

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS OF 30 JUNE 2010

	Note	Group		Bank	
		30-Jun 2010 RM'000	31-Dec 2009 RM'000	30-Jun 2010 RM'000	31-Dec 2009 RM'000
ASSETS					
Cash and short-term funds	2	2,124,792	3,164,663	2,124,792	3,164,663
Deposits and placements with other financial institutions		-	1,028,674	-	1,028,674
Securities held-for-trading	3	282,103	10,152	282,103	10,152
Securities available-for-sale	4	926,377	917,000	926,377	917,000
Loans, advances and financing	5	320,799	299,435	320,799	299,435
Derivatives financial assets		1,264,444	1,072,279	1,264,444	1,072,279
Other assets	6	122,769	70,313	122,769	70,313
Statutory deposits with Bank Negara Malaysia	7	-	-	-	-
Investments in subsidiary companies			-	20	20
Investment in associated company		8,610	10,622	8,503	8,503
Property, plant and equipment	8	28,176	31,218	28,176	31,218
Intangible asset	9	663	841	663	841
Deferred tax assets		21,775	22,392	21,775	22,392
TOTAL ASSETS		5,100,508	6,627,589	5,100,421	6,625,490
LIABILITIES AND SHAREHOLDERS' FUNDS					
Deposits from customers	10	2,005,197	3,105,751	2,005,217	3,105,771
Deposits and placements of banks and other financial institutions	11	650,239	1,442,558	650,239	1,442,558
Derivatives financial liabilities		1,347,861	987,693	1,347,861	987,693
Other liabilities	12	307,215	312,224	307,215	312,224
Provision for taxation		595	-	595	-
Subordinated debt capital		200,000	200,000	200,000	200,000
TOTAL LIABILITIES		4,511,107	6,048,226	4,511,127	6,048,246

THE ROYAL BANK OF SCOTLAND BERHAD
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UNAUDITED STATEMENTS OF FINANCIAL POSITION
AS OF 30 JUNE 2010 (CONTD.)

	Note	Group		Bank	
		31-Mar 2010 RM'000	31-Dec 2009 RM'000	31-Mar 2010 RM'000	31-Dec 2009 RM'000
Share capital	13	203,000	203,000	203,000	203,000
Reserves	14	386,401	376,363	386,294	374,244
SHAREHOLDER'S FUNDS		<u>589,401</u>	<u>579,363</u>	<u>589,294</u>	<u>577,244</u>
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		<u>5,100,508</u>	<u>6,627,589</u>	<u>5,100,421</u>	<u>6,625,490</u>
COMMITMENTS AND CONTINGENCIES	22	<u>76,865,750</u>	<u>86,338,032</u>	<u>76,865,750</u>	<u>86,338,032</u>

The accompanying notes form an integral part of the financial statements.

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

UNAUDITED INCOME STATEMENTS
FOR THE 2ND QUARTER ENDED 30 JUNE 2010

	Note	Group		Bank	
		30-Jun	30-Jun	30-Jun	30-Jun
		2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
Revenue		98,148	107,425	98,148	107,425
Interest income	15	48,202	55,806	48,202	55,806
Interest expense	16	(43,867)	(43,647)	(43,867)	(43,647)
Other operating income	17	49,946	51,619	49,946	51,619
Other operating expenses	18	(38,467)	(43,971)	(38,467)	(43,971)
Allowance for impairment on loans, advances and financing	19	519	(1,002)	519	(1,002)
Share of profit of associate		(2,012)	1,914	-	-
Profit before taxation		14,321	20,719	16,333	18,805
Taxation		(3,859)	(3,472)	(3,859)	(3,472)
Profit for the year attributable to equity holder of the Bank		10,462	17,247	12,474	15,333
Earnings per share (sen)		5.15	8.50	6.14	7.55

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 2ND QUARTER ENDED 30 JUNE 2010

	Note	Group		Bank	
		30-Jun	30-Jun	30-Jun	30-Jun
		2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
Profit for the period		10,462	17,247	12,474	15,333
Other comprehensive income:					
Unrealised net gain/(loss) on revaluation securities available for sale		(424)	(940)	(424)	(940)
Total comprehensive income for the period		10,038	16,307	12,050	14,393

The accompanying notes form an integral part of the financial statements.

