ABN·AMRO

Investment Appendix

October 2023

Investment Appendix

This is a translation of the original Dutch text. This translation is furnished for the customer's convenience only. The original Dutch text will be binding and shall prevail in case of any variance between the Dutch text and the English translation.

In this appendix to the ABN AMRO Investment Conditions you can read about:

- The general risks of investments (chapter 1); and
- The characteristics and risks of different types of investment products (chapter 2).

The bank has compiled this appendix with care. However, some information may no longer be correct at the time of reading. This is possible due to changing developments in the field of investments. We will keep you informed of important changes as much as possible. The bank can change the contents of this appendix. And the bank will do so in the manner outlined in article 1.6 (*What happens if the bank changes the ABN AMRO Investment Conditions?*) of the General Investment Conditions.

1. General investment risks

Investing is never without risks. Even with a very defensive risk profile, you can incur losses. The general risks of investing are described below.

1.1. What is price risk?

Price risk is the risk that an investment product may lose value. This risk depends on many circumstances and varies for each investment product. In general, this risk is influenced by the following:

- The results of the investment product itself;
- The supply of and demand for the investment product; and
- The market sentiment (positive or negative?). See also section 1.4 (*What is market risk?*).

The general rule is: the better you spread your investments, the lower the price risk of your overall investment portfolio.

1.2. What is debtor or credit risk?

Most bonds are issued by companies or governments. These companies or governments are the debtors of the bond. The value of these investment products depends on various factors, such as how the market views the debtor. With regard to bonds the expectation whether or not the debtor is able to keep up the interest payments and repay the principal amount at the end of the term of the bond, plays an important role. We call this creditworthiness. The higher the debtor's creditworthiness, the lower the interest rate that you will earn on the bond. And the lower the debtor's creditworthiness, the higher that interest rate will be. If the creditworthiness deteriorates, this generally has a negative impact on the price of the debtor's bonds. An improvement in the creditworthiness usually causes the price to increase. See also section 2.2 (*What are the characteristics and risks of bonds?*).

1.3. What is currency risk?

If an investment product is issued in a different currency than the euro, you are exposed to a risk on the exchange rate of that currency compared to the euro. This is called currency risk. The value of the other currency can rise or fall compared to the euro. You can also run a currency risk on shares of companies from euro zone countries. This risk is often invisibly concealed in the share price and depends on:

- The volume of activities that the company that issued the share undertakes in countries outside the euro zone; or
- The amount of profit that the company generates in countries outside the euro zone.

1.4. What is market risk?

Market risk is the risk of market movements occurring as a result of changing sentiments in the market. This is also called the volatility of the market. The market is generally very sensitive to changing sentiments. Positive sentiment can cause the prices of your investments to rise. The reverse also applies. Negative sentiment can cause the prices to fall.

1.5. What is interest rate risk?

Interest rate risk is the risk of changes in the market interest rate. Interest is the price for borrowing money. If the market interest rate changes, this may influence the prices of investment products, such as shares and bonds. So the interest rate risk is also a price risk.
If the interest rate rises, the following will generally occur:

- The prices of shares will fall. Because companies must pay more interest on their loans; and
- The prices of bonds will fall. The longer the remaining

term of the bond, the stronger the prices of fixed-rate bonds will fall. This because you cannot benefit from the increase of the interest rate. With regard to your bond you are entitled to a fixed rate, but which is a lower interest rate. Therefore, the interest rate on bonds can also be a reinvestment risk. Reinvestment risk is the risk that the money you receive when your investment product matures is insufficient to reinvest in an equivalent product.

If the interest rate falls, the following will generally occur:

- The prices of shares will rise; and
- The prices of bonds will also rise. In this case, you do not suffer a disadvantage if you receive a fixed rate during the term of your bond.

1.6. What other general investment risks exist?

Your investments can also give rise to other risks, such as:

- Liquidity risk: the risk that no demand or lack of demand makes it difficult for you to sell your investment product.
- Political risk: the risk of government measures having negative consequences for you as an investor.
- Inflation risk: the risk of depreciation in the value of the euro. This means that you can buy less for 1 euro.
- Reinvestment risk: the risk that the money paid back to you when your investment product matures is not enough to reinvest in an equivalent product.
- Unforeseen events. This can vary from, for example, far-reaching regulatory changes to a terrorist attack. Such unforeseen events can have a major impact on the performance of your investments, even with a defensive risk profile.

2. Characteristics and risks of types of investment products

In this chapter, you can read about the most important characteristics and risks of certain types of investment products. Apart from this information, you must also always read and understand the specific information on an investment product (for example, in the prospectus, the Key information document (KID), the Key investor information document (KIID) and the brochure) before deciding to invest in it. See also chapter 7 (*Investor Information*) of the General Investment Conditions. Regarding the risks of options, you must also read the information that you receive about this from the bank. This information is provided with the separate agreement that you must sign for these investment products.

2.1. What are the characteristics and risks of shares?

Companies issue shares. A company issues shares in order to raise money for its operations and investments. If you have shares of a certain company in your investment portfolio, then these shares serve as your proof that you are a participant in the capital of that company. This company can be a private limited company (B.V.) or a public limited company (N.V.). The shares can be listed on a stock exchange, but this is not strictly necessary. As the owner of shares, you also usually have the right to:

- Vote at the meeting of shareholders; and
- Receive dividends. Dividend is the money that the company can pay out to the shareholders if the company has made a profit.

