

Doing business in Turkey



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Doing business in Turkey is well within your reach with the support of the right business partner.

Introduction

In this guide we offer an insight into the economic and legal background to doing business in Turkey, as well as outlining the range of services that RBS can deliver to support your ambitions.

As a leading global bank with a strong presence in the region and a history in Turkey that stretches back to 1921, RBS is strongly positioned to understand your needs and help you to achieve your objectives.

In fact RBS is among the leading transaction banking providers globally – we are rated top-six globally for international cash management* and number six globally for trade finance**. We can manage in-country delivery of domestic and cross-border payments, foreign exchange, working capital and supply chain finance, trade finance and internet payments, giving you greater control and visibility of your business. In addition, our market-leading DCM, ECM and M&A capabilities have supported numerous multinationals in reaching their strategic objectives.

Our local client service teams speak your language and can provide expert advice when you need it, in your time zone. To many of our clients we are more than just a bank – we understand the challenges businesses face in operating internationally and bring a wealth of knowledge and experience to help them achieve their goals.

So, regardless of the size of your operations in Turkey, we can offer the services and support to help you succeed.

* Euromoney Cash Management Poll, 2010

** Euromoney Trade Finance Survey, 2010

Understanding Turkey: the highest growth rate in the OECD in 2010

Macro-economic overview

Turkey's economy has been transformed since the 1995 customs union accord with the European Union (EU). This agreement laid the foundations for the country to become more internationally competitive and for its foreign trade to grow faster. The government began to introduce liberalisation policies, and the pace of reforms accelerated after the 2001 banking crisis hit the economy hard. Economic liberalisation has been aligned with political reform since 2002, resulting in a candidacy agreement with the EU. This has given the country a political anchor to further secure its economic and political position. These developments proved their worth when Turkey weathered the recent global financial and economic crisis relatively well.

Today Turkey offers good long-term prospects for foreign investors. It is the fifteenth largest economy in the world and sixth in the EU area¹. The country has a population of 73 million, about 28% of whom are under 14 years old, making it the world's seventeenth most populous country². It also benefits from a well-diversified economy, proximity to Europe, the Middle East and Eurasia, and integration into European markets.

Between 2002 and 2008 economic growth rate averaged 5.8%³. Although the recent financial and economic crisis caused Turkey's economy to contract in 2009, initial growth figures for 2010 indicate that a strong recovery is underway: the IMF projects growth of 7.8% for the whole year, while the OECD expects 6.8%. Moreover, forecasts suggest that robust expansion will continue. The OECD expects that Turkey will be the

fastest growing country in the organisation between 2011 and 2017 with an average growth rate of 6.7%³. The IMF forecasts that Turkey will grow at around 4% annually over the next five years.

The public finances are also sound. Turkey's public debt/GDP ratio fell from 73% to 40% between 2002 and 2008. Despite the recent crisis, the country's public debt/GDP ratio is about 45%, well below the Maastricht criterion of 60% and the EU average of 73%⁴.

Foreign trade has grown steadily since the mid-1990s. The major trade partners are France, Germany, Italy, Russia, the UK and the USA. The country's export markets

are well diversified. The EU's share in Turkey's exports has been falling and currently is about 50%⁴.

Turkey's sovereign ratings are BB from S&P, Ba2 from Moody's and BB+ from Fitch. All three agencies have upgraded their ratings recently in light of the country's performance during and after the crisis. Although the ratings fall short of investment grade, Turkey is expected to reach that level sometime in late 2011 or early 2012.

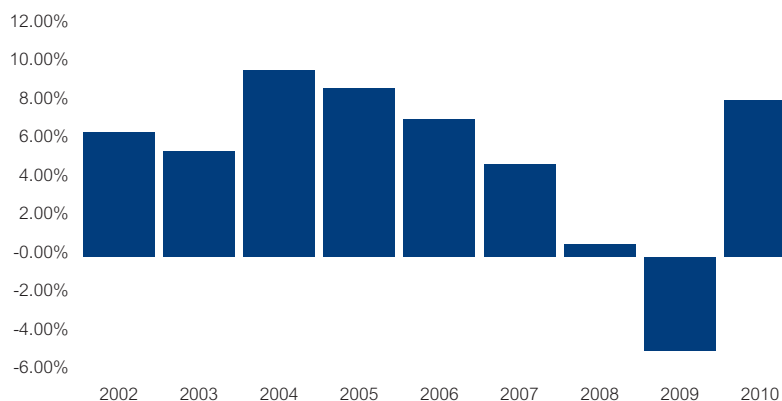
1 by GDP 2009, PPP, World Bank September 2010