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE 2ND QUARTER ENDED 30 JUNE 2010

Group	← Non-distributable →				Distributable	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Retained earnings RM'000	
At 1 January 2009	203,000	76,182	150,739	2,524	143,637	576,082
Profit for the year	-	-	-	-	4,378	4,378
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	(1,461)	-	(1,461)
Deferred tax	-	-	-	364	-	364
Transfer of reserves	-	-	1,724	-	(1,724)	-
At 31 December 2009	<u>203,000</u>	<u>76,182</u>	<u>152,463</u>	<u>1,427</u>	<u>146,291</u>	<u>579,363</u>
At 1 January 2010	203,000	76,182	152,463	1,427	146,291	579,363
Profit for the year	-	-	-	-	10,462	10,462
Unrealised net gain on revaluation of securities available-for-sale	-	-	-	(424)	-	(424)
Deferred tax	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	-	-
At 30 June 2010	<u>203,000</u>	<u>76,182</u>	<u>152,463</u>	<u>1,003</u>	<u>156,753</u>	<u>589,401</u>

The accompanying notes form an integral part of the financial statements.

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE 2ND QUARTER ENDED 30 JUNE 2010 (CONTD.)

Bank	← Non-distributable →				Distributable	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Retained earnings RM'000	
At 1 January 2009	203,000	76,182	150,739	2,524	138,999	571,444
Profit for the year	-	-	-	-	6,897	6,897
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	(1,461)	-	(1,461)
Deferred tax	-	-	-	364	-	364
Transfer of reserves	-	-	1,724	-	(1,724)	-
At 31 December 2009	<u>203,000</u>	<u>76,182</u>	<u>152,463</u>	<u>1,427</u>	<u>144,172</u>	<u>577,244</u>
At 1 January 2010	203,000	76,182	152,463	1,427	144,172	577,244
Profit for the year	-	-	-	-	12,474	12,474
Unrealised net gain on revaluation of securities available-for-sale	-	-	-	(424)	-	(424)
Deferred tax	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	-	-
At 30 June 2010	<u>203,000</u>	<u>76,182</u>	<u>152,463</u>	<u>1,003</u>	<u>156,646</u>	<u>589,294</u>

The accompanying notes form an integral part of the financial statements.

Company No. 301932-A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE 2ND QUARTER ENDED 30 JUNE 2010

	Group		Bank	
	30-Jun 2010 RM'000	30-Jun 2009 RM'000	30-Jun 2010 RM'000	30-Jun 2009 RM'000
Cash Flows from Operating Activities				
Profit before taxation	14,321	20,719	16,333	18,805
Adjustments for:				
Depreciation of property, plant and equipment	3,088	2,915	3,088	2,915
Amortisation of intangible asset	386	430	386	430
Property, plant and equipment written-off	-	-	-	-
Allowance for losses on loans and financing	(519)	1,002	(519)	1,002
Amortisation of premium less accretion of discount	(2,697)	374	(2,697)	374
(Gain)/loss from sale of securities held-for-trading	(2,361)	(17,599)	(2,361)	(17,599)
Unrealised gain on revaluation of securities held-for-trading	(832)	1,346	(832)	1,346
Unrealised foreign exchange (gain)/loss	85,527	(54,119)	85,527	(54,119)
Unrealised loss on derivatives trading	75,141	21,562	75,141	21,562
Write back of provision for diminution for value in shares	-	-	-	-
Share of profit of associate	2,012	(1,914)	-	-
Operating profit before working capital changes	174,066	(25,284)	174,066	(25,284)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE 2ND QUARTER ENDED 30 JUNE 2010 (CONTD.)

