

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

**Basel II
Pillar 3 Disclosure
As at 30 June 2011**

Overview

The Group and the Bank 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 Group's Pillar 3 Disclosure is governed by the Group Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework – 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 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.

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 12 and 13 to the 2010 annual financial statements respectively. The basis of consolidation for financial accounting purposes is described in Note 3 to the 2010 annual financial statements.

The Bank 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 period end.

2.0 Capital Adequacy

The capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework ('RWCAF-Basel II'). The Group and the Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk. 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	Amount Eligible for Netting	Net Exposures	Risk Weighted Assets	Minimum Capital Requirement at 8%
30 June 2011						
1.0	Credit Risk					
	<i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks	830,552		830,552		
	Public Sector Entities					
	Banks, Development Financial Institutions & MDBs	2,169,345	154,593	2,014,752	402,950	32,236
	Insurance Cos, Securities Firms & Fund Managers					
	Corporates	331,872	146,752	185,120	185,120	14,809
	Regulatory Retail					
	Residential Mortgages	31,747		31,747	23,810	1,905
	Higher Risk Assets	8,599		8,599	12,899	1,032
	Other Assets	181,222		181,222	178,474	14,278
	Specialised Financing/Investment					
	Securitisation Exposure					
	Equity Exposure					
	Defaulted Exposures	4,371		4,371	6,557	525
	Total for On-Balance Sheet Exposures	3,557,708	301,345	3,256,363	809,810	64,785
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives	1,123,885		1,123,885	575,270	46,022
	Credit Derivatives					
	Off-Balance Sheet Exposures other than OTC or credit derivatives	1,168,008		1,168,008	763,461	61,077
	Defaulted Exposures					
	Total for Off-Balance Sheet Exposures	2,291,893		2,291,893	1,338,731	107,099
	Total for On and Off-Balance Sheet Exposures	5,849,601	301,345	5,548,256	2,148,541	171,884
2.0	Large Exposures Risk Requirement					
3.0	Market Risk					
	Interest Rate Risk				2,019,521	161,562
	Foreign Currency Risk				145,543	11,643
	Equity Risk					
	Commodity Risk					
	Options Risk				8,827	706
	Inventory Risk					
4.0	Operational Risk				242,086	19,367
5.0	Total RWA				4,564,518	365,162

Disclosure on Capital Adequacy under the Standardised Approach

Expressed in nearest RM thousands (RM'000)

Item	Exposure Class	Gross Exposures	Amount Eligible for Netting	Net Exposures	Risk Weighted Assets	Minimum Capital Requirement at 8%
31 December 2010						
1.0	Credit Risk					
	<i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks	1,035,513		1,035,513		
	Public Sector Entities					
	Banks, Development Financial Institutions & MDBs	2,651,687	1,369,314	1,282,373	258,787	20,703
	Insurance Cos, Securities Firms & Fund Managers					
	Corporates	258,067	101,863	156,204	153,105	12,248
	Regulatory Retail					
	Residential Mortgages	26,519		26,519	19,888	1,591
	Higher Risk Assets	8,328		8,328	12,492	999
	Other Assets	105,105		105,105	101,131	8,090
	Specialised Financing/Investment					
	Securitisation Exposure					
	Equity Exposure					
	Defaulted Exposures	48,603		48,603	72,905	5,832
	Total for On-Balance Sheet Exposures	4,133,822	1,471,177	2,662,645	618,308	49,465
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives	2,324,833		2,324,833	606,757	48,541
	Credit Derivatives	50		50	10	1
	Off-Balance Sheet Exposures other than OTC or credit derivatives	1,429,685		1,429,685	631,203	50,496
	Defaulted Exposures					
	Total for Off-Balance Sheet Exposures	3,754,568		3,754,568	1,237,970	99,038
	Total for On and Off-Balance Sheet Exposures	7,888,390	1,471,177	6,417,213	1,856,278	148,502
2.0	Large Exposures Risk Requirement					
3.0	Market Risk					
	Interest Rate Risk				2,540,480	203,238
	Foreign Currency Risk				82,414	6,593
	Equity Risk					
	Commodity Risk					
	Options Risk				12,688	1,015
	Inventory Risk					
4.0	Operational Risk				320,302	25,624
5.0	Total RWA				4,812,162	384,973

3.0 Capital Structure

The Group and the Bank has a high proportion of its liabilities funded via equity and long-term debt. The Bank closely monitors the capital structure and has comfortable capital margins allowing it to support a substantial buffer over minimum capital adequacy requirements.

