

**Basel II  
Pillar 3 Disclosure  
As at 31 December 2012**

**Overview**

The Royal Bank of Scotland Berhad and its subsidiaries (collectively the “Group”) adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk of the Pillar 1 under Bank Negara Malaysia’s Risk-Weighted Capital Adequacy Framework (‘RWCAF’).

Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk whilst the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the group’s average gross income for a fixed number of quarterly periods.

The information provided herein is pending verification by the internal auditors. The information is not audited as there is no requirement for external auditing of these disclosures under the Bank Negara Malaysia’s RWCAF. The Pillar 3 Disclosure will be published in the Bank’s website at [www.rbs.my](http://www.rbs.my).

**1.0 Scope of Application**

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on The Royal Bank of Scotland Berhad and its subsidiaries and associated company. Information on subsidiaries and associated company of the Group is available in Notes 13 and 14 to the 2012 annual financial statements respectively. The basis of consolidation for financial accounting purposes is described in Note 3 to the 2012 annual financial statements.

The Group does not offer Islamic banking financial services. There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

## 2.0 Capital Adequacy

The capital adequacy ratios of the Group are computed in accordance with Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework ('RWCAF-Basel II'). The minimum regulatory capital adequacy requirement is 8% for the risk-weighted capital ratio.

### Disclosure on Capital Adequacy under the Standardised Approach

Expressed in nearest RM thousands (RM'000)

| Item                    | Exposure Class   | Gross Exposures  | Net Exposures    | Risk Weighted Assets | Minimum Capital Requirement at 8% |
|-------------------------|--|------------------|------------------|----------------------|-----------------------------------|
| <b>31 December 2012</b> |  |                  |                  |                      |                                   |
| <b>1.0</b>              | <b>Credit Risk</b>   |                  |                  |                      |                                   |
|                         | <i>On-Balance Sheet Exposures</i>                                |                  |                  |                      |                                   |
|                         | Sovereigns/Central Banks   | 828,908          | 828,908          | 0                    | -                                 |
|                         | Public Sector Entities   | -                | -                | 0                    | -                                 |
|                         | Banks, Development Financial Institutions & MDBs                 | 2,634,774        | 2,577,421        | 515,485              | 41,239                            |
|                         | Insurance Cos, Securities Firms & Fund Managers                  | -                | -                | 0                    | -                                 |
|                         | Corporates   | 261,770          | 100,128          | 100,128              | 8,010                             |
|                         | Regulatory Retail  | -                | -                | 0                    | -                                 |
|                         | Residential Mortgages  | 23,495           | 23,495           | 17,621               | 1,410                             |
|                         | Higher Risk Assets   | 5,752            | 5,752            | 8,629                | 690                               |
|                         | Other Assets   | 48,001           | 48,001           | 46,434               | 3,715                             |
|                         | Specialised Financing/Investment                                 | -                | -                | 0                    | -                                 |
|                         | Securitisation Exposure  | -                | -                | 0                    | -                                 |
|                         | Equity Exposure  | -                | -                | 0                    | -                                 |
|                         | Defaulted Exposures  | 7,525            | 7,525            | 11,288               | 903                               |
|                         | <b>Total for On-Balance Sheet Exposures</b>                      | <b>3,810,225</b> | <b>3,591,230</b> | <b>699,584</b>       | <b>55,967</b>                     |
|                         | <i>Off-Balance Sheet Exposures</i>                               |                  |                  |                      |                                   |
|                         | OTC Derivatives  | 2,106,978        | 2,106,978        | 1,188,024            | 95,042                            |
|                         | Credit Derivatives   | -                | -                | 0                    | -                                 |
|                         | Off-Balance Sheet Exposures other than OTC or credit derivatives | 486,734          | 486,734          | 455,336              | 36,427                            |
|                         | Defaulted Exposures  | -                | -                | 0                    | -                                 |
|                         | <b>Total for Off-Balance Sheet Exposures</b>                     | <b>2,593,712</b> | <b>2,593,712</b> | <b>1,643,360</b>     | <b>131,469</b>                    |
|                         | <b>Total for On and Off-Balance Sheet Exposures</b>              | <b>6,403,937</b> | <b>6,184,942</b> | <b>2,342,944</b>     | <b>187,436</b>                    |
| <b>2.0</b>              | <b>Large Exposures Risk Requirement</b>                          |                  |                  |                      |                                   |
| <b>3.0</b>              | <b>Market Risk</b>   | <b>Long</b>      | <b>Short</b>     |                      |                                   |
|                         | Interest Rate Risk   | 31,014,238       | (31,135,122)     | <b>1,358,211</b>     | <b>108,657</b>                    |
|                         | Foreign Currency Risk  | 16,792           | (6,611)          | <b>16,792</b>        | <b>1,343</b>                      |
|                         | Equity Risk  |                  |                  |                      |                                   |
|                         | Commodity Risk   |                  |                  |                      |                                   |
|                         | Options Risk   | 330,000          | (850,000)        | <b>4,736</b>         | <b>379</b>                        |
|                         | Inventory Risk   |                  |                  |                      |                                   |
| <b>4.0</b>              | <b>Operational Risk</b>  |                  |                  | <b>177,923</b>       | <b>14,234</b>                     |
| <b>5.0</b>              | <b>Total RWA</b>   |                  |                  | <b>3,900,606</b>     | <b>312,048</b>                    |

**Disclosure on Capital Adequacy under the Standardised Approach**

Expressed in nearest RM thousands (RM'000)