Special types of shares

Alongside ordinary shares, there are also special types of shares. The most common types are:

- Preference shares: these have certain preferential rights over ordinary shares. These shares, for example, entitle you to receive dividend payments or bankruptcy payments before holders of ordinary shares.
- Priority shares: these are registered in your name and give you special rights, such as:
  - The right to make a binding proposal to appoint certain members of the Management or Supervisory Board.
  - The right to take certain decisions, such as about a new share issue. You can read about what an issue is in article 4.15 (*What rules apply when I subscribe to an issue of investment products?*) of the General Investment Conditions.

We can also subdivide shares according to the following:

- Regions, such as developed markets and emerging markets. Developed markets are markets in countries with a good and stable economy. Emerging markets are markets in countries with an economy that is still developing. So shares from these emerging markets carry more risk than shares from developed markets.
- Sectors, such as technology, financial institutions and consumer goods. We can subdivide sectors into cyclical and non-cyclical sectors. Cyclical sectors follow the developments in the economy. For example, if the economy is improving, there will be more demand for these sectors. Such sectors include basic industries (for example, commodities) and consumer discretionary (for example, cars).
  Non-cyclical sectors are less sensitive to economic developments. These include healthcare, utilities (for example, energy) and pharmaceuticals. Non-cyclical sectors usually carry less risk than cyclical sectors. This difference is important when diversifying your investments in shares.

Rights issue

A rights issue is an issue of shares in a particular company. You can read about what an issue is in section 4.15 (*What rules apply when I subscribe to an issue of investment products?*) of the General Investment Conditions. The difference between this and an ordinary issue is that the shares are available only to investors who already hold existing shares, because these shareholders are given a special right to subscribe for these shares. The subscription right is the right to buy a certain number of new shares at a fixed subscription price in the near future. The aim is to prevent the excessive dilution of the rights of the shareholders (and hence their control). Dilution occurs where the company's shares are distributed among more shareholders. If more shares are issued and the shares end up with new shareholders, the old shareholders hold a smaller proportion of the total share capital and therefore have less control over the company. The profits too are divided over more shareholders. This is called dilution.

In the case of a rights issue, you obtain subscription rights. You may either sell these rights or use them to subscribe for the new shares. You then subscribe for new shares in consideration of extra payment of a predetermined amount. Usually you need to have more than one subscription right to be able to subscribe for a new share. The subscription rights have a value at that time because the only way to buy new shares at an advantageous price is by exercising these rights. If you choose not to buy new shares with your subscription rights or decide to sell the rights, the issuing institution will often pay an amount for any rights not subscribed for or sold at the end of the subscription period. ABN AMRO will receive this amount for you and credit it to your account.

Please note

that where an issuing institution issues subscription rights it sometimes does not pay an amount for any of your rights not subscribed for or sold at the end of the subscription period. It may do so, for example, in order to induce as many investors as possible to subscribe for the new shares. If a company chooses this course of action, ABN AMRO will shorten the subscription period by a day in order to sell the subscription rights. After this day, you can no longer sell your subscription rights through ABN AMRO or use them after all to subscribe for new shares. ABN AMRO will apportion any proceeds of the subscription rights and credit them to your account. This is how ABN AMRO prevents the value of the subscription rights from being lost if, for any reason, you have not been able either to exercise your rights to subscribe for new shares or to sell the subscription rights yourself.

Risks of shares

Shares carry various risks, including:

- **Price risk,** see also section 1.1 (*What is price risk?*)
  If a company performs well, then your shares are worth money. But if it performs less, your shares can lose value. In the most extreme case (if the company goes bankrupt), shares can even become worthless.

Whether you receive dividend or not also depends on whether the company performs well or not. If the company is not making a profit, then you will usually not receive a dividend. If the company has paid out a dividend, this influences the share price. On the day that the company pays out the dividend, the price will usually fall by roughly the same amount as the amount of the dividend. That is the ex-dividend price (the price without dividend).

- **Market risk,** see also section 1.4 (*What is market risk?*)
  Equity prices respond to for example positive or negative news in the market. This news can be about the company itself or about general market conditions. Whether the share price falls or rises, and by how much, differs from one company to the next.
- **Liquidity risk**, see also section 1.6 (*What other general investment risks exist?*)
  Some shares are not easy to buy or sell. We call these illiquid shares. Even shares that are listed on the stock exchange can be illiquid. This happens when there is little supply or demand for these shares. This makes it less easy to buy or sell these shares. If a party buys or sells a large quantity of illiquid shares, this will usually cause a sharp price rise if the shares are purchased or a sharp price fall if the shares are sold.

Asset classification

The bank classifies all shares in the 'equities' asset class. You can read about what asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.2. What are the characteristics and risks of bonds?

Companies and governments issue bonds. As with shares, a company or government issues bonds to raise money. That company or government can use this money to finance its operations or make investments. A bond is different from a share as you do not become a participant in the capital of the company and do not receive any voting rights. A bond is a debt instrument issued by a company or government. So basically you lend money for a certain period (the term of the bond) to a company or government institution. Usually, you get a fixed annual rate of interest (also known as coupon interest) from the company or government who has issued the bond.

