

marketindex Important Information on Risk

General risks for all Trades	2
Price risk	2
Price slippage risk	2
Risks in relation to Reference Items	2
Technical failures and market disruption	2
Non-availability of marketindex (other than for technical or market disruption reasons)	2
Credit risk	3
Borrowing to Trade on marketindex	3
Specific risks for Margin Trades	3
Price risk	3
Leverage	3
Close-Out Level (Airbag)	3
Stop Loss and Trailing Stop Loss	4

Important Information on Risk

The information below is to be read in conjunction with the 'General Derivatives Risk Warning Notice' provided to you in compliance with the rules of the Financial Services Authority.

Capitalised terms used but not defined below have the meaning given in the 'Terms and Conditions' for marketindex.

General risks for all Trades

Trading in Margin Trades on marketindex entails substantial risks and is therefore suitable only for sophisticated investors who are willing and able to assess the opportunities and risks of these Trades themselves. Customers should be conversant with the nature of these Trades and the associated risks before Trading on marketindex. Typical risks are described below, but this should not be viewed as an exhaustive list of potential risks.

Price risk

It is important that the Customer understands that the profit or loss he may make on marketindex depends on marketindex Prices and on the marketindex bid-offer spread and that these can differ from corresponding prices and spreads in the underlying Reference Markets. For example, the reference price for Trades relating to oil which RBS uses to set the applicable marketindex Offer Price and marketindex Bid Price is a theoretical cash price derived from the Brent Crude Oil Future price traded on the Intercontinental Exchange (ICE) and this may differ from the market spot price for oil.

This gives rise to risks for the Customer. For example, a Margin Trade Limit Order may be triggered by a marketindex Price but may not have been triggered on the basis of other prices in the relevant market.

Price slippage risk

The price at which any Order is executed is the prevailing marketindex Price at the time at which the Order is executed. In a rapidly changing market, the marketindex Price quoted to the Customer on marketindex at the time he placed his Order (or in the case of a Limit Order, Market-if-Touched Order, Stop Loss Price or Take Profit Price, the relevant trigger price) may not be the same as the marketindex Price at which the Order is actually executed. This risk can be mitigated for Margin Trading Orders (but not for Stop Loss Prices or Take Profit Prices) by the use of Price Bounds (as more fully explained in the Terms and Conditions).

Risks in relation to Reference Items

marketindex offers Trading in relation to various underlying Reference Items. These Reference Items are substantially different from each other (for instance in terms of the volatility or liquidity of the Reference Markets). There are specific risks for each Reference Item, including for instance the risk of market disruption, that can affect prices in the market and in turn marketindex Prices. These risks are capable of leading to losses for the Customer. As a result, a Customer should familiarise himself with the relevant Reference Items and markets before entering into Trades. The Customer should also note that the past performance of Reference Items is no indicator of their future performance.

Technical failures and market disruption

Technical risks arise from trading over the internet. System faults, system crashes, transmission faults, other hardware or software disruptions and internet connection disruptions may have the result that Orders cannot be transmitted or executed in a timely manner or at all. This can result in loss for the Customer; for example where he attempts to close-out a Position but is unable to do so because, say, his internet connection goes down and in the meantime the value of the Position decreases (e.g. if it is a Long Position, the marketindex Price falls).

In the case of a market disruption or system failure affecting marketindex, RBS will halt Trading in respect of the affected underlying Reference Items. Trades entered into after the onset of such an event (but before Trading is halted) including the triggering of Limit Orders, Market-if-Touched Orders, Stop Loss Prices and Take Profit Prices may be reversed as Invalid Trades and any subsequent trades affected by an Invalid Trade may also be reversed.

For Margin Trading, RBS may close out all open Positions in the event of a market disruption or system failure which RBS expects to continue for more than 24 hours (but otherwise, on a resumption of Trading, the marketindex Prices prevailing at the time of resumption will be used to determine whether any Limit Order, Market-if-Touched Order, Stop Loss Price or Take Profit Price in place before the start of the relevant Market Disruption Event or System Failure Event has been triggered).

All of these circumstances can lead to loss for the Customer (or to a greater loss than he would have incurred had there been no market disruption or system failure).

Non-availability of marketindex (other than for technical or market disruption reasons)

In addition to the technical failure and market disruption scenarios referred to above, marketindex does not allow the Customer to open or close a Margin Trading Position (nor will Limit Orders, Market-if-Touched Orders, Stop Loss Prices or Take Profit Prices be triggered) if there is no current price data (or no orderly price data) available to RBS in respect of the relevant Reference Item. This will be the

case where the relevant Reference Market is closed or inactive or during short periods at the beginning or end of the trading day for the Reference Market where there is no orderly price tick. This involves risk for the Customer. If, for example, he believes that market developments outside normal trading hours will impact marketindex Prices in a way that will adversely affect a Position he has on marketindex, he will not be able to Trade until marketindex opens for Trading in the relevant Reference Item.

Trading on marketindex may also be halted temporarily for essential maintenance work. This gives rise to the same risks described above in relation to market disruption and system failure.