	Group		Bank	
	30-Jun 2010 RM'000	30-Jun 2009 RM'000	30-Jun 2010 RM'000	30-Jun 2009 RM'000
(Increase)/Decrease in:				
Securities purchased under resale	-	-	-	-
Securities held-for-trading	480,283	(244,437)	480,283	(244,437)
Loans, advances and financing	99,204	284,385	99,204	284,385
Other assets	(131,007)	(104,451)	(131,007)	(104,451)
Statutory deposits with Bank Negara Malaysia	17,400	102,500	17,400	102,500
Increase/(Decrease) in:				
Deposits from customers	(564,842)	(576,272)	(564,842)	(576,272)
Deposits and placements of banks and other financial institutions	(100,683)	(4,310,185)	(100,683)	(4,310,185)
Other liabilities	9,221	(2,108)	9,221	(2,108)
Cash (used in)/generated from operations	(16,358)	(4,875,852)	(16,358)	(4,875,852)
Income taxes paid	(11,521)	(10,000)	(11,521)	(10,000)
Net cash (used in)/generated from operating activities	(27,879)	(4,885,852)	(27,879)	(4,885,852)

Cash Flows from Investing Activities

Purchase of property, plant and equipment	(46)	(3,897)	(46)	(3,897)
Purchase of intangible asset	(208)	(108)	(208)	(108)
(Purchase) / Proceeds from redemption of securities available-for-sale	(467,479)	(8,759)	(467,479)	(8,759)
Investment in associated company	-	-	-	-
Net cash (used in)/generated from investing activities	(467,733)	(12,764)	(467,733)	(12,764)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE 2ND QUARTER ENDED 30 JUNE 2010 (CONTD.)

	Group		Bank	
	30-Jun 2010 RM'000	30-Jun 2009 RM'000	30-Jun 2010 RM'000	30-Jun 2009 RM'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(495,612)	(4,898,616)	(495,612)	(4,898,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,620,404	7,519,020	2,620,404	7,519,020
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,124,792	2,620,404	2,124,792	2,620,404

Cash and cash equivalents comprise
the following:

Cash and short-term funds	2,124,792	1,424,767	2,124,792	1,424,767
Deposits and placements with banks and other financial institutions	-	1,195,637	-	1,195,637
	2,124,792	2,620,404	2,124,792	2,620,404

The accompanying notes form an integral part of the financial statements.

(Incorporated in Malaysia)

A. NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of the Financial Statements

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia Guidelines.

2. CASH AND SHORT-TERM FUNDS

	Group/Bank	
	2010	2009
	RM'000	RM'000
Cash and balances with banks and other financial institutions	51,814	103,124
Money at call and deposit placements maturing within one month	2,072,978	3,061,539
	<u>2,124,792</u>	<u>3,164,663</u>

3. SECURITIES - HELD FOR TRADING

	Group/Bank	
	2010	2009
	RM'000	RM'000
At Fair Value		
Money market instruments:		
Malaysian Government Securities	-	10,152
BNM Bills	-	-
Treasury Bills	-	-
Government Investment Issues	256,860	-
Private debt securities	25,243	-
Total securities held-for-trading	<u>282,103</u>	<u>10,152</u>

4. SECURITIES - AVAILABLE FOR SALE

	Group/Bank	
	2010	2009
	RM'000	RM'000
At Fair Value		
Quoted securities:		
Malaysian Government Securities	640,369	642,725
Government Investment Issues	269,144	207,084
Private debt securities	15,145	65,472
Shares	1,719	1,719
Total securities available-for-sale	<u>926,377</u>	<u>917,000</u>

Included in securities available-for-sale of the Bank are Malaysian Government Securities that are utilised to meet the Statutory Reserve Requirement set by Bank Negara Malaysia amounting to RM25,000,000 (2009: RM50,000,000).

5. LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2010	2009
	RM'000	RM'000
At amortised cost		
(i) By type		
Overdrafts	58,554	64,450
Term loans/financing		
Housing loans/financing	31,706	34,244
Other term loans/financing	9,311	63,614
Bills receivable	58,803	48,827
Claims on customers under acceptance credits	76,373	85,981
Staff loans	10,028	11,091
Revolving credit	126,391	40,500
Less: Unearned interest and income	-	(1,155)
Gross loans, advances and financing	<u>371,166</u>	<u>347,552</u>
Less: Allowance for impaired loans and financing :		
- Collective assessment allowance	(5,783)	-
- Individual assessment allowance	(44,584)	-
- General allowance	-	(5,783)
- Specific allowance	-	(42,334)
Total net loans, advances and financing	<u>320,799</u>	<u>299,435</u>

5. LOANS, ADVANCES AND FINANCING (CONTD.)

	Group/Bank	
	2010	2009
	RM'000	RM'000
(ii) By type of customer		
Domestic business enterprises		
Small medium enterprises	28,930	26,834
Others	298,899	269,907
Domestic Non-bank Financial institutions	-	-
Individuals	43,337	50,811
Other domestic entities	-	-
Foreign entities	-	-
	371,166	347,552
(iii) By interest/profit rate sensitivity		
Fixed rate		
Housing loans/financing	7,321	8,506
Other fixed rate loan/financing	4,807	5,285
Variable rate		
BLR plus	91,720	100,528
Cost plus	267,318	233,233
	371,166	347,552
(iv) By residual contractual maturity		
Maturity within one year	334,099	309,119
More than one year to three years	2,730	4,739
More than three years to five years	189	479
More than five years	34,148	33,215
	371,166	347,552
(v) By geographical distribution		
Malaysia		
Penang	3,162	3,530
Kuala Lumpur	360,232	341,715
Perak	3,761	-
Johor	4,011	2,307
	371,166	347,552

5. LOANS, ADVANCES AND FINANCING (CONTD.)

	Group/Bank	
	2010	2009
	RM'000	RM'000
(vi) By Sector		
Agriculture, hunting, forestry & fishing	-	1,178
Mining and Quarrying	12,947	10,483
Electricity, Gas & Water	1,050	650
Manufacturing	119,033	112,172
Construction	56,139	51,736
Real estate	1,194	67,126
Purchase of landed properties (Residential)	39,571	45,204
Transport, storage and communication	1,429	795
Finance, insurance and business services	73,604	16,522
Purchase of securities	-	-
Purchase of transport vehicles	1,198	2,416
Wholesale and retail	46,022	36,079
Consumption credit	18,979	3,191
	<u>371,166</u>	<u>347,552</u>
(vii) Movements in impaired loans, advances and financing are as follows:		
Balance as at 1 January	43,540	2,195
Effect of adopting FRS 139	2,976	-
Impaired during the year	9,609	41,817
Reclassified as non-impaired	(893)	-
Recoveries	-	-
Amount written off	(207)	(472)
Balance as at 30 June	<u>55,025</u>	<u>43,540</u>
Individual Assessment allowance	<u>(44,584)</u>	<u>(42,334)</u>
Net impaired loans, advances and financing	<u>10,441</u>	<u>1,206</u>
Gross impaired loans as a percentage of gross loans, advances and financing	<u>14.82%</u>	<u>12.53%</u>
(viii) Movements in allowance for impaired loans, advances and financing are as follows:		
Collective Assessment Allowance		
Balance as at 1 January	5,783	-
Amount written back	-	-
Balance as at 30 June	<u>5,783</u>	<u>-</u>
As % of gross loans, advances and financing less collective assessment allowance	<u>1.77%</u>	<u>-</u>

