

## **Disclosure A: Scope of Application**

The Basel II – Pillar III Disclosures contained within this document, relate to The Royal Bank of Scotland , N.V. Bangkok Branch (RBSBKK) ( renaming from ABN AMRO Bank ,N.V. Bangkok Branch on February 6 ,2010 ) for the period ended December 31, 2010 . These disclosures are in compliance with the requirements as set forth by the Bank of Thailand notification no.Sor.Nor.Sor 25/2552

The Royal Bank of Scotland N.V., Bangkok Branch ('RBSBKK '), (formerly ABN AMRO Bank N.V., Bangkok Branch)

The Royal Bank of Scotland N.V., Bangkok Branch is the branch of the Royal Bank of Scotland N.V. in Netherland. The Bank operates under the full banking license granted by the Ministry of Finance and the leasing and factoring business license granted by the Ministry of Commerce.

RBSBKK commenced its operations in December 1994 in the name of ABN AMRO Bank N.V., Bangkok Branch and rename to The Royal Bank of Scotland N.V., Bangkok Branch in Feb 2010.

The registered office of the Bank is at 179/3 Bangkok City Tower, South Satorn Road, Bangkok

The principal of the Bank is focusing on Global Banking Market and Global Transaction services. The Bank conducts its key business through a network of RBS Group covering large corporate. Strategic inbound, MNC, Financial institution or non Financial Institution and subsidiaries.

Relevant to Parent information

RBS Holding N.V. (formerly ABN AMRO N.V. Holding )

In 2007, RFS Holdings B.V., which was jointly owned by The Royal Bank of Scotland Group plc ("RBSG"), the Dutch State (successor to Fortis) and Santander. (the "Consortium Members") completed the acquisition of ABN AMRO Holding N.V.

RFS Holdings B.V. has now substantially completed the separation of the business units of ABN AMRO Holding N.V. . As part of this reorganization, on 6 February 2010, the businesses of ABN AMRO Holding N.V. acquired by the Dutch State were legally demerged from those acquired by the Royal Bank of Scotland and were transferred into a newly established company, ABN AMRO Bank N.V.

Legal separation of ABN AMRO Bank N.V. occurred on 1 April 2010, with the shares in that entity being transferred by ABN AMRO Holding N.V. (renamed RBS Holdings N.V. at legal separation) to a holding company called ABN AMRO Group N.V., which is owned by the Dutch State.

Following legal separation, RBS Holdings N.V. has one direct subsidiary, The Royal Bank of Scotland N.V. (RBS N.V.), a fully operation bank within the Group . RBS N.V. is independently rated and regulated by the Dutch Central Bank. Certain assets within RBS N.V. continue to be shared by the Consortium Members

## Disclosure B: Capital

### Item 1: Capital Structure

#### *Qualitative Disclosure:*

RBSBKK is a branch of a foreign bank – The Royal Bank of Scotland N.V., Total capital of RBSBKK consists of assets maintained under Section 32 reduced by items deductible from capital as set forth by Bank of Thailand notification no. Sor Nor Sor 89/2551 Re: Components of Capital of Branches of Foreign Commercial Banks.

As of December 31, 2010, total regulatory capital was THB 4,500 million. Total assets maintained under Section 32 of the Financial Institutions Businesses Act B.E. 2551 were THB 4,695 million (at par value), and were comprised of 2 primary components, Government and Central Bank Bonds. The Government bonds are debt securities backed by the full faith and credit of the Thai government with duration at 0.1-2.6 years while Central Bank bonds are debt securities issued by the Bank of Thailand with duration at 0.3- 0.4 years.

#### *Quantitative Disclosure :*

**Table 2 Capital of branches of foreign banks**

**For the period as of 31 December 2010 and 2009**

Items	Unit : Thousand Baht	
	31.12.2010	31.12.2009
<b>1. Capital for maintenance of assets under Section 32</b>	<b>4,500,000</b>	<b>4,500,000</b>
<b>2. Net capital for maintenance of assets under Section 32 and net balance of inter-office accounts (2.1 + 2.2)</b>	<b>6,395,601</b>	<b>5,834,010</b>
2.1 Net capital for maintenance of assets under Section 6	5,420,925	5,382,525
2.2 Net balance of inter-office accounts between the branch which is the debtor (the creditor) to the head office and other branches in the country, the parent company and subsidiary companies	974,676	451,485
<b>3. Total regulatory capital (the lowest among 1, 2 or 2.1)</b>	<b>4,500,000</b>	<b>4,500,000</b>
3.1 Total regulatory capital before deductions ( the lowest amount among item 1,item2 ,and item 2.1 )	4,500,000	4,500,000
3.2 Deductions	0	0

