Basel II
Pillar 3 Disclosure
As at 31 December 2016

Overview

The Pillar 3 disclosure is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF") which is the equivalent of Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Basel II consists of 3 Pillars which includes:-

Pillar 1: Minimum capital requirements.

Pillar 2: Supervisory reviews.

Pillar 3: The market discipline.

The Royal Bank of Scotland Berhad and its subsidiary and associated company (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 Pillar 3 disclosure is governed by Basel II RWCAF – Pillar 3 which sets out the minimum disclosure standards, the approach in determining the appropriateness of information disclosed and the internal controls over the disclosure process which cover the verification and review of the accuracy of information disclosed. The information provided herein has been verified by the external 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 http://www.rbs.com/about/worldwide-locations/rbs-international-branch-network/malaysia/financial-statements.html.

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 subsidiary and associated company. Information on subsidiary and associated company of the Group is available in Notes 11 and 12 to the 2016 annual financial statements. The basis of consolidation for financial accounting purposes is described in Note 3.2 to the 2016 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 was no capital deficiency in the subsidiary company 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 Capital Adequacy Framework (Basel II – Risk-Weighted Assets).

As required under BNM’s Capital Adequacy Framework (Capital Components), banking institutions are required to maintain a minimum regulatory capital adequacy ratio of:

CET 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
4.5%	6.0%	8.0%

Banking institutions are also required to maintain capital buffers in the form of CET1 Capital above the minimum CET1 Capital, Tier 1 Capital and Total Capital adequacy levels. The capital buffer shall comprise of the following:

(a) Capital Conservation Buffer (“CCB”) of 2.5%
(b) Countercyclical Capital Buffer (“CCyB”), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which a financial institution has credit exposure.

The requirement to maintain Capital Conservation Buffer shall be phased-in starting from 1 January 2016 as follows:

Calender Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

As of 31 December 2016, the minimum regulatory capital adequacy ratio, as required under the BNM’s Capital Adequacy Framework (Capital Components and Basel II – Risk Weighted Assets) (“Revised Framework) is 8.625%.

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%
31 December 2016						
1.0	**Credit Risk**					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks	617,351		617,351	-	-
	Public Sector Entities	-		-	-	-
	Banks, Development Financial Institutions & MDBs	176,659		176,659	35,332	3,047
	Insurance Cos, Securities Firms & Fund Managers	-		-	-	-
	Corporates	-		-	-	-
	Regulatory Retail	-		-	-	-
	Residential Mortgages	7,167		7,167	5,375	464
	Higher Risk Assets	-		-	-	-
	Other Assets	17,424		17,424	17,424	1,503
	Specialised Financing/Investment	-		-	-	-
	Securitisation Exposure	-		-	-	-
	Equity Exposure	-		-	-	-
	Defaulted Exposures	1,013		1,013	1,519	131
	Total for On-Balance Sheet Exposures	**819,614**		**819,614**	**59,650**	**5,145**
	Off-Balance Sheet Exposures					
	OTC Derivatives	193,152		193,152	95,163	8,208
	Credit Derivatives	-		-	-	-
	Off-Balance Sheet Exposures other than OTC or credit derivatives	4,248		4,248	2,738	236
	Defaulted Exposures	-		-	-	-
	Total for Off-Balance Sheet Exposures	**197,400**		**197,400**	**97,901**	**8,444**
	Total for On and Off-Balance Sheet Exposures	**1,017,014**		**1,017,014**	**157,551**	**13,589**
2.0	**Large Exposures Risk Requirement**					
3.0	**Market Risk**	**Long**	**Short**			
	Interest Rate Risk	1,212,146	(1,212,146)	-	**5,730**	**494**
	Foreign Currency Risk	1,481	-	-	**1,475**	**127**
	Equity Risk	-	-	-	-	-
	Commodity Risk	-	-	-	-	-
	Options Risk	-	-	-	-	-
	Inventory Risk	-	-	-	-	-
4.0	**Operational Risk**				**129,629**	**11,181**
5.0	**Total RWA**				**294,385**	**25,391**