5. LOANS, ADVANCES AND FINANCING (CONTD.)

	Group/Bank	
	2010 RM'000	2009 RM'000
General allowance:		
Balance as at 1 January	-	15,783
Allowance written back during the year	-	(10,000)
Balance as at 31 December	-	<u>5,783</u>
As % of gross loans, advances and financing less collective assessment allowance	-	<u>1.89%</u>
Individual Assessment allowance		
Balance as at 1 January	42,334	-
- effect of adopting FRS 139	2,976	
Allowance made during the year	244	-
Amount written back	(763)	-
Amount written off	(207)	-
Balance as at 30 June	<u>44,584</u>	-
Specific allowance		
Balance as at 1 January	-	1,271
Allowance made during the year	-	41,786
Amount written back	-	(251)
Amount written off	-	(472)
Balance as at 31 December	-	<u>42,334</u>
(ix) Impaired loans ,advances and financing by sector		
Purchase of landed properties (Residential)	1,730	2,399
Construction	42,194	39,574
Wholesale and retail	11,101	1,567
	<u>55,025</u>	<u>43,540</u>

6 OTHER ASSETS

Tax recoverable	25,678	16,577
Other debtors, deposits and prepayments	97,091	53,736
	<u>122,769</u>	<u>70,313</u>

7. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

With effect from 25 June 2009, Bank Negara Malaysia ("BNM") has allowed the Bank, as a Principal Dealer for Government, BNM and BNM Sukuk Berhad with effect from 1 July 2009 until 31 December 2012, to utilise its holdings of Malaysian Government Securities ("MGS") and/or Government Investment Issues in place of cash deposits to meet the SRR, up to a nominal amount of RM 350,000,000 on a daily basis. The amount of MGS used to meet the SRR as of the end of the financial year was RM 25,000,000 (2009: RM50,000,000).

8. PROPERTY, PLANT AND EQUIPMENT

Group and Bank	Freehold Land and Buildings RM'000	Motor Vehicles RM'000	Office Equipment and Machinery RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipment RM'000	Total RM'000
At 30 June 2010						
Cost						
At 1 January 2010	388	563	6,767	28,647	15,787	52,152
Additions	-	-	12	12	22	46
Write-off	-	-	-	-	(28)	(28)
At 30 June 2010	388	563	6,779	28,659	15,781	52,170
Accumulated Depreciation						
At 1 January 2010	-	498	2,737	7,273	10,426	20,934
Depreciation charge for the year	-	56	487	1,644	901	3,088
Write-off	-	-	-	-	(28)	(28)
At 30 June 2010	-	554	3,224	8,917	11,299	23,994
Net	388	9	3,555	19,742	4,482	28,176

8. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Group and Bank	Freehold Land and Buildings RM'000	Motor Vehicles RM'000	Office Equipment and Machinery RM'000	Furniture, Fixtures and Fittings RM'000	Computer Equipment RM'000	Total RM'000
At 31 December 2009						
Cost						
At 1 January 2009	388	563	6,350	26,151	14,270	47,722
Additions	-	-	417	2,496	1,517	4,430
At 31 December 2009	388	563	6,767	28,647	15,787	52,152
Accumulated Depreciation						
At 1 January 2009	-	385	1,781	4,039	8,729	14,934
Depreciation charge for the year	-	113	956	3,234	1,697	6,000
At 31 December 2009	-	498	2,737	7,273	10,426	20,934
Net	388	65	4,030	21,374	5,361	31,218

9. INTANGIBLE ASSET

	Group/Bank	
	2010	2009
	RM'000	RM'000
<u>Computer Software:</u>		
Cost		
At 1 January	2,611	2,442
Additions	208	259
Write Off	-	(90)
At 30 June	<u>2,819</u>	<u>2,611</u>
Accumulated Amortisation		
At 1 January	1,770	929
Amortisation for the year	386	866
Write-off	-	(25)
At 30 June	<u>2,156</u>	<u>1,770</u>
Net	<u>663</u>	<u>841</u>

10 DEPOSITS FROM CUSTOMERS

Type	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Demand deposits	885,469	872,442	885,489	872,462
Saving deposits	5,534	5,802	5,534	5,802
Fixed deposits	1,114,194	2,227,507	1,114,194	2,227,507
Negotiable instruments of deposit	-	-	-	-
	<u>2,005,197</u>	<u>3,105,751</u>	<u>2,005,217</u>	<u>3,105,771</u>