| Item                    | Exposure Class   | Gross Exposures  | Net Exposures    | Risk Weighted Assets | Minimum Capital Requirement at 8% |
|-------------------------|--|------------------|------------------|----------------------|-----------------------------------|
| <b>31 December 2011</b> |  |                  |                  |                      |                                   |
| <b>1.0</b>              | <b>Credit Risk</b>   |                  |                  |                      |                                   |
|                         | <i>On-Balance Sheet Exposures</i>                                |                  |                  |                      |                                   |
|                         | Sovereigns/Central Banks   | 811,587          | 811,587          | -                    | -                                 |
|                         | Public Sector Entities   | -                | -                | -                    | -                                 |
|                         | Banks, Development Financial Institutions & MDBs                 | 1,952,742        | 1,916,493        | 857,779              | 68,622                            |
|                         | Insurance Cos, Securities Firms & Fund Managers                  | -                | -                | -                    | -                                 |
|                         | Corporates   | 328,112          | 153,976          | 153,976              | 12,318                            |
|                         | Regulatory Retail  | -                | -                | -                    | -                                 |
|                         | Residential Mortgages  | 28,488           | 28,488           | 21,366               | 1,709                             |
|                         | Higher Risk Assets   | 10,149           | 10,149           | 15,224               | 1,218                             |
|                         | Other Assets   | 43,922           | 43,922           | 41,753               | 3,340                             |
|                         | Specialised Financing/Investment                                 | -                | -                | -                    | -                                 |
|                         | Securitisation Exposure  | -                | -                | -                    | -                                 |
|                         | Equity Exposure  | -                | -                | -                    | -                                 |
|                         | Defaulted Exposures  | 4,375            | 4,375            | 6,563                | 525                               |
|                         | <b>Total for On-Balance Sheet Exposures</b>                      | <b>3,179,376</b> | <b>2,968,990</b> | <b>1,096,661</b>     | <b>87,733</b>                     |
|                         | <i>Off-Balance Sheet Exposures</i>                               |                  |                  |                      |                                   |
|                         | OTC Derivatives  | 2,645,796        | 2,645,796        | 1,483,519            | 118,682                           |
|                         | Credit Derivatives   | -                | -                | -                    | -                                 |
|                         | Off-Balance Sheet Exposures other than OTC or credit derivatives | 466,737          | 466,737          | 407,241              | 32,579                            |
|                         | Defaulted Exposures  | -                | -                | -                    | -                                 |
|                         | <b>Total for Off-Balance Sheet Exposures</b>                     | <b>3,112,533</b> | <b>3,112,533</b> | <b>1,890,760</b>     | <b>151,261</b>                    |
|                         | <b>Total for On and Off-Balance Sheet Exposures</b>              | <b>6,291,909</b> | <b>6,081,524</b> | <b>2,987,421</b>     | <b>238,994</b>                    |
| <b>2.0</b>              | <b>Large Exposures Risk Requirement</b>                          |                  |                  |                      |                                   |
| <b>3.0</b>              | <b>Market Risk</b>   | <b>Long</b>      | <b>Short</b>     |                      |                                   |
|                         | Interest Rate Risk   | 38,468,481       | (37,945,874)     | 1,723,989            | 137,919                           |
|                         | Foreign Currency Risk  | 69,887           | (8,181)          | 69,887               | 5,591                             |
|                         | Equity Risk  |                  |                  | -                    | -                                 |
|                         | Commodity Risk   |                  |                  | -                    | -                                 |
|                         | Options Risk   | 325,631          | (1,265,916)      | 7,200                | 576                               |
|                         | Inventory Risk   |                  |                  | -                    | -                                 |
| <b>4.0</b>              | <b>Operational Risk</b>  |                  |                  | <b>207,471</b>       | <b>16,598</b>                     |
| <b>5.0</b>              | <b>Total RWA</b>   |                  |                  | <b>4,995,968</b>     | <b>399,677</b>                    |

**3.0 Capital Structure**

Asset-Liability Committee ('ALCO') meets frequently to discuss its liquidity and funding position. The Group closely monitors the capital structure and has comfortable capital margins allowing it to support a buffer over minimum capital adequacy requirements.

Included in the Group's capital base is a RM200 million subordinated debt capital with an amortised value of RM180 million. The main features of the subordinated debt capital are disclosed in Note 21 to the financial statements.

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The components of the Group's capital structure are as shown in the table below:

**Capital Structure**

Expressed in nearest RM thousands (RM'000)

**Group**

| Capital Elements   | As At 31 Dec 2012 |                | As At 31 Dec 2011 |                |
|--|-------------------|----------------|-------------------|----------------|
| <b>Eligible Tier 1 Capital</b>   |                   |                |                   |                |
| Paid-up ordinary share capital   |                   | 203,000        |                   | 203,000        |
| Share premium  |                   | 76,182         |                   | 76,182         |
| Retained profit/loss brought forward from the previous financial year                                  |                   | 164,161        |                   | 133,745        |
| Current unaudited unadjusted profit/ loss  |                   | (24,132)       |                   | 40,021         |
| Transfer of current year profit to statutory reserve fund  |                   |                |                   | (9,605)        |
| Approved audited half-year profit/ loss  |                   |                |                   |                |
| Prior year's profit/ loss  |                   |                |                   |                |
| Statutory reserve fund   |                   | 162,068        |                   | 162,068        |
| General reserve fund   |                   |                |                   |                |
| Capital redemption reserve   |                   |                |                   |                |
| Total non-innovative Tier 1 (non-IT1) and innovative Tier 1 (IT1) capital                              |                   |                |                   |                |
| Non-innovative Tier 1 capital  |                   |                |                   |                |
| Of which: preference shares  |                   |                |                   |                |
| Total innovative Tier 1 capital  |                   |                |                   |                |
| RM innovative Tier 1 capital   |                   |                |                   |                |
| Innovative non-cumulative perpetual preference share capital   |                   |                |                   |                |
| RM Approved innovative debt capital instruments issued   |                   |                |                   |                |
| FX Approved innovative debt capital instruments issued   |                   |                |                   |                |
| Minority interest in shares of non-wholly owned subsidiaries   |                   |                |                   |                |
| Minority interest in non-cumulative preference shares of non-wholly owned subsidiaries                 |                   |                |                   |                |
| Surplus/ loss from the sale of fixed and long-term investments not yet recognised in retained earnings |                   |                |                   |                |
| Deferred tax assets  |                   | (22,591)       |                   | (31,699)       |
| Other items (insert if any)  |                   |                |                   |                |
| <b>Total Tier 1 capital</b>  |                   | <b>558,688</b> |                   | <b>573,712</b> |
| Less : Goodwill  |                   |                |                   |                |
| Deductions in excess of Tier 2 capital   |                   |                |                   |                |
| <b>ELIGIBLE TIER 1 CAPITAL</b>   |                   | <b>558,688</b> |                   | <b>573,712</b> |
| <b>Eligible Tier 2 Capital</b>   |                   |                |                   |                |
| Approved hybrid (debt/equity) capital instruments  |                   |                |                   |                |
| ICULs issued   |                   |                |                   |                |
| RCULs issued   |                   |                |                   |                |
| Other approved hybrid debt capital securities issued   |                   |                |                   |                |
| Property revaluation reserve   |                   |                |                   |                |
| Ordinary shares capitalised from property revaluation reserve  |                   |                |                   |                |
| Cumulative perpetual preference shares   |                   |                |                   |                |
| Minority interest in cumulative perpetual preference shares of non-wholly owned subsidiaries           |                   |                |                   |                |
| RM collectively assessed allowance   |                   | 4,156          |                   | 4,199          |
| Surplus eligible provisions (EP) where it exceeds expected losses (EL) under the IRB approach          |                   |                |                   |                |
| Maximum allowable subordinated debt capital  |                   | 180,000        |                   | 200,000        |
| RM subordinated debt capital   | 180,000           |                | 200,000           |                |
| FX subordinated debt capital   |                   |                |                   |                |
| Any non-IT1 and IT1 capital instruments in excess of prescribed limits in Tier 1                       |                   |                |                   |                |
| Of which: preference shares  |                   |                |                   |                |
| Other items (insert if any)  |                   |                |                   |                |
| <b>Total Tier 2 capital</b>  |                   | <b>184,156</b> |                   | <b>204,199</b> |
| <b>Total Tier 2 capital (subject to limits)</b>  |                   | <b>184,156</b> |                   | <b>204,199</b> |
| Less : Investment in subsidiaries companies  |                   |                |                   |                |
| Investment in insurance companies  |                   |                |                   |                |
| Investment in capital instruments of other banking institutions  |                   |                |                   |                |
| Securitisation exposures subject to deductions   |                   |                |                   |                |
| Securitisation exposures held in the banking book  |                   |                |                   |                |
| Securitisation exposures held in the trading book  |                   |                |                   |                |
| Excess of EL over EP under the IRB approach  |                   |                |                   |                |
| EL amount for equity exposures under the PD/LGD approach   |                   |                |                   |                |
| Stale Inventory Reserve  |                   |                |                   |                |
| Other items (insert if any)  |                   |                |                   |                |
| <b>Total deductions from Tier 2 Capital</b>  |                   |                |                   | 0              |
| <b>ELIGIBLE TIER 2 CAPITAL</b>   |                   | <b>184,156</b> |                   | <b>204,199</b> |
| <b>CAPITAL BASE</b>  |                   | <b>742,844</b> |                   | <b>777,911</b> |

