so-called bandwidths, umbrella and group-DNOs in respect of qualifying holdings. A DNO is not required in case of a qualifying holding by a bank in a company whose assets consist of more than 90% liquid assets.

According to Dutch regulation a DNO will not be issued regarding qualifying holding by a bank in a non-financial institution if the value of the equity participation would exceed 15% of a bank's regulatory capital and if the participation would cause the value of the bank's aggregate qualifying holdings in non-financial institutions to exceed 60% of its regulatory capital. Certain types of participations will be approved in principle, although in certain circumstances a DNO will have a limited period of validity, such as in the case of a debt rescheduling or rescue operation or when the participation is acquired and held as part of an issue underwriting operation. Generally the approval will be given where the value of the non-financial institution concerned or the value of the participation does not exceed certain threshold amounts.

Supervision of the securities and investment businesses

ABN AMRO is also subject to supervision of its activities in the securities business. The Financial Supervision Act, which has replaced the Act on the Supervision of the Securities Trade 1995 together with the decrees and regulations promulgated thereunder, provides a comprehensive framework for the conduct of securities trading in or from the Netherlands. The AFM is charged by the Dutch Minister of Finance with supervision of the securities industry.

Regulation and supervision in the European Union

The Financial Services Action Plan 1999-2005 has laid the foundation for a single financial market in the EU and has brought about many changes (both directive and regulations) aimed at increasing integration and harmonisation in the European market for financial services. The financial services sector includes three major areas for which European regulatory policies apply: banking, capital markets, and asset management.

The Consolidated Banking Directive of the European Parliament and of the European Council of 20 March 2000 lays down rules concerning the taking up and pursuit of the business of credit institutions and their prudential supervision. Under this Directive, a bank can offer banking on the basis of a single banking licence ('European passport') through the establishment of a branch or cross-border provision of services in all the EU countries.

A new capital requirements framework that updates the Consolidated Banking Directive was adopted in June 2006 as the Capital Requirements Directive. The Capital Requirements Directive is the legal instrument pursuant to which the Basel II framework has been implemented in EU law. The Capital Requirements Directive lays down the capital adequacy requirements applying to investment firms and credit institutions. Refer to Solvency supervision section for more information.

In October 2008, the Commission adopted proposals to amend the Capital Requirements Directive in light of the financial crisis. Proposals address items such as large exposures, supervisory arrangements and crisis management and securitisation. In another action taken in response to the crisis, in October 2008, the Commission adopted a proposal for amendments to the Deposit Guarantee Schemes Directive. In December 2008, the European Parliament adopted in first reading, (i) an increased minimum cover level from EUR 20,000 to EUR 50,000 with a further increase to EUR 100,000 by 31 December 2010 and (ii) a reduction in the payout time. In the Netherlands, the maximum cover was already increased earlier to an amount of EUR 100,000 as a result of the financial crisis. Also refer to the Solvency supervision section for more information.

In the area of securities legislation, the Market Abuse Directive prohibits market manipulation and insider dealing in all securities admitted to trading on an EU regulated market. This Directive was reviewed in 2009. The Prospectus Directive that regulates the process and the disclosure requirements for public offerings in and admissions to trading on an EU regulated market of securities, and allows European public offerings with one single prospectus, has also been reviewed last year. The Transparency Directive harmonises the transparency requirements for information about issuers whose securities are admitted to trading on an EU regulated market. This Directive was implemented in the Netherlands as of 1 January 2009.

The other important piece of legislation in this area is the Markets in Financial Instruments Directive, which came into force in various EU countries on 1 November 2007. It regulates amongst others the cross-border provision of investment services and regulated markets and replaces the 1993 Investment Services Directive which established the single passport for investment firms. The Markets in Financial Instruments Directive provides a harmonised regime for investment services and aims at increasing competition and reinforcing investor protection. The Directive provides a passport for investment firms, enabling them to conduct cross-border activities and establish branches throughout Europe on the basis of authorisation from their home country regulator. It streamlines supervision on the basis of home country control and enhances the transparency of markets. It harmonises conduct of business rules, including best execution, conflicts of interests and client order handling rules. The Directive abolishes the concentration rule, and thus leads towards a more competitive regime between order execution venues. It also imposes market transparency rules for investment firms, regulated markets and multilateral trading systems for both pre- and post-trading for equities.

For post-trading, the European Commission has directed the industry to agree on a Code of Conduct for Clearing and Settlement, which was signed by the stock exchanges in November 2006. The Code aims at enhancing price transparency and increasing competition across the EU post-trading market. In April 2008, the Commission adopted a proposal to amend the Financial Collateral Arrangements Directive and the Settlement Finality Directive. The proposal strengthens the protection of settlement systems and financial collateral arrangements and enables them to adapt to the new market conditions created by the Markets in Financial Instruments Directive and the Code of Conduct for Clearing and Settlement.

Likewise, political initiatives in the area of retail financial services and payment services have been launched. In April 2008, the EU institutions adopted a Directive on Consumer Credit. The Directive covers personal loans of between EUR 200 and 75,000 repayable after more than one month. The Directive introduces consumer protection provisions and at the same time aims at the creation of a single market for consumer credit in the EU. The most significant changes are with respect to (i) the provision of standardised pre-contractual and contractual information; (ii) the right of withdrawal; (iii) early repayment, and (iv) the standardisation of methods for calculating the annual percentage rate of charges. Mortgages and deferred debit cards are explicitly excluded from the Directive's scope. The Directive came into force on 11 June 2008 and EU Member States will have two years to incorporate the new rules into their national legislation. In respect of mortgage credit, the European Commission adopted a White Paper on the Integration of EU Mortgage Markets. The White Paper presents measures to improve the efficiency and the competitiveness of these markets. The Commission is consulting with stakeholders on the best approach to deliver the necessary added value.

In November 2008, the European Banking Industry Committee, a committee of the European Commission, adopted the industry's voluntary code of conduct for switching accounts within the same country, the Bank Account Switching Common Principles. On 1 November 2009 these Principles were agreed upon by the European banking sector associations and came into force throughout the European Union.

In October 2007, the EU institutions formally adopted the Payment Services Directive. This Directive will open up the payment services to competition from new licensed payments institutions and increase consumer protection by introducing information requirements and uniform operational rules for payment service providers. This Directive, applicable in the EU to all payments in Euro and other Member States currencies, lays the basis for the creation of a Single Market in payments and constitutes the legal framework for the Single Euro Payments Area. The Payment Services Directive was implemented in the Financial Supervision Act on 1 November 2009. On 28 January 2008, the SEPA Credit Transfer Scheme went live, thus completing the first phase of the Single Euro Payments Area which is scheduled to be fully operative by 2010. In October 2008, the Commission adopted a proposal for a new regulation replacing Regulation 2560/2001 on cross-border payments in Euro. The proposal aims at extending the principle of equality of charges to direct debits, enhancing consumer protection and reducing the burden of statistical reporting.

In October 2008, the Commission proposed a new e-money Directive to facilitate take-up in the e-money market. The proposal was adopted by the European Parliament and has been published in the Official Journal of the European Union as of 10 October 2009.

In the area of asset management, the EU has enacted legislation on pension and investment products. On investment funds, there are two Undertakings for Collective Investment in Transferable Securities Directives ('UCITS'), the first regulating the product (e.g. types of assets in which to invest) and the second one giving management companies a 'European passport' to operate throughout the EU. The Commission initiated a review of the UCITS framework with the aim of increasing the efficiency of the European investment fund industry. The Committee of European Securities Regulators ('CESR') has drawn up a technical advice to the European Commission on level 2 measures relating to mergers of UCITS, master-feeder UCITS structures and cross-border notification of UCITS. In the field of supplementary pensions, a Directive has liberalised the market for supplementary pension schemes by allowing pension providers to operate on an EU-wide basis and establishing 'prudent person principles' for asset allocation.