The components of the Group and the Bank's capital structure are as shown in the table on the next page:

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Capital Structure

Expressed in nearest RM thousands (RM'000)

Group	Capital Elements	As At 30 Jun 2011	As At 31 Dec 2010
	Eligible Tier 1 Capital		
	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	131,940	146,291
	Current unaudited unadjusted profit/ loss		(10,263)
	Approved audited half-year profit/ loss		
	Prior year's profit/ loss		(4,088)
	Statutory reserve fund	152,463	152,463
	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	(25,688)	(25,688)
	Other items (insert if any)		
	Total Tier 1 capital	537,897	537,897
	Less: Goodwill		
	Deductions in excess of Tier 2 capital		
	ELIGIBLE TIER 1 CAPITAL	537,897	537,897
	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	5,783	5,783
	Surplus eligible provisions (EP) where it exceeds expected losses (EL) under the IRB approach		
	Maximum allowable subordinated debt capital	200,000	200,000
	RM subordinated debt capital	200,000	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)		
	Total Tier 2 capital	205,783	205,783
	Total Tier 2 capital (subject to limits)	205,783	205,783
	Less: Investment in subsidiaries companies	20	20
	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	(20)	(20)
	ELIGIBLE TIER 2 CAPITAL	205,763	205,763
	CAPITAL BASE	743,660	743,660

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Capital Structure

Expressed in nearest RM thousands (RM'000)

Bank	Capital Elements	As At 30 Jun 2011	As At 31 Dec 2010
	Eligible Tier 1 Capital		
	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	132,115	144,172
	Current unaudited unadjusted profit/ loss		(7,969)
	Approved audited half-year profit/ loss		
	Prior year's profit/ loss		(4,088)
	Statutory reserve fund	152,463	152,463
	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	(25,688)	(25,688)
	Other items (insert if any)		
	Total Tier 1 capital	538,072	538,072
	Less: Goodwill		
	Deductions in excess of Tier 2 capital		
	ELIGIBLE TIER 1 CAPITAL	538,072	538,072
	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	5,783	5,783
	Surplus eligible provisions (EP) where it exceeds expected losses (EL) under the IRB approach		
	Maximum allowable subordinated debt capital	200,000	200,000
	RM subordinated debt capital	200,000	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)		
	Total Tier 2 capital	205,783	205,783
	Total Tier 2 capital (subject to limits)	205,783	205,783
	Less: Investment in subsidiaries companies	20	20
	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	(20)	(20)
	ELIGIBLE TIER 2 CAPITAL	205,763	205,763
	CAPITAL BASE	743,835	743,835

4.0 Risk Management

Risk Management: Objectives and Organization Structure

The Group and the Bank 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 and of the Bank'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 and the Bank'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 and the Bank 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 and the Bank in Malaysia, there are several committees such as Asset-Liability Committee ('ALCO'), Risk and Controls Committee, etc. that are involved in managing the concerned risks within the Group and the Bank's guidelines as well as regulatory requirements.

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

Structure and Organization

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 and the Bank's financial performance. The Group and the Bank is exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Group and the Bank'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 Bank 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 Bank.

The Group and the Bank 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 and the Bank believes there is a high degree of risk or potential for volatility in the future. The Group and the Bank 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

30 June 2011

Sector Description	K.Lumpur RM'000	P.Pinang RM'000	Perak RM'000	Johor RM'000	All States RM'000
Purchase of transport vehicles	1,294		41	104	1,439
Purchase of landed properties (Residential)	33,948				33,948
Consumption credit	1,947				1,947
Mining and Quarrying	5,999				5,999
Manufacturing	92,501	2,146			94,647
Electricity, Gas & Water	175,134				175,134
Construction	54,229				54,229
Wholesale and retail	44,801				44,801
Finance, insurance and business services	26,048				26,048
	435,901	2,146	41	104	438,192

31 December 2010

Sector Description	K.Lumpur RM'000	P.Pinang RM'000	Perak RM'000	Johor RM'000	All States RM'000
Purchase of transport vehicles	1,178		49	115	1,342
Purchase of landed properties (Residential)	36,082				36,082
Consumption credit	2,512				2,512
Mining and Quarrying	3,164				3,164
Manufacturing	95,918	3,189			99,107
Electricity, Gas & Water	173,961				173,961
Construction	48,209				48,209
Wholesale and retail	12,849				12,849
Transport, storage and communication	1,601				1,601
Finance, insurance and business services	4,849				4,849
	380,323	3,189	49	115	383,676

