

- The third line of defence is audit. Group Internal Audit is responsible for assessing compliance with the ORPP and for providing independent evaluation of the adequacy and effectiveness of the risk and control framework.

Basel II introduces for the first time, a specific capital charge for operational risk. From launch in 2008, the Group will initially apply the Standardised Approach.

Regulatory risk and supervision

The approach to regulatory risk has three distinct elements:

- Review of potential changes in regulation to ensure the Group addresses the risks arising from such changes and implement them appropriately.
- Monitoring of compliance with existing rules and regulations and mitigating the consequences of any inadvertent non-compliance.
- Management of effective relationships with regulators to ensure open two-way communication.

The Group and its subsidiaries are fully engaged with regulatory authorities in all the jurisdictions in which they operate, in response to regulators' on-going supervisory requirements.

Under a Group-wide framework of high-level policies, regulatory risk is managed by developing, maintaining and implementing local policies and systems to ensure effective compliance. The Group's operating processes are designed so as to meet all regulatory and legal requirements in all jurisdictions that the Group operates in.

The Group works with domestic and international trade associations, and proactively engages with regulators, especially the UK Financial Services Authority (FSA), as well as with other influential stakeholders such as the Basel Committee, the Committee of European Banking Supervisors and the EU Commission, to gain an appropriate understanding of planned changes and to contribute to regulatory policy formulation.

Following the acquisition of ABN AMRO, the Group operates in over 50 countries.

In the normal course of business the Group and its subsidiaries co-operate with regulatory authorities in various jurisdictions in their enquiries or investigations into alleged or possible breaches of regulations.

The Group has co-operated fully with various regulatory reviews of the operation of retail banking and consumer credit industries in the UK and elsewhere.

These include the reviews by the Competition Commission and the FSA into payment protection insurance, the OFT's reviews of undertakings given following the Competition Commission inquiry in 2002 into the provision of banking services to SMEs. The OFT is also inquiring into credit and debit card interchange fees and has decided to undertake a fact find into unauthorised overdraft fees. In the EU, the European Commission is inquiring into MasterCard cross border interchange fees and has announced that its inquiry into retail banking has identified barriers to competition in certain areas of retail banking, payment systems and cards.

As previously disclosed by ABN AMRO, the United States Department of Justice has been conducting a criminal investigation into ABN AMRO's dollar clearing activities, Office of Foreign Assets Control compliance procedures and other Bank Secrecy Act compliance matters. ABN AMRO has cooperated and continues to cooperate fully with the investigation. Prior to the acquisition by the Group, ABN AMRO had reached an agreement in principle with the Department of Justice that would resolve all presently known aspects of the ongoing investigation by way of a Deferred Prosecution Agreement in return for a settlement payment by ABN AMRO of US\$500 million (which amount was accrued by ABN AMRO in its interim financial statements for the six months ended 30 June 2007). Negotiations are continuing to enable a written agreement to be concluded.

Certain of the Group's subsidiaries have received requests for information from various U.S. governmental agencies and self-regulatory organisations including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. The Group and its subsidiaries are cooperating with these various requests for information and investigations.

The outcome of these reviews is outside the Group's control and it is not possible to predict the effect, if any, on the Group's operations of future changes in regulatory actions and policies.