The third Anti-Money Laundering Directive, adopted in November 2005, was required to be implemented into national law of Members States by December 2007. The aim of the Directive is to transpose the Financial Action Task Force's forty recommendations. It follows a risk-based approach under which all measures aimed at preventing money laundering must be applied on a proportionate basis, depending on the type of customer, business and other considerations. On 1 August 2008 the Act on Anti-Money Laundering and against Financing of Terrorism came into force.

On 1 January 2007, the Regulation which transposes the Financial Action Task Force Special Recommendation VII (SR VII) on 'wire transfers' into EU legislation came into force. It lays down rules on information on the payer accompanying transfers of funds, in order to allow basic information to be immediately available to the authorities responsible for combating money laundering and terrorist financing.

On 12 November 2008, the European Commission published a Draft Regulation on credit rating agencies. The amended version of this Regulation was approved on 23 April 2009 by the European Parliament and the Final Regulation has been approved on 16 September 2009.

Regulation and supervision in the United States

ABN AMRO's operations in the United States are subject to extensive regulation and supervision by both federal and state banking authorities. ABN AMRO is a bank holding company within the meaning of the US Bank Holding Company Act of 1956, which restricts its non-banking activities in the United States, however, ABN AMRO elected to become a financial holding company on 11 March 2000, and as such is permitted to engage in an expanded range of non-banking activities subject to applicable laws and regulations.

Reform proposals and pending legislation in the United States could result in ABN AMRO becoming subject to heightened regulatory requirements, including stricter capital requirements and leverage limits and activities restrictions.

Regulation and supervision in the rest of the world

Our operations elsewhere in the world are subject to regulation and control by local supervisory authorities, and our offices, branches and subsidiaries in such jurisdictions are subject to certain reserve, reporting and control and other requirements imposed by the relevant central banks and regulatory authorities.

Risk Management

Risk management and capital adequacy

ABN AMRO has implemented a combination of advanced and standardised approaches for Credit, Market and Operational risks as allowed under the regulatory framework and is using this in the management of its business. With regards to market risk, ABN AMRO uses an internal Value at Risk (‘VaR’) model for calculating capital requirements for the majority of the trading book market risks. Refer to the ABN AMRO Risk Framework and Governance section of this report for further discussion of these risks.

Capital adequacy and risk management are closely aligned. ABN AMRO undertakes a regular assessment of its internal capital requirement based on a quantification of the material risks to which it is exposed. This assessment includes the use of stress tests to assess whether ABN AMRO's capital resources are adequate to remain above minimum requirements during specified scenarios. The results of this internal capital assessment are reviewed by the Policy Group Risk Committee (‘Policy GRC’) and the Group Asset and Liability Committee (‘Group ALCO’) and are used to ensure the adequacy of ABN AMRO's available capital resources, based on target and minimum capital requirements as set in the risk appetite framework. This framework is detailed further under the ABN AMRO Risk Framework and Governance section below.

The main risks facing ABN AMRO are:

- Credit risk: the risk arising from the possibility that ABN AMRO will incur losses from the failure of customers to meet their obligations.
- Funding and liquidity risk: the risk to earnings and capital arising from ABN AMRO’s potential inability to meet its obligations as they fall due.
- Market risk: the risk ABN AMRO is exposed to because of positions held in its trading portfolios and its non-trading businesses. Market risk encompasses equity, currency, interest rate, commodity and market liquidity risks.
- Operational risk: the risk arising from ABN AMRO's people, processes, systems, physical assets and external events.
- Compliance and regulatory risk: the risk of legal or regulatory sanctions, material financial loss, or reputational harm ABN AMRO may suffer as a result of its failure to comply with relevant laws, regulation, principles and rules, standards and codes of conduct applicable to its activities in letter and spirit.
- Legal risk: the risk from failure to comply with statutory or regulatory obligations and from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, law or regulations.
- Financial reporting risk: the risk of a lack of fair presentation and as a result of material misstatements in one or more of the financial statement amounts or disclosures.
- Reputational risk: the risk of potential losses arising from negative public opinion.
- Business risk: the risk that operating income is lower than expected because of lower than expected revenues or higher than expected costs.

The Capital Management process is governed by the Group ALCO. The Group Asset and Liability Management (‘ALM’) function is responsible for the development and maintenance of ABN AMRO’s ALM policies and prepares a monthly capital outlook for ABN AMRO and its separate parts. This comprises the hedging of capital invested in countries, managing capital ratios and the total capital requirement, and assessing new capital and debt issuance needs.

To ensure a smooth separation, management has adjusted the Group ALCO governance framework, aligning it with the creation of two new banks. It includes the allocation of appropriate capital and setting of liquidity and interest rate limits for each separate bank as part of the total capital and liquidity requirements.

Capital resources and minimum capital requirement information

ABN AMRO is fully consolidated for regulatory reporting within the RBS Group. Pillar 3 information for ABN AMRO is included within the RBS Group Pillar 3 disclosures. Detailed Pillar 3 reports which include ABN AMRO are available at www.rbs.com.

The table below summarises the capital position of the ABN AMRO Holding, complying with Pillar 3 disclosures for a significant subsidiary of an EU parent.

Regulatory capital resources as at 31 December

(in millions of euros)	**2009**	2008
Tier 1 Capital Resources		
Permanent share capital	1,852	1,852
Profit and loss account and other reserves	6,116	10,854
Share premium account	11,943	5,343
Intangible assets	(103)	(309)
Non-controlling interests	37	38
Core Tier 1 Capital	**19,845**	17,778
Perpetual non-cumulative preference shares	5,014	3,318
Other Tier 1 Capital	**5,014**	3,318
Excess limits for non innovative Tier 1 instruments	-	-
Excess limits for innovative Tier 1 instruments	-	-
Net losses on equities held in available-for-sale financial asset category	-	-
Material holdings	-	-
50:50 Tier 1 deductions	(1,485)	(1,943)
Total Tier 1 capital after deductions	**23,374**	19,153
Tier 2 Capital Resources		
Tier 2 capital instruments	8,060	7,924
50:50 Tier 2 deductions	(1,485)	(1,943)
Other Tier 2 deductions	-	-
Total Tier 2 capital after deductions	**6,575**	5,981
Total Tier 3 Capital	**-**	272
Deductions for Tiers 1 & 2 capital	-	-
Expected loss amounts and other negative amounts	-	-
Total capital resources after deductions	**29,949**	25,406
Total Risk-Weighted Assets	**117,535**	176,028
Tier 1 ratio	19.89%	10.88%
Total Tier ratio	25.48%	14.43%

The tables below set out the minimum capital requirements and associated risk weighted assets for ABN AMRO with separate disclosures for the credit risk, market risk and operational risk requirements. All figures are as at 31 December.

Minimum capital requirements

(in millions of euros)	**2009**	2008
Credit risk	7,554	11,282
Market risk	127	1,045
Operational risk	1,723	1,756
Total	**9,404**	14,083

Risk-weighted assets

(in millions of euros)	**2009**	2008
Credit risk	94,410	141,011
Market risk	1,582	13,069
Operational risk	21,543	21,948
Total	**117,535**	176,028

Credit risk: minimum capital requirements by approach

(in millions of euros)	**2009**	2008
Basel II – Advanced Internal Rating-Based (‘IRB’)	-	-
Basel II – Standardised	-	-
Basel II – using Basel I as a proxy	7,554	11,282
Total	**7,554**	11,282

Credit risk: standardised minimum capital requirements by standardised exposure class

(in millions of euros)	**2009**			2008		
	Exposure value	Risk weighted assets	Minimum required capital	Exposure value	Risk weighted assets	Minimum required capital
Central governments and central banks	88,010	812	65	63,368	2,279	182
Institutions	68,172	8,250	660	129,414	10,815	865
Corporates	209,798	73,826	5,906	276,101	102,839	8,226
Retail	9,438	11,645	932	30,105	12,794	1,023
Secured by real estate property	95,391	14,158	1,133	66,485	22,459	1,797
Other [(1)]	46,745	(14,338)	(1,147)	83,431	(10,598)	(845)
Securitisation positions standardised approach	445	57	5	6,232	422	34
Total	**517,999**	**94,410**	**7,554**	**655,136**	**141,010**	**11,282**

(1) Includes capital relief on securitisation

The above minimum capital requirements are calculated on the basis of the standard minimum requirement of 8%, while ABN AMRO has agreed transitional minimum levels of regulatory capital with the DNB of 9% for tier 1 and 12.5% for total tier capital.