## **4.0 Risk Management**

### **Risk Management: Objectives and Organization Structure**

The Group undertakes a wide variety of businesses and hence is required to be able to identify measure, control, monitor and manage as well as report risks in a clear manner. The important aspects of the Group's risk management are a robust risk approval mechanism, well defined processes and guidelines and an elaborate internal control mechanism. The risk approval mechanism covers all the key areas of risk such as credit, market and operational risk and is involved in quantification of these risks wherever possible for effective and continuous monitoring.

### **Objectives and Policies**

The Group's risk management processes are guided by well-defined global as well as local policies appropriate for various risk categories. There is an independent risk team that oversees this function and oversight is by the regional as well as the global risk offices and also by periodic independent risk reviews/internal auditor reviews.

The risk appetite for the Group in Malaysia is determined by the global risk committees based on inputs from the country management.

Besides the risk management and compliance departments of the Group in Malaysia, there are several committees such as Asset-Liability Committee ('ALCO'), Governance Controls Committee, etc. that are involved in managing the relevant risks within the Group's guidelines as well as regulatory requirements.

The Group has global policies for Stress Testing to measure the impact of adverse stress scenarios on the adequacy of capital.

### **Structure and Organisation**

The Risk Management function reports to the Country Executive in Malaysia and has functional reporting to the Regional Head of Risk who is based in Singapore. Risk has three distinct teams - Credit Risk, Market Risk and Operational Risk and each of these teams are headed by experienced risk professionals. For credit risk, there is a Risk Management Committee which meets regularly to consider credit proposals.

## **4.1 Credit Risk**

### **Credit Risk Management Policy**

Credit risk considers the ability of a borrower or counterparty to honor commitments under an agreement as any such failure has an adverse impact on the Group's financial performance. The Group is exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Group's credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. The global as well as local policies guide the credit risk team to make informed decisions.

Credit risk in respect of exposures on corporate as well as small and medium enterprises ('SME') is measured and managed at both individual counterparty levels as well as at a portfolio level. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and different rating models are used for each segment that has distinct risk characteristics such as large corporate, financial companies and project finance.

The credit rating tools use a combination of quantitative inputs and qualitative inputs to arrive at a "point-in-time" view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically at a global level by objectively assessing the accuracy and stability of ratings.

All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews. Besides this there are monthly risk migration analysis and monthly watch list meeting.

Risk review involves independent review of credit risk assessment, compliance with internal policies of the Group and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Group.

The Group controls and limits concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wide borrowing limits and capped by the regulatory ceiling.

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Group believes there is a high degree of risk or potential for volatility in the future. The Group is subject to global fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

**Credit Risk (General Disclosure)**

Disclosure on Loans by Sector and Geographical Distribution

**31 December 2012**

| <b>Sector Description</b>                   | <b>K.Lumpur<br/>RM'000</b> | <b>P.Pinang<br/>RM'000</b> | <b>Perak<br/>RM'000</b> | <b>Johor<br/>RM'000</b> | <b>All States<br/>RM'000</b> |
|---|----------------------------|----------------------------|-------------------------|-------------------------|------------------------------|
| Purchase of transport vehicles              | 1,644                      | 150                        |                         |                         | <b>1,794</b>                 |
| Purchase of landed properties (Residential) | 25,040                     | 56                         |                         |                         | <b>25,096</b>                |
| Consumption credit                          | 230                        | 23                         |                         |                         | <b>253</b>                   |
| Manufacturing                               | 202,996                    | 505                        |                         |                         | <b>203,501</b>               |
| Construction                                | 4,929                      |                            |                         |                         | <b>4,929</b>                 |
| Wholesale and retail                        | 36,256                     |                            |                         |                         | <b>36,256</b>                |
| Transport, storage and communication        | 15,262                     |                            |                         |                         | <b>15,262</b>                |
| Finance, insurance and business services    | 17,302                     |                            |                         |                         | <b>17,302</b>                |
| Electricity, gas and water                  |                            |                            |                         |                         |                              |
|   | <b>303,659</b>             | <b>734</b>                 | <b>-</b>                | <b>-</b>                | <b>304,393</b>               |

**31 December 2011**

| <b>Sector Description</b>                   | <b>K.Lumpur<br/>RM'000</b> | <b>P.Pinang<br/>RM'000</b> | <b>Perak<br/>RM'000</b> | <b>Johor<br/>RM'000</b> | <b>All States<br/>RM'000</b> |
|---|----------------------------|----------------------------|-------------------------|-------------------------|------------------------------|
| Purchase of transport vehicles              | 2,020                      | 247                        |                         |                         | <b>2,267</b>                 |
| Purchase of landed properties (Residential) | 30,614                     | 123                        |                         |                         | <b>30,737</b>                |
| Consumption credit                          | 338                        | 17                         |                         |                         | <b>355</b>                   |
| Manufacturing                               | 71,084                     | 2,967                      |                         |                         | <b>74,051</b>                |
| Construction                                | 40,431                     |                            |                         |                         | <b>40,431</b>                |
| Wholesale and retail                        | 62,576                     |                            |                         |                         | <b>62,576</b>                |
| Transport, storage and communication        | 8,782                      |                            |                         |                         | <b>8,782</b>                 |
| Finance, insurance and business services    | 22,036                     |                            |                         |                         | <b>22,036</b>                |
| Electricity, gas and water                  | 175,134                    |                            |                         |                         | <b>175,134</b>               |
|   | <b>413,015</b>             | <b>3,354</b>               | <b>0</b>                | <b>0</b>                | <b>416,369</b>               |

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Loans by Residual Contractual Maturity