- (i) Maturity structure of fixed deposits and negotiable instruments of deposits is as follows:

	Group/Bank	
	2010 RM'000	2009 RM'000
Due within six months	952,891	2,044,662
Six months to one year	65,846	84,706
One year to three years	95,457	98,139
More than three years	-	-
	<u>1,114,194</u>	<u>2,227,507</u>

- (ii) The deposits are sourced from the following types of customers:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Government and statutory bodies	17,094	20,370	17,094	20,370
Business enterprises	1,467,897	1,853,457	1,467,897	1,853,457
Individuals	342,389	514,163	342,389	514,163
Others	177,817	717,761	177,837	717,781
	<u>2,005,197</u>	<u>3,105,751</u>	<u>2,005,217</u>	<u>3,105,771</u>

11 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	145,149	22,000
Bank Negara Malaysia	-	-
Other financial institutions	505,090	1,420,558
	<u>650,239</u>	<u>1,442,558</u>

12 OTHER LIABILITIES

	Group/Bank	
	2010	2009
	RM'000	RM'000
Retirement benefits	22	22
Other liabilities	307,193	312,202
	<u>307,215</u>	<u>312,224</u>

13 SHARE CAPITAL

	Group/Bank	
	2010	2009
	RM'000	RM'000
Authorised:		
500,000,000 ordinary shares of RM1 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
Balance as at 1 January/31 December	<u>203,000</u>	<u>203,000</u>

14 RESERVES

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Share premium	76,182	76,182	76,182	76,182
Statutory reserves	152,463	152,463	152,463	152,463
Unrealised reserves	1,003	1,427	1,003	1,427
Distributable:				
Retained earnings	<u>156,753</u>	<u>146,291</u>	<u>156,646</u>	<u>144,172</u>
	<u>386,401</u>	<u>376,363</u>	<u>386,294</u>	<u>374,244</u>

15 INTEREST INCOME

	Group/Bank	
	June	June
	2010	2009
	RM'000	RM'000
Loans, advances and financing	5,264	12,739
Money at call and deposit placements with financial institutions	28,852	32,420
Securities - Available-for-sale	11,389	11,021
Securities - Held-for-trading	-	-
	<u>45,505</u>	<u>56,180</u>
Amortisation of premium less accretion of discount	2,697	(374)
Total Interest Income	<u>48,202</u>	<u>55,806</u>
Of which:		
Interest income earned on impaired loans, advances and financing	1,879	59
	<u>1,879</u>	<u>59</u>

16 INTEREST EXPENSE

	Group/Bank	
	2010	2009
	RM'000	RM'000
Deposits and placements of banks and other financial institutions	22,015	15,736
Deposits from other customers	21,852	27,911
Others	-	-
	<u>43,867</u>	<u>43,647</u>

17 OTHER OPERATING INCOME

	Group/Bank	
	June	June
	2010	2009
	RM'000	RM'000
Fee income:		
Commission	1,645	2,740
Service charges and fees	177	5,570
Guarantee fees	2,985	1,542
Other fee income	1,007	996
	<u>5,814</u>	<u>10,848</u>
Net Gain arising from sale of securities:		
Securities held-for-trading	2,361	17,599
	<u>2,361</u>	<u>17,599</u>
Unrealised gain on revaluation of securities:		
Securities held-for-trading	832	(1,346)
	<u>832</u>	<u>(1,346)</u>
Gross dividend income from:		
Securities available-for-sale	93	9
	<u>93</u>	<u>9</u>
Other income:		
Foreign exchange gain/(loss)		
Unrealised	(85,527)	54,119
Realised	95,622	(38,974)
(Loss)/gain on derivatives trading		
Unrealised	(75,141)	(21,562)
Realised	102,953	22,171
Write back of provision in diminution in value of shares	-	-
Others	2,939	8,755
	<u>40,846</u>	<u>24,509</u>
Total	<u>49,946</u>	<u>51,619</u>