Market risk: trading book and other business minimum capital requirements

(in millions of euros)	**2009**	2008
Total trading book capital requirements	127	1,045
Total trading book notional risk-weighted assets	1,582	13,069

Operational risk: minimum capital requirements calculated as per the basic indicator approach

(in millions of euros)	**2009**	2008
Pillar 1 operational risk minimum capital requirement	1,723	1,756

The Risk Management and Capital Adequacy section also relates to the qualitative public disclosure as required by Basel II Pillar 3 in accordance with the Capital Requirement Directive.

ABN AMRO’s risk framework and governance

ABN AMRO’s risk management framework is based on ‘the principle of three lines of defence’. The first line of defence is the business, which is accountable for the ownership, day-to-day management and control of all risks at an operational level and for implementing processes and testing key controls in compliance with Group policies. The second line of defence is Group Functions, primarily consisting of Group Risk Management, Group Compliance, Group Legal and Group Finance including Group Asset and Liability Management. These functions are responsible for the implementation and maintenance of the operational risk framework, tools and methodologies, and for oversight and challenge on the adequacy of the risk and control processes operating in the business. The third line of defence is Group Audit, which is responsible for independently assessing the adequacy and effectiveness of key controls and ensuring compliance with ABN AMRO policies.

Following its acquisition by RFS Holdings, ABN AMRO is subject to the RBS Group's high level controls and oversight by RBS Group's control functions. Although its risk systems are not yet integrated with those of the RBS Group, data relating to ABN AMRO is presented on a consistent basis as part of RBS Group data. ABN AMRO data is analysed between businesses acquired by RBS Group and those acquired by the Dutch State. A number of RBS Group risk policies and methodologies have been rolled-out in the RBS acquired businesses in 2009.

The main responsibilities of Group Risk Management and the risk management functions of the businesses are to:

- oversee all credit, market and operational risk matters and ensure compliance with local laws;
- implement review and control policies on all risk portfolios;
- at portfolio level manage concentrations by setting limits;
- manage single event / single obligor risk by setting limits;
- set provisions for loan losses within their delegated authority; and
- establish and maintain operational risk control discipline.

A key component of risk management is ensuring that ABN AMRO’s reputation is preserved and enhanced through choosing to engage responsibly in the right business activities with the right clients.

The ALM function is structured outside the risk management function. ALM supports the capital management process which is governed by the Group ALCO. ALM is responsible for the development of ABN AMRO’s policies for interest rate risk, liquidity risk, the hedging of foreign exchange exposures of capital investments abroad, managing capital ratios, and ABN AMRO wide capital requirement.

The compliance function within ABN AMRO performs the independent oversight role, on behalf of the Managing Board, with respect to those core processes, related policies and procedures that seek to ensure ABN AMRO is in conformity with industry specific laws and regulations in letter and spirit.

Group Finance responsibilities include the preparation of the budget, performance reporting and the process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

ABN AMRO uses various models to value financial instruments, and to assess and manage risks. To limit the model risk that is inherent in models, ABN AMRO has the models that are subject to material model risk validated independently from the business which uses these models. Within the governance framework of ABN AMRO, validation activities are performed by RBS Group and the business unit The Netherlands for models used by respectively the RBS acquired businesses and the Dutch State acquired businesses.

ABN AMRO's risk philosophy
ABN AMRO's risk philosophy is about the establishment and execution of bank wide criteria for the acceptance, monitoring, control and management of risk. Its purpose is the creation of value by ensuring:

- Risk Awareness: Risks are identified, understood and measured at all levels in the organisation.
- Defined Risk Appetite: Risk accepted by the institution is within the tolerance level set by the Managing Board in accordance with the Group Strategy, existing capital constraints, sustainable earnings and maintenance of desired credit rating for ABN AMRO.
- Clarity and Transparency: Risk decisions are clear, explicit and consistent with strategic business objectives.
- Risk-Reward Alignment: Risk decisions are based upon the appropriate risk-reward balance.
- Compliance: Decisions that may legally and morally commit ABN AMRO must be in compliance with internal approval procedures and the regulations of the countries ABN AMRO and its subsidiaries operate in.

Risk appetite framework
The risk philosophy of ABN AMRO states that risk is managed within a defined risk appetite. Risk appetite is measured as the maximum level of retained risk ABN AMRO will accept to deliver its business objectives. Risk appetite is generally defined through both quantitative and qualitative techniques including stress testing, risk concentration, Value-at-Risk and risk underwriting criteria, ensuring that appropriate principles, policies and procedures are in place and applied. The responsibility for formulating the underpinning objectives for the risk appetite framework lies with the Managing Board.

The risk appetite framework includes all risks taken by ABN AMRO. The risk limits are set at an ABN AMRO level as well as at the RBS acquired businesses and Dutch State acquired businesses level. These businesses are free to set additional limits as they see fit as long as consistency with the overall framework is maintained. The Managing Board's objectives include a fluent transition process with emphasis on strong control and risk management.

In the following paragraphs a description is given of the risk types and the way ABN AMRO measures and manages these within ABN AMRO.

Credit risk
Credit risk is ABN AMRO's most material risk and is managed in accordance with ABN AMRO's comprehensive risk management framework.

Credit risk and country risk
ABN AMRO defines credit risk as the risk of loss from default by debtors (including bond issuers) or counterparties. This covers actual payment defaults as well as losses in value resulting from a decrease in the credit quality of the counterparty or issuer.

ABN AMRO defines country risk as the risk of loss due to country specific events or circumstances. Country risk can materialise by way of credit, market and operational losses. With respect to credit risk, a specific country risk is that the government imposes transfer and/or convertibility measures that prevent an obligor to repay its foreign currency obligations to ABN AMRO. Hence the risk of non or late payment may be caused by the inability of an obligor (credit risk) or by government measures (transfer and convertibility risk). Given the relationship between credit and country risk the two are managed in an integrated manner.

ABN AMRO manages credit risk at two levels. Firstly at portfolio level to manage concentrations by the following dimensions: geography, industry and product or segment and, secondly at individual level to manage single event and single obligor.

Concentration risk is managed actively during the transition period based on limits, outstandings, average Probability of Default and Expected Loss by relevant country and industry cluster. Any change is discussed in Policy Group Risk Committee. Additionally, notional limits are put in place for cross-border risk and sovereign risk. Notional limits are also set on a number of portfolios as a straightforward and practical way to manage the maximum exposure in these portfolios.

Single event or single obligor limits are individually set. Single obligor risk is managed by setting limits on Loss at Default. Loss at Default is the amount that ABN AMRO expects to lose when a counterparty defaults. The RBS acquired businesses segment measure Loss Given Default amounts, which in concept is similar to the Loss at Default. Authorities for credit decisions involving commercial clients are primarily based on Global One Obligor Exposure. This is the combination of all direct and contingent credit limits to a given relationship globally.

There are lending programmes in place for standard loans granted to consumers and small-sized enterprises. A programme lending approach contains standard risk acceptance criteria and loan processing practices in order to optimise the efficiency and risk and rewards of those portfolios.

Credit risk is managed to achieve sustainable and superior risk and reward performance whilst maintaining exposures within acceptable risk appetite parameters. This is achieved through the combination of governance, policies, systems and controls, underpinned by sound commercial judgement as described below.