Credit risk

The credit balance on a Trading Account as well as claims arising from Trades constitute RBS's general, contractual and unsecured obligations that rank equally with each other and with all of RBS's other unsecured and unsubordinated obligations. In the case of RBS's insolvency, the Customer may get back less than the value of his credit balance on the Trading Account and any outstanding claims against RBS arising from Margin Trades.

Borrowing to Trade on marketindex

The Customer will face greater risks if his Trading on marketindex is funded to any extent by money he has borrowed. Any such borrowing effectively increases the leverage (and therefore the risk) of the Customer's Trading. If the Customer incurs a loss on marketindex (for example by opening a Long Position which he later closes out at a lower price), then he is liable not only to RBS for the relevant settlement amount but also to his lender to repay the loan with any applicable interest.

Specific risks for Margin Trades

A Margin Trade is a type of investment, known as a contract for differences, under which the Customer notionally buys or sells an underlying Reference Item (e.g. index, commodity, currency, bond) and thereby gains an economic exposure to the performance of this Reference Item without actually acquiring and/or disposing of the Reference Item.

The profit or loss which the Customer makes on any Margin Trade depends primarily on changes in marketindex Prices and the spread between the applicable marketindex Offer Price and marketindex Bid Price (and there is also a financing charge payable on each open Position which may either be payable by the Customer or by RBS depending on the circumstances - this charge is explained in the Terms and Conditions).

For example, if the Customer enters a Long Position he will notionally buy marketindex units in the relevant Reference Item at the marketindex Offer Price. To close out that Position, the Customer will notionally sell those units at the marketindex Bid Price prevailing at the time of the sale. It follows that when opening a Long Position, the Customer is speculating on an upward movement in the marketindex Price of the Reference Item. Conversely, when opening a Short Position, he speculates on a fall in the marketindex Price.

The spread between bid and offer prices also means that when the Customer opens a Long Position, marketindex Prices would have to rise by an amount at least equal to the spread before the Customer is able to earn a profit. This is because the Customer notionally buys at the marketindex Offer Price but notionally sells at the marketindex Bid Price which at any given time will always be less than the marketindex Offer Price. Likewise, if the Customer opens a Short Position, marketindex Prices would have to fall by an amount at least equal to the spread before the Customer is able to earn a profit.

Price risk

marketindex Prices do not perform in the way the Customer anticipates, the Customer may sustain a substantial loss on his Margin Trades. The size of any loss depends primarily on underlying market performance and cannot be determined in advance.

Leverage

The opening of a Margin Trade requires, as security on the relevant Trading Account, a specific amount to cover the risk (this is called the Margin Requirement). The Margin Requirement is a fraction of the applicable marketindex Price and is calculated according to the applicable Leverage Factor - the higher the Leverage Factor, the lower the Margin Requirement and vice versa. This so-called leverage enables the Customer to profit disproportionately from favourable price fluctuations, but also increases the risk of loss to the same extent in the event of unfavourable price movements.

marketindex allows Margin Trading on a highly leveraged basis and even a small change in the relevant marketindex Prices can cause a loss of some or all of the Customer's investment.

Close-Out Level (Airbag)

marketindex enforces a mandatory automatic close out of all Open Positions on a specific Trading Account when the Net Balance (the account balance plus any Unrealised Profit less any Unrealised Loss) falls below 50% of the aggregate Margin Requirements relating to all Open Positions on that Trading Account (the Close-Out Level (Airbag)).

This automatic close-out protects the Customer against unlimited losses. However, it may be the case that Unrealised Losses incurred on a single Position trigger the Airbag. This results in the close-out of all open Positions on the relevant Trading Account, even those

which are in-the-money at the time of the automatic close-out, and accordingly, the Customer will lose the Unrealised Profit on any such Position.

Stop Loss and Trailing Stop Loss

marketindex enforces automatic close out of all Open Positions on a specific Trading Account if the market price suddenly moves in an unfavourable direction by a specified distance which was preset by the Customer if the Stop Loss or Trailing Stop Loss feature was selected.

With a Trailing Stop Loss, if the market price moves in the unfavorable direction, the trigger price remains stationary and the distance between this price and the market price becomes smaller. If the market price reverses itself again and moves back in a favorable direction so it exceeds the maximum stop distance plus the spread, the trigger price will start following it again.

Trailing Stop Losses, just like regular stop-loss orders, must be used with caution. If a Customer uses a small Stop Loss or Trailing Stop Loss distance, even a relatively slight drop in the exchange rate would trigger the Stop Loss order. For example, if the Trailing Stop Loss level is set very close to the current market price, a small fluctuation in a typical market due to the normal ebb and flow of daily prices is likely to trigger the stop loss.

Either stop loss should not therefore be set at such a small distance from the market price that it will be triggered by normal market fluctuations, resulting in a stop loss without any possibility of benefiting from future favourable movements in the market. Stop losses are designed to reduce the risk of extreme losses, however using them ineffectively may actually increase losses.

More information **www.rbs.co.uk/marketindex**

Telephone: **+44 20 7078 3520**

RBS marketindex, PO BOX 62621, London EC2P 2DW

Fax: +44 20 7078 3521, E-mail: marketindex.uk@rbs.com