## **Disclosure B : Capital**

### **Item 2: Capital Adequacy**

#### ***Qualitative Disclosure:***

RBSBKK is required to calculate and report its capital adequacy ratio for regulatory reporting purposes to Bank of Thailand on a monthly basis. RBSBKK is required to maintain a minimum Capital Adequacy Ratio of 7.5%.

The capital adequacy position of RBSBKK is reviewed and monitored on a monthly basis by the financial controller and the Local Management Team (The LMT). RBSBKK has set an internal threshold of 10% regulatory capital target, above the 7.5% minimum required by the Bank of Thailand. The LMT actively monitors and maintains capital at or above the internal threshold.

The LMT is responsible for ensuring branch compliance with the Corporation's policies, procedures and corporate governance practices including those relating to Basel II .The LMT is comprised of members from various functional areas of RBSBKK which are

- Country Executive (C.E.) - Chair person
- Country Chief Financial Officer (CFO) - Deputy Chair person
- Country Operation Officer (COO)
- Credit Risk Officer – Ad Hoc
- GBM Markets Head
- GTS Head
- Market Risk Manager
- Permanent Invitee: ALM Representative/ Regional Treasury Rep

As of December 31,2010 and 2009 , RBSBKK had total regulatory capital of THB 4,500 million . The Basel II -Capital Adequacy Ratio as of December 31,2010 and 2009 was 20.83% and 24.07 % on total risk weighted assets of THB 21,600 million and THB 18,696 million respectively.

**Quantitative Disclosure:**

**Table 3 Minimum capital requirements for credit risk classified by types of assets under the SA**

**For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

<b>Minimum capital requirement for credit risk classified by type of assets under the SA approach</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
- Performing assets		
1.Claims on sovereigns and central banks and multilateral development banks (MDBs)	-	81,750
2.Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	4,468	5,186
3.Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	749,329	751,575
4.Claims on retail portfolios	-	-
5.Residential mortgage exposures		
6.Other assets	376,061	6,797
- Non-performing assets*	-	11,881
<b>First-to-default credit derivatives and Securitization</b>	-	-
<b>Total Minimum capital requirement for credit risk classified by type of assets under the SA approach</b>	<b>1,129,858</b>	<b>857,189</b>

**Table 6 Minimum capital requirement for market risk for positions in the trading book (Standardized Approach)**

For the period as of 31 December 2010 and 2009

Unit : Thousand Baht		
<b>Minimum capital requirement for market risk (positions in the trading book)</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
1. Calculation by the Standardized Approach	-	-
2. Calculation by Internal Model Approach	369,987	412,475
<b>Total minimum capital requirement for market risk</b>	<b>369,987</b>	<b>412,475</b>

**Table 7 Minimum capital requirement for operational risk ( SA )**

For the period as of 31 December 2010 and 2009

Unit : Thousand Baht		
<b>Minimum capital requirement for operational risk</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
1. Calculation by the Basic Indicator approach	-	-
2. Calculation by the Standardized approach	120,150	125,512
3. Calculation by the Alternative Standardized approach	-	-
<b>Total minimum capital requirement for operational risk</b>	<b>120,150</b>	<b>125,512</b>

**Table 8 Total risk-weighted capital ratio and Tier 1 risk-weighted capital ratio**

For the period as of 31 December 2010 and 2009

Unit : Thousand Baht		
<b>Ratio</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
1. Total capital to risk-weighted assets	20.83%	24.07%
2. Tier 1 capital to risk-weighted assets*		

\*Disclosed only in case of locally incorporated commercial banks

Disclosure C: Risk exposure and assessment  
Item 1 General Risk Exposure

Governance

Risk and capital management strategy is owned and set by the Group's Board of Directors, and implemented by executive management led by the Group Chief Executive. There are a number of committees and executives that support the execution of the business plan and strategy where the structure of group can be seen in this web link : <http://cbfmnet.fm.rbsgrp.net/S1891>

RBSBKK has accordingly comply to Group Policy on risk and Capital Management and has following function to manage risk and capital locally