2 Turkish Statistical Institute: CIA Factbook

3 IMF

4 Central Bank of the Republic of Turkey; Eurostat, Turkish Statistical Institute

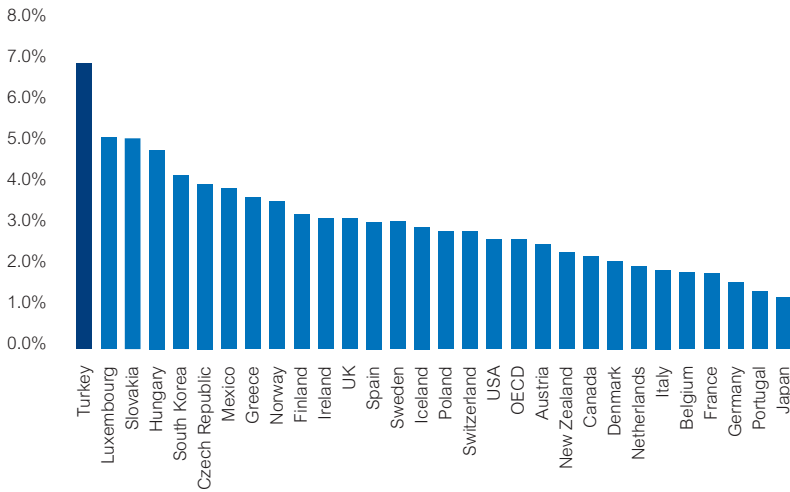
Turkey's economic growth (%)



Source: IMF

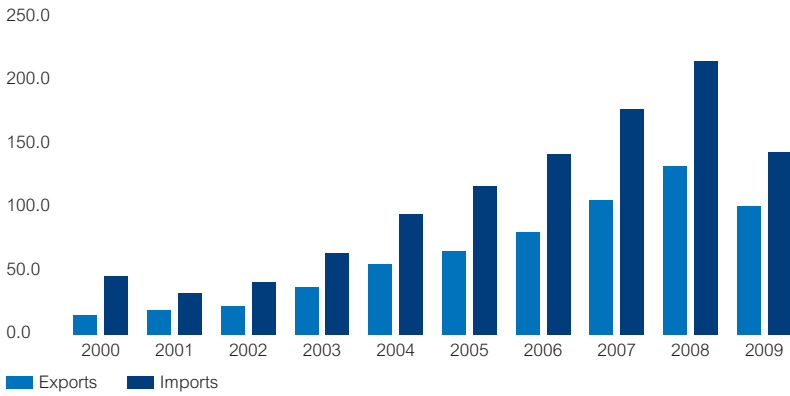


OECD's projection for Turkish growth



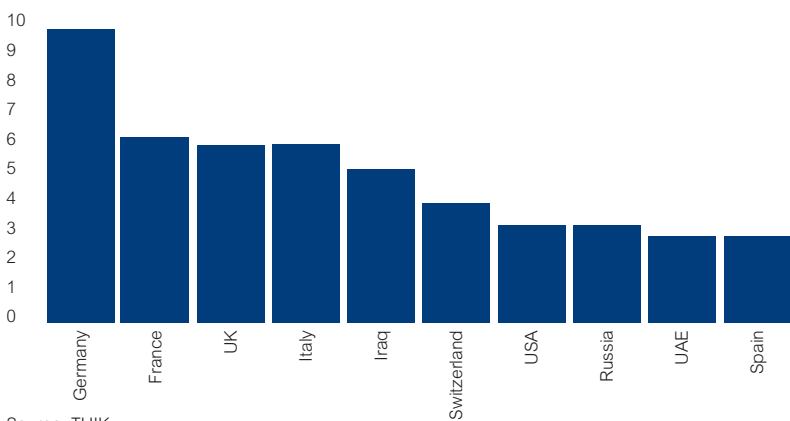
Source: OECD Economic Outlook No:86

Turkey's foreign trade (US\$ billion)



Source: TUIK

Turkey's exports by country (US\$ billion 2009 est)



Source: TUIK



Macro-economic indicators

Population	73 million	2009 est
GDP (current prices, TRY)	952.6 billion	2009 est
GDP (current prices, US\$)	614.5 billion	2009 est
Composition of GDP	Agriculture 9.3% Services 65.1% Industry 25.6%	2009 est
Foreign exchange reserves	US\$77.0 billion	Oct 2010
FDI Stock	US\$77.7 million	2009 est
Number of companies with foreign capital	23,620	2009 est

Trade

Exports	US\$102 billion	2009 est
Imports	US\$141 billion	2009 est
Major export markets (% in total exports)	Germany (9.6%) France (6.1%) UK (5.8%) Italy (5.8%) Iraq (5%)	2009 est
Major import sources (% in total imports)	Russia (14%) Germany (10%) China (9%) USA (6.1%) Italy (5.4%)	2009 est
Tourist numbers	27.3 million	2009 est
Tourism revenues	US\$21.2 billion	2009 est

Sources: Central Bank of the Republic of Turkey, Undersecretariat of Treasury, www.investinturkey.gov.tr, UNCTAD, CIA Factbook



Inward investment between 2002 and 2009 exceeded US\$68.2 billion.