- **Policies and risk appetite:** policies provide clarity around the required bank framework for the assessment, approval, monitoring and management of credit risk where risk appetite sets the tolerance of loss. Limits are used to manage concentration risk by single name, sector and country.
- **Decision makers:** credit authority is granted to independent persons or committees with the appropriate experience, seniority and commercial judgement. Credit decisions require the approval of at least one person in a risk management function. Specialist internal credit risk departments independently oversee the credit process and make credit decisions or recommendations to the appropriate credit committee.
- **Models:** credit models are used to measure and assess risk decisions and to aid on-going monitoring. Measures, such as Probability of Default, Exposure at Default, Loss Given Default and Expected Loss are calculated using duly authorised models. All credit models are subject to independent review prior to implementation.
- **Mitigation techniques to reduce the potential for loss:** credit risk may be mitigated by the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, risk participations, credit insurance, set off or netting.
- **Risk systems and data quality:** systems are organised to produce timely, accurate and complete inputs for risk reporting and to administer key credit processes.
- **Analysis and reporting:** portfolio analysis and reporting are used to ensure the identification of emerging concentration risks and adverse movements in credit risk quality.
- **Stress testing:** stress testing forms an integral part of portfolio analysis, providing a measure of potential vulnerability to exceptional but plausible economic and geopolitical events which assists management in the identification of risk not otherwise apparent in more benign circumstances. Stress testing informs risk appetite decisions.
- **Portfolio management:** active management of portfolio concentrations as measured by risk reporting and stress testing, where credit risk may be mitigated through promoting asset sales, buying credit protection or curtailing risk appetite for new transactions.
- **Credit stewardship:** customer transaction monitoring and management is a continuous process, ensuring performance is satisfactory and that documentation, security and valuations are complete and up to date.
- **Problem debt identification:** policies and systems encourage the early identification of problems and the employment of specialised staff focused on collections and problem debt management.
- **Provisioning:** independent assessment using best practice models for collective and latent loss. Professional evaluation is applied to individual cases, to ensure that such losses are comprehensively identified and adequately provided for.
- **Recovery:** maximising the return to ABN AMRO through the recovery process.

Please refer to note 38 in Section 6: 'Financial Statements' for quantitative information on maximum credit exposure and credit risk concentrations from loans and receivables.

Funding and liquidity risk

Complementing the capital adequacy framework, risk appetite is also expressed through the liquidity risk framework employed by ABN AMRO. This framework is used to manage liquidity risk.

ABN AMRO defines liquidity risk as the risk arising from ABN AMRO's potential inability to meet its obligations when they become due, without incurring unacceptable losses. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

ABN AMRO's approach to liquidity is that its business as usual liquidity profile should be sufficient for ABN AMRO to continue for at least 30 days under a very severe firm specific crisis, such as no access to wholesale funding and drawings under committed facilities.

ABN AMRO takes a two-tiered approach to liquidity risk management with additional measures taken due to separation activities. Going concern liquidity management is the management of the day-to-day liquidity position within specified parameters to ensure all liabilities can be met on a timely basis. Event risk liquidity management ensures that in the event of either a firm-specific or general market event, ABN AMRO is able to generate sufficient liquidity to withstand a short term liquidity crisis. Due to the ongoing process of separation additional objectives and restrictions have been added to ensure a smooth transition process.

The objective of the organisation is to keep the overall liquidity texture of the balance sheet at such a level, that ABN AMRO is able to survive and resume its business after a crisis. A variety of tools are used to manage this going concern liquidity management objective. They involve liquidity profile management through setting liquidity ratio limits (stable funding to non-liquid assets). Additional limits in terms of size and liquidity profile are imposed on a number of global markets product types. Trading books are required to limit any liquidity mismatch by limiting the amount of short term funding from money markets to trading desks. Funds transfer pricing and internal transactions are required to be executed at arm's length pricing and fully reflect appropriate costs, including market related liquidity premium. Diversification of funding sources complements the tools to achieve liquidity management objectives.

In response to a firm-specific or general market crisis, event risk liquidity management involves stress testing through quantitative analysis of the liquidity impact of such an event. ABN AMRO keeps a liquidity buffer which mitigates this event risk through the provision of standby liquidity in the form of unencumbered, central bank eligible, collateral. ABN AMRO wide contingency funding plans describe the steps and procedures taken in the event of a crisis. Their effectiveness is tested with periodic dry-runs.

The monitoring and control of liquidity risk on an ongoing basis involves balance sheet ratio analysis and the measurement of cash flow gap and stress positions. By measuring the relationship between the sub-components of the balance sheet at a given point in time this indicates the underlying balance sheet liquidity. Measurement of the cash flow gap quantifies the gap between expected cash inflows and outflows determined within a series of time brackets. The measurement of the stress position involves an analysis of funding sources and funding needs due to a liquidity stress situation.

Liquidity regulatory compliance is detailed in the section 'Regulation and supervision'. For further details regarding liquidity risk measurement and control refer to note 38 in Section 6: 'Financial Statements'.

Market risk in the trading book

ABN AMRO defines market risk as the risk that movements in financial market prices will decrease the value of ABN AMRO's trading portfolios. ABN AMRO is exposed to market risk through ABN AMRO's trading activities.

There are several major sources of market risk including interest rate, foreign exchange, equity price, commodity price, credit spread, volatility risks and correlation risks. Market risk includes market liquidity risk, which is the risk that a firm cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

In any trading activity, market risk arises both from open (unhedged) positions and from imperfect correlation between market positions that are intended to offset one another. The overall objective of managing market risk is to avoid unexpected losses due to changes in market prices and to optimise the use of market risk capital.

ABN AMRO manages market risk primarily through the use of a set of historical and hypothetical scenarios, stressing relevant risk factors and estimating the potential profit and loss under stress, as well as through the calculation of the 99^{th} percentile loss (or Value at Risk) on open positions. ABN AMRO then looks to manage these potential exposures on a daily basis within pre-defined limits for each of the major types of market risk.

This quantitative approach, combined with qualitative analytical approaches, is designed to control ABN AMRO's exposure to movements in the financial markets.

Other control measures used in the market risk management process include limits on net open positions in terms of their sensitivities to changes in interest rate, credit spreads, volatilities and other relevant factors. Alongside these sensitivities, ABN AMRO also monitors position concentrations and position ageing. These non-statistical measures help to monitor and control liquidity risk in trading books.

The Value at Risk ('VaR') is reported on a daily basis per trading portfolio, per product line and for ABN AMRO as a whole. It is reported daily to the senior management of the RBS acquired businesses and Dutch State acquired businesses, Group Risk Management and the responsible members of the Managing Board. Please refer to note 38 in Section 6: 'Financial Statements' for the quantification of Value at Risk per risk category.

VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at a given confidence level. ABN AMRO uses a historical simulation model in computing Value at Risk. The limitations of VaR models include:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.
- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- VaR using a 99% confidence level does not reflect the extent of potential losses beyond that percentile.

This limitation of Value at Risk models means that ABN AMRO must supplement it with other measurements of risk. These include a series of stress scenarios that shed light on the behaviour of ABN AMRO's portfolio and the impact on ABN AMRO's financial results under extreme market movements. Stress scenarios have been developed internally to reflect specific characteristics of ABN AMRO's portfolios and are performed on a daily basis for each trading portfolio and at several aggregation levels. These stress scenarios include stepped movements in one or more risk factors (e.g. parallel shifts in interest rate curves) and multiple factor tests that are based on actual historical.

Market risk in the banking book

The principal market risks arising from ABN AMRO's non-trading activities are interest rate risk, currency risk and equity risk.

ABN AMRO defines interest rate risk as the risk that the interest income of ABN AMRO changes due to a change of interest rates and that the change in value of ABN AMRO's financial assets in the banking book, representing financial assets other than those categorised as trading assets does not match the change in value of ABN AMRO's liabilities due to a changes in interest rates. Interest rate risk arises primarily from the fact that re-pricing period of ABN AMRO's assets typically exceeds the re-pricing period of ABN AMRO's liabilities (an 'interest maturity mismatch').

Treasury activity and mismatches between the re-pricing of assets and liabilities in its retail and commercial banking operations account for most of the non-trading interest rate risk.

Several tools are used to monitor and limit the interest rate risk exposures in ABN AMRO's banking book. The methods used to measure the risk include earnings simulation, duration and the 'Present Value per Basis Point' ladder.