Committee	Focus	Membership
Business unit under group risk )	Recommends limits & process to ensure the effective management to all Group head of each risk type material risks across the Group .	<ul style="list-style-type: none"> <li>- Credit Risk Officers</li> <li>- Market Risk officer</li> <li>- Operational risk officer</li> </ul>
ALCO Committee	Identifies, manages and controls the branch balance sheet risks.	<ul style="list-style-type: none"> <li>- Country Executive</li> <li>- Head of Trader</li> <li>- Chief Financial Officer</li> <li>- Chief Operating Officer</li> <li>- Market Risk Officer</li> <li>- Head of GTS</li> <li>- Regional Alco representatives</li> </ul>

**Management responsibilities**

All employees have a role to play in the day to day management of capital and risk which is set and managed by specialist staff in:

- *Risk management*: credit, market, operational, regulatory, enterprise and insurance risk, together with risk analytics.
- *Group Treasury*: balance sheet, capital management, intra-group exposure, funding, liquidity and hedging policies.

Independence underpins the approach to risk management, which is reinforced through the Group by appropriate reporting lines. Risk management and Group Treasury functions are independent of the revenue generating business. As part of the move toward greater functional independence, the divisional chief risk officers have a direct reporting line to the Group Chief Risk Officer.

Group Internal Audit supports the Group Audit Committee in providing an independent assessment of the design, adequacy and effectiveness of the internal controls.

## **Risk control : Group Internal Audit**

The Group's risk management framework is embedded in the business through the three lines of defence model supported by an appropriate level of investment in information technology and our people.

The Three Lines of Defence Policy Standard defines responsibilities and accountabilities in accordance with the following:

- 1st line of defence is business and functions. The Business is responsible for setting risk appetite, owns and manages its risks within the overall Group risk appetite, and is responsible for complying with all Group policies. The business must test and certify the adequacy and effectiveness of its controls in place to meet these responsibilities.
- 2nd line of defence is RBS Risk Management. It is responsible for owning and developing the risk management framework and tools, which the business uses to discharge its responsibilities. The 2nd line of defence must provide oversight and challenge to the 1st line on management of its risks.
- 3rd line of defence is Group Internal Audit (GIA). It is responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

### **Purpose and roles**

Group Internal Audit supports the Group and Bank Boards and Group and Bank Executive in achieving agreed strategic and operational objectives and in discharging their corporate governance responsibilities.

Group Internal Audit's roles are to:

- continuously assess how operating risks are being managed and controlled throughout the Group and report regularly to the Group Executive and Group Audit Committee on the results of these assessments; and
- influence the continuous development of the risk management and control process through sharing best practices.

### **Our approach**

By identifying the key risks and threats facing the Group, we create a plan for auditing the management of these to provide the senior executive with an assessment of how the main business risks are being managed and controlled.

### **Risk assessment and high level planning**

#### **Risk assessment**

Our work starts with analysis of the key risks that could prevent the Group from achieving its objectives. A risk is the possibility of an event occurring that impacts the achievement of business objectives, e.g. financial loss or reputational damage due to unacceptable customer service.

Risks are identified in partnership with the senior executive, risk committees, divisions and business units based on individual discussion, a review of previous audit work and our own view of emerging risks. They can range from those that impact the entire or significant parts of the Group to those that are specific to an individual business unit.

Risks are assessed from two perspectives:

- the impact on the business if the risk occurred, and
- the likelihood of the risk occurring.

This analysis allows us to identify areas within the Group that are exposed to the highest risk and contributes to determining where and when we audit.

However, we will not review all risks. Some of these risks, whilst not material in the context of the Group, could have an impact on business performance at a local or business unit level.

Responsibility for identifying and managing these risks, and for assessing the strength of the controls against them lies with business management and the divisional risk management functions.

#### High level planning

Based on our risk assessment we produce an audit plan which includes a variety of audit responses. The main audit response is an audit assignment but other audit responses include:

- Advice to management - Business management may commission GIA to undertake specific work eg assess control of processes.
- Control failure investigation - This is likely to arise from ad hoc events in the business eg GNEPs
- Issue follow up - We use this response where we have closed an Issue and have to confirm new or enhanced controls are updated as expected
- Targeted review - These are short duration audit assessments with limited scope
- Audit Automation - Process by which we obtain information from computerised systems, either for use a part of continuous monitoring or use in an audit assignment.