Foreign direct investment

Turkey stands at the crossroads of two continents and is uniquely positioned to attract foreign direct investment (FDI). The United Nations Conference on Trade and Development (UNCTAD) ranked Turkey as the fifteenth most attractive FDI destination for 2008-2010. According to the Turkish Central Bank statistics, inward investment between 2002 and 2009 exceeded US\$68.2 billion, with the majority of funds coming from western countries. The Netherlands topped the list, followed by the USA. Investment from the UK between 2002 and 2009 was more than US\$3.2 billion, placing the country among the top ten investors in Turkey. As of 2010, foreign capital had flowed into more than 23,000 companies in Turkey. Of those companies, 2,000 had received investment from the UK.

In addition to the sound and growing economy, Turkey's attractions for FDI include:

Liberal and secure investment environment

The country has a liberal foreign investment policy. Subsidiaries and branches of foreign companies are generally treated as local companies. There are only a few specific sectors such as media and airlines where some ownership restrictions are applied in line with international practice. A new commercial code is being introduced to further integrate the Turkish Commercial Code and EU laws, improve transparency, protect minority rights and strengthen corporate governance.

The code includes:

- Equal treatment for all investors
- Highly competitive investment conditions, such as incentives to new investment

- Guarantee of transfers such as dividends, fees and capital repatriation
- Strong industrial and service culture
- Privatisations and liberalisation in key sectors such as energy and telecommunications
- International arbitration
- Dynamic and mature private sector generating US\$102 billion of exports in 2009, up 183% from 2002

(Source: www.investinturkey.gov.tr)

Large and growing domestic market

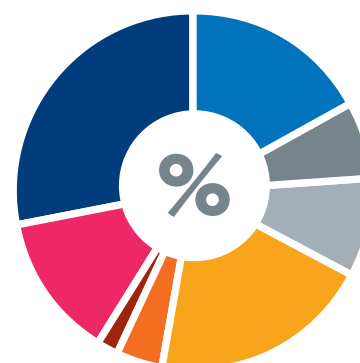
With a median average age of about 28, Turkey's population is expected to become the largest in Europe, overtaking Germany.

- 27.3 million international tourist arrivals in 2009, up from 13 million in 2002
- 63 million mobile phone users in 2009, up from 23 million in 2002
- Over 85 million airline passengers in 2009, up from 33 million in 2002
- 44.4 million credit card users in 2009, up from 16 million in 2002
- 30 million internet users in 2009, up from 4 million in 2002

Source: www.investinturkey.gov.tr

“The UK has been one of the top ten investor nations in Turkey between 2002 and 2009 and the amount of UK originated FDI Turkey received in this period exceeded US\$3.2 billion. Today the number of companies carrying UK capital is more than 2,000.”

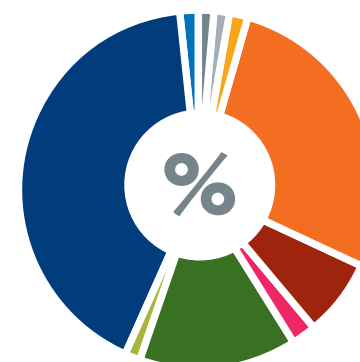
Number of companies with foreign capital breakdown by country (cumulative figure by 2010)



- Germany 17%
- The Netherlands 7%
- United Kingdom 9%
- Other EU countries 20%
- Americas 4%
- China 2%
- Other European 13%
- Other 28%

Source: Central Bank of the Republic of Turkey

FDI breakdown by sector (2008 realisation)



- Financial intermediation 42%
- Real estate, renting and business activities 4%
- Health and social work 1%
- Other 1%
- Mining and quarrying 1%
- Manufacturing 27%
- Electricity, gas and water supply 7%
- Construction 2%
- Wholesale and retail trade 14%
- Transport, storage and communications 1%

Source: Central Bank of the Republic of Turkey

Turkey offers tax and non-tax incentives to foreign investors.

FDI incentives and financing

Turkey offers tax and non-tax incentives to foreign investors, in line with those offered to domestic companies. These include customs and VAT exemptions on various imported or locally delivered goods, including machinery and equipment, and incentives such as free land and subsidies for energy in priority regions. Investors can also obtain help for R&D and market research to encourage exports and increase competitiveness in international markets.

High-quality and competitive labour force

- A labour force of about 25 million, many young and well-educated
- Labour productivity growth averaged 4.4% annually between 2002 and 2009

Source: www.invest.gov.tr

Customs union with EU since 1995 and in accession talks since 2005

- Free Trade Agreements (FTA) with 16 countries
- More FTAs underway

Developed infrastructure

- New and highly developed infrastructure for transport, telecommunications and energy
- Well-developed and low-cost sea transport facilities
- Good railway links to Central and Eastern Europe
- Well-established transportation routes and direct delivery mechanism to most EU countries and the Middle East

Competitive tax system

Turkey cut its corporate income tax rate from 30% to 20% in 2006, making it one of the most competitive rates in the OECD. The country has double taxation treaties with more than 70 countries.