This company or government must also repay the total principal amount of the bond to all investors at the end of the term. So you will be repaid your money. The amount that is returned to you is the principal sum of the bond. The principal sum is a standard amount per bond, for example, € 1,000. This need not always be the amount that you paid to buy the bond (your investment). The stock exchange shows the value of bonds in percentages of the principal sum. Therefore a bond with a price of 98% and a principal sum of € 1,000 has a value of € 980 at that specific moment.

Types of bonds

There are different types of bonds:

- Government bonds and corporate bonds.
- Bonds from emerging markets.
- Bonds with a fixed or variable interest rate. One example of a bond with a variable interest rate is an interest rate index bond. With such a bond, the interest paid depends on the market interest rate level. Another example is a profit-sharing bond or income bond, where the interest depends on the profit of the company that issued the bond. Some bonds pay no interest. These are called zero bonds. Your potential return on these bonds is the difference between the amount that you paid for the bond (when it was issued or in the market) and the principal sum that is paid at the end of the term.
- Bonds with a fixed term or bonds that can continue forever. The latter are also called perpetual bonds. Bonds usually have a fixed term, so that you know when you get your money back. The situation with perpetual bonds is different. Most perpetual bonds can be redeemed early on predetermined dates. On these dates, the institution that has issued the bond can decide to pay your money back to you. Usually you earn more interest on a perpetual bond than on an ordinary bond. A perpetual bond also carries more risks than an ordinary bond.
- Bonds that are subordinated. A subordinated bond carries more risks than an ordinary bond. This is why you usually earn more interest on a subordinated bond than on an ordinary bond. If the company or country that has issued the bond goes bankrupt, you only get your money back from these bonds after the company has settled all other debts. Perpetual bonds are often subordinated.

Drawing of bonds

What is a drawing of bonds? Some investment products, such as bonds, can be redeemed in full or in part before the maturity date. Redemption means that the principal sum is being repaid. This must be provided for the terms and conditions of the bond. The company or government that has issued the bond will draw the numbers or groups of the bond that can be redeemed early. If your bond has been drawn for redemption, you will be repaid your money as soon as your bond is drawn for redemption. If your bond also pays out interest, you also get the interest to which you are entitled until that date.

Risks of bonds

You run the risks that the company or government which has issued the bond:

- Can no longer pay the interest; and
- Cannot repay your money at the end of the term. This is the case when the company or government is struggling to meet all its financial commitments. This is the credit risk, see also section 1.2 (*What is debtor or credit risk?*). Of course, this credit risk is lower if the company or government that has issued the bond is in good financial shape. If the company doesn't perform well, the prices of that company's bonds may fall. In the most extreme case, you can also lose all your money.

If you want to sell the bond before the end of the term, the price of the bond is important. The price of the bond depends mainly on:

- Credit risk, see also section 1.2 (*What is debtor or credit risk?*); and
- Interest rate risk, see also section 1.5 (*What is interest rate risk?*).

Do you invest in bonds or structured products of banks?

Then you should take account of a possible bail-in as a result of the new European Bank Recovery and Resolution Directive (BRRD).
The resolution authorities may decide on a bail-in when they want to save a bank that is threatened with bankruptcy. That means that the bank must partly or entirely suspend interest and redemption payments on bonds and structured products or even have to cancel them altogether. Or that these investment products will be converted into equity (shares).
Even if the bank does not become bankrupt, you, as an investor, can consequently lose some of your rights to payment.
A bail-in means less or no government money is needed to prevent the bankruptcy of a bank. Many non-European countries have similar regulations. De Nederlandsche Bank is the resolution authority in the Netherlands.

Credit status of bonds

Bonds often have a certain credit status or rating. This is an opinion about the creditworthiness of the company or country that has issued the bond. If a company is in good financial shape, then its creditworthiness is high. The better the creditworthiness, the lower the risk of not getting your money back or not receiving interest. Therefore, the rating is important to assess the risk of the bond.

Specialised companies (rating agencies) issue these ratings. Well-known rating agencies include:

- Standard & Poor's;
- Moody's Investors Services; and
- Fitch Ratings.

These credit rating agencies use letters or numbers to indicate a certain creditworthiness. Bonds with a low rating are called 'Junk Bonds' or high yield bonds.
A low rating means that the credit rating agency does not think that the company or government that has issued the bond is very creditworthy. So these bonds also carry a higher risk, because you may not get your money back or the interest may not be paid. However, in return for this higher risk, you get a higher interest rate (high yield). Bonds with a high rating are known as investment grade bonds. This means that you may be able to invest in these bonds without running too much risk, because they have received sufficient high credit rating. The most important ratings as known to the bank in February 2017 are shown in the table below.

Asset classification

The bank classifies all bonds in the 'fixed income' asset class You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

Credit Ratings

Moody's	Fitch	Standard & Poor's	Description
Investment grade (sufficient quality to invest in)			
Aaa	AAA	AAA	Highest rating
Aa	AA	AA	Very high quality
A	A	A	High quality
Baa	BBB	BBB	Minimum investment grade
Non-investment grade or High Yield or Junk Bonds (insufficient quality to invest in)			
Ba	BB	BB	Low quality
B	B	B	Highly speculative
Caa	CCC	CCC	Great risk
Ca	CC	CC	Very poor quality
C	C	C	In bankruptcy proceedings with small chance of recovery
	D	D	In payment default
The above table is a general classification. All three agencies also have sub-classifications and refinements, such as AA- and BBB+ (Standard & Poor's and Fitch) or Aa3 and Baa1 (Moody's). Separate ratings are also issued for the short term.			