ABN AMRO uses estimation techniques to calculate a set of forward-looking pre-defined interest rate scenarios, such as movements in the yield curve level and shape. In combination with Balance Sheet simulation models ABN AMRO calculates 'Earnings at Risk' and the 'Change in Value of Equity'. These model-based scenario analyses require assumptions about client behaviour. ABN AMRO uses statistical and mathematical models to express this behaviour in ABN AMRO's simulation. ABN AMRO's position is managed to ensure these two metrics are within defined limits under the pre-defined scenarios. Any required corrective action is taken through steering the underlying portfolio.

Non-trading currency risk derives from ABN AMRO's investments in overseas subsidiaries, associates and branches. ABN AMRO's strategic investments are the principal sources of non-trading equity price risk. ABN AMRO does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in foreign subsidiaries and associated undertakings and their related currency funding.

ABN AMRO applies various hedging strategies to manage and minimise any adverse effects from these exposures. ABN AMRO's policy in relation to structural positions is to selectively hedge the structural foreign currency exposure arising from net asset value, including goodwill, in foreign subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of the ABN AMRO's regulatory capital ratios to currency movements. Thus, for the US dollar exposure, ABN AMRO hedges its US dollar capital ratio. The policy requires structural and capital ratio foreign exchange positions to be reviewed regularly by the Group Asset and Liability Management committee. Foreign exchange differences arising on the translation of foreign operations are recognised directly in equity together with the effective portion of foreign exchange differences arising on hedging instruments.

Operational risk
ABN AMRO defines operational risk as the risk of loss resulting from inadequate or failed internal processes and/or systems, human behaviour or from external events. This risk includes operational risk events such as IT problems, shortcomings in the organisational structure, missing or inadequate internal controls, human error, fraud, and external threats.

The guiding principle in operational risk management is that management, at all levels in the organisation, is responsible for directing and managing operational risks. Operational risk management managers are assigned throughout ABN AMRO to assist line management in fulfilling this responsibility.

Line management needs information to enable it to identify and analyse operational risk, implement mitigating measures and determine the effectiveness of these mitigating measures. ABN AMRO has implemented a number of programmes and tools to support line management. These include:

Risk self-assessment: A structured approach that helps line management to identify and assess risks and take mitigating actions for risks which are identified as unacceptable. In the RBS acquired businesses segment a self-certification process is in place to ensure key controls and policies are assessed and self-certified on a quarterly basis.

Internal and external loss data: ABN AMRO registers operational risk loss on a firm-wide basis.

Operational risk assessment process: A comprehensive approval process that includes an explicit assessment of the operational risk associated with change, irrespective whether the change relates to a new business proposal, a change to the organisation, the implementation of a system or some other change. The process includes sign-off by relevant parties and approval by an appropriate committee.

Key risk indicators: An approach used to indicate possible changes in the operational risk profile. Key risk indicators allow for a trend analysis over time and trigger actions if required.

Compliance and regulatory risk
ABN AMRO defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or reputational harm ABN AMRO may suffer as a result of its failure to comply with relevant laws, regulations, principles and rules, standards and codes of conduct applicable to its activities in letter and spirit.

The Group Compliance function concentrates its activities of financial services and its associated rules, regulations, codes of conduct and market standards. These are predominantly "conduct of business" requirements.

Risk based monitoring plans are prepared through a compliance risk assessment methodology. The business obtains compliance advise where required in preparing their activities. Senior management is regularly updated on compliance issues and their follow up.

Legal risk
ABN AMRO defines legal risk as the risk from failure to comply with statutory or regulatory obligations and from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, law or regulations.

The legal function oversees ABN AMRO's legal risks worldwide and acts as a central reporting point for ABN AMRO's teams of in-house lawyers. A global legal mandate helps the business make the most effective use of ABN AMRO's legal resources, specifying the areas requiring the mandatory involvement of the legal function.

Financial reporting risk

Management must provide financial statements that fairly present ABN AMRO's financial position, results of operations and cash flows in accordance with IFRS. ABN AMRO defines financial reporting risk as the risk of a lack of fair presentation and as a result of material misstatements in one or more of the financial statement amounts or disclosures. A material misstatement is defined as an omission or misstatement that could influence the economic decisions of users taken on the basis of the financial statements.

ABN AMRO's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

ABN AMRO's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of ABN AMRO and its consolidated entities.
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of ABN AMRO are being made only in accordance with authorisations of management and directors of ABN AMRO.
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of ABN AMRO's assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ABN AMRO's financial statements comply with sections 404 and 302 of the Sarbanes-Oxley Act and the Act on Financial Supervision in relation to the sign off of the accounts. Please refer to Section 7: 'Other Information' for ABN AMRO's compliance statements.

ABN AMRO's management assesses the effectiveness of ABN AMRO's internal control over financial reporting. In making this assessment, ABN AMRO uses the criteria established by the Committee of Sponsoring Organisations of the Treadway Commission ('COSO') in Enterprise Risk Management - Integrated Framework. ABN AMRO's assessment includes documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. Management of ABN AMRO reviews the results of its assessment with the Supervisory Board and its Audit Committee.

Reputational risk

ABN AMRO defines reputational risk as the risk of potential losses arising from negative public opinion, irrespective of whether this opinion is based on facts or merely public perception. The losses may result from incurring increased funding costs as well as from not generating expected revenues.

ABN AMRO believes that ABN AMRO's pursuit of business sustainability and value creation requires proper conduct of its business activities in accordance with ABN AMRO's Corporate Values and Business Principles and with laws and regulations.

A key component of risk management is ensuring that ABN AMRO's reputation is preserved and enhanced through choosing to engage responsibly in the right business activities with the right clients.

ABN AMRO's client-facing staff has the first-line responsibility for applying sustainability criteria to business selection. ABN AMRO implemented tools to support ABN AMRO's staff to perform this task adequately.

Alongside ABN AMRO's legal and compliance policies, ABN AMRO has several reputational risk policies to identify, assess and manage the non-financial issues present within ABN AMRO's business engagements. These policies and standards are referred to as Environmental, Social and Ethical Risk Management policies, and currently include: Forestry and Tree plantations; Oil & Gas; Mining & Metals; Defense industry; Gambling; Human Rights, Dams, Tobacco and Animal Testing. Each of these policies contains client and transaction acceptance criteria, including appropriate filters. Such filters have been developed to assess whether an engagement could present potential environmental, social or ethical issues and thereby translate into reputational risk.

Business risk

ABN AMRO defines business risk as the risk that operating income is lower than expected because of lower than expected revenues (e.g. lower margins, lower market share, and market downturn) or higher than expected costs, not being caused by one of the other risk types.

Business risk is driven by the volatility of the revenue stream and the extent to which costs are fixed or vary with revenues. Business risk is managed by way of the regular budget and investment decision processes as well as performance management processes.

Risk Factors

Set forth below are certain risk factors that could have a material adverse effect on ABN AMRO's future business, operating results or financial condition. These risk factors and the other information in this document should be carefully considered before making investment decisions. Additional risks not currently known to ABN AMRO or that ABN AMRO now deems immaterial may also harm ABN AMRO and affect your investment.

Conditions in the global financial markets and economy have yet to normalise and may materially adversely affect ABN AMRO's business and profitability
The outlook for the global economy over the near to medium term remains challenging as the global financial system has yet to fully normalise. Results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including political, economic and market conditions; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; the stability and solvency of financial institutions and other companies; investor sentiment and confidence in the financial markets; or a combination of these or other factors. While there are some signs of a recovery in some countries, it appears that 2010 will continue be a year of slow growth, and it is not yet certain whether the recovery underway is stable.

Emergency measures designed to stabilise the European Union and the United States financial markets are beginning to wind down
Since mid-2008, a host of government actions have been implemented in response to the financial crisis and the recession. Some of the programs are beginning to expire and the impact of the wind-down of these programs on the financial sector and on the nascent economic recovery is unknown. As government support schemes are cancelled, changed or withdrawn, there is a possibility that ABN AMRO, in common with other financial institutions, may have insufficient access to, or incur higher costs associated with, funding alternatives, which could have a material adverse effect on ABN AMRO's business, financial condition, results of operations and prospects. In addition, a stall in the economic recovery or continuation or worsening of current financial market conditions could exacerbate these effects.