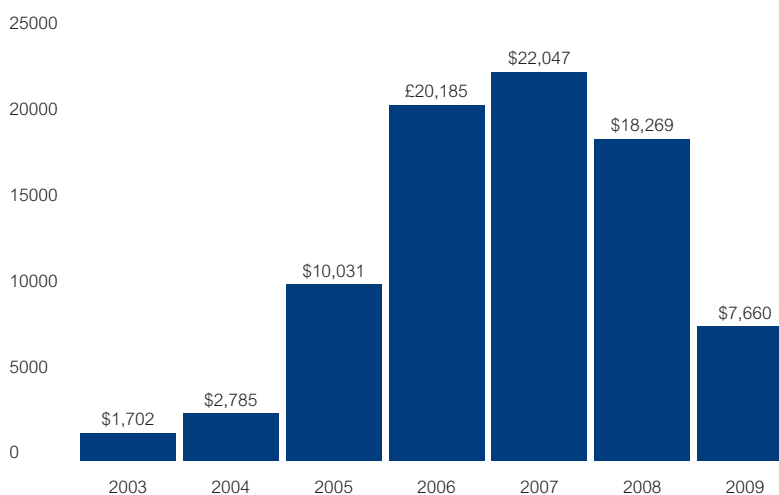
- Tax benefits and incentives in Technology Development Zones, Industrial Zones and Free Zones can include total or partial exemption from corporate income tax, up to 80% grant on employer's social security payments, and allocation of free land

- New R&D and Innovation Support law
- Region and sector-based incentive system

Geographic advantages

- Turkey is a natural bridge between East & West and North & South, allowing easy access to 1.5 billion customers in Europe, Eurasia, the Middle East and North Africa with a combined GDP of US\$22 trillion
- As an energy transit country, Turkey has the capacity to transport 121 million tons of oil a year. Once current projects are completed, the annual transit capacity will increase to 221 million tons of oil and 43 billion cubic metres of natural gas

FDI inflows to Turkey (US\$ billion)



Source: Undersecretariat of Treasury

Legal framework for FDI in Turkey

The Directorate General of Foreign Direct Investments, a unit of the Undersecretariat of Treasury (UT), is responsible for Turkey's FDI policy. UT covers, among other things:

- Promoting, monitoring and auditing foreign investments
- Developing FDI policies and managing bilateral investment treaties with foreign countries

Options for entering Turkey

International companies may establish themselves in Turkey in various ways – including the acquisition of domestic companies. Multinational and foreign corporations can choose one of the following legal forms.



Entry options into Turkey

Form of establishment	Description
Local Turkish subsidiary	Foreign corporations can easily establish wholly-owned subsidiaries in Turkey without any restrictions. These subsidiaries are treated in the same way as resident companies. Subsidiaries can also be joint ventures with a local or international partner. A subsidiary can provide greater flexibility for conducting business in Turkey than a liaison or branch office. There are no local shareholding or directorship requirements for establishing a subsidiary. The subsidiary can be a joint stock company (AS) or a limited liability company (Ltd Sti).
Branch office	Foreign corporations can open a branch in Turkey to do business. The parent company must allocate capital to the branch during the establishment phase but no minimum capital amount is required. Branches can be established under the provisions of the Turkish Commercial Code with the permission of the Ministry of Industry and Trade.
Liaison/representative office	Liaison offices are not permitted to perform any commercial activity in Turkey. Their activities are limited to representation and gathering of information. A liaison office's expenses must be covered by funds sent from the head office abroad. The liaison office may not collect revenues on its own account in Turkey. A liaison office is not itself subject to corporate income tax or personal income tax as it is not permitted to generate any income from its activities. However, it should maintain statutory books and file the necessary documentation to the authorities when required. Employees of a liaison office are not subject to income tax, provided that their salaries are paid from abroad in foreign currency.

The 2006 Corporate Tax Law made important changes and introduced new concepts into tax legislation.

Exchange controls

The Turkish lira is a freely floating currency. The Central Bank of Turkey is responsible for the exchange system and monetary flows. There are two main sets of laws governing monetary transfers from Turkey. One is Law No. 1567 covering the Protection of the Value of Turkish Currency. The other is the Decree on Protection of the Value of Turkish Currency, which includes further regulations about transfers of foreign currency and capital, loan transactions and monetary transfers. In general, any amount of foreign currency may be transferred out of the country regardless of the underlying reason for the transfer. However, transfers of US\$50,000 or more must be reported by the transferring bank to the Central Bank of the Republic of Turkey within 30 days from the date of transfer.