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

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%
31 December 2015						
1.0	**Credit Risk**					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks	1,819,030		1,819,030	-	-
	Public Sector Entities	-		-	-	-
	Banks, Development Financial Institutions & MDBs	554,697		68,257	13,651	1,092
	Insurance Cos, Securities Firms & Fund Managers	-		-	-	-
	Corporates	402,127		402,127	402,127	32,170
	Regulatory Retail	-		-	-	-
	Residential Mortgages	14,926		14,926	11,194	896
	Higher Risk Assets	1,300		1,300	1,950	156
	Other Assets	74,630		74,630	71,807	5,745
	Specialised Financing/Investment	-		-	-	-
	Securitisation Exposure	-		-	-	-
	Equity Exposure	-		-	-	-
	Defaulted Exposures	1,163		1,163	1,745	140
	Total for On-Balance Sheet Exposures	**2,867,873**		**2,381,433**	**502,474**	**40,199**
	Off-Balance Sheet Exposures					
	OTC Derivatives	1,086,503		1,086,503	443,873	35,510
	Credit Derivatives	-		-	-	-
	Off-Balance Sheet Exposures other than OTC or credit derivatives	475,029		475,029	457,553	36,604
	Defaulted Exposures	-		-	-	-
	Total for Off-Balance Sheet Exposures	**1,561,532**		**1,561,532**	**901,426**	**72,114**
	Total for On and Off-Balance Sheet Exposures	**4,429,405**		**3,942,965**	**1,403,900**	**112,313**
2.0	**Large Exposures Risk Requirement**					
3.0	**Market Risk**	**Long**	**Short**			
	Interest Rate Risk	12,634,010	(13,478,925)	-	**545,107**	**43,609**
	Foreign Currency Risk	27,810	(871)	-	**27,810**	**2,225**
	Equity Risk	-	-	-	-	-
	Commodity Risk	-	-	-	-	-
	Options Risk	-	-	-	-	-
	Inventory Risk	-	-	-	-	-
4.0	**Operational Risk**				**92,309**	**7,385**
5.0	**Total RWA**				**2,069,126**	**165,532**

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 set an Internal Capital Target allowing it to support a buffer over minimum capital adequacy requirements.

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 2016		As At 31 Dec 2015	
CET I/ Tier 1 Capital				
Paid-up ordinary share capital		343,000		343,000
Share premium		76,182		76,182
Retained profit/loss brought forward from the previous financial year		171,131		148,294
Current unaudited unadjusted profit/ l(oss)		(2,935)		26,337
Dividend paid in the current financial year		(140,000)		-
Transfer of current year profit to statutory reserve fund		-		(6,584)
Approved audited half-year profit/ loss		-		-
Prior year's profit/ loss		-		-
Statutory reserve fund		178,843		178,843
Unrealised reserve		(157)		417
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		-		(12,105)
Transfer of retained earning from/(to) regulatory reserve		1,153		3,084
Total CET I/Tier 1 capital		**627,217**		**757,468**
Less: Goodwill	-		-	
Deductions in excess of Tier 2 capital	-		-	
ELIGIBLE TIER 1 CAPITAL		**627,217**		**757,468**
Eligible Tier 2 Capital				
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		731		3,866
Surplus eligible provisions (EP) where it exceeds expected losses (EL) under the IRB approa		-		-
Maximum allowable subordinated debt capital		-		-
RM subordinated debt capital	-		-	
FX subordinated debt capital	-		-	
Any non-IT1 and IT1 capital instruments in excess of prescribed limits in Tier 1		-		
Of which: preference shares	-		-	
Regulatory reserve		-		1,153
Total Tier 2 capital		**731**		**5,019**
Total Tier 2 capital (subject to limits)		**731**		**5,019**
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)	-		-	
Total deductions from Tier 2 Capital		-		-
ELIGIBLE TIER 2 CAPITAL		**731**		**5,019**
CAPITAL BASE		**627,948**		**762,487**

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 is oversight 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 Malaysia. 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 banks' 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 to corporate borrowers is measured and managed at both individual counterparty level 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 and financial companies.

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 the 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 regular risk migration analysis and discussion on Risk of Credit Loss/Heightened monitoring clients.

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 minimise 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 groups are based on the internal rating of the borrower as well as group-wise 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 has 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 2016

Sector Description	K.Lumpur	P.Pinang	N. Sembilan	Selangor	Melaka	Johor	Perak	All States
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Purchase of transport vehicles	-	-	-	42	-	-	-	**42**
Purchase of landed properties (Residential)	3,796	49	304	8,758	-	-	-	**12,907**
Consumption credit	-	-	-	-	-	-	-	**-**
Manufacturing	-	-	-	-	-	-	-	**-**
Construction	-	-	-	-	-	-	-	**-**
Wholesale and retail	-	-	-	-	-	-	-	**-**
Transport, storage and communication	-	-	-	-	-	-	-	**-**
Finance, insurance and business services	-	-	-	-	-	-	-	**-**
Mining and quarrying	-	-	-	-	-	-	-	**-**
	3,796	**49**	**304**	**8,800**	**-**	**-**	**-**	**12,949**