The table above shows the most important ratings as known to the bank in February 2017

2.3. What are the characteristics and risks of convertible bonds and reverse exchangeables?

Some investment products have characteristics of both shares and bonds. These are known as hybrid products. Examples are convertible bonds and reverse exchangeables. If you want to invest in this type of investment product, you must have knowledge of how they work and the risks attached to these products. Sometimes these products carry a greater risk than ordinary bonds. If so, you will also earn a higher interest rate. But some actually carry a lower risk. In this case you will get a lower interest rate.

Convertible bonds

Convertible bonds are bonds that you can exchange for shares within a certain period of time (the conversion period) and subject to certain terms and conditions. We call this conversion. These bonds are issued by companies. The shares that you can obtain may be shares of the company that issued the bond or shares of another company. The terms and conditions vary per convertible bond for which you receive shares. As a bondholder, you can opt whether to convert the bond into a predetermined number of shares or not. The number of shares is determined by the conversion price. Sometimes you can also opt to have the convertible bond paid out in cash during the term. The interest on a convertible bond is usually slightly lower than on an ordinary bond.
A convertible bond thus has two characteristics, namely of a bond and of a share. The value of this product can therefore also be determined in two ways, namely on the basis of:

- The bond value. The bond value is equal to the price of a comparable ordinary bond; and
- The conversion value. You calculate the conversion value by multiplying the conversion price by the number of shares that you will receive if you opt for conversion.

If the share price is lower than the conversion price, the bond value mainly determines the price of the convertible bond. In that case, the convertible bond behaves like an ordinary bond. If the share price is higher than the conversion price, the conversion value mainly determines the price of the convertible bond. In this case, the convertible bond will behave like a share.

Risks of convertible bonds

The risks of convertible bonds can be compared with those of ordinary corporate bonds. In addition, a convertible bond enables you to make a price gain on the shares into which you can convert.

Asset classification

The bank classifies convertible bonds in the 'fixed income' asset class. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

Reverse exchangeables

Reverse exchangeables are bonds where it is not the buyer of the bond, but the company that issued the bond who has the right to pay out in shares instead of in cash. This always happens at the end of the term. Therefore, with a reverse exchangeable, you run the risk of not being repaid in cash, but in shares. This usually happens if the value of these shares is lower at the time of payment than the amount of cash you would have otherwise received. In return for this risk, you earn a higher interest rate than on an ordinary bond.

Risks of reverse exchangeables

The risks of reverse exchangeables can be compared with the risks of shares. You can also lose your entire investment.

Asset classification

The bank classifies reverse exchangeables in the 'equities' asset class. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions

2.4. What are the characteristics and risks of property?

Investments in property can be either direct or indirect. Another term for property is real estate. When you invest in property, you invest in 'bricks and mortar', such as houses, offices, shopping centres and recreation objects.

Direct and indirect investments in property

If you want to invest directly in property, then you often become the owner of the property and then you are usually required to invest a large amount in a single lump sum. This can also be done using a legal structure that owns the 'bricks and mortar'. An example of such a legal structure is a real estate CV (limited partnership). The risk is that such investment can usually not be sold easily and quickly. To avoid this risk, many people do not invest directly in property but indirectly – for example, by investing in a property fund. A property fund invests the money of all its investors in properties or in other companies that are active in property development projects. For the risks of investment funds, see section 2.6 (*What are the characteristics and risks of investment funds?*).

Risks of property

The risks of investing in property relate to:

- Interest rate risk; see also section 1.5 (*What is interest rate risk?*);
- Market risk; see also section 1.4 (*What is market risk?*);
- Liquidity risk; see also section 1.6 (*What other general investment risks exist?*); and
- The political stability of the country where the property is located.

In addition, property carries certain special risks, such as the risk of:

- Falling property values
- Tenants defaulting on the rent (tenant risk)
- Vacancy
- Falling rental prices.

In general, the return on property is uncertain. Moreover, you run the risk of losing the money that you have invested.

Asset classification

The bank classifies property with the "equities" asset class. This only concerns indirect investments. You can read which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.5. What are the characteristics and risks of liquidities?

The term 'liquidities' includes your savings, deposits and the money in your payment account. But you can also invest in liquidities using an investment fund. For the risks of investment funds, see section 2.6 (W*hat are the characteristics and risks of investment funds?*). We will not discuss the characteristics of savings any further here.

Risks of liquidities If you have liquidities, you are not exposed to price risk, but you must take account of the following:

- The debtor risk of the bank holding your money. Your liquidities at the bank fall within the deposit guarantee scheme. For more information about this, see the website of De Nederlandsche Bank (www.dnb.nl);
- The risk of inflation, namely that your money will depreciate over time. This means that you can buy less for 1 euro; and
- Currency risk if your liquidities are not held in euros, but in a different currency. You can read about what currency risk is in section 1.3 (*What is currency risk?*).

So liquidities carry a low risk, but the return is also low. We advise you not to invest all your money, but also to keep a portion available in liquidities. This reduces the risk of your overall investment portfolio. In addition, you can use the money to:

- Make unexpected expenditures; or
- Respond to investment opportunities in the market.