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Loans by Residual Contractual Maturity

30 June 2011

Residual contractual maturity	Term Loans RM'000	Bills receivable RM'000	BA's RM'000	RC RM'000	Staff Loans RM'000	Others RM'000	Total RM'000
Maturity within one year	177,908	102,443	35,023	39,700	6,486	45,903	407,463
More than one year to three years							
More than three years to five years							
More than five years	30,729						30,729
	208,637	102,443	35,023	39,700	6,486	45,903	438,192

31 December 2010

Residual contractual maturity	Term Loans RM'000	Bills receivable RM'000	BA's RM'000	RC RM'000	Staff Loans RM'000	Others RM'000	Total RM'000
Maturity within one year	178,417	46,513	34,011	37,300	7,454	47,230	350,925
More than one year to three years	3,913						3,913
More than three years to five years	160						160
More than five years	28,678						28,678
	211,168	46,513	34,011	37,300	7,454	47,230	383,676

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 30 Jun 2011	As at 31 Dec 2010
	RM '000	RM '000
Purchase of landed properties (Residential)	8,196	8,629
Purchase of transport vehicle	189	100
Consumption credit	7	24
Total	8,392 *	8,753 *

* 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 is explained in Note 4(iii) to the 2010 annual financial statements. The breakdown of the gross amount of loans, advances and financing assessed as impaired by economic sector and the corresponding individual assessment allowance is provided in Note 35(b) to the 2010 annual financial statements. The breakdown of the gross amount, the corresponding individual impairment provision, the current period write-offs and charges, by economic sector are as follows:

Sector <i>(Expressed in RM'000)</i>	2011					2010	
	Gross Impaired Loans <i>at 30 Jun 2011</i>	Individually assessed allowance <i>at 1 Jan 2011</i>	Write-off during the period	Write-back during the period	Allowance made during the period	Individually assessed allowance <i>at 30 Jun 2011</i>	Gross Impaired Loans <i>at 31 Dec 2010</i>
Purchase of landed properties (Residential)	2,642	1,071	(9)	(382)	574	1,254	2,423
Manufacturing	5,129	2,143	-	-	4	2,147	5,128
Construction	39,575	39,575	-	-	-	39,575	39,575
Wholesale and Retail	1,478	1,477	-	-	-	1,477	1,477
Total*	48,824	44,266	(9)	(382)	578	44,453	48,603

* The gross amount of loans and the corresponding impairment provisions relate to clients in Kuala Lumpur

The collectively assessed allowance is not directly attributable to any geographical distribution and economic sector. The collectively assessed allowance is disclosed in Note 6(viii) to the financial statements.

Credit Risk (Disclosures for portfolios under the Standardised Approach)

The Group and the Bank uses short-term and long-term instrument/bank facilities' ratings from Standard & Poor's, Moody's, Fitch, RAM Holdings and Malaysian Rating Corporation Berhad to assign Risk weights in terms of 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 Bank uses credit ratings that are publicly available for assigning risk weights.

The Group and the Bank 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 bank uses issuer and issue ratings for both fund as well as non fund based exposures.

In case the Group and the Bank does not have exposure in a rated issue, the Group and the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Group and the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. 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, a claim on the same counterparty, which is unrated by any chosen credit rating agency, 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 FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures	Total Risk Weighted Assets
30 June 2011										
0%	830,552							2,748	833,300	
10%										
20%		2,348,325							2,348,325	469,665
35%										
50%		1,370,781		1,731					1,372,512	686,256
75%						31,938			31,938	23,954
90%										
100%		114		770,623				178,474	949,211	949,211
110%										
125%										
135%										
150%				2,983		1,388	8,599		12,970	19,455
270%										
350%										
400%										
625%										
937.5%										
1250.0%										
Total	1,055,376	3,968,063		2,983		26,745	8,599	102,704	6,319,213	1,886,271
31 December 2010										
0%	1,055,376							3,974	1,059,350	
10%										
20%		3,968,063							3,968,063	793,613
35%										
50%		4,626		693,202					697,828	348,915
75%						26,745			26,745	20,059
90%										
100%				507,165				101,131	608,296	608,296
110%										
125%										
135%										
150%				46,180		2,423	8,328		56,931	85,396
270%										
350%										
400%										
625%										
937.5%										
1250.0%										
Total	1,055,376	3,968,063		2,983		26,745	8,599	102,704	6,319,213	1,886,271