**31 December 2012**

| Residual contractual maturity       | Term Loans    | Bills receivable | BA's          | RC             | Staff Loans  | Overdraft    | Total          |
|-------------------------------------|---------------|------------------|---------------|----------------|--------------|--------------|----------------|
|                                     | RM'000        | RM'000           | RM'000        | RM'000         | RM'000       | RM'000       | RM'000         |
| Maturity within one year            | 1,345         | 97,129           | 42,953        | 128,802        | 4,208        | 8,367        | <b>282,804</b> |
| More than one year to three years   | 168           |                  |               |                |              |              | <b>168</b>     |
| More than three years to five years | 972           |                  |               |                |              |              | <b>972</b>     |
| More than five years                | 20,449        |                  |               |                |              |              | <b>20,449</b>  |
|                                     | <b>22,934</b> | <b>97,129</b>    | <b>42,953</b> | <b>128,802</b> | <b>4,208</b> | <b>8,367</b> | <b>304,393</b> |

**31 December 2011**

| Residual contractual maturity       | Term Loans     | Bills receivable | BA's          | RC            | Staff Loans  | Overdraft     | Total          |
|-------------------------------------|----------------|------------------|---------------|---------------|--------------|---------------|----------------|
|                                     | RM'000         | RM'000           | RM'000        | RM'000        | RM'000       | RM'000        | RM'000         |
| Maturity within one year            | 177,663        | 82,905           | 40,755        | 18,180        | 5,279        | 62,904        | <b>387,686</b> |
| More than one year to three years   | 379            |                  |               |               |              |               | <b>379</b>     |
| More than three years to five years | 1,057          |                  |               |               |              |               | <b>1,057</b>   |
| More than five years                | 24,415         | 2,832            |               |               |              |               | <b>27,247</b>  |
|                                     | <b>203,514</b> | <b>85,737</b>    | <b>40,755</b> | <b>18,180</b> | <b>5,279</b> | <b>62,904</b> | <b>416,369</b> |

Impairment losses on loans, advances and financing

**Past due but not impaired:** Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when they are contractually due, and includes loans which are due 1 or more days after the contractual due date but less than 3 months. The breakdown of the gross loan amounts of past due but not impaired by economic sector are as follows:

| Sector   | As at 31 Dec 2012<br>RM '000 | As at 31 Dec 2011<br>RM '000 |
|--|------------------------------|------------------------------|
| Purchase of landed properties<br>(Residential) | 6,291                        | 7,377                        |
| Purchase of transport vehicle                  | 38                           | 127                          |
| Consumption credit                             | -                            | 9                            |
| <b>Total</b>                                   | <b>6,329 *</b>               | <b>7,513 *</b>               |

\* The gross amount of loans relate to clients in Kuala Lumpur



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**Impaired:** The definition of impaired loans and the approaches undertaken in the determination of individually assessed and collectively assessed allowance are explained in Note 4(iii) to the 2012 annual financial statements. The breakdown of the gross amount of impaired loans, advances and financing assessed, by economic sector and the corresponding individual assessment allowance is provided in Note 36(b) to the 2012 annual financial statements. The breakdown of the gross amount, the corresponding individual impairment provision, the current year write-offs and charges, by economic sector are as follows:

| 2012  |                                       |   |                           |                            |                                |  |
|---|---------------------------------------|---|---------------------------|----------------------------|--------------------------------|--|
| Sector<br>(Expressed in RM'000)             | Gross Impaired Loans<br>@ 31 Dec 2012 | Individually assessed allowance<br>@ 1 Jan 2012 | Write-off during the year | Write-back during the year | Allowance made during the year | Individually assessed allowance<br>@ 31 Dec 2012 |
| <b>Kuala Lumpur</b>                         |                                       |   |                           |                            |                                |  |
| Purchase of landed properties (Residential) | 1,599                                 | 878   | (251)                     | (305)                      | 270                            | 592  |
| Manufacturing                               | 6,518                                 | -   | -                         | -                          | -                              | -  |
| Construction                                | 7                                     | 39,574  | (39,567)                  | -                          | -                              | 7  |
| Wholesale and Retail                        | 334                                   | 1,478   | (983)                     | (161)                      | -                              | 334  |
| <b>Penang</b>                               |                                       |   |                           |                            |                                |  |
| Manufacturing                               | -                                     | 2,147   | (2,225)                   | -                          | 78                             | -  |
| <b>Total *</b>                              | <b>8,458</b>                          | <b>44,077</b>                                   | <b>(43,026)</b>           | <b>(466)</b>               | <b>348</b>                     | <b>933</b>                                       |

| 2011  |                                       |   |                           |                            |                                |  |
|---|---------------------------------------|---|---------------------------|----------------------------|--------------------------------|--|
| Sector<br>(Expressed in RM'000)             | Gross Impaired Loans<br>@ 31 Dec 2011 | Individually assessed allowance<br>@ 1 Jan 2011 | Write-off during the year | Write-back during the year | Allowance made during the year | Individually assessed allowance<br>@ 31 Dec 2011 |
| <b>Kuala Lumpur</b>                         |                                       |   |                           |                            |                                |  |
| Purchase of landed properties (Residential) | 2,249                                 | 1,071   | (8)                       | (844)                      | 659                            | 878  |
| Manufacturing                               | 2,964                                 | -   | -                         | -                          | -                              | -  |
| Construction                                | 39,574                                | 39,574  | -                         | -                          | -                              | 39,574   |
| Wholesale and Retail                        | 1,479                                 | 1,478   | -                         | -                          | -                              | 1,478  |
| <b>Penang</b>                               |                                       |   |                           |                            |                                |  |
| Manufacturing                               | 2,187                                 | 2,143   | -                         | -                          | 4                              | 2,147  |
| <b>Total *</b>                              | <b>48,453</b>                         | <b>44,266</b>                                   | <b>(8)</b>                | <b>(844)</b>               | <b>663</b>                     | <b>44,077</b>                                    |

The collectively assessed allowance is not directly attributable to any geographical distribution and economic sector. The collectively assessed allowance is disclosed in Note 9(viii) to the 2012 annual financial statements.

**Credit Risk (Disclosures for portfolios under the Standardised Approach)**

The Group uses short-term and long-term instrument/bank facilities' ratings from Standard & Poor's, Moody's, Fitch and RAM Holdings to assign Risk weights according to BNM guidelines. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch are used. The Group uses credit ratings that are publicly available for assigning risk weights.

The Group assigns long-term credit ratings accorded by the chosen credit rating agencies for assets which have a contractual maturity of more than one year. The Group uses issuer and issue ratings for both fund as well as non fund based exposures.

If the Group has exposure in an unrated issue, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue or issuer rating, it is deemed as unrated or the rating of another rated exposure of the same issuer may be used if the exposure is ranked at least pari passu with the exposure that is rated. If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, unrated exposure to the same issuer will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari-passu or junior to the rated exposure in all respects.