18 OTHER OPERATING EXPENSES

	Group/Bank	
	June 2010 RM'000	June 2009 RM'000
Personnel costs (Note a)	15,451	17,798
Establishment costs (Note b)	18,324	17,701
Marketing expenses (Note c)	577	1,662
Administration and general expenses (Note d)	4,115	6,810
	<u>38,467</u>	<u>43,971</u>
(a) Personnel costs		
Salaries, bonuses and allowances	11,513	12,508
Social security costs	60	398
EPF - defined contribution plan	1,705	1,800
Rental of accomodation	114	310
Other staff related expenses	2,059	2,782
	<u>15,451</u>	<u>17,798</u>
(b) Establishment costs		
Share of Group costs	8,353	8,712
Share of information technology costs	3,852	2,196
Depreciation of property, plant and equipment	3,088	2,904
Amortization of intangible asset	386	430
Rental of premises	1,965	1,731
Others	680	1,728
	<u>18,324</u>	<u>17,701</u>
(c) Marketing Expenses		
Advertising	318	1,464
Others	259	198
	<u>577</u>	<u>1,662</u>
(d) Administration and general expenses		
Legal and professional fees	242	251
Communication	1,286	3,457
Transportation	430	604
Others	2,157	2,498
	<u>4,115</u>	<u>6,810</u>

19 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES ANF FINANCING

	Group/Bank	
	June 2010 RM'000	June 2009 RM'000
Allowance for impaired loans, advances and financing:		
Individual assessment allowance		
- Made in the financial year	244	1,122
- Written back	(763)	(120)
Collective Assessment allowance		
- Written back in the financial year	-	-
	(519)	1,002

20 CAPITAL ADEQUACY

The components of Tier I and Tier II capital are as follows:

	Bank	
	2010 RM'000	2009 RM'000
Tier-I capital		
Paid-up share capital	203,000	203,000
Share premium	76,182	76,182
Statutory reserves	152,463	152,463
Retained earnings	144,172	144,172
	575,817	575,817
Less :		
- Deferred tax assets	(22,392)	(22,392)
Total Tier-I capital	553,425	553,425

20 CAPITAL ADEQUACY (CONTD.)

	Bank	
	2010	2009
	RM'000	RM'000
Tier-II Capital		
General provision for bad and and doubtful debts and financing	5,783	5,783
Subordinated debt capital	200,000	200,000
Total Tier-II capital	<u>205,783</u>	<u>205,783</u>
Total capital funds	759,208	759,208
Less: Investment in subsidiary companies	(20)	(20)
Capital base	<u>759,188</u>	<u>759,188</u>
Capital Ratios		
Core capital ratio	11.68%	10.39%
Risk-weighted capital ratio	<u>16.02%</u>	<u>14.26%</u>

The breakdown of risk-weighted assets by each major risk category is as follows:

	2010	2009
Credit Risk	1,896,837	2,446,272
Market Risk	2,458,335	2,877,773
Operational Risk	384,404	-
Total risk-weighted assets	<u>4,739,576</u>	<u>5,324,045</u>

21 CHANGE IN ACCOUNTING POLICIES

Change in Accounting Policies

The adoption of new FRSs, amendments to FRSs during the financial period have resulted in the following changes in accounting policies:

- i) FRS 139 Financial Instruments: Recognition and Measurement
- ii) Amendment to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures

Impairment of Loans and Advances

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly loans and advances. The existing accounting policies relating to the assessment of impairment of other financial assets of Group and the Bank are already largely in line with those of FRS 139. Prior to adoption of FRS 139, allowances for impaired loans and advances (previously referred to as non-performing loans) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provisions for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and Bank assesses at the end of each reporting period whether there is any objective evidence that a loan or group of loans is impaired. The loan or group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the loans (an incurred "loss event") and that the loss event has an impact on future estimated cash flows of the loan or group of loans that can be reliably estimated.