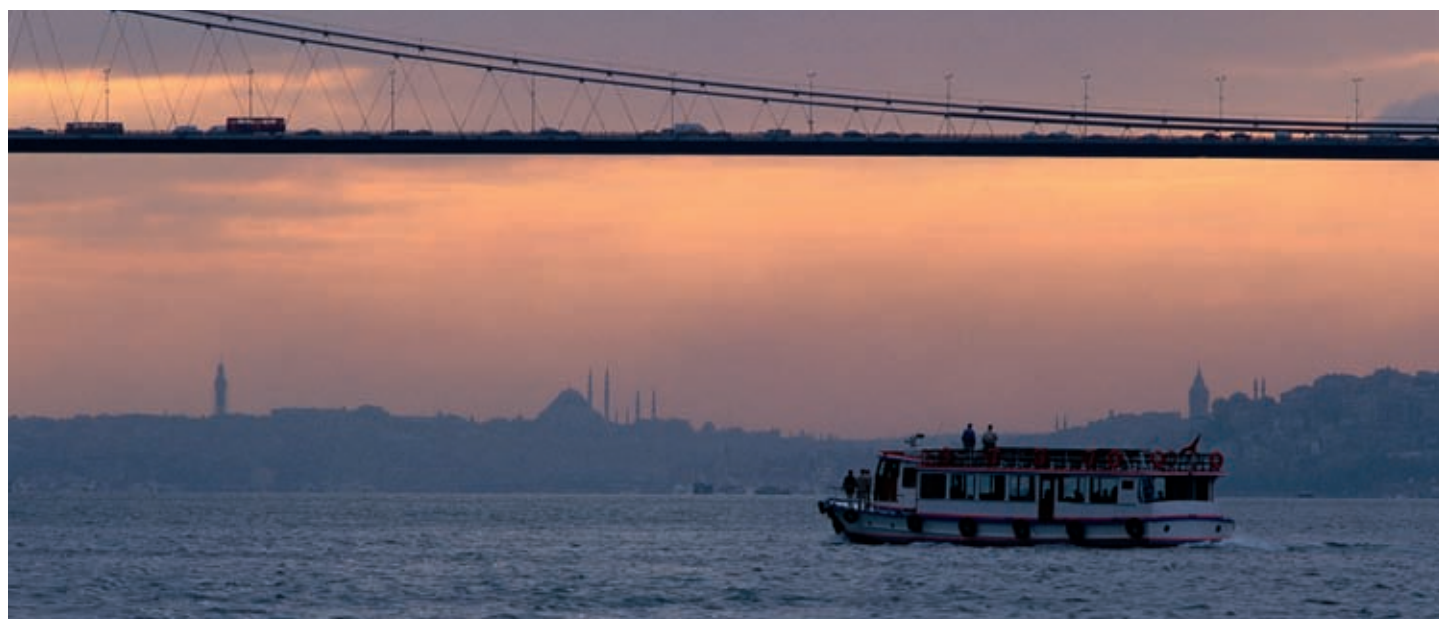
Repatriation of capital

The regulations relating to the remittance of foreign capital and dividends out of the country are set out in Law No. 1567. According to these regulations, foreign investors have the same rights and obligations as Turkish investors. The regulations also guarantee the transfer of profits, fees, and royalties and the repatriation of capital in the case of a liquidation or sale.

The new Foreign Direct Investment Law places no restrictions on the remittance of dividends, interest, and royalties to foreign countries. However, income tax or corporate income tax on certain types of income payable to non-residents is withheld at source.

Taxes

The 2006 Corporate Tax Law made some important changes and introduced new concepts into tax legislation. Turkish corporate tax legislation now has noticeably clearer, more objective and better harmonised provisions which are in line with international standards.



Residence and non-residence status

Residence is important for corporate income taxation. All companies established with foreign capital under the Commercial Code have full liability and they are subject to corporation tax on their worldwide income. The major difference between a branch and a subsidiary or joint venture is the tax status. A branch is subject to Turkish taxes only on income generated in Turkey whereas a subsidiary or joint venture is subject to taxes on worldwide income.

Taxation of dividends

The dividend withholding tax rate is 15% and is applied to dividends paid to non-resident entities (except non-resident entities which are permanently established in Turkey), resident individuals and non-resident individuals. Dividend income derived from corporate tax payers in Turkey is also exempt from corporate income tax. The only exception to this rule is dividend income from investment trusts.

Non-resident shareholders may benefit from a reduced withholding tax on dividends if they are covered by double taxation treaty provisions specifying a withholding tax lower than 15%. A certificate of residence is required to take advantage of such provisions.

Taxation of royalties and fees

Licence, know-how, service and technical assistance payments remitted to non-resident companies are subject to a 20% withholding tax. The withholding tax can be decreased or eliminated if there is a tax treaty between Turkey and the recipient's country. There is also an 18% VAT charge under the reverse charge mechanism.