Asset classification

Liquidities are a separate asset class of the bank. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions

2.6. What are the characteristics and risks of investment funds?

With an investment fund, your money is invested together with the money of other investors who are participating in that fund. The purpose of the fund is to generate a profit with these investments. You share the profit together with the other investors. You buy a part of the fund. This is also called a share or a unit. So you are the owner of the investment fund together with these other investors. One typical characteristic of an investment fund is that the investment portfolio is well-diversified.

With investment funds we make a distinction between the following:

- Investment funds that are listed and those that are not listed on a stock exchange. This determines whether your investments in an investment fund can be sold quickly and easily. If the investment fund is not listed on a stock exchange, you can sell less easily and quickly. In this case, you can usually only buy or sell your units within the fund itself. This takes place through the bank.
- Closed-end and open-end investment funds. This is important when buying and selling units in investment funds. An open-end investment fund is always obliged to allow investors to enter or exit the fund. An open- end fund can do this by issuing new shares or units or by withdrawing existing ones. This means you can always easily sell your investments at the actual value of the fund. This actual value is also known as the net asset value.
  The situation with closed-end investment funds is different. Such fund cannot issue new shares or units or withdraw existing ones. The price of the fund therefore depends on supply and demand. As a result, this price can deviate from the actual value. Most of the time you cannot easily enter or exit the fund during the term of the fund. Or this is only possible subject to certain conditions. This means that you run the risk that you cannot sell your units in such a fund whenever you choose. For example, when the results are disappointing. Property funds are often closed-end investment funds, particularly when they invest directly in property.
- Actively managed and passively managed investment funds. In case of active management, the fund

manager's goal is to achieve a better return than the benchmark. A benchmark is a standard for comparing returns, this is often an index. In case of passive management, the fund manager only follows the benchmark and therefore realises about the same return as from the benchmark. Most investment funds you can invest in at the bank are actively managed investment funds.

There are various types of investment funds, including:

- Equity funds: funds that invest in shares
- Bond funds: funds that invest in bonds
- Liquidity funds: funds that invest in investment products with a term shorter than 1 year, such as deposits and certain bonds
- Property funds: funds that invest in property
- Mixed funds: funds that invest in various asset classes such as shares, bonds and alternative investments
- Theme-based funds: funds that invest in a certain theme, such as green funds or funds that invest in new energy
- Hedge funds: funds that use various investment products and strategies. See also section 2.7 (*What are the characteristics and risks of hedge funds?*).

Risks of investment funds

The risks of investing in an investment fund depend mainly on the investment products in which the fund itself invests. If, for example, the companies in an equity fund's portfolio lose value, then your investment in that investment fund will also lose value. If you sell your units in the investment fund for a higher price than the price at which you purchased the units, then you make a profit. The reverse also applies: you lose if you sell the units for a lower price. If the investment fund makes a profit, the fund often pays out a dividend. This dividend is often paid by means of new investments in that fund. So you do not receive the dividend in cash. The risks attached to an investment in an investment fund are generally lower because the fund manager diversifies the investments within the fund. If you invest in an investment fund, this gives your own investment portfolio a broader diversification, which you could otherwise only achieve with a large capital. However, it is important to make sure you do not invest too much in a single type of investment fund, such as in a single sector or region.

Asset classification

The bank classifies investment funds in the 'equities' asset class if you do not invest in that investment fund using the Investor Giro. You can read about what the Investor Giro is in the Investor Giro Conditions. If you invest in an investment fund using the Investor Giro, the bank classifies the fund in the asset class in which the fund places most of its investments. So if a fund invests predominantly in shares, the bank classifies that fund in the 'equities' asset class. A fund that invests mainly in bonds is classified in the 'fixed income' asset class. The manager of the fund indicates the asset class in which the investment fund places most of its investments. Mixed funds are classified according to the fund's own mix. For example, if the fund's investment is:

- 60% in equities;
- 30% in fixed income;
- 0% in alternative investments; and
- 10% in liquidities.

Then the bank follows this mix in its asset classification of the investment fund. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

Please note

This method of classification is only applicable to mixed funds using the Investor Giro. If you invest in mixed funds but not using the Investor Giro, these are classified in the 'equities' asset class.

2.7. What are the characteristics and risks of ETFs (Exchange Traded Funds)?

An ETF (Exchange Traded Fund) is similar to an investment fund. Similarly to an investment fund, an ETF invests your money together with the money of other investors who participate in that ETF. But unlike investment funds where there is one price on a trading day, ETFs are continuously tradable and can therefore have multiple prices per day. There are ETFs that are managed actively and ETFs that are managed passively.

- In case of active management, the fund manager's goal is to achieve a better return than the benchmark. A benchmark is a standard for comparing returns. In case of passive management, the fund manager only follows the benchmark and therefore realises about the same return as from the benchmark. Most ETFs you can invest in at the bank are passively managed ETFs. The benchmark of passively managed ETFs is often an index, but it can also be a composite basket of shares or bonds. ETFs that track an index are also referred to as index trackers or trackers.

Within these, we distinguish between physical ETFs and synthetic ETFs.

- In case of a physical ETF, the fund manager buys all the underlying investments (full replication) or part

(partial replication) of the underlying investments of the tracked benchmark. In order to attempt to realise approximately the same return as the benchmark. Most ETFs you can invest in at the bank are physical ETFs.