The financial services industry is subject to extensive regulation, which is undergoing major changes
As a financial services firm, ABN AMRO is subject to financial services laws, regulations, corporate governance requirements, administrative actions and policies in each location in which it operates. In 2009, as many emergency government programs slowed or wound down, global regulatory and legislative focus generally moved to a broader reform and a restructuring of financial institution regulation. Legislators and regulators, both in Europe and the United States, are currently considering a wide range of proposals that, if enacted, could result in major changes to the way ABN AMRO's global operations are regulated. Some of these major changes may take effect as early as 2010, and could materially impact the profitability of ABN AMRO's businesses, the value of assets we hold or the collateral available for our loans, require changes to business practices and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk.

As a financial holding company, certain reform proposals under consideration could result in ABN AMRO becoming subject to stricter capital requirements and leverage limits, and could also affect the scope, coverage, or calculation of capital, all of which could require us to reduce business levels or to raise capital, including in ways that may adversely impact our creditors. Regulatory reform proposals could also result in the imposition of additional restrictions on our activities proposals for heightened capital requirements at the level of the holding company are implemented and we are unable to meet such requirements.

Markets may experience periods of high volatility accompanied by reduced liquidity, which may lead to market risk losses and adversely influence ABN AMRO's ability to hedge our risks effectively
Market volatility, illiquid market conditions and disruptions in the credit markets remain a risk to ABN AMRO's business. In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading risks as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a

large scale, such as crowded trades. ABN AMRO's risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and ABN AMRO could realise significant losses if extreme market events were to persist for an extended period of time.

Changes in interest rate and foreign exchange rates may adversely affect ABN AMRO's results
Fluctuations in interest rates and foreign exchange rates influence ABN AMRO's performance. The results of ABN AMRO's banking operations are affected by ABN AMRO's management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. If the yield on our interest-earning assets does not increase at the same time or to the same extent as our cost of funds, or if our cost of funds does not decline at the same time or to the same extent as the decrease in yield on our interest-earning assets, our net interest income and net interest margin may be adversely impacted. This could have a material adverse effect on the financial condition of ABN AMRO's business or results from operations and cash flows.

In addition, ABN AMRO Holding publishes its consolidated financial statements in euros. Fluctuations in the exchange rates used to translate other currencies into euros affect ABN AMRO Holding's reported consolidated financial condition, results of operations and cash flows from year to year.

For an overview of how interest rate risk and foreign exchange rate fluctuation risk is managed, see 'Market risk in the trading book' in this section as well as note 38 in Section 6: 'Financial Statements'.

Defaults by another large financial institution could adversely affect financial markets generally
The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, financial losses and defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, derivatives clearing organizations, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore, lead to material losses for ABN AMRO.

Lack of liquidity is a risk to ABN AMRO's business and its ability to access sources of liquidity has been, and will continue to be, constrained
Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and financial market crises. During the course of 2008 and 2009, credit markets worldwide experienced a severe reduction in liquidity and term-funding. During this time, perception of counterparty risk between banks also increased significantly. This increase in perceived counterparty risk also led to reductions in inter-bank lending, and hence, in common with many other banking groups, ABN AMRO's access to traditional sources of liquidity has been, and may continue to be, restricted.

ABN AMRO's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its assets, controlling the mismatch of maturities and carefully monitoring its undrawn commitments and contingent liabilities. However, ABN AMRO's ability to access sources of liquidity (for example, through the issue or sale of financial and other instruments or through the use of term loans) during the recent period of liquidity stress has been constrained to the point where it, like other banks, has had to rely more than otherwise on shorter term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks. While during the course of 2009 money market conditions improved, with ABN AMRO seeing a material reduction of funding from central banks and the issuance of non-government guaranteed term debt, further tightening of credit markets could have a negative impact on ABN AMRO. ABN AMRO, in line with other financial institutions, may need to seek funds from alternative sources, potentially at higher costs of funding than has previously been the case.

In addition, there is also a risk that corporate and institutional counterparties with credit exposures may look to reduce all credit exposures to banks, given current risk aversion trends. It is possible that credit market dislocation becomes so severe that overnight funding from non-government sources ceases to be available.

Like many banking groups, ABN AMRO relies on customer deposits to meet a considerable portion of its funding. Furthermore, as part of its ongoing strategy to improve its liquidity position, ABN AMRO is actively seeking to increase the proportion of its funding represented by customer deposits. However, such deposits are subject to fluctuation due to certain factors outside ABN AMRO’s control, such as a loss of confidence, increasing competitive pressures or the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors, which could result in a significant outflow of deposits within a short period of time. There is currently heavy competition among EU banks for retail customer deposits, which has increased the cost of procuring new deposits and impacted ABN AMRO’s ability to grow its deposit base. An inability to grow, or any material decrease in, ABN AMRO’s deposits could, particularly if accompanied by one of the other factors described above, have a negative impact on ABN AMRO’s ability to satisfy its liquidity needs unless corresponding actions were taken to improve the liquidity profile of other deposits or to reduce assets. The governments of some of the countries in which ABN AMRO operates have taken steps to guarantee the liabilities of the banks and branches operating in their respective jurisdiction. Whilst in some instances the operations of ABN AMRO are covered by government guarantees alongside other local banks, in other countries this may not necessarily always be the case.

There can be no assurance that these measures, alongside other available measures, will succeed in improving the funding and liquidity in the markets in which ABN AMRO operates, or that these measures, combined with any increased cost of any funding currently available in the market, will not lead to a further increase in ABN AMRO’s overall cost of funding, which could have an adverse impact on ABN AMRO’s financial condition and results of operations.

ABN AMRO's borrowing costs, our access to the debt capital markets and our liquidity depend significantly on our credit ratings

Rating agencies assess the creditworthiness of ABN AMRO and assign a rating to ABN AMRO and some of the financial instruments it has issued. This information is available to many investors and clients of ABN AMRO. Any downgrade in ABN AMRO’s ratings may further increase our borrowing costs, require ABN AMRO to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit ABN AMRO’s access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. As a result, any further reductions in ABN AMRO’s credit ratings could adversely affect ABN AMRO’s access to liquidity and competitive position, increase its funding costs and have a negative impact on ABN AMRO’s earnings and financial condition. On 4 August 2009 Moody’s Investor Service lowered the long-term ratings of ABN AMRO and several of its subsidiaries, including ABN AMRO Bank N.V. Moody’s also placed ABN AMRO’s long-term ratings on review for possible downgrade. There can be no assurance that Moody’s or another credit rating agency will not downgrade the credit rating of ABN AMRO or its subsidiaries.

ABN AMRO’s business performance could be adversely affected if its capital is not managed effectively or if there are changes to capital adequacy and liquidity requirements.

Effective management of ABN AMRO’s capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy of returning to standalone strength. ABN AMRO is required by regulators in the Netherlands, United Kingdom, the United States and in other jurisdictions in which it undertakes regulated activities, to maintain adequate capital resources. The maintenance of adequate capital is also necessary for ABN AMRO’s financial flexibility in the face of continuing turbulence and uncertainty in the global economy.

On 17 December 2009, the Basel Committee on Banking Supervision (the “Basel Committee”) proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "Strengthening the resilience of the banking sector". If the proposals made by the Basel Committee are implemented, this could result in ABN AMRO being subject to significantly higher capital requirements. The proposals include: (a) the build-up of a counter-cyclical capital buffer in excess of the regulatory minimum capital requirement, which is large enough to enable ABN AMRO to remain above the minimum capital requirement in the face of losses expected to be incurred in a feasibly severe downturn; (b) an increase in the capital requirements for counterparty risk exposures arising from derivatives, repo-style transactions and securities financing transactions; (c) the imposition of a leverage ratio as a supplementary measure to the existing Basel II risk-based measure; (d) the phasing out of hybrid capital instruments as Tier 1 capital and the requirement that the predominant form of Tier 1 capital must be common shares and retained earnings; and (e) the imposition of global minimum liquidity standards that include a requirement to hold a stock of unencumbered high quality liquid assets sufficient to cover cumulative net cash outflows over a 30-day period under a prescribed stress scenario. The proposed reforms are subject to a consultative process and an impact assessment and are not likely to be implemented before the end of 2012. The Basel Committee will also consider appropriate transition and grandfathering arrangements.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates may require ABN AMRO to raise additional Tier 1, Core Tier 1 and Tier 2 capital. If ABN AMRO is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to further reduce the amount of its risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to ABN AMRO.