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Disclosure on Credit Risk Exposure after Netting and Credit Risk Mitigation

| Exposures after Netting and Credit Risk Mitigation (Expressed in nearest RM '000) |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
|---|----------------------------|-----------------------|---|------------------|-------------------|-----------------------|--------------------|---------------|------------------|----------------------------|
| Risk Weights  | Sovereigns & Central Banks | Banks, MDBs and FDI's | Insurance Cos, Securities Firms & Fund Managers | Corporates       | Regulatory Retail | Residential Mortgages | Higher Risk Assets | Other Assets  | Total Exposures  | Total Risk Weighted Assets |
| <b>31 December 2012</b>   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 0%  | 828,908                    |                       |   |                  |                   |                       |                    | 1,567         | 830,475          |                            |
| 10%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 20%   |                            | 3,017,084             |   |                  |                   |                       |                    |               | 3,017,084        | 603,417                    |
| 35%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 50%   |                            | 1,196,165             |   | 918              |                   |                       |                    |               | 1,197,083        | 598,542                    |
| 75%   |                            |                       |   |                  |                   | 23,817                |                    |               | 23,817           | 17,863                     |
| 90%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 100%  |                            |                       |   | 1,056,772        |                   |                       |                    | 46,434        | 1,103,206        | 1,103,206                  |
| 110%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 125%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 135%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 150%  |                            |                       |   | 6,464            |                   | 1,061                 | 5,752              |               | 13,277           | 19,916                     |
| 270%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 350%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 400%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 625%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 937.5%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 1250.0%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| <b>Total</b>  | <b>828,908</b>             | <b>4,213,249</b>      | <b>-</b>  | <b>1,064,154</b> | <b>-</b>          | <b>24,878</b>         | <b>5,752</b>       | <b>48,001</b> | <b>6,184,942</b> | <b>2,342,944</b>           |
| <b>31 December 2011</b>   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 0%  | 811,587                    |                       |   |                  |                   |                       |                    | 2,170         | 813,757          |                            |
| 10%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 20%   |                            | 779,757               |   |                  |                   |                       |                    |               | 779,757          | 155,951                    |
| 35%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 50%   |                            | 3,313,110             |   | 165              |                   |                       |                    |               | 3,313,275        | 1,656,638                  |
| 75%   |                            |                       |   |                  |                   | 28,666                |                    |               | 28,666           | 21,500                     |
| 90%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 100%  |                            |                       |   | 1,089,792        |                   |                       |                    | 41,752        | 1,131,544        | 1,131,544                  |
| 110%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 125%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 135%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 150%  |                            |                       |   | 3,004            |                   | 1,372                 | 10,149             |               | 14,525           | 21,788                     |
| 270%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 350%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 400%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 625%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 937.5%  |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| 1250.0%   |                            |                       |   |                  |                   |                       |                    |               |                  |                            |
| <b>Total</b>  | <b>811,587</b>             | <b>4,092,867</b>      | <b>-</b>  | <b>1,092,961</b> | <b>-</b>          | <b>30,038</b>         | <b>10,149</b>      | <b>43,922</b> | <b>6,081,524</b> | <b>2,987,421</b>           |

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Disclosure on Rated Exposure According to Ratings by ECAIs

Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3)

**Disclosures on Rated Exposures according to Ratings by ECAIs**

Expressed in nearest RM thousands (RM'000)

31 December 2012

| Exposure Class   | Ratings of Corporate by Approved ECAIs |            |          |               |         |                  |
|--|--|------------|----------|---------------|---------|------------------|
|  | Moodys                                 | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3  | B1 to C | Unrated          |
|  | S&P                                    | AAA to AA- | A+ to A- | BBB+ to BB-   | B+ to D | Unrated          |
| <b>Gross On and Off Balance-Sheet Exposures</b>  | Fitch                                  | AAA to AA- | A+ to A- | BBB+ to BB-   | B+ to D | Unrated          |
|  | RAM                                    | AAA to AA3 | A to A3  | BBB1 to BB3   | B to D  | Unrated          |
| <b>Credit Exposures (using Corporate Risk Weights)</b>   |  |            |          |               |         |                  |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) |  |            |          |               |         |                  |
| Insurance Cos, Securities Firms & Fund Managers  |  |            |          |               |         |                  |
| Corporates   |  | -          | -        | 97,111        |         | 1,128,685        |
| <b>Total</b>   |  | -          | -        | <b>97,111</b> | -       | <b>1,128,685</b> |

| Exposure Class   | Short term Ratings of Banking Institutions and Corporate by Approved ECAIs |         |     |     |        |         |
|--|--|---------|-----|-----|--------|---------|
|  | Moodys   | P-1     | P-2 | P-3 | Others | Unrated |
|  | S&P  | A-1     | A-2 | A-3 | Others | Unrated |
| <b>Gross On and Off Balance-Sheet Exposures</b>  | Fitch  | F1+, F1 | F2  | F3  | B to D | Unrated |
|  | RAM  | P-1     | P-2 | P-3 | NP     | Unrated |
| Banks, MDBs and FDIs   |  |         |     |     |        |         |
| <b>Rated Credit Exposures (using Corporate Risk Weights)</b>   |  |         |     |     |        |         |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) |  |         |     |     |        |         |
| Insurance Cos, Securities Firms & Fund Managers  |  |         |     |     |        |         |
| Corporates   |  |         |     |     |        |         |
| <b>Total</b>   |  | -       | -   | -   | -      | -       |

| Exposure Class                                  | Ratings of Sovereigns and Central Banks by Approved ECAIs |            |          |              |           |           |                |
|---|---|------------|----------|--------------|-----------|-----------|----------------|
|   | Moodys  | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated        |
|   | S&P   | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated        |
| <b>Gross On and Off Balance-Sheet Exposures</b> | Fitch   | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated        |
| Sovereigns and Central Banks                    |   | -          | -        | -            | -         | -         | 828,908        |
| <b>Total</b>                                    |   | -          | -        | -            | -         | -         | <b>828,908</b> |

| Exposure Class                                  | Ratings of Banking Institutions by Approved ECAIs |                |                  |                |           |           |               |
|---|---|----------------|------------------|----------------|-----------|-----------|---------------|
|   | Moodys  | Aaa to Aa3     | A1 to A3         | Baa1 to Baa3   | Ba1 to B3 | Caa1 to C | Unrated       |
|   | S&P   | AAA to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to B- | CCC+ to D | Unrated       |
| <b>Gross On and Off Balance-Sheet Exposures</b> | Fitch   | AAA to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to B- | CCC+ to D | Unrated       |
|   | RAM   | AAA to AA3     | A1 to A3         | BBB1 to BBB3   | BB1 to B3 | C1 to D   | Unrated       |
| Banks, MDBs and FDIs                            |   | 440,609        | 3,601,812        | 176,083        | -         | -         | 52,098        |
| <b>Total</b>                                    |   | <b>440,609</b> | <b>3,601,812</b> | <b>176,083</b> | -         | -         | <b>52,098</b> |

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Risk Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3)

**Disclosures on Rated Exposures according to Ratings by ECAIs**

Expressed in nearest RM thousands (RM'000)