- A synthetic ETF is artificial: the fund manager does not buy the underlying investments of the benchmark, but tries to achieve the benchmark's return by other means. This is done with a 'swap', which is an agreement with a major financial party. This party promises that the ETF follows the value development of the benchmark. This party receives a fee from the fund manager in return. A synthetic ETF has a complicated construction and is (much) less transparent than a physical ETF. Consequently, a synthetic ETF generally has a higher risk than a physical ETF.

Risks of ETFs

The risks of investing in ETFs are similar to the risks of investing in investment funds. The risks depend mainly on the underlying investments and how the fund manager selects the underlying investments.

- Market risk. Similarly to investment funds, ETFs respond to positive or negative developments in the market.
- Price risk. The price risk of physical ETFs is similar to the price risk of shares. The price risk of synthetic ETFs is higher, due to the complicated and opaque construction, price movements can be more volatile than with physical ETFs.
- Liquidity risk. You run the risk with certain ETFs that they are less tradable. This is especially the case for synthetic ETFs, but also for physical ETFs whose underlying investments are less tradable.
- Counterparty risk. You run the risk in the case of synthetic ETFs that the counterparty cannot deliver the return agreed in the swap agreement.
- Currency risk. Is an ETF issued in a currency other than the euro? You will run the risk relating to that currency value compared to the euro. This currency risk also applies to an ETF that is issued in euros, but whose underlying investments are quoted in another currency.

Asset classification

The bank classifies ETFs in the 'equities' asset class. You can read about which asset classes the bank uses in article 2.3 *(What risk profiles does the bank use?*) of the General Investment Conditions.

2.8. What are the characteristics and risks of hedge funds?

A hedge fund is an investment fund which aims to achieve the highest possible return, irrespective of what the stock exchange does. Hedge funds make use of many more investment products and strategies than ordinary investment funds. For example:

- A hedge fund can use derivative products to protect the return. You can read about what derivatives are in section 2.11 (*What are the characteristics and risks of derivatives?*).
- A hedge fund can enter into an obligation to sell shares at a certain time in the future without actually owning these shares (going short). As a result hereof the fund can benefit from falling share prices.

Selecting hedge funds is complicated. For this reason, it is better to invest in an investment fund that invests in various hedge funds. Such a fund is called a 'fund of hedge funds'. Such fund can combine strategies to achieve the best and most stable result possible. If you decide to pick and choose your own hedge funds, you must have a detailed knowledge of the strategy, leverage (see section 2.11) and liquidity risk of hedge funds. For more information on hedge funds and the risks of investing in hedge funds, you can read the brochure about hedge funds which you can obtain from your Private Banker at ABN AMRO MeesPierson. You cannot receive any advice about hedge funds at ABN AMRO.

Asset classification

The bank classifies hedge funds in the alternative investments asset class. You can read which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.9. What are the characteristics and risks of structured products?

A structured product invests in one or more asset classes in a complex manner, often with the aid of options. You can read about what options are in section 2.12 (*What are the characteristics and risks of options?*). A structured product therefore also has one or more underlying assets. With a structured product, you run either more or less risk than with an 'ordinary' investment product. There are different types of structured products, including:

- Certificates. A certificate often tracks the price of the underlying asset, such as shares or a stock exchange index. As a result, an investment in a certificate can be compared with an ordinary investment. This is not the case if the certificate makes use of a different currency or of a loan. Certificates that invest in an index are generally less risky than those that invest in

an investment product. Certificates most of the time do not have an expiration date.

- Capital protection products. A capital protection product is a product with which you invest with a total or partial protection of the invested capital. The protection can cover the total investment or a large part of it. It does not matter if the product has performed well or not. If you sell the product before the maturity date, the protection does not apply and you will receive the value that the capital protected product has at that time. This can be more or it could be less than the protection level. With this product you run little risk.
- Investment products with conditional protection. This is a product with which you are wholly or partially protected against losses as long as a predetermined protection level is not broken. This product may offer a chance at a reimbursement (coupon) over the nominal value (principal amount). With this product you run a lower risk than with a direct investment but you run a higher risk than with a capital protection product.
- Leveraged products. This is a product whereby the value can rise or fall sharply in a short space of time. This is caused by the inclusion of derivatives in the structured product. This kind of product has more risk than an 'ordinary' investment product. You can lose your entire investment in a short space of time. You can read about what derivatives are in section 2.11 (*What are the characteristics and risks of derivatives?*).

This is only a general indication of the various types of structured products. Different variations and combinations are possible within the types of products mentioned above.

The characteristics, risks and the value of a structured product depend on the type of structured product. You must therefore always, before deciding to invest in it, read the information on such a product. For example, in the prospectus and the brochure. You can find the product information on the website of the institution that issued the product. You can also ask your advisor for this information and advice.

Asset classification

The bank classifies a structured product in the asset class that best fits the character of the product. This depends on, for example, the risks of the structured product. Capital protection products with a total protection of the investment are classified in the 'fixed income' asset class. High-risk products however are classified in the 'equities' asset class. You can read about what asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.10. What are the characteristics and risks of precious metals?

At the bank you can invest indirectly in precious metals by using ETF's (Exchange Traded Funds) and structured products such as Turbo's. Investing in precious metals is very risky, because the prices of precious metals can fluctuate strongly. Investments in precious metals do not fall within the financial supervision laws, such as the Financial Supervision Act (*Wet op het financieel toezicht / Wft*). As a result, investments in precious metals, unlike other investment products, are not subject to financial legislative supervision. This is an extra risk with investments in precious metals.