In the Amendments to FRS 139 listed above, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. Subject to the written approval by BNM, banking institutions are allowed to maintain a lower collective assessment impairment allowance. The collective assessment impairment allowance of the Bank and its domestic banking subsidiaries as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

Comparative Figures

FRS 101 Presentation of Financial Statements

As a result of the adoption of the revised FRS 101, income statements of the Group and the Bank for the comparative financial period ended 31 March 2009 have been re-presented as two separate statements i.e. an income statement displaying components of profit and loss and a statements of comprehensive income.

FRS 7 Financial Instruments: Disclosures

The adoption of FRS 7 during the financial period has resulted in some changes to the disclosure of financial instruments, whereby the disclosures are now made by categories of financial assets and liabilities.

22 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies and their related counterparty credit risk of the group and the Bank are as follows:

	2010			2009		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk- weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk- weighted amount RM'000
<u>Commitments and Contingent Liabilities</u>						
Direct credit substitutes	9,865	9,865	9,865	10,131	10,131	10,131
Transaction-related contingent items	608,180	304,090	255,436	603,678	301,839	254,444
Short-term self-liquidating trade-related contingencies	19,417	3,883	3,869	127,622	25,524	25,451
Other assets sold with recourse and commitments with certain drawdown	1,194	1,194	1,194	730	730	730
Irrevocable commitments to extend credit:						
- maturity less than one year	390,096	-	-	542,720	-	-
- maturity more than one year	456	228	114	495	248	124
<u>Derivative Financial Contracts</u>						
Foreign exchange related contracts:						
- less than one year	13,661,803	342,154	85,860	11,739,867	257,136	66,403
- one year to less than five years	6,283,849	177,961	42,231	8,844,242	638,305	163,630
- five years and above	2,328,687	210,349	117,966	2,189,178	247,896	73,582
Interest rate related contracts:						
- less than one year	13,494,407	103,547	29,419	15,502,299	146,946	31,386
- one year to less than five years	28,436,274	1,000,647	215,002	35,775,342	1,236,496	309,766
- five years and above	11,631,522	1,477,283	429,240	11,001,728	1,258,579	350,843
	<u>76,865,750</u>	<u>3,631,201</u>	<u>1,190,196</u>	<u>86,338,032</u>	<u>4,123,830</u>	<u>1,286,490</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

**THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)**

B. NOTES TO THE FINANCIAL STATEMENTS

1 PERFORMANCE REVIEW

The Bank's pre-tax profit for the 1st half ended 30 June 2010 of RM 17.4 million was slightly lower than the previous corresponding half-year of RM 18.8 million. The slight reduction was mainly due to lower interest income (7.8 %) despite interest expense and other operating income remaining consistent.

Net Interest Income continues to remain well below 2009 YTD comparatives. Trading income is higher than last year as a result of improving market conditions and higher market volatility. Fees, commission and others were also lower as the market is still recovering from the subdued advisory activities, in particular debt capital and mergers and acquisitions.

Costs remain under control in 2010 with the cost control measures being implemented. The bank continues to manage the size of the balance sheet during the year with decreasing deposits and placements with other financial institutions and short term funds.

2 CURRENT YEAR PROSPECT

The Bank is confident of a return to more normalised activity during 2010 and expects to generate increased revenues through its highly regarded Global Banking & Markets, and Global Transaction Services franchise. The Bank remains committed to contributing to the development of the debt and capital market in Malaysia with innovative and cutting edge issuances that bring great value to its clients and the Malaysian investors.

On the 17 June 2010, the Bank announced its intention to exit the Retail and Commercial businesses in Malaysia to allow it to focus on building a leading wholesale and investment banking business. The Bank will continue to capitalise on the market opportunities in Malaysia, leveraging our in-depth local market knowledge and global expertise/network to provide debt, equity, derivatives, cash and trade solutions to our target clients and support them in their trading activities.