31 December 2011

| Exposure Class   | Ratings of Corporate by Approved ECAIs |            |            |               |         |                  |
|--|--|------------|------------|---------------|---------|------------------|
|  | Moody's                                | Aaa to Aa3 | A1 to A3   | Baa1 to Ba3   | B1 to C | Unrated          |
|  | S&P                                    | AAA to AA- | A+ to A-   | BBB+ to BB-   | B+ to D | Unrated          |
| <b>Gross On and Off Balance-Sheet Exposures</b>  | Fitch                                  | AAA to AA- | A+ to A-   | BBB+ to BB-   | B+ to D | Unrated          |
|  | RAM                                    | AAA to AA3 | A to A3    | BBB1 to BB3   | B to D  | Unrated          |
| <b>Credit Exposures (using Corporate Risk Weights)</b>   |  |            |            |               |         |                  |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) |  |            |            |               |         |                  |
| Insurance Cos, Securities Firms & Fund Managers  |  |            |            |               |         |                  |
| Corporates   |  | -          | 165        | 70,048        |         | 1,249,349        |
| <b>Total</b>   |  | -          | <b>165</b> | <b>70,048</b> | -       | <b>1,249,349</b> |

| Exposure Class   | Short term Ratings of Banking Institutions and Corporate by Approved ECAIs |         |     |     |        |         |
|--|--|---------|-----|-----|--------|---------|
|  | Moody's  | P-1     | P-2 | P-3 | Others | Unrated |
|  | S&P  | A-1     | A-2 | A-3 | Others | Unrated |
| <b>Gross On and Off Balance-Sheet Exposures</b>  | Fitch  | F1+, F1 | F2  | F3  | B to D | Unrated |
|  | RAM  | P-1     | P-2 | P-3 | NP     | Unrated |
| Banks, MDBs and FDIs   |  |         |     |     |        |         |
| <b>Rated Credit Exposures (using Corporate Risk Weights)</b>   |  |         |     |     |        |         |
| Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates) |  |         |     |     |        |         |
| Insurance Cos, Securities Firms & Fund Managers  |  |         |     |     |        |         |
| Corporates   |  |         |     |     |        |         |
| <b>Total</b>   |  | -       | -   | -   | -      | -       |

| Exposure Class                                  | Ratings of Sovereigns and Central Banks by Approved ECAIs |            |          |              |           |           |                |
|---|---|------------|----------|--------------|-----------|-----------|----------------|
|   | Moody's   | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated        |
|   | S&P   | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated        |
| <b>Gross On and Off Balance-Sheet Exposures</b> | Fitch   | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated        |
| Sovereigns and Central Banks                    |   | -          | -        | -            | -         | -         | 811,587        |
| <b>Total</b>                                    |   | -          | -        | -            | -         | -         | <b>811,587</b> |

| Exposure Class                                  | Ratings of Banking Institutions by Approved ECAIs |                |                  |                |           |           |                |
|---|---|----------------|------------------|----------------|-----------|-----------|----------------|
|   | Moody's   | Aaa to Aa3     | A1 to A3         | Baa1 to Baa3   | Ba1 to B3 | Caa1 to C | Unrated        |
|   | S&P   | AAA to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to B- | CCC+ to D | Unrated        |
| <b>Gross On and Off Balance-Sheet Exposures</b> | Fitch   | AAA to AA-     | A+ to A-         | BBB+ to BBB-   | BB+ to B- | CCC+ to D | Unrated        |
|   | RAM   | AAA to AA3     | A1 to A3         | BBB1 to BBB3   | BB1 to B3 | C1 to D   | Unrated        |
| Banks, MDBs and FDIs                            |   | 429,698        | 3,345,148        | 204,315        | -         | -         | 149,955        |
| <b>Total</b>                                    |   | <b>429,698</b> | <b>3,345,148</b> | <b>204,315</b> | -         | -         | <b>149,955</b> |

### **Credit Risk Mitigation Disclosures under the Standardised Approach**

#### **Credit Risk Mitigation**

The Group uses various collaterals both financial as well as non-financial, guarantees and credit insurance as credit risk mitigants. The main financial collaterals include bank deposits, while main non-financial collaterals include land and building, plant and machinery, residential and commercial mortgages. There is no material concentration of credit risk mitigants held.

The Group reduces its credit exposure to counterparty with the value of eligible financial and non-financial collateral to take account of the risk mitigating effect of the collateral. To account for the volatility in the value of collateral, haircut is applied based on the type, issuer, maturity, rating and re-margining/revaluation frequency of the collateral.

The Group also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility.

In addition, the Group enters into master netting arrangements with its derivative counterparties to reduce the credit risk where in the event of default, all amounts with the counterparty are settled on a net basis.

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Disclosure on Credit Risk Mitigation

| <b>Disclosure on Credit Risk Mitigation (Expressed in nearest RM '000)</b> |                        |   |   |   |
|--|------------------------|---|---|---|
| <b>Exposure Class</b>  | <b>Gross Exposures</b> | <b>Exposures Covered by Guarantees/Credit Derivatives</b> | <b>Exposures Covered by Eligible Financial Collateral</b> | <b>Exposures Covered by Other eligible Collateral</b> |
| <b>31 December 2012</b>  |                        |   |   |   |
| <b><u>Credit Risk</u></b>  |                        |   |   |   |
| <b>On-Balance Sheet Exposures</b>  |                        |   |   |   |
| Sovereigns/Central Banks   | 828,908                |   |   |   |
| Public Sector Entities   |                        |   |   |   |
| Banks, Development Financial Institutions & MDBs                           | 2,634,774              |   | 57,353  |   |
| Insurance Cos, Securities Firms & Fund Managers                            |                        |   |   |   |
| Corporates   | 261,770                |   | 161,642   |   |
| Regulatory Retail  |                        |   |   |   |
| Residential Mortgages  | 23,495                 |   |   |   |
| Higher Risk Assets   | 5,752                  |   |   |   |
| Other Assets   | 49,397                 |   |   |   |
| Specialised Financing/Investment   |                        |   |   |   |
| Equity Exposure  |                        |   |   |   |
| Securitisation Exposure  |                        |   |   |   |
| Defaulted Exposures  | 7,525                  |   |   |   |
| <b>Total for On-Balance Sheet Exposures</b>                                | <b>3,811,621</b>       | <b>-</b>  | <b>218,995</b>  | <b>-</b>  |
| <b>Off-Balance Sheet Exposures</b>   |                        |   |   |   |
| OTC Derivatives  | 2,106,978              |   |   |   |
| Credit Derivatives   |                        |   |   |   |
| Off-Balance Sheet Exposures other than OTC or Credit derivatives           | 486,734                |   |   |   |
| Defaulted Exposures  |                        |   |   |   |
| <b>Total for Off-Balance Sheet Exposures</b>                               | <b>2,593,712</b>       | <b>-</b>  | <b>-</b>  | <b>-</b>  |
| <b>Total for On and Off-Balance Sheet Exposures</b>                        | <b>6,405,333</b>       | <b>-</b>  | <b>218,995</b>  | <b>-</b>  |
| <b>31 December 2011</b>  |                        |   |   |   |
| <b><u>Credit Risk</u></b>  |                        |   |   |   |
| <b>On-Balance Sheet Exposures</b>  |                        |   |   |   |
| Sovereigns/Central Banks   | 811,587                |   |   |   |
| Public Sector Entities   |                        |   |   |   |
| Banks, Development Financial Institutions & MDBs                           | 1,952,742              |   | 36,249  |   |
| Insurance Cos, Securities Firms & Fund Managers                            |                        |   |   |   |
| Corporates   | 328,112                |   | 174,136   |   |
| Regulatory Retail  |                        |   |   |   |
| Residential Mortgages  | 28,488                 |   |   |   |
| Higher Risk Assets   | 10,149                 |   |   |   |
| Other Assets   | 43,922                 |   |   |   |
| Specialised Financing/Investment   |                        |   |   |   |
| Equity Exposure  |                        |   |   |   |
| Securitisation Exposure  |                        |   |   |   |
| Defaulted Exposures  | 4,375                  |   |   |   |
| <b>Total for On-Balance Sheet Exposures</b>                                | <b>3,179,375</b>       | <b>-</b>  | <b>210,385</b>  | <b>-</b>  |
| <b>Off-Balance Sheet Exposures</b>   |                        |   |   |   |
| OTC Derivatives  | 2,645,796              |   |   |   |
| Credit Derivatives   |                        |   |   |   |
| Off-Balance Sheet Exposures other than OTC or Credit derivatives           | 466,737                |   |   |   |
| Defaulted Exposures  |                        |   |   |   |
| <b>Total for Off-Balance Sheet Exposures</b>                               | <b>3,112,533</b>       | <b>-</b>  | <b>-</b>  | <b>-</b>  |
| <b>Total for On and Off-Balance Sheet Exposures</b>                        | <b>6,291,908</b>       | <b>-</b>  | <b>210,385</b>  | <b>-</b>  |