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Disclosure on Rated Exposure According to Ratings by ECAIs

Disclosures on Rated Exposures according to Ratings by ECAIs
Expressed in nearest RM thousands (RM'000)

30 June 2011

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	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
	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
Gross On and Off Balance-Sheet Exposures	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						919,106
Total						919,106

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
	Fitch	F1+F2	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
Gross On and Off Balance-Sheet Exposures	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	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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
Gross On and Off Balance-Sheet Exposures	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Sovereigns and Central Banks							830,552
Total							830,552

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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	BBI to B3	CI to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
Gross On and Off Balance-Sheet Exposures	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Banks, MDBs and FDIs		1,909,748	1,069,818	778,173	-	-	116,073
Total		1,909,748	1,069,818	778,173			116,073

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Exposure Class	Ratings of Corporate by Approved ECAs					
	Moody's	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
	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
Gross On and Off Balance-Sheet Exposures	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 Insurance Cos, Securities Firms & Fund Managers)						
Corporates			693,202			334,329
Total			693,202			334,329

Exposure Class	Short term Ratings of Banking Institutions and Corporate by Approved ECAs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+F2	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
Gross On and Off Balance-Sheet Exposures	Rating & Investment Inc	a-1+,a-1	a-2	a-3	b,c	Unrated
Banks, MDBs and FDIs						6,619
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted Insurance Cos, Securities Firms & Fund Managers)						
Corporates						320,879
Total						327,498

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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
Gross On and Off Balance-Sheet Exposures	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Sovereigns and Central Banks						1,055,376	
Total						1,055,376	

Exposure Class	Ratings of Banking Institutions by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caal 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
Gross On and Off Balance-Sheet Exposures	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Banks, MDBs and FDIs		2,225,147	1,643,214	855,203	2,272		609,548
Total		2,225,147	1,643,214	855,203	2,272		609,548

Credit Risk Mitigation Disclosures under the Standardised Approach

Credit Risk Mitigation

The Group and the Bank 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. The guarantees include guarantees given by corporate, bank and personal guarantees.

The Group and the Bank reduces its credit exposure to counterparty with the value of eligible 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 and the Bank accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. In addition, the Group and the Bank 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
30 June 2011				
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	830,552			830,552
Public Sector Entities				
Banks, Development Financial Institutions & MDBs	2,169,345		154,593	2,014,752
Insurance Cos, Securities Firms & Fund Managers				
Corporates	331,872		146,752	185,120
Regulatory Retail				
Residential Mortgages	31,747			31,747
Higher Risk Assets	8,599			8,599
Other Assets	181,222			181,222
Specialised Financing/Investment				
Equity Exposure				
Securitisation Exposure				
Defaulted Exposures	4,371			4,371
Total for On-Balance Sheet Exposures	3,557,708		301,345	3,256,363
Off-Balance Sheet Exposures				
OTC Derivatives	1,123,885			1,123,885
Credit Derivatives				
Off-Balance Sheet Exposures other than OTC or Credit derivatives	1,168,008			1,168,008
Defaulted Exposures				
Total for Off-Balance Sheet Exposures	2,291,893			2,291,893
Total for On and Off-Balance Sheet Exposures	5,849,601		301,345	5,548,256

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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 2010				
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,035,513			1,035,513
Public Sector Entities				
Banks, Development Financial Institutions & MDBs	2,651,687		60,158	2,591,529
Insurance Cos, Securities Firms & Fund Managers				
Corporates	258,067		101,863	156,204
Regulatory Retail				
Residential Mortgages	26,519			26,519
Higher Risk Assets	8,328			8,328
Other Assets	105,105			105,105
Specialised Financing/Investment				
Equity Exposure				
Securitisation Exposure				
Defaulted Exposures	48,603			48,603
Total for On-Balance Sheet Exposures	4,133,822		162,021	3,971,801
Off-Balance Sheet Exposures				
OTC Derivatives	2,324,833			2,324,833
Credit Derivatives	50			50
Off-Balance Sheet Exposures other than OTC or Credit derivatives	1,429,685			1,429,685
Defaulted Exposures				
Total for Off-Balance Sheet Exposures	3,754,568			3,754,568
Total for On and Off-Balance Sheet Exposures	7,888,390		162,021	7,726,369

Off-balance sheet and Counterparty Credit Risk Exposure

The management of off-balance sheet exposures is in accordance to the credit risk management approach and the off-balance sheet exposures of the Group and Bank are as described in Note 33 to the 2010 annual financial statements. The credit derivative transaction of the Bank 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 and the Bank'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, based on 95th percentile assumptions. Credit limits are set by product and reflect documentation held for netting or collateral management purposes. Outstanding exposures are calculated as the mark to market position of outstanding contracts plus an additional potential future exposure based on the transactions' characteristics and governing documentation.