31 December 2015

Sector Description	K.Lumpur	P.Pinang	N. Sembilan	Selangor	Melaka	Johor	Perak	All States
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Purchase of transport vehicles	280	14	-	338	47	-	-	**679**
Purchase of landed properties (Residential)	4,613	329	409	10,990	-	-	-	**16,341**
Consumption credit	11	-	-	5	-	-	-	**16**
Manufacturing	-	-	-	27,218	-	20,460	-	**47,678**
Construction	-	-	-	-	-	-	-	**-**
Wholesale and retail	80,000	-	-	181,958	-	-	-	**261,958**
Transport, storage and communication	-	-	-	-	-	-	-	**-**
Finance, insurance and business services	70,835	-	-	-	-	-	-	**70,835**
Mining and quarrying	-	-	-	20,961	-	-	-	**20,961**
	155,739	**343**	**409**	**241,470**	**47**	**20,460**	**-**	**418,468**

Loans by Residual Contractual Maturity

31 December 2016

Residual contractual maturity	Term Loans	Bills receivable	BA's	RC	Staff Loans	Overdraft	Trust receipts	Other loans	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Maturity within one year	11	-	-	-	-	-	-	-	**11**
More than one year to three years	208	-	-	-	-	-	-	-	**208**
More than three years to five years	226	-	-	-	-	-	-	-	**226**
More than five years	12,504	-	-	-	-	-	-	-	**12,504**
	12,949	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,949**

31 December 2015

Residual contractual maturity	Term Loans	Bills receivable	BA's	RC	Staff Loans	Overdraft	Trust receipts	Other loans	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Maturity within one year	15	684	70,975	271,435	176	20,461	-	37,878	**401,624**
More than one year to three years	302	-	-	-	116	-	-	-	**418**
More than three years to five years	388	-	-	-	510	-	-	-	**898**
More than five years	14,791	-	-	-	737	-	-	-	**15,528**
	15,496	**684**	**70,975**	**271,435**	**1,539**	**20,461**	**-**	**37,878**	**418,468**

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 customers have 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:

31 December 2016

Sector Description	K.Lumpur	N. Sembilan	Selangor	Total
	RM'000	RM'000	RM'000	RM'000
Purchase of landed properties (Residential)	1,014	49	1,568	**2,631**
Purchase of transport vehicles	-	-	-	-
	1,014	**49**	**1,568**	**2,631**

31 December 2015

Sector Description	K.Lumpur	N. Sembilan	Selangor	Total
	RM'000	RM'000	RM'000	RM'000
Purchase of landed properties (Residential)	252	-	1,660	**1,912**
Purchase of transport vehicles	-	-	56	**56**
	252	**-**	**1,716**	**1,968**

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 2016 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 2016 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:

	2016					
Sector *(Expressed in RM'000)*	**Gross Impaired Loans @ 31 Dec 2016**	**Individually assessed allowance @ 1 Jan 2016**	**Write-off during the year**	**Write-back during the year**	**Allowance made during year**	**Individually assessed allowance @ 31 Dec 2016**
Kuala Lumpur						
Purchase of landed properties (Residential)	669	73	-	-	246	**319**
Selangor						
Purchase of landed properties (Residential)	1,271	178	-	(304)	767	**641**
Purchase of transport vehicles	26	-	-	(9)	44	**35**
Negeri Sembilan						
Purchase of landed properties (Residential)	83	1	-	(28)	68	**41**
	2,049	**252**	**-**	**(341)**	**1,125**	**1,036**

	2015					
Sector *(Expressed in RM'000)*	**Gross Impaired Loans @ 31 Dec 2015**	**Individually assessed allowance @ 1 Jan 2015**	**Write-off during the year**	**Write-back during the year**	**Allowance made during year**	**Individually assessed allowance @ 31 Dec 2015**
Kuala Lumpur						
Purchase of landed properties (Residential)	454	92	-	(59)	40	**73**
Purchase of transport vehicles	-	47	(44)	(3)	-	**-**
Wholesale and retail	-	334	(334)	-	-	**-**
Selangor						
Purchase of landed properties (Residential)	912	273	(36)	(390)	331	**178**
Negeri Sembilan						
Purchase of landed properties (Residential)	50	54	-	(87)	34	**1**
	1,416	**800**	**(414)**	**(539)**	**405**	**252**

*Additional individual assessment allowance of RM755,000 was made during the year to write-down the impaired loans to its net realisable value.