### Off-balance sheet and Counterparty Credit Risk Exposure

The management of off-balance sheet exposures is in accordance with the credit risk management approach and the off-balance sheet exposures of the Group are as described in Note 35 to the 2012 annual financial statements. The credit derivative transaction of the Group was credit protection bought for trading purpose only.

The Counterparty Credit Risk arising from all derivative financial instruments is managed via the establishment of credit exposure limits and daily settlement limits for each counterparty. Over-the-Counter derivative financial instruments, especially Interest Rate Swaps and Options are transacted under master agreements, International Swaps and Derivatives Association ('ISDA'). ISDA allows for the close-out netting in the event of default by counterparty provides credit protection with the requirements to post collateral, usually in the form of cash or government securities upon any shortfall in threshold levels.

Counterparty credit exposure limits are established through the Group's credit approval framework once commercial support/sponsorship is confirmed. Limits are established based on the credit quality of the counterparty and the projected maximum potential future exposure of anticipated derivative transactions. Credit limits are set by product and reflect documentation held for netting or collateral management purposes. Outstanding exposures are calculated as the marked to market position of outstanding contracts plus an additional potential future exposure based on the transactions' characteristics and governing documentation.

As at 31 December 2012, the Group does not hold any securities as collateral. There is therefore no implication to the collateral value in the event of one notch downgrade.



Disclosure on Off-balance sheet and Counterparty Credit Risk Exposure

**Disclosure on Off-Balance Sheet and Counterparty Credit Risk**

*Expressed in nearest RM thousands (RM '000)*

| Description  | Principal Amount  | Positive Fair Value of Derivative Contracts | Credit Equivalent Amount | Risk Weighted Assets |
|--|-------------------|---|--------------------------|----------------------|
| <b>31 December 2012</b>  |                   |   |                          |                      |
| Direct Credit Substitutes  | 60,000            |   | 60,000                   | 60,000               |
| Transaction related contingent Items   | 539,191           |   | 269,596                  | 259,674              |
| Short Term Self Liquidating trade related contingencies  | 20,614            |   | 4,123                    | 3,246                |
| Assets sold with recourse  |                   |   |                          |                      |
| Forward Asset Purchases  |                   |   |                          |                      |
| Obligations under an on-going underwriting agreement   |                   |   |                          |                      |
| Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions. (i.e. repurchase / reverse repurchase and securities lending / borrowing transactions. |                   |   |                          |                      |
| Foreign exchange related contracts   |                   |   |                          |                      |
| One year or less   | 5,247,363         | 48,525                                      | 119,635                  | 66,074               |
| Over one year to five years  | 709,519           | 19,051                                      | 70,827                   | 38,638               |
| Over five years  | 441,414           | 3,050                                       | 50,503                   | 47,038               |
| Interest/Profit rate related contracts   |                   |   |                          |                      |
| One year or less   | 6,682,579         | 27,001                                      | 64,956                   | 27,116               |
| Over one year to five years  | 18,643,909        | 283,203                                     | 921,594                  | 453,018              |
| Over five years  | 6,838,111         | 346,532                                     | 879,462                  | 556,140              |
| Equity related contracts   |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Gold and Other Precious Metal Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Other Commodity Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Credit Derivative Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements  |                   |   |                          |                      |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year  | 644               |   | 322                      | 242                  |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year   | 763,469           |   | 152,694                  | 132,174              |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness                                   |                   |   |                          |                      |
| Unutilised credit card lines   |                   |   |                          |                      |
| Off-balance sheet items for securitisation exposures   |                   |   |                          |                      |
| Off-balance sheet exposures due to early amortisation provisions   |                   |   |                          |                      |
| <b>Total</b>   | <b>39,946,813</b> | <b>727,362</b>                              | <b>2,593,712</b>         | <b>1,643,360</b>     |