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As at 30 June 2010, the Group and the Bank 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

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
30 June 2011				
Direct Credit Substitutes	4,725		4,725	4,725
Transaction related contingent Items	632,037		316,019	249,765
Short Term Self Liquidating trade related contingencies	51,371		10,274	10,253
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	14,051,604	257,073	348,117	156,362
Over one year to five years	5,632,491	139,664	187,131	89,873
Over five years	2,388,713	105,911	196,522	147,311
Interest/Profit rate related contracts				
One year or less	8,610,829	20,577	18,029	8,004
Over one year to five years	20,969,112	189,430	518,952	245,937
Over five years	7,798,729	319,817	586,904	321,329
Equity related contracts				
One year or less				
Over one year to five years				
Over five years				
Precious Metal Contracts				
One year or less				
Over one year to five years				
Over five years				
Debt Security Contracts and 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	382		191	143
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	525,146		105,029	105,029
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	25,850		-	-
Unutilised credit card lines				
Off-balance Sheet Securitisation Exposures (adjusted for maximum capital requirement due to Early Amortisation Provision)				
Total	60,690,989	1,032,472	2,291,893	1,338,731

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Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
31 December 2010				
Direct Credit Substitutes	4,809		4,809	4,809
Transaction related contingent Items	596,832		298,416	258,480
Short Term Self Liquidating trade related contingencies	8,201		1,640	1,640
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	12,505,852	88,597	373,882	91,348
Over one year to five years	5,380,494	87,520	369,336	78,886
Over five years	2,289,447	67,247	283,786	98,281
Interest/Profit rate related contracts				
One year or less	14,156,868	64,558	150,796	38,149
Over one year to five years	28,672,741	419,358	979,551	200,931
Over five years	10,059,538	511,375	1,194,486	367,677
Equity related contracts				
One year or less				
Over one year to five years				
Over five years				
Precious Metal Contracts				
One year or less				
Over one year to five years				
Over five years				
Debt Security Contracts and Other Commodity Contracts				
One year or less				
Over one year to five years				
Over five years				
Credit Derivative Contracts				
One year or less	50,000	5,747	50	10
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	451		226	169
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	487,951		97,590	97,590
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 Securitisation Exposures (adjusted for maximum capital requirement due to Early Amortisation Provision)				
Total	74,213,184	1,244,402	3,754,568	1,237,970

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 and the Bank 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 and the Bank 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 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 operates 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: Accountable for the ownership and day-to-day management and control of operational risk. Responsible for implementing processes in compliance with the Group and the Bank's policies and for testing key controls and monitoring compliance with Group and the Bank policies.

Second line of defense

Operational Risk: Responsible for the implementation and maintenance of the operational risk framework, tools and methodologies. Responsible for oversight and challenge on the adequacy of the risk and control processes operating in the business.

Third line of defense

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

The Operational Risk Policy Standards 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 Group and 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 Bank applies 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

- 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 and the Bank's policies.

Scope and nature of reporting and measurement systems

Reporting forms an integral part of operational risk management. The Group 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 Group and the Bank's finances, reputation or customers, are escalated and reported to business divisional and executive.

4.4 Interest Rate Risk

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

Note 35 to the 2010 annual financial statements sets out the Bank's Interest Rate Risk ('IRR') and the table in Note 9 to the 2010 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 and the Bank 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. Note 35(d) to the 2010 annual financial statements provides further information about stress testing. Based on data as at 30 June 2011, the Bank's projected sensitivity to a 100 basis point parallel shock to interest rates across all maturities is approximately RM716,000.

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 present the equity exposures in banking book:

Privately held	For socio-economic purposes	
	As at 30 June 2011 RM'000	As at 31 December 2010 RM'000
Credit exposure	1,719	1,719
Risk Weighted Asset	1,719	1,719