The collectively assessed allowance is not directly attributable to any geographical distribution and economic sector. The collectively assessed allowance is disclosed in Note 7(ix) to the 2016 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.

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 FDIs	Corporates	Residental Mortgages	Higher Risk Assets	Other Assets	Total Exposures	Total Risk Weighted Assets
31 December 2016								
0%	617,351	-	-	-	-	-	617,351	-
10%	-	-	-	-	-	-	-	-
20%	-	181,397	-	-	-	-	181,397	36,279
35%	-	-	-	-	-	-	-	-
50%	-	191,386	-	-	-	-	191,386	95,693
75%	-	-	-	7,233	-	-	7,233	5,425
90%	-	-	-	-	-	-	-	-
100%	-	-	1,210	-	-	17,424	18,634	18,634
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	1,013	-	-	1,013	1,520
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	**617,351**	**372,783**	**1,210**	**8,246**	**-**	**17,424**	**1,017,014**	**157,551**
31 December 2015								
0%	1,819,030	-	-	-	-	2,822	1,821,852	-
10%	-	-	-	-	-	-	-	-
20%	-	518,185	1	-	-	-	518,186	103,637
35%	-	-	-	-	-	-	-	-
50%	-	600,282	-	-	-	-	600,282	300,141
75%	-	-	-	15,015	-	-	15,015	11,262
90%	-	-	-	-	-	-	-	-
100%	-	-	913,358	-	-	71,807	985,165	985,165
110%	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-
150%	-	-	-	1,163	1,300	-	2,463	3,695
270%	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-
Total	**1,819,030**	**1,118,467**	**913,359**	**16,178**	**1,300**	**74,629**	**3,942,963**	**1,403,900**

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

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

As At 31 December 2010

Expressed in nearest RM thousands (RM'000)

31 December 2016

Exposure Class / **Gross On and Off Balance-Sheet Exposures**	**Ratings of Corporate by Approved ECAIs**					
	Moodys	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
	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
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		-	-	-	-	1,253
Total		**-**	**-**	**-**	**-**	**1,253**

Exposure Class / **Gross On and Off Balance-Sheet Exposures**	**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
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating & Investment Inc	a-1+,a-1	a-2	a-3	b,c	Unrated
Banks, MDBs and FDIs		-	-	-	-	-
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**

Exposure Class / **Gross On and Off Balance-Sheet Exposures**	**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
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Sovereigns and Central Banks		-	-	-	-	-	617,351
Total		**-**	**-**	**-**	**-**	**-**	**617,351**

Exposure Class / **Gross On and Off Balance-Sheet Exposures**	**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
	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
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Banks, MDBs and FDIs		174,837	5,840	192,106	-	-	-
Total		**174,837**	**5,840**	**192,106**	**-**	**-**	**-**

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 2015

Exposure Class / Gross On and Off Balance-Sheet Exposures	**Ratings of Corporate by Approved ECAIs**					
	Moodys	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
	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
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		1	-	39,389	-	873,969
Total		**1**	**-**	**39,389**	**-**	**873,969**

Exposure Class / Gross On and Off Balance-Sheet Exposures	**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
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
Banks, MDBs and FDIs		-	-	-	-	-
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**

Exposure Class / Gross On and Off Balance-Sheet Exposures	**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
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Sovereigns and Central Banks		-	-	-	-	-	1,819,030
Total		**-**	**-**	**-**	**-**	**-**	**1,819,030**

Exposure Class / Gross On and Off Balance-Sheet Exposures	**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
	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		970,418	53,797	568,433	-	-	12,259
Total		**970,418**	**53,797**	**568,433**	**-**	**-**	**12,259**

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.