Our work can focus on any area, from the Group as a whole to an individual operating unit or process.

**Quantitative Disclosure**

**Table 9 Outstandings of on-balance sheet assets and off-balance sheet items before credit risk mitigation**

**For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

Item	31.12.2010	31.12.2009
<b>1. On-balance sheet assets (1.1 + 1.2 + 1.3)</b>	<b>19,666,469</b>	<b>17,392,708</b>
1.1 Net loans <sup>1/</sup> (including interbank and money market item)	3,677,367	9,005,888
1.2 Net investments in debt securities <sup>2/</sup>	15,079,249	8,287,215
1.3 Deposits (including accrued interests)	909,853	99,606
<b>2. Off-balance sheet items <sup>3/</sup> (2.1 + 2.2 + 2.3)</b>	<b>907,048,177</b>	<b>621,409,495</b>
2.1 Aval of bills, guarantee, and letter of credits	4,324,207	4,212,076
2.2 OTC derivatives	902,723,970	616,941,119
2.3 Undrawn committed lines	0	256,300

\* FIs shall disclose positions in the banking book and the trading book, on-balance sheet assets not including equity exposures and off-balance sheet items including equity exposures.

\*\* In case where period end outstanding does not differ significantly from average outstanding over the period, FIs are not required to disclose average outstandings over that period.

1/ Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring.

2/ Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

3/ Before multiplying by CCF.

4/ Including equities Derivatives

**Table 10 Outstandings of on-balance sheet assets and off-balance sheet items before CRM classified by country or geographic area of debtors \***

**For the period as of 31 December 2010 and 2009**

Country or geographic area of debtor	31.12.2010				Unit : Thousand Baht			
	On-balance sheet assets				Off-balance sheet items <sup>3/</sup>			
	Total	Net loan <sup>1/</sup>	Net investment in debt securities <sup>2/</sup>	Deposit (include accrued interests)	Total	Aval of bills, guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	19,032,800	3,074,006	15,079,249	879,545	720,877,362	4,050,380	716,826,982	-
2. Asia Pacific (exclude Thailand)	30,308	-	-	30,308	283,818	183,814	100,004	-
3. North America and Latin America	603,361	603,361	-	-	-	-	-	-
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	-	-	-	-	185,886,997	90,013	185,796,984	-
<b>Total</b>	<b>19,666,469</b>	<b>3,677,367</b>	<b>15,079,249</b>	<b>909,853</b>	<b>907,048,177</b>	<b>4,324,207</b>	<b>902,723,970</b>	<b>-</b>

31.12.2009

Unit : Thousand Baht

Country or geographic area of debtor	On-balance sheet assets				Off-balance sheet items <sup>3/</sup>			
	Total	Net loan <sup>1/</sup>	Net investment in debt securities <sup>2/</sup>	Deposit (include accrued interests)	Total	Aval of bills, guarantee, and letter of credits	OTC derivatives	Undrawn committed lines
1. Thailand	17,382,151	9,005,888	8,287,215	89,048	539,365,914	3,673,818	535,435,796	256,300
2. Asia Pacific (exclude Thailand)	10,557	-	-	10,557	487,128	487,128	-	-
3. North America and Latin America	-	-	-	-	-	-	-	-
4. Africa and Middle East	-	-	-	-	-	-	-	-
5. Europe	-	-	-	-	81,556,452	51,129	81,505,323	-
<b>Total</b>	<b>17,392,708</b>	<b>9,005,888</b>	<b>8,287,215</b>	<b>99,605</b>	<b>621,409,494</b>	<b>4,212,075</b>	<b>616,941,119</b>	<b>256,300</b>

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

1/ Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring and include interbank and money market item.

2/ Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

3/ Before multiplying by CCF.