Any change that limits ABN AMRO’s ability to manage effectively its balance sheet and capital resources going forward (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions, a growth in unfunded pension exposures or otherwise) or to access funding sources, could have a material adverse impact on its financial condition and regulatory capital position.

The financial performance of ABN AMRO has been and will be affected by borrower credit quality
Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of ABN AMRO's businesses. Whilst many economies have stabilised and left a recession over the course of 2009, ABN AMRO may continue to see adverse changes in the credit quality of its borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors (such as the personal and banking and financial institution sectors) and in a number of geographies. This trend has led and may lead to further and accelerated impairment charges, higher costs, additional write-downs and losses for ABN AMRO.

Increases in ABN AMRO’s allowances for loan losses may have an adverse effect on ABN AMRO’s results
ABN AMRO’s banking businesses establish provisions for loan losses, which are reflected in the loan impairment and other credit risk provisions on ABN AMRO’s income statement, in order to maintain ABN AMRO’s allowance for loan losses at a level that is deemed to be appropriate by management based upon an assessment of prior loss experiences, the volume and type of lending being conducted by each bank, industry standards, past due loans, economic conditions and other factors related to the collectability of each entity’s loan portfolio. Although management uses its best efforts to establish the allowances for loan losses, that determination is subject to significant judgment, and ABN AMRO’s banking businesses may have to increase or decrease their allowances for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons. For further detail please refer to the section ‘Accounting Policies’ in Section 6: ‘Financial Statements’. Any increase in the allowances for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have an adverse effect on ABN AMRO’s results of operations and financial condition.

ABN AMRO operates in markets that are highly competitive. If ABN AMRO is unable to perform effectively, our business and results of operations will be adversely affected
There is substantial competition for the types of banking and other products and services that ABN AMRO provides in the regions in which ABN AMRO conducts large portions of our business. The intensity of this competition is affected by consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. In addition, technological advances and the growth of e-commerce have made it possible for non-depositary institutions to offer products and services that were traditionally banking products and for financial institutions to compete with technology companies in providing electronic and internet-based financial solutions. If ABN AMRO is unable to provide attractive product and service offerings that are profitable, ABN AMRO may lose market share or incur losses on some or all of ABN AMRO’s activities.

In addition, certain competitors may have access to lower cost funding and be able to offer retail deposits on more favourable terms than ABN AMRO and may have stronger multi-channel and more efficient operations as a result of greater historical investments. Furthermore, ABN AMRO’s competitors may be better able to attract and retain clients and talent, which may have a negative impact on ABN AMRO's relative performance and future prospects.

Furthermore, increased government ownership of, and involvement in, banks generally may have an impact on the competitive landscape in the major markets in which ABN AMRO operates. Although, at present, it is difficult to predict what the effects of this increased government ownership and involvement will be or how they will differ from jurisdiction to jurisdiction, such involvement may cause ABN AMRO to experience stronger competition for corporate, institutional and retail clients and greater pressure on profit margins. Since the markets in which ABN AMRO operates are expected to remain highly competitive in all areas, these and other changes to the competitive landscape could adversely affect ABN AMRO's business, margins, profitability and financial condition.

ABN AMRO is subject to operational risks that could adversely affect our business

ABN AMRO, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. As a consequence of the legal demerger and separation of ABN AMRO, and the accompanying separation of information technology platforms, ABN AMRO is subject to heightened operational risk. ABN AMRO may also be subject to disruptions of ABN AMRO’s operating systems, arising from events that are wholly or partially beyond ABN AMRO’s control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to losses in service to customers and to loss or liability to ABN AMRO. ABN AMRO is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to ABN AMRO, and to the risk that their business continuity and data security systems prove to be inadequate. ABN AMRO also faces the risk that the design of ABN AMRO’s controls and procedures prove to be inadequate or are circumvented. Although ABN AMRO has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by ABN AMRO. Any weakness in these systems or controls, or any breaches or alleged breaches of applicable laws or regulations, could have a materially negative impact on ABN AMRO’s business, reputation and results of operations.

ABN AMRO depends on the accuracy and completeness of information about customers and counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, ABN AMRO may rely on information furnished to ABN AMRO by or on behalf of the customers and counterparties, including financial statements and other financial information. ABN AMRO also may rely on the audit report covering those financial statements. ABN AMRO’s financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate

Under IFRS, ABN AMRO recognises at fair value (i) financial instruments classified as ‘held-for-trading’ or ‘designated as at fair value through income’, (ii) financial assets classified as ‘available-for-sale’, and (iii) derivatives, each as further described in Section 6: ‘Accounting Policies’. Generally, to establish the fair value of these instruments, ABN AMRO relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions, as has been the case during the current financial crisis. In such circumstances, ABN AMRO's internal valuation models require ABN AMRO to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates ABN AMRO is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had and could continue to have a material adverse effect on ABN AMRO's earnings and financial condition. Also, recent market volatility and illiquidity have challenged the factual bases of certain underlying assumptions and have made it difficult to value certain of ABN AMRO’s financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in further significant changes in the fair values of these instruments, which could have a negative effect on ABN AMRO's results of opersations and financial condition.

Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance
Our people are our most important resource and competition for qualified employees is intense. In order to attract and retain qualified employees, we seek to compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense as compensation is highly variable and changes with performance. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, or if compensation costs required to attract and retain employees become more expensive, our performance, including our competitive position, could be materially adversely affected. The financial industry may experience more stringent regulation of employee compensation, or employee compensation may be made subject to special taxation, which could have an adverse effect on our ability to hire or retain the most qualified employees.

ABN AMRO is subject to legal risk, which may have an adverse impact on our results
In the ordinary course of business ABN AMRO is involved in a number of legal proceedings. Furthermore, periods of market dislocation, characterised by sharply deteriorating financial markets, are generally accompanied by an increase in investor litigation against intermediaries such as banks and investment advisors. It is inherently difficult to predict the outcome of many of the litigations, regulatory proceedings and other adversarial proceedings involving our businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. In presenting our consolidated financial statements, management may make estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Changes in our estimates may have an adverse effect on ABN AMRO's results.

ABN AMRO is subject to enforcement risks relating to the Department of Justice's criminal investigation of its dollar clearing activities
As previously disclosed, the United States Department of Justice has been conducting a criminal investigation into ABN AMRO's dollar clearing activities, Office of Foreign Assets Control ('OFAC') compliance procedures and other Bank Secrecy Act compliance matters all relating to activities before the Consortium Members acquired ABN AMRO. Both before and after the change of control, ABN AMRO cooperated and continues to cooperate fully with the investigation. Although no written agreement has yet been reached and negotiations are ongoing, in April 2007 the Bank reached an agreement in principle with the Department of Justice.

The precise terms of the deferred prosecution agreement are still under negotiation. Refer to 'Ongoing Investigations'. The ultimate resolution of the Department of Justice investigation and the nature and severity of possible additional sanctions cannot be predicted, but regulatory and law enforcement authorities have been imposing severe and significant monetary and other penalties against a number of banking institutions for violations of the Bank Secrecy Act and related statutes.

The legal demerger of ABN AMRO Bank N.V. has resulted in a cross liability arrangement that changes the legal recourse available to investors
On 6 February 2010, ABN AMRO Bank N.V. was demerged into two entities, being RBS N.V. (the former ABN AMRO Bank N.V.) and the new ABN AMRO Bank.