Value Added Tax (VAT)

The generally applied VAT rate is 18% but there are some product or service categories where lower rates such as 1% and 8% apply. Commercial, industrial, agricultural, independent professional goods and services, goods and services imported into the country, and deliveries of goods and services caused by other activities, are all subject to VAT.

Banking and insurance transaction tax

Banking and insurance transactions remain exempt from VAT but are subject to a Banking and Insurance Transaction Tax. The general rate is 5%, which is usually passed on to the client receiving the service.

Special Consumption Tax (SCT)

There are four main product groups that are subject to SCT at different tax rates:

- Petroleum products, natural gas, lubricating oil, solvents, and derivatives of solvents
- Automobiles and other vehicles, motorcycles, planes, helicopters, yachts
- Tobacco and tobacco products, alcoholic beverages
- Luxury products

Unlike VAT, which is applied at each stage in a transaction chain, SCT is charged only once.

Stamp Duty

Stamp Duty applies to a wide range of documents, including contracts, agreements, notes payable and undertakings. Stamp Duty is levied as a percentage of the value of the document at rates ranging from 0.165% to 0.825%.

Resource Utilization Support Fund (RUSF):

The principal of loans that are obtained from abroad and remitted to Turkish residents (excluding banks and other financial institutions) with an average maturity of less than one year are subject to a 3% contribution to the RUSF.

RBS has the scale, reach and expertise to respond to your needs.

RBS: supporting your objectives in Turkey

In a rapidly changing business environment, RBS has the scale, reach and expertise to respond to your needs. As a leading global bank, we can put our resources to work on your behalf, helping you to identify and realise your objectives. Our teams on the ground across the region can help you better understand the regulations that apply to your business.

RBS is a leading global, wholesale, investment and transaction bank in the region. With roots in Turkey dating back to 1921, RBS provides comprehensive banking services to multinational and local corporate clients as well as government agencies and financial institutions.

Our experienced international bankers offer clients a range of world-class financial products. Our core products include: corporate lending, cash management, trade finance, markets (currency, interest rates, fixed income, money market and equity), M&A advisory and corporate risk solutions.

Global Transaction Services

Our services include cash and liquidity management, trade finance and supply chain solutions. RBS provides these services through a dedicated team of local banking professionals supported by regional teams, its global network and a world-class electronic banking infrastructure.

Trade services

Streamline workflows and optimise your returns from trade through our market-leading trade expertise and products. We work with you to help reduce operating costs, accelerate payment cycles and mitigate risk exposure.

MaxTrad™

RBS's global trade service capabilities are delivered via our web-based, global trade platform MaxTrad. It offers a secure, single point of access to our comprehensive suite of customised trade processing and supply chain finance solutions.

Integrated cash management services

Every business wants to make their money work harder for them. Reducing the capital tied up in running your day-to-day business frees up funding for growth. Even small steps such as adopting faster payment methods can lead to significant gains. Our integrated approach means that you can rely on us to help optimise your working capital.

Access Online

A single, integrated, web-based solution that brings together trade, cash management and foreign exchange services. We have integrated our robust online payments, balance and transaction reporting platform with our trade finance portal MaxTrad, and together with a fully automated FX dealing platform, Access Online enables you to effectively manage your global cash flows and execute transactions.

RBS is also a partner with one of the most prestigious local banks in Turkey. This complements our global solutions with an extensive local branch network so that our clients can combine our global solutions with a branch network throughout Turkey. Along with its global product suite, RBS has the means and capabilities to provide comparable services to those provided by local banks ensuring that we are fully equipped to be your house bank in Turkey.

Opening and maintaining FX or TL dominated accounts in Turkey

All resident and non-resident companies can open and hold foreign exchange or Turkish lira (TL) dominated accounts in and outside of Turkey without any restrictions.

Trade services

Services	Products	
Trade services	Letter of credit (domestic/cross-border) - Issuance/advising/negotiations - Transfer	- Discounting of export letter of credit receivables - Confirmation of letter of credit - Offshore re-issuances
	Collections - Export and import collections	
	Guarantees - Non-credit substitution guarantees	- Standby letter of credit
	Payment services - Direct cross-border payments	Advanced cross-border payments
Trade finance	Pre-and post-shipment finance (export) Import finance	Receivables purchase Supply-side receivables purchase Transactional trade finance
Supply chain solutions	Domestic supply chain financing	Customised payable discounting
	- Cross-border supply chain financing (import/export factoring). - Account receivables/payables	Integrated supply chain payment solutions
Risk management and other value-added services	MaxTrad™	

Integrated cash management services

Products/services	Payments	Collections
Cash management	Domestic payments	Domestic collections
	International payments	International collections
	Cheque services	Cheque collections
	Tax payments	Cash/cheque pick-up services
	Utility payments	Direct debit
	Social security payments	Promissory note collections
Liquidity solutions	Pooling and investment services	
	Overdraft solutions	
Delivery channels	Access Online and Access Direct	

Risk management and treasury services

RBS has strong risk management capabilities*, including dedicated experts. Our Corporate Risk Solutions team watches the markets closely, offering clients suitable risk management and hedging products and closely monitoring their deals all the way from the start to successful delivery. Our strategy reflects our clients' needs and our products are tailored accordingly. We keep our clients informed with daily market reports that are detailed and easy to understand, and our periodical publications provide an overview of the global economy.