**Table 11 Outstandings of on-balance sheet assets and off-balance sheet items before credit risk mitigation classified by residual maturity**

**For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

Item	31.12.2010			31.12.2009		
	Maturity not exceeding	Maturity exceeding	Total	Maturity not exceeding	Maturity exceeding	Total
	1 year	1 year		1 year	1 year	
<b>1. On-balance sheet assets (1.1 + 1.2 + 1.3)</b>	<b>16,259,263</b>	<b>3,407,206</b>	<b>19,666,469</b>	<b>11,046,809</b>	<b>6,117,485</b>	<b>17,392,708</b>
1.1 Net loan <sup>1/</sup> (include interbank and money market item)	1,654,562	2,022,805	<b>3,677,367</b>	6,482,434	2,523,454	<b>9,005,888</b>
1.2 Net investment in debt securities <sup>2/</sup>	13,694,848	1,384,401	<b>15,079,249</b>	4,390,220	3,896,995	<b>8,287,215</b>
1.3 Deposit (include accrued interests)	909,853	-	<b>909,853</b>	99,605	-	<b>99,605</b>
<b>2. Off-balance sheet items <sup>3/</sup> (2.1 + 2.2 + 2.3)</b>	<b>464,107,878</b>	<b>442,940,299</b>	<b>907,048,177</b>	<b>213,069,235</b>	<b>408,340,259</b>	<b>621,409,495</b>
2.1 Aval of bills, guarantee, and letter of credits	3,170,689	1,153,518	<b>4,324,207</b>	3,111,605	1,100,470	<b>4,212,076</b>
2.2 OTC derivatives	460,937,189	441,786,781	<b>902,723,970</b>	209,957,630	406,983,489	<b>616,941,119</b>
2.3 Undrawn committed lines	-	-	-	-	256,300	<b>256,300</b>

<sup>1/</sup> Including accrued interests and net of deferred revenues, allowances for doubtful accounts and revaluation allowances for debt restructuring.

<sup>2/</sup> Excluding accrued interests and net of revaluation allowances for equities and impairment allowances for equities.

<sup>3/</sup> Before multiplying by CCF.

**Table 12 Loans and accrued interests and investments in debt securities before credit risk mitigation classified by country or geographic area of debtors\* and by asset classification specified by the Bank of Thailand  
For the period as of 31 December 2010 and 2009**

		31.12.2010					Unit : Thousand Baht	
Country or geographic area of debtor	Loans and accrued interests <sup>1/</sup>						Investment in debt securities - doubtful loss	
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total		
1. Thailand	18,153,255	-	-	-	-	18,153,255	-	
2. Asia Pacific (excluding Thailand)	-	-	-	-	-	-	-	
3. North America and Latin America	603,361	-	-	-	-	603,361	-	
4. Africa and Middle East	-	-	-	-	-	-	-	
5. Europe	-	-	-	-	-	-	-	
	18,756,616					18,756,616		

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

<sup>1/</sup> Including loans and accrued interest receivables of interbank and money market item.

Table 12 Loans and accrued interests and investments in debt securities before credit risk mitigation classified by country or geographic area of debtors\* and by asset classification specified by the Bank of Thailand

		31.12.2009					Unit : Thousand Baht	
Country or geographic area of debtor	Loans and accrued interests <sup>1/</sup>						Investment in debt securities - doubtful loss	
	Normal	Special mentioned	Substandard	Doubtful	Doubtful loss	Total		
1. Thailand	17,134,683	0.00			158,419	17,293,102	0	
2. Asia Pacific (excluding Thailand)						0.00		
3. North America and Latin America						0.00		
4. Africa and Middle East						0.00		
5. Europe						0.00		
Total	17,134,683	0.00	0.00	0.00	158,419	17,293,102		

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

<sup>1/</sup> Including loans and accrued interest receivables of interbank and money market item.

**Table 13 Provisions (divided into general provisions and specific provisions) and charge-offs for loans and accrued interests and investments in debt securities classified by country or geographic area\***

**For the period as of 31 December 2010 and 2009**

**31.12.2010**

Unit : Thousand  
Baht

Country or geographic area of debtor	Loans and accrued interest receivables <sup>1/</sup>			Investment in debt securities
	General provision	Specific provision	Charge-off between period	Specific provision
1. Thailand	37,634)	647,246		
2. Asia Pacific (exclude Thailand)				
3. North America and Latin America				
4. Africa and Middle East				
5. Europe				
<b>Total</b>	<b>37,634</b>	<b>647,246</b>		

**31.12.2009**

Unit : Thousand  
Baht

Country or geographic area of debtor	Loans and accrued interest receivables <sup>1/</sup>			Investment in debt securities
	General provision	Specific provision	Charge-off between period	Specific provision
1. Thailand	34,134	507,074		
2. Asia Pacific (exclude Thailand)				
3. North America and Latin America				
4. Africa and Middle East				
5. Europe				
<b>Total</b>	<b>34,134</b>	<b>507,074</b>		

\* FIs shall classify countries or geographic areas according to guidelines used in their internal management and shall explain supporting reasons.