Asset classification

The bank classifies investments in precious metals in the 'alternative investments' asset class. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.11. What are the characteristics and risks of commodities?

Examples of commodities are:

- Oil
- Iron
- Grains
- Sugar
- Cotton.

Precious metals are also commodities. You can invest in commodities using ETF's (Exchange Traded Funds) and structured products. Commodities are not very sensitive to inflation. This means that if money loses value, commodities usually retain their value. In addition there is also little correlation between investments in commodities and investments in shares and bonds. This means that commodities often tend to react differently to financial developments than shares and bonds. If you invest in a broadly diversified
investment portfolio, then you can reduce the risk of your portfolio by investing a small component in commodities. An investment in commodities is not without risk. The prices of commodities can fluctuate very sharply. This means that investments in commodities carry a high risk. Another risk is the currency risk; see also section 1.3 (*What is currency risk?*). Most investments in commodities are listed on a stock exchange in a different currency than the euro. Industrial metals, rice and energy, for example, are quoted in US dollars. Cocoa, by contrast, is listed in British pounds.

Asset classification
The bank classifies commodities in the alternative investments asset class. You can read which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.12. What are the general characteristics and risks of derivatives?

Derivatives refer to investment products that are derived from other products. This means that the value of derivatives depends on the value movement of another product on which the derivative is based. That other product could be a share or an index, but also a currency or commodity. Examples of derivatives are:

- Options (see section 2.12)
- Warrants (see section 2.14)
- Turbos (see section 2.13). A Turbo is a structured product, but with the characteristics and risks of a derivative. This is why Turbos are discussed with the derivatives.

This chapter provides a general description of these products. You can find a more detailed explanation of these products in the bank's information on options which is supplied to you when you start investing in these products and in the Key information document (KID). There are separate brochures for Turbos.

Derivatives are very risky investment products. This is because it is very difficult to predict what will happen with the underlying asset and because of the leverage effect (see below). In some cases, you can lose your entire investment or may even be required to make an additional payment in cash. Derivatives are therefore more suitable for investors with extensive knowledge and experience of investing.

Leverage effect
One characteristic of derivatives is that they usually contain a leverage effect. This is the case in any event with options, warrants and Turbos. The leverage effect means that your potential profit is higher than the profit you can make with a direct investment in the underlying asset. This is because a much smaller investment can generate exactly the same profit. Due to the leverage effect, you benefit more from an increase in the price of the underlying asset than if you should have invested directly in that underlying asset. However, you also lose more if the price of the underlying asset falls than if you had invested directly in that underlying asset. With certain derivatives, you can even lose more than the amount you originally paid for the derivative. You can read more about the leverage effect in the information on options and Turbos.

How does the statutory protection work in the case of options?
Article 5.4 (*What is a clearing organisation?*) of the Appendix to ABN AMRO Options Conditions (the Options Appendix) describes how we process your order for an option. Your rights and obligations under these derivatives transactions and any collateral you may have provided form part of our segregated derivatives assets. It follows that these derivatives and collateral do not form part of the bank's assets in the event of the bank's bankruptcy. We administer the positions as derivatives assets. Is everything protected under the Securities Giro Act (*Wet giraal effectenverkeer*)? No, if you keep liquidities as collateral in your payment account (for margin requirement purposes), they are only partially protected by law. This is because the bank keeps your derivatives positions in an omnibus account with a clearing organisation. All derivatives positions of all the bank's customers are administered in this omnibus account. The bank must hold collateral for these derivatives positions with the clearing organisation. The collateral which the bank must hold with the clearing organisation is less than the total of the margin deposited by the bank's customers. The difference between these two amounts is not protected by law. However, the margin held in your payment account may also be (partially) protected by the deposit guarantee scheme.

Asset classification
The bank classifies all derivatives in one of the bank's asset classes. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions. The bank classifies warrants in the 'equities' asset class and classifies other derivatives in various ways. The bank classifies options and Turbos on the basis of the underlying asset. For example:

- An option on Philips shares will be classified as 'equities'. An option or Turbo on the AEX also falls within the 'equities' asset class.
- Options and Turbos on bonds or a bond index are classified as 'fixed income'.
- Currency options are classified as 'liquidities'.
- Options and Turbos on commodities are classified in the 'alternative investments' asset class.

You can read more about the classification of options with the information that you receive from the bank when you start investing in options.

* If your right still has value at the end of the term, it will be exercised by the stock exchange. You can read more about how the stock exchange exercises these rights in article 3.3 of the ABN AMRO Options Conditions (*How can I exercise my purchased options or how does the stock exchange exercise your purchased options?*)

2.13. What are the characteristics and risks of options?

An option is a standard contract herewith you can buy or sell a right or obligation:

- within a specified period
- a certain quantity of the underlying asset
- to buy or to sell
- at a predetermined price.

The period in which the purchase or sale must take place is called the exercise period. The price is called the exercise price. The quantity of the underlying asset is usually 100. If you buy an option, you have the right (and not the obligation)* to buy or sell an underlying asset (for example, shares). An option which enables you to buy an underlying asset is a call option. An option which enables you to sell an underlying asset is a put option. If you have bought an option, we call that a bought position or a long position. If you have sold an option, then you have the obligation to buy or sell a certain amount of an underlying asset in the exercise period. If you sell an option that obliges you to buy, this is called a put option. If you sell an option that obliges you to sell, this is called a call option. Selling options is also known as writing options. If you have written an option, we call that a sold position or a short position.