* Rated top five overall, Risk Magazine Interdealer Rankings, 2010

Managing currency risk

It is important to understand the risks associated with currency fluctuations and to try to reduce them as far as possible. To help you manage FX risks associated with the Turkish lira, the range of products RBS offers includes, but is not limited to the following:

- Spot Foreign Exchange in all convertible currencies (FX)
- Forward transactions
- FX swaps
- Deposit
- Commercial Paper (CP)
- Treasury Bills (T-bills)
- TRY Auctions

Managing interest rate risk

RBS can help your organisation to effectively manage your interest rate risk arising from interest rate movements in Turkey and also in global markets. We offer a range of products to manage both the short and long-term EUR/USD/TRY interest rate liabilities of our clients.

Treasury services

Our Money Market department is backed by a team of professional and experienced dealers and our proactive involvement in the local and international money markets guarantees that our clients enjoy competitive rates for all treasury-related transactions.

Our clients can enter the Turkish Treasury's local and global TRY/USD/EUR denominated auctions. Clients can also lodge their local T-bills with us, using our custody services.



RBS works closely with clients to develop a good understanding of their goals and strategy.

Funding your business

RBS provides a wide range of loan products and services both in foreign and in local currency to meet our clients' funding requirements. The range of credit portfolio products includes, but is not limited to:

- Working capital loans
- Medium-term financing
- Loan syndication/club loan
- Global commodity financing
- Structured trade finance and ECA financing
- High yield and private placement
- Debt capital markets

Corporate finance advisory

From expansion through acquisition to balance sheet restructuring and regulatory issues, RBS corporate finance teams are experts in advising your organisation. RBS works closely with clients to develop a good understanding of their goals and strategy so that we can conduct risk assessments, examine market opportunities, execute detailed due diligence and make company evaluations.

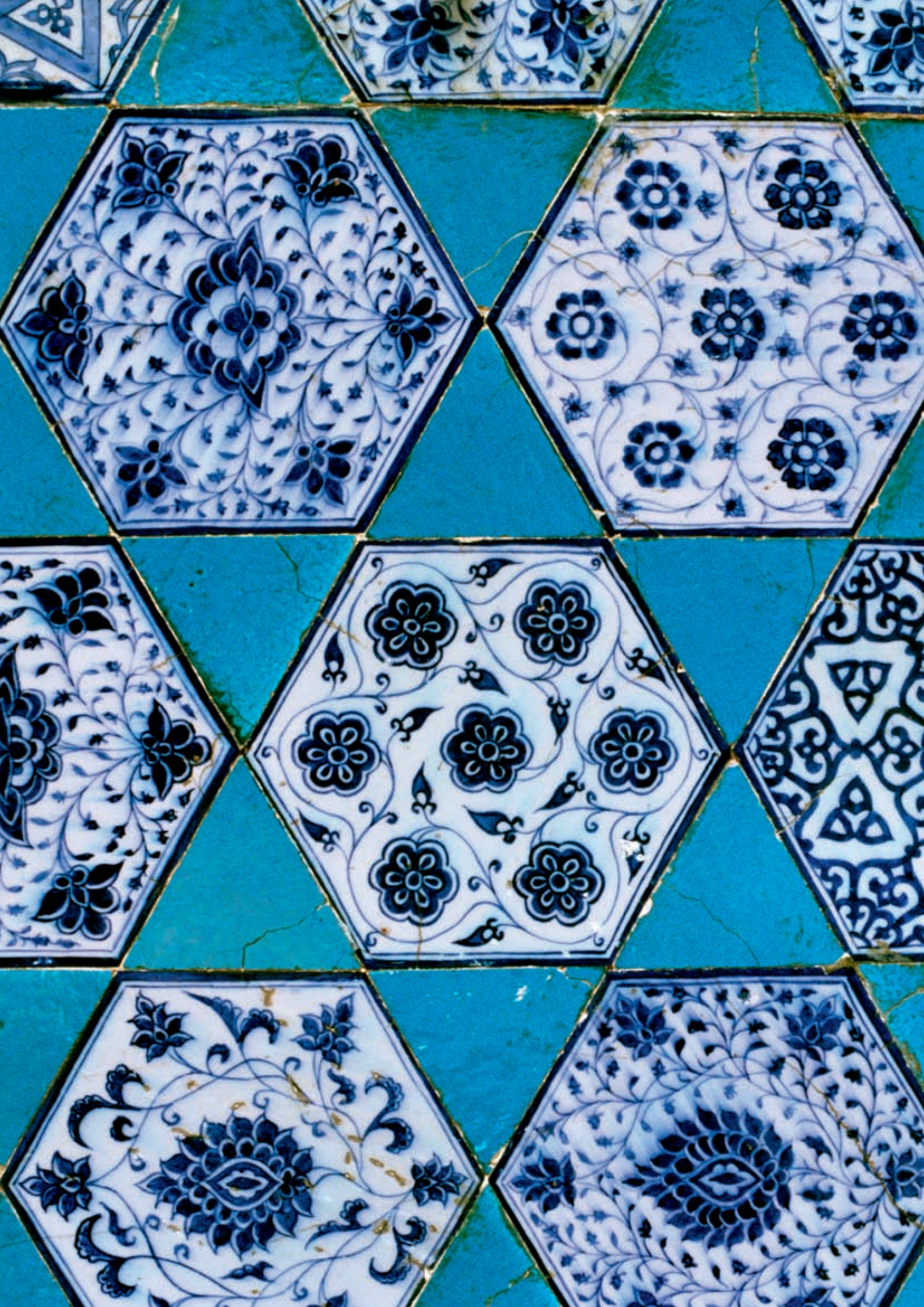
RBS has an extensive network of contacts and business relationships with leading figures in Turkish business and the public sector, in addition to our industry experts. We can provide extensive information on, and insights into, local markets.