<sup>1/</sup> Include provisions and charge-offs for loans and accrued interest receivables of interbank and money market item.

<sup>2/</sup> Disclosure in total balance

**Table 14 Loans and accrued interests\* before credit risk mitigation classified by type of business and by asset classification specified by the Bank of Thailand For the period as of 31 December 2010 and 2009**

<b>31.12.2010</b>						Unit : Thousand Baht
<b>Type of business</b>	<b>Normal</b>	<b>Special mentioned</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Doubtful loss</b>	<b>Total</b>
- Agriculture and Mining	-	-	-	-	-	-
- Manufacturing and Commerce	2,222,321		-	-	647,246	2,869,567
- Property and Construction	460,919		-	-	-	460,919
- Public Utilities and Services	731,393		-	-	-	731,393
- Housing	-	-	-	-	-	-
- Others (depend on FIs)	300,637		-	-	-	300,637
- Financial Industry	-	-	-	-	-	-
<b>Total</b>	<b>3,715,270</b>		<b>-</b>	<b>-</b>	<b>647,246</b>	<b>4,362,246</b>

<b>31.12.2009</b>						Unit : Thousand Baht
<b>Type of business</b>	<b>Normal</b>	<b>Special mentioned</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Doubtful loss</b>	<b>Total</b>
- Agriculture and Mining	27,004	-	-	-	-	27,004
- Manufacturing and Commerce	1,362,460		-	-	507,074	1,869,534
- Property and Construction	1,367,392		-	-	-	1,367,392
- Public Utilities and Services	322,780		-	-	-	322,780
- Housing	-	-	-	-	-	-
- Others (depend on FIs)	510,049		-	-	-	510,049
- Financial Industry	5,450,336	-	-	-	-	5,450,336
<b>Total</b>	<b>9,040,021</b>		<b>-</b>	<b>-</b>	<b>507,074</b>	<b>9,547,095</b>

\* Including loans and accrued interests of interbank and money market item.

**Table 15 Provisions (divided into general provisions and specific provisions) and charge-offs for loans and accrued interests\* classified by type of business  
For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

Type of business	31.12.2010			31.12.2009		
	General provision	Specific provision	Charge-off between period	General provision	Specific provision	Charge-off between period
- Agriculture and Mining	-	-	-	-	-	-
- Manufacturing and Commerce	22,781	647,246	-	12,618	507,074	-
- Property and Construction	4,583	-	-	4,444	-	-
- Public Utilities and Services	7,270	-	-	9,072	-	-
- Housing	-	-	-	-	-	-
- Others (depend on FIs)	3,000	-	-	8,000	-	-
- Financial Industry	-	-	-	-	-	-
- .....	-	-	-	-	-	-
<b>Total</b>	<b>37,634</b>	<b>647,246</b>	<b>-</b>	<b>34,134</b>	<b>507,074</b>	<b>-</b>

\* Including loans and accrued interests of interbank and money market item.

<sup>1/</sup> Disclosure in total balance

**Table 16 Reconciliation of changes in provisions for credits including accrued interests\*****For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

Items	31.12.2010			31.12.2009		
	General provision	Specific provision	Total	General provision	Specific provision	Total
Provisions at the beginning of the period	34,134	507,074	<b>541,208</b>	76,362	527,186	<b>603,549</b>
Charge-offs during the period	-	-	-	-	-	-
Increases or decreases of provisions during the period	3,500	160,388	<b>163,888</b>	(42,228)		<b>42,228</b>
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)	-	(20,216)	<b>(20,216)</b>	-	(20,112)	<b>(20,112)</b>
Provisions at the end of the period	<b>37,634</b>	<b>647,246</b>	<b>684,880</b>	<b>34,134</b>	<b>507,074</b>	<b>541,208</b>

\* Including loans and accrued interests of interbank and money market item.