In principle investors now only have recourse to the entity to which the relevant assets and liabilities have been transferred for payments in respect of the appropriate securities. Under the Dutch Civil Code, however, each entity remains liable to creditors for the monetary obligations of the other entity that existed at the date of the legal demerger in the event that the other entity cannot meet its obligations to those creditors. In each case, the liability relates only to obligations existing at the date of the legal demerger.

The liability of RBS N.V. is limited to the equity retained at legal demerger, which amounted to EUR 4.0 billion. The liability of the new ABN AMRO Bank N.V. is limited to the amount of equity acquired at legal demerger, which amounted to EUR 1.8 billion.

RBS N.V. has made arrangements to mitigate the risks of liability to the creditors which transferred to the new ABN AMRO Bank upon legal demerger. The new ABN AMRO Bank has also made arrangements to mitigate the risks of liability to the creditors that remain in RBS N.V. Both of these entities hold the level of regulatory capital agreed upon with the Dutch Central Bank for purposes of covering any residual risks.

Please note that similar to the above, the legal demerger of certain commercial activities in relation to the EC remedy also resulted in a cross liability arrangement that changes the legal recourse available to investors. Also in this case, the liability relates only to obligations existing at the date of legal demerger of New HBU II N.V. The liability of New HBU II N.V. is limited to the equity acquired at legal demerger.

ABN AMRO's legal demerger and legal separation process creates additional risks for ABN AMRO's business and stability
ABN AMRO is going through a period of transition and change, which poses additional risks to ABN AMRO's business including (i) ABN AMRO's ability to manage the break up of ABN AMRO in a controlled manner while minimising the loss of business, (ii) ABN AMRO's ability to retain key personnel during the transition and (iii) enhanced operational and regulatory risks during this period. During this period of transition and change and as a result of the legal demerger and upcoming legal separation, RBS N.V. and the new ABN AMRO Bank will remain interdependent with respect to certain business areas, for which they will *inter alia* provide certain services to each other.

Investors in the United States may not be able to enforce civil liability judgments against ABN AMRO Holding and our directors and executive officers
ABN AMRO Holding is incorporated under the laws of the Netherlands and the members of our Supervisory Board, with one exception, and our Managing Board are residents of countries outside of the United States. Substantially all of the assets of ABN AMRO Holding and of the members of the Supervisory Board and the Managing Board are located outside the United States. As a result, it may not be possible for investors to effect service of process upon ABN AMRO or upon these persons, or to enforce judgments of U.S. courts predicated upon the civil liability provisions of U.S. securities laws against ABN AMRO Holding and these persons. The United States and the Netherlands do not have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be enforceable in the Netherlands. However, a Dutch court may, under current practice, recognise the final judgment that has been rendered in the United States and may grant the same claim without rehearing the merits under certain circumstances, unless the consequences of the recognition of such judgment would contravene public policy in the Netherlands.

Risk factors in relation to the Asset Protection Scheme

On 22 December 2009, the RBS Group acceded to the Asset Protection Scheme ('APS') with HM Treasury acting on behalf of the UK Government. Under the Scheme, the RBS Group purchased credit protection over a portfolio of specified assets and exposures ("covered assets") from HM Treasury including assets and exposures of ABN AMRO in the amount of EUR 30 billion (the "ABN AMRO Covered Assets"). On 22nd December 2009 ABN AMRO and RBS plc entered into a back to back contract in relation to the ABN AMRO Covered Assets (the "Contract").

The extensive governance, asset management and information requirements under the APS conditions and HM Treasury's step-in rights reflected in the Contract may serve to limit materially ABN AMRO's operations. In addition, the market's reaction to such controls and limitations may have an adverse impact on the price of the ABN AMRO's securities.
HM Treasury has the right under the APS to appoint one or more step-in managers (identified or agreed to by HM Treasury) to exercise certain step-in rights upon the occurrence of certain specified events. The step-in rights extend to the ABN AMRO Covered Assets. The step-in rights are extensive and include certain oversight, investigation, approval and other rights, the right to require the modification or replacement of any of the systems, controls, processes and practices of the RBS Group (including ABN AMRO) and extensive rights in relation to the direct management and administration of the ABN AMRO Assets. The step-in manager may be a person identified by HM Treasury and not by the company. If HM Treasury seeks to exercise its right to appoint one or more step-in managers in relation to the management and administration of Covered Assets held by ABN AMRO or its wholly owned subsidiaries, ABN AMRO will, in certain circumstances, need to seek consent from the Dutch Central Bank to allow it to comply with such a step-in. The appointment of a step-in manager could result in a material adverse effect on ABN AMRO's reputation or results of operations or result in a loss of value in ABN AMRO's securities.

In order to fulfil its disclosure obligations under the Contract, ABN AMRO may incur the risk of civil suits, criminal liability or regulatory actions.

The APS Conditions and the Contract require that certain information in relation to the Covered Assets including the ABN AMRO Covered Assets be disclosed to HM Treasury to enable HM Treasury to quantify, manage and assess its exposure under the APS. In complying with these requirements and providing such information to HM Treasury, ABN AMRO may, in certain jurisdictions, incur the risk of civil suits or regulatory action (which could include fines) to the extent that disclosing information related to the ABN AMRO Covered Assets results in ABN AMRO breaching common law or statutory confidentiality laws, contractual undertakings, data protection laws, banking secrecy and other laws restricting disclosure. Adverse regulatory action or adverse judgments in litigation could result in a material adverse effect on ABN AMRO's reputation or results of operations or result in a loss of value in ABN AMRO's securities.

Where ABN AMRO discloses information to HM Treasury as set out above, HM Treasury may disclose that information to a number of third parties for certain specified purposes. Such disclosures by HM Treasury may put ABN AMRO in breach of common law or statutory confidentiality laws, contractual undertakings, data protection laws, banking secrecy or other laws restricting disclosure.

Legal and Regulatory Proceedings

ABN AMRO is involved in a number of legal proceedings in the ordinary course of ABN AMRO's business in a number of jurisdictions. In presenting ABN AMRO's consolidated financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters, and takes a charge to income when losses with respect to such matters are probable. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated. ABN AMRO cannot guarantee that these proceedings will be concluded in a manner favourable to ABN AMRO and should ABN AMRO's assessment of the risk change, ABN AMRO's view on changes to income will also change.

In November 2009 the Supreme Court in the Netherlands gave a declaratory judgment against World Online International N.V., Goldman Sachs International and ABN AMRO Bank N.V. in relation to claims arising out of the World Online initial public offering of 2000. It held that these Defendants had committed certain wrongful acts in connection with the initial public offering. The judgment does not establish liability or the amount of any loss. Management does not believe that any final liability or loss will have a significant effect on ABN AMRO's financial position or profitability.

On the basis of information currently available, and having taken legal counsel with advisors, ABN AMRO is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position and the consolidated profit of ABN AMRO.

Ongoing Investigations

As previously disclosed, the United States Department of Justice has been conducting a criminal investigation into ABN AMRO's dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. ABN AMRO has cooperated and continues to cooperate fully with the investigation. Although no written agreement has yet been reached and negotiations are ongoing, in April 2007 ABN AMRO reached an agreement in principle with the Department of Justice.

Under the terms of the agreement, in principle, ABN AMRO would also agree to continue cooperating in the United States' ongoing investigation and to settle all then known civil and criminal claims currently held by the United States for the sum of USD 500 million. A charge for USD 500 million was recorded in the first half of 2007. The precise terms of the deferred prosecution agreement are still under negotiation.

In consideration for the foregoing provisions, as well as ABN AMRO's extensive remedial actions to date and its willingness to demonstrate future good conduct and full compliance with all applicable federal laws, the United States Department of Justice would recommend to the United States District Court that the prosecution of ABN AMRO under the information be deferred for a fixed period. At the end of that fixed period, provided ABN AMRO is in full compliance with all of its obligations under the deferred prosecution agreement, the United States would seek dismissal with prejudice of the information filed against the ABN AMRO. The precise terms of the deferred prosecution agreement and agreed factual statement are still under negotiation.

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