Disclosure on Credit Risk Mitigation

Disclosure on Credit Risk Mitigation (*Expressed in nearest RM '000*)				
Exposure Class	Gross Exposures	Exposures Covered by Guarantees/Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other eligible Collateral
31 December 2016				
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	617,351	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	176,659	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	-	-	-	-
Regulatory Retail	-	-	-	-
Residential Mortgages	7,167	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	17,424	-	-	-
Specialised Financing/Investment	-	-	-	-
Equity Exposure	-	-	-	-
Securitisation Exposure	-	-	-	-
Defaulted Exposures	1,013	-	-	-
Total for On-Balance Sheet Exposures	**819,614**	**-**	**-**	**-**
Off-Balance Sheet Exposures				
OTC Derivatives	193,152	-	-	-
Credit Derivatives	-	-	-	-
Off-Balance Sheet Exposures other than OTC or Credit derivatives	4,248	-	-	-
Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	**197,400**	**-**	**-**	**-**
Total for On and Off-Balance Sheet Exposures	**1,017,014**	**-**	**-**	**-**
31 December 2015				
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,819,030	-	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	554,697	-	486,440	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	402,127	-	-	-
Regulatory Retail	-	-	-	-
Residential Mortgages	14,926	-	-	-
Higher Risk Assets	1,300	-	-	-
Other Assets	74,630	-	-	-
Specialised Financing/Investment	-	-	-	-
Equity Exposure	-	-	-	-
Securitisation Exposure	-	-	-	-
Defaulted Exposures	1,163	-	-	-
Total for On-Balance Sheet Exposures	**2,867,873**	**-**	**486,440**	**-**
Off-Balance Sheet Exposures				
OTC Derivatives	1,086,503	-	-	-
Credit Derivatives	-	-	-	-
Off-Balance Sheet Exposures other than OTC or Credit derivatives	475,029	-	-	-
Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	**1,561,532**	**-**	**-**	**-**
Total for On and Off-Balance Sheet Exposures	**4,429,405**	**-**	**-**	**-**

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 36 to the 2016 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 mark to market position of outstanding contracts plus an additional potential future exposure based on the transactions' characteristics and governing documentation.

As at 31 December 2016, 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
31 December 2016				
Direct Credit Substitutes	926	-	463	328
Transaction related contingent Items	-	-	-	-
Short Term Self Liquidating trade related contingencies	-	-	-	-
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	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
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	1,219,323	172,214	193,152	95,163
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	132	-	66	50
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	18,597	-	3,719	2,360
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	-	-	-	-
Total	**1,238,978**	**172,214**	**197,400**	**97,901**

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
31 December 2015				
Direct Credit Substitutes	1,370	-	1,370	1,370
Transaction related contingent Items	240,279	-	120,140	116,781
Short Term Self Liquidating trade related contingencies	72,844	-	14,569	14,569
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	3,573,493	22,395	47,789	37,929
Over one year to five years	245,100	21,295	29,569	22,326
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	3,167,600	246,951	270,872	132,030
Over one year to five years	7,543,711	236,041	514,708	193,823
Over five years	1,922,699	4,990	223,564	57,765
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	179	-	90	67
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,694,305	-	338,861	324,766
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	-	-	-	-
Total	**18,461,580**	**531,672**	**1,561,532**	**901,426**

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 Bank has no significant exposure to equity and commodity price risk.

Value at 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

The Operational Risk Management ("ORM") team is responsible for providing effective guidance and oversight of operational risk within the business in the Asia Pacific region.

As part of the second line of defence, ORM provides assistance and guidance to the business and functions within the first line of defence, and ensures adherence to all appropriate operational risk policies and reporting requirements. ORM is responsible for the development and maintenance of the operational risk framework, systems, tools and methodologies including the deployment of these to the businesses and functions.

The ORM toolkit includes tools to assist with determining:

- **How much risk is acceptable?** This is achieved via Group & Divisional Policy Framework (supporting a consistent approach to 'how we do business') and helping the business determine its Risk Appetite.

- **What risks we face?** Tools include Change Risk Assessment (which focuses on risks associated with change related activities, as opposed to 'business as usual' activities), Risk Assessments (used to identify and assess the operational risks faced with 'business as usual' activities) and Scenario Analysis (forward looking assessment to determine exposure to extreme but plausible operational risk events).

- **How do we reduce risk?** Event & Loss Data Management process (to help effectively manage and report our operational risk events and includes the Group Notifiable Event Process ("GNEP") and Incident Analysis Reporting Procedure ("IAR")) and Risk Issues Management (to allow the identification, capture, classification and monitoring of operational risk issues and associated actions).

- **How do we know it's working?** ORM provides oversight and challenge to the first line of defence on the management of its operational risk primarily via the Control Environment Certification ("CEC") and the Risk & Control Assurance Program ("RACA") whereby the first line of defence conducts periodic testing and certification of its controls within their respective areas to ensure that these are adequate and effective.

4.4 Interest Rate Risk

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

Note 36(d) to the 2016 annual financial statements sets out the Group's Interest Rate Risk ('IRR') and the table in Note 7(iii) to the 2016 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.

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 2016, the Group's projected sensitivity to a 100 basis point parallel shock to interest rates across all maturities is approximately RM33,582.

4.5 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 presents the equity exposures in banking book:

Privately held	For socio-economic purposes	
	As at 31 December 2016 RM'000	As at 31 December 2015 RM'000
Credit exposure	1,699	1,699
Risk Weighted Asset	1,699	1,699