Basel II
Pillar 3 Disclosure
As at 31 December 2010

Overview

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 financial statements respectively. The basis of consolidation for financial accounting purposes is described in Note 3 to the 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 year end.

2.0 Capital Adequacy

The capital adequacy ratios of the bank are computed in accordance with Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework (RWCAF-Basel II). 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)

As At 31 December 2010

Item	Exposure Class	Gross Exposures	Amount Eligible for Netting	Net Exposures	Risk Weighted Assets	Minimum Capital Requirement at 8%
1.0	**Credit Risk**					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks	1,035,513		1,035,513	0	0
	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	8,503		8,503	12,754	1,020
	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	**4,133,997**	**1,471,177**	**2,662,820**	**618,570**	**49,484**
	Off-Balance Sheet Exposures					
	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	**7,888,565**	**1,471,177**	**6,417,388**	**1,856,540**	**148,522**
2.0	**Large Exposures Risk Requirement**					
3.0	**Market Risk**					
	Interest Rate Risk				**2,540,480**	**203,239**
	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**				**4,812,424**	**384,993**

3.0 Capital Structure

The Royal Bank of Scotland Berhad 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 Bank's capital structure are as shown in the table on the next page:

Capital Structure

Expressed in nearest RM thousands (RM '000)

Capital Elements		As At 31 Dec 2010
Eligible Tier 1 Capital[I]		
Paid-up ordinary share capital/ Islamic banking fund		203,000
Share premium		76,182
Retained profit/loss brought forward from the previous financial year[II]		144,172
Current unaudited unadjusted profit/ loss[II, III]		(7,969)
Approved audited half-year profit/ loss[II]		-
Prior year's profit/ loss[II,III]		(4,088)
Statutory reserve fund		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[IV]	-	
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)
Other items (insert if any)		-
Total Tier 1 capital		**538,072**
Less: Goodwill	-	
Deductions in excess of Tier 2 capital	-	
ELIGIBLE TIER 1 CAPITAL		**538,072**
Eligible Tier 2 Capital[V]		
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 general allowance for bad and doubtful debts and financing		5,783
Surplus eligible provisions (EP) where it exceeds expected losses (EL) under the IRB approach		-
Maximum allowable subordinated debt capital		200,000
RM subordinated debt capital	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**
Total Tier 2 capital (subject to limits)		**205,783**
Less: Investment in subsidiaries companies	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)
ELIGIBLE TIER 2 CAPITAL		**205,763**
CAPITAL BASE		**743,835**

4.0 Risk Management

Risk Management: Objectives and Organization Structure

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 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 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 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 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 bank's guidelines as well as regulatory requirements.

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 Bank's financial performance. 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 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 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-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 Bank believes there is a high degree of risk or potential for volatility in the future. The Bank has fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

Disclosure on Loans by Sector and Geographical Distribution

Expressed in RM '000

Sector Description	K.Lumpur	P.Pinang	Perak	Johor	All States
Purchase of transport vehicles	1,178		49	115	**1,342**
Purchase of landed properties (Residential)	36,082				**36,082**
Residential	36,082				**36,082**
Non-residential	0				**0**
Personal Use	2,512				**2,512**
Credit Card	0				**0**
Purchase of Consumer Durables	0				**0**
Agriculture, hunting, forestry & fishing	0				**0**
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**
Sectors nec	**380,323**	**3,189**	**49**	**115**	**383,676**

Loans by Residual Contractual Maturity

Expressed in RM '000

Residual contractual maturity	Term Loans	Bills receivable	BA's	RC	Staff Loans	Others	Total
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**

Credit Risk (General Disclosure)

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. The breakdown of the gross loan amounts of past due but not impaired by economic sector and geographical distribution of the past due but not impaired loans are as follows:

Sector / State	Kuala Lumpur (RM '000)
Residential	7,336
Ex-Staff	1,417
Total	8,753

Impaired: The definition of impaired loans and the approaches undertaken in the determination of individual and collective impairment is explained in Note 4(iii) to the 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 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 shown in the table on the next page:

Sector *(Expressed in RM'000)*	Gross Loan Amount of Impaired Loans @ 31 Dec 2010	Total Individual Impairment Provision @ 31 Dec 2010	Write-off during the year	Write-back during the year	Allowance made during the year
Purchase of landed properties (Residential)	2,423	1,071	(176)	-	-
Manufacturing	39,575	39,575	(82)	(787)	2,982
Construction	5,128	2,143	-	-	-
Wholesale and Retail	1,477	1,477	-	(356)	351
Total	48,603 *	44,266 *	(258)	(1,143)	3,333

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

The collective impairment provision is not directly attributable to any geographical distribution and economic sector. The collective assessment is disclosed in Section 9(viii) to the financial statements.

Credit Risk (Disclosures for portfolios under the Standardised Approach)

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 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 Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that 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.

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	Residental Mortgages	Higher Risk Assets	Other Assets	Total Exposures	Total Risk Weighted Assets
0%	1,055,376							3,974	1,059,350	0
10%									0	0
20%		3,968,063							3,968,063	793,613
35%									0	0
50%		4,626		693,202					697,828	348,914
75%						26,745			26,745	20,059
90%									0	0
100%			0	507,165				101,131	608,296	608,296
110%									0	0
125%									0	0
135%									0	0
150%				46,180		2,423	8,503		57,106	85,658
270%									0	0
350%									0	0
400%									0	0
625%									0	0
937.5%									0	0
1250.0%									0	0
Total	**1,055,376**	**3,972,689**	**-**	**1,246,547**	**-**	**29,168**	**8,503**	**105,105**	**6,417,388**	**1,856,540**

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)

Exposure Class / **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			693,202			334,329
Total		**-**	**693,202**	**-**	**-**	**334,329**

Exposure Class / **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+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
	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 based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						320,879
Total		**-**	**-**	**-**	**-**	**327,498**

Exposure Class / **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							1,055,376
Total		**-**	**-**	**-**	**-**	**-**	**1,055,376**

Exposure Class / **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		2,225,147	1,643,214	855,203	2,272	0	609,548
Total		**2,225,147**	**1,643,214**	**855,203**	**2,272**	**0**	**609,548**

Credit Risk Mitigation Disclosures under the Standardised Approach

Credit Risk Mitigation

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 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 Bank accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk, subject to internal guidelines on eligibility. In addition, 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
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	8,503			8,503
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	**4,133,997**		**162,021**	**3,971,976**
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
Total for Off-Balance Sheet Exposures	**3,754,568**	**-**	**-**	**3,754,568**
Total for On and Off-Balance Sheet Exposures	**7,888,565**	**-**	**162,021**	**7,726,544**

Disclosure on 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 Bank are as described in Section 33 to the financial statements. The credit derivative transaction of the Bank was credit protection bought for trading purpose only.

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
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**

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.

As at 31 December 2010, 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.

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 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 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 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 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 Bank's policies and for testing key controls and monitoring compliance with 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 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 Bank. The objectives of the standards are to protect the Bank from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The standards are supported by several key operational risk management techniques of which the 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 Bank's policies.

Scope and nature of reporting and measurement systems

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

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

4.4 Interest Rate Risk

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

Section 35 to the financial statements sets out the Bank's Interest Rate Risk ('IRR') and the table in Section 9 to the 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 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. Section 35(d) to the financial statements provides further information about stress testing. Based on data as at 31 December 2010, the Bank's projected sensitivity to a 100 basis point parallel shock to interest rates across all maturities is approximately RM850,000.

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 as at 31 December 2010.

Privately held	Credit exposure RM '000	Risk Weighted Asset RM '000
For socio-economic purposes	1,719	1,719