If you buy an option, you pay the costs (the premium), because you buy a right to buy or sell the underlying asset. If you write an option, you run the risk of being obliged to buy or sell the underlying asset during the exercise period. You receive a payment (the premium) for taking this risk. The premium is much lower than the price of the underlying asset. The leverage effect of the option causes that price fluctuations of the underlying asset lead to larger profits and losses than with a direct investment in the underlying asset. Consequently, investing in options is very risky. See also the description of the leverage effect in section 2.11 (*What are the general characteristics and risks of derivatives?*).

If you want to invest in options, you must sign a separate agreement with the bank. You will receive a copy of the ABN AMRO Options Conditions with this agreement. These consist of the Options Conditions and the Options Appendix. This document explains more about how options work and the risks of investing in options.

2.14. What are the characteristics and risks of Turbos?

A Turbo is a structured product that you can buy or sell on the stock exchange. A Turbo allows you to anticipate to a price movement of an underlying asset. These underlying assets can consist of shares, bonds, commodities, currencies or an index. With a Turbo Long, you can anticipate to an increase in the price of the underlying asset; with a Turbo Short, you can respond to a decrease. 'Turbo' is a brand name. Comparable investment products are traded under different names.

Financing level

Each Turbo has a so called 'financing level'. Because of this financing level, you are only required to pay a small part of the value of the underlying asset. The financing level gives the Turbo a leverage effect. You therefore only pay part of the underlying asset, but participate fully in any increase or decrease in the price. The value of the Turbo will therefore respond fairly strongly to an increase or decrease in the value of the underlying asset. See also the description of the leverage effect in section 2.11 (*What are the general characteristics and risks of derivatives?*).

'Stop loss'

Every Turbo contains a certain protection. This is the result of a 'stop loss'. This protection ensures that you can never lose more than your initial investment. As a result, the issuing institution terminates the Turbo if the underlying asset reaches or crosses a certain level. If the Turbo still has a residual value when it is settled, then that value is paid out to you. The 'stop loss' is not fixed for the entire term of the Turbo, but changes. The issuing institution usually adjusts the 'stop loss' every month to the new financing level. In general, the 'stop loss' increases with a Turbo.

If you want to invest in Turbos, you must first read the information about this product from the issuing institution. This document explains more about how Turbos work and the risks of investing in Turbos.

2.15. What are the characteristics and risks of warrants?

With a warrant, you buy a right to buy or sell a certain quantity of an underlying asset at a predetermined price in a certain period. The period in which you must buy or sell the underlying asset is the exercise period. The buying or selling price is called the exercise price. The underlying asset of a warrant can consist of shares, bonds or an index. A warrant is similar to an option, but there are differences:

- An option is issued by the stock exchange and a warrant by banks;
- An option is a standard contract and a warrant is not;
- You can write an option, but you cannot write a warrant; and
- A buyer of an option exercises this option against the writer of that same option, while a warrant is exercised against the issuing institution (for example, a bank).

Risks of warrants

The risks of warrants are much higher than with a direct

investment in shares. The term of a warrant is short. As a result, the right to buy or sell the underlying asset can rapidly become worthless. If this happens, you can rapidly lose your initial investment. Warrants have a leverage effect. If the price of the underlying asset changes, the leverage effect will also cause the price of the warrant to rise by much more or less than the price of the underlying asset. See also the description of the leverage effect in section 2.11 (*What are the general characteristics and risks of derivatives?*).

2.16. What are the characteristics and risks of treasury products?

Treasury products are 'Over The Counter' transactions (also known as OTC derivatives). With these transactions, you enter into an agreement with the bank. An OTC derivative has an underlying asset. This is often a currency or an interest rate. You cannot buy or sell an OTC derivative through the stock exchange but you can only arrange this with the bank.

An OTC derivative can be used to cover financial risks. This is also known as 'hedging'. However, you can also invest in OTC derivatives. Investing in OTC derivatives is risky for the following reasons:

- You cannot sell them through a stock exchange; and
- The agreement often involves large amounts.

If you enter into an OTC derivative with the bank, the costs can be high if you want to terminate the agreement with the bank before the end of the term.
If you wish to invest in treasury products, you must sign a separate agreement for this. Alongside this agreement, you will receive a copy of the conditions for investing in treasury products at the bank.

Asset classification

The bank does not always classify investments in OTC derivatives in an asset class. This means that the bank does not include these products in its portfolio analysis. See also article 2.2 (5) (*How do I determine my investor profile?*) of the General Investment Conditions. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

2.17. What are the characteristics and risks of private equity?

Private equity involves investing the money of private individuals in companies that are not listed on the stock exchange. This often concerns investments in companies that do not yet have a proven track record in the market, for example because they have just started. We also call this venture capital. These investments are very risky, but offer the potential of very high returns if the company becomes profitable. Sometimes private equity investments are made in companies that do have a proven track record, but need extra money to grow their activities.

With a private equity investment, you often also receive shares and, hence, voting rights in the company's affairs. You can also invest in private equity through investment funds. See also section 2.6 (*What are the characteristics and risks of investment funds?*).

Asset classification

The bank classifies a private equity investment in the alternative investments asset class. You can read about which asset classes the bank uses in article 2.3 (*What risk profiles does the bank use?*) of the General Investment Conditions.

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