Our advisory services include:

- Mergers and acquisitions
- Privatisation
- Divestitures
- Spin-offs
- Leveraged and management buyouts
- Takeover defence
- Restructuring
- Fairness opinions
- Strategic alliances

In the execution phase, RBS can assist you with:

- Transaction strategy and negotiations
- Structuring
- Due diligence and documentation



RBS around the world

Every day in Turkey and across the globe, we work closely with our clients as they discover a variety of exciting opportunities. As a result, we are constantly developing our technology, solutions and people to better exceed these requirements. Our flexible, creative global offering, backed by efficient delivery and strong relationships, demonstrate our commitment both to Turkey and to our clients.

If you would like to know more about how RBS can support your objectives in Turkey please contact your relationship manager.

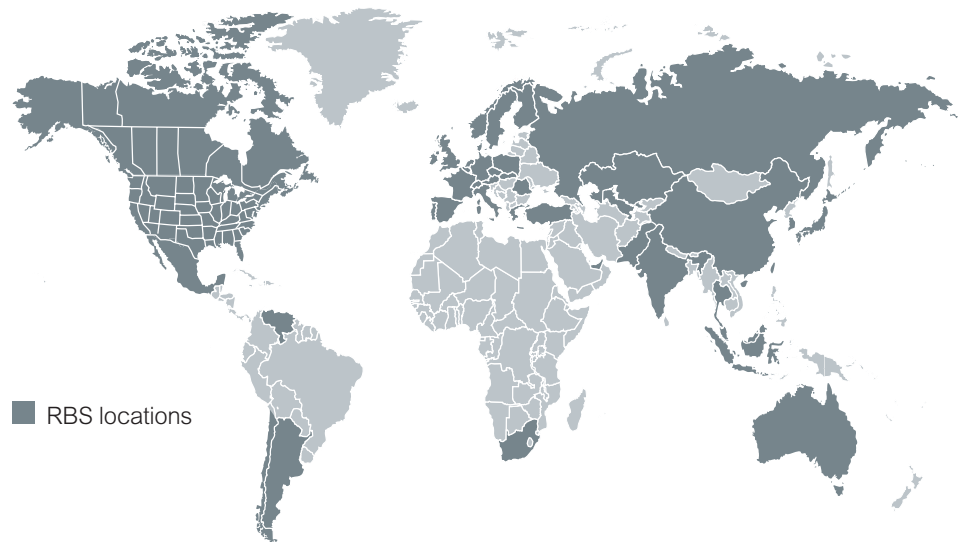
About RBS group

The RBS group is a large international banking and financial services company. Headquartered in Edinburgh, the group operates in the United Kingdom, Europe, the Middle East, the Americas and Asia, serving over 30 million customers.

The group provides a wide range of products and services to personal, commercial, large corporate and

institutional customers through its two principal subsidiaries, The Royal Bank of Scotland and NatWest, as well as through a number of other well-known brands including Citizens, Charter One, Ulster Bank, Coutts, Direct Line and Churchill.

In Turkey, RBS operates as The Royal Bank of Scotland N.V., Head Office Amsterdam, Istanbul Main Branch.



Group branch and rep office presence as at October 2010

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