**Disclosure on Off-Balance Sheet and Counterparty Credit Risk**

*Expressed in nearest RM thousands (RM '000)*

| Description  | Principal Amount  | Positive Fair Value of Derivative Contracts | Credit Equivalent Amount | Risk Weighted Assets |
|--|-------------------|---|--------------------------|----------------------|
| <b>31 December 2011</b>  |                   |   |                          |                      |
| Direct Credit Substitutes  | 64,187            |   | 64,187                   | 64,187               |
| Transaction related contingent Items   | 553,071           |   | 276,536                  | 219,983              |
| Short Term Self Liquidating trade related contingencies  | 30,497            |   | 6,099                    | 3,260                |
| Assets sold with recourse  |                   |   |                          |                      |
| Forward Asset Purchases  |                   |   |                          |                      |
| Obligations under an on-going underwriting agreement   |                   |   |                          |                      |
| Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions. (i.e. repurchase / reverse repurchase and securities lending / borrowing transactions. |                   |   |                          |                      |
| Foreign exchange related contracts   |                   |   |                          |                      |
| One year or less   | 6,996,522         | 52,251                                      | 137,948                  | 73,571               |
| Over one year to five years  | 721,209           | 15,246                                      | 66,202                   | 32,885               |
| Over five years  | 646,313           | 7,318                                       | 78,813                   | 67,194               |
| Interest/Profit rate related contracts   |                   |   |                          |                      |
| One year or less   | 9,781,653         | 102,994                                     | 170,606                  | 63,809               |
| Over one year to five years  | 18,016,709        | 275,610                                     | 810,498                  | 364,123              |
| Over five years  | 10,147,511        | 591,132                                     | 1,381,729                | 881,937              |
| Equity related contracts   |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Gold and Other Precious Metal Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Other Commodity Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| Credit Derivative Contracts  |                   |   |                          |                      |
| One year or less   |                   |   |                          |                      |
| Over one year to five years  |                   |   |                          |                      |
| Over five years  |                   |   |                          |                      |
| OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements  |                   |   |                          |                      |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year  | 356               |   | 178                      | 133                  |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year   | 598,687           |   | 119,737                  | 119,678              |
| Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness                                   |                   |   |                          |                      |
| Unutilised credit card lines   |                   |   |                          |                      |
| Off-balance sheet items for securitisation exposures   |                   |   |                          |                      |
| Off-balance sheet exposures due to early amortisation provisions   |                   |   |                          |                      |
| <b>Total</b>   | <b>47,556,715</b> | <b>1,044,550</b>                            | <b>3,112,533</b>         | <b>1,890,760</b>     |

#### **4.2 Market Risk (Disclosures for portfolio under the Standardised Approach)**

Market risk is the risk of losses arising from changes in market rates or prices that can affect either the value of financial instruments that can be marked to market or the derivatives credit risk exposure to counterparties.

The Group has a comprehensive market risk management framework in place to identify measure, monitor, analyse and control market risk arising from its trading activities on a consistent and timely basis. Market risk management is governed through policies and procedures and levels of risk appetite in terms of Value at Risk ('VaR'). Limits are then proposed by the business within the terms of agreed policy. These are agreed and monitored by an independent market risk management function. Policies cover both the trading and non-trading books.

Market risk exposures are monitored daily by independent market risk management team using relevant systems. Daily reports measuring utilisation of currency and holding limits together with price value basis points limits are generated and circulated to the relevant parties for information and action. The Group has no significant exposure to equity and commodity price risk.

VaR and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are used as additional risk management tools to manage and hedge market risk exposures.

#### **4.3 Operational Risk Disclosures**

Operational risk is the potential for financial loss, damage to reputation, or impact upon customers resulting from fraud, human error, ineffective or inadequately designed processes or systems, improper behavior, or external events. Operational risk is an integral and unavoidable part of the Group's and the Bank's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risk, the Group and the Bank operate a three lines of defense model which outlines principles for the roles, responsibilities and accountabilities for operational risk management.

An objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimising the risk with the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

Each business unit must manage its operational risk exposure within an acceptable level, testing the adequacy and effectiveness of controls and other risk mitigants regularly and documenting the results. Where unacceptable control weaknesses are identified, action plans are produced and tracked to completion.

### **Operational risk – three lines of defense model**

#### **First line of defense**

The Business and its functions: The Business owns and manages its risks within the overall Group risk appetite and is responsible for complying with all Group policies. The Business must test and certify the adequacy and effectiveness of its controls in place to meet these responsibilities.

#### **Second line of defense**

Risk management: It is responsible for owning and developing the risk management framework and tools, which the business uses to discharge its responsibilities. The second line of defense must provide oversight and challenge to the first line on management of its risks.

#### **Third line of defense**

Group Internal Audit: It is responsible for providing independent assurance on the design, adequacy on effectiveness of the Groups and the Bank's system of internal controls.

The Group's Operational Risk Policy/Procedures provide the direction for delivering effective operational risk management. They comprise principles and processes that enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group and the Bank. The objectives of the standards are to protect the Bank from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The standards are supported by several key operational risk management techniques of which the Group and the Bank apply the following techniques:

- Risk and control assessments: business units identify and assess operational risks to ensure that they are effectively managed, prioritised, documented and aligned to risk appetite;
- Loss data management: each business unit's internal loss data management process captures all operational risk loss events above certain minimum thresholds. The data is used to enhance the adequacy and effectiveness of controls, identify emerging themes, enable formal loss event reporting and inform risk and control assessments and scenario analysis.

Escalation of individual event to senior management is determined by the seriousness of the event. Operational loss events are categorised under the following headings:

- Clients, products and business practices;
- Technology and infrastructure failures;
- Employment practices and workplace safety;
- Internal fraud;
- External fraud;
- Execution, delivery and process management;
- Malicious damage; and
- Disaster and public safety

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- Key risk indicators: business units monitor key risk indicators (usually operational) against their material risks. These indicators are used to monitor the operational risk profile and exposure to losses against thresholds which trigger risk management actions;
- New products approval process: this process ensures that all new products or significant variations to existing products are subject to a comprehensive risk assessment. Products are evaluated and approved by specialist areas and are subject to executive approval prior to launch; and
- Self certification process: this requires management to monitor and report regularly on the internal control framework for which they are responsible, confirming its adequacy and effectiveness. This includes certifying compliance with the requirements of the Group's and the Bank's policies.

Scope and nature of reporting and measurement systems

Reporting forms an integral part of operational risk management. The Group's and the Bank's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each business division are reported through monthly risk and control reports, which provide detail on the risk exposures and action plans.

Events that have a material, actual or potential impact on the Bank's finances, reputation or customers, are escalated and reported to respective business division and executive.

**4.4 Interest Rate Risk**

**Disclosure on Interest Rate Risk/ Rate of Return Risk in the Banking Book**

Note 36(d) to the 2012 annual financial statements sets out the Group's Interest Rate Risk ('IRR') and the table in Note 9(iii) to the 2012 annual financial statements sets out the Group's sensitivity to interest rates on the earlier of contractual re-pricing date and maturity date. Actual re-pricing dates may differ from contractual re-pricing dates due to prepayment of loans or early withdrawal of deposits. Rate of return risk in the banking book ('RoRBB') is the potential loss of income arising from changes in market rates on the return on assets and on the returns payable on funding. The Group monitors the IRR and RoRBB daily.

**Interest Rate Risk Sensitivity Analysis**

Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate risk. Based on data as at 31 December 2012, the Group's projected sensitivity to a 100 basis point parallel shock to interest rates across all maturities is approximately RM11.0 million.

#### **4.3 Equity Exposures in Banking Book**

The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any. These investments are held mainly for strategic purpose only. The table below present the equity exposures in banking book:

| <b>Privately held</b>      | <b>For socio-economic purposes</b>       |  |
|----------------------------|--|--|
|                            | <b>As at 31 December 2012<br/>RM'000</b> | <b>As at 31 December 2011<br/>RM'000</b> |
| <b>Credit exposure</b>     | 1,719                                    | 1,719                                    |
| <b>Risk Weighted Asset</b> | 1,719                                    | -  |