**Table 17 Outstanding of on-balance sheet assets and off-balance sheet items\* for credit risk under the SA approach classified by type of assets**

**For the period as of 31 December 2010 and 2009**

Unit : Thousand Baht

Type of asset	31.12.2010			31.12.2009		
	On-balance sheet asset	Off-balance sheet item	Total	On-balance sheet asset	Off-balance sheet item	Total
<b>1. Performing Loans</b>						
1.1.1 Claims on sovereigns and central banks and multilateral development banks (MDBs)	8,454,270	-	<b>8,454,270</b>	13,500,477	-	<b>13,500,477</b>
1.1.2 Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	83,837	4,699,944	<b>4,783,781</b>	100,035	3,928,104	<b>4,028,139</b>
1.1.3 Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	3,677,348	4,447,763	<b>8,125,111</b>	3,397,133	5,046,641	<b>8,443,774</b>
1.1.4 Claims on retail portfolios	-	-	-	-	-	-
1.1.5 Residential mortgage exposures	-	-	-	-	-	-
1.1.6 Other assets	5,321,380	-	<b>5,321,380</b>	370,624	-	<b>370,624</b>
<b>2. Non-Performing Loans</b>	-	-	-	158,419	-	<b>158,419</b>
<b>3. First-to-default credit derivatives <sup>11a</sup> &amp; Securitization</b>	-	-	-	-	-	-
<b>Total</b>	<b>17,536,835</b>	<b>9,147,707</b>	<b>26,684,542</b>	<b>17,526,688</b>	<b>8,974,745</b>	<b>26,501,433</b>

\* after multiplying by CCF and Specific provision

\*\* Including Repo-style transaction (and Reverse repo)

## **Item 2.2.1 Credit Risk Exposures**

### ***Qualitative Disclosure***

Credit risk is the risk arising from the possibility that the Bank will incur losses owing to the failure of customers to meet their financial obligations to the Bank.

Credit Risk Function is an independent Risk function which forms a part of RBS's Risk Management.

The primary responsibilities of Credit Risk function are to analyze credit portfolios and individual facilities, to maintain credit risk management framework and to ensure that asset quality is within agreed risk appetite of RBS Group. The function comprises a number of activities including credit approval; transaction/customer assessment; policy formulation and development (in the context of RBS Group's policy framework); portfolio reporting; and quantitative portfolio analytics.

The key principles are:

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure.
- Credit exposures, once approved, are monitored, managed and reviewed periodically against approved limits. Lower quality exposures are subject to more frequent analysis and assessment.
- Credit approval authority is discharged by RBS by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the RBS Group-wide authority grid. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of the Bank's senior executives holding the highest authority provided under the framework.
- Customers with emerging credit problems are identified early and classified accordingly. Remedial actions are implemented promptly and are intended to restore the customer to a satisfactory status and minimize any potential loss to the Group; and
- Stress testing of portfolios is undertaken by RBS Group to assess the potential credit impact of non-systemic scenarios and wider macroeconomic events on the Group's income and capital.
- Within RBS Group, four key areas of concentration in credit risk are monitored, reported and managed. These are single name, industry/sector, country and product/asset class. Frameworks to address the concentrations in credit risk are established and embedded into business processes.

### **Credit risk measurement**

RBBKK has apply standardised approach to calculate quantitative risk assessment while the Head office apply credit risk model to support quantitative risk assessment of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics.

- Credit risk models may be divided into three categories.

1. Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of their obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle.

Each counterparty is assigned an internal credit grade which is in turn assigned to a default probability range. There are a number of different credit grading models in use across the RBS Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook). Scores are then mapped to grades within each model. Grades are calibrated centrally to default probabilities.

The credit grades for sovereign and central bank entities are assigned by a specialist country risk analysis team using a sovereign grading model.

2. Exposure at default (EAD)

Facility usage models estimate the expected level of utilization of a credit facility at the time of a borrower's default. The methodologies used in EAD modeling provide an estimate of potential exposure and recognize that customers may make more use of their existing credit facilities as they approach default.

3. Loss given default (LGD)

These models estimate the economic loss that may be experienced – the amount that cannot be recovered – by the Bank on a credit facility in the event of default. The LGD models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

## **Monitoring and Reporting**

- Daily monitoring of individual counterparty limits is undertaken.
- As a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance,

including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.

- Lower quality exposures are subject to more frequent analysis and assessment.
- A process is also in place to monitor changes in credit quality at the portfolio level.
- Internal reporting and oversight of risk assets is principally differentiated by credit grades, accordingly management of risk is easily aggregated and can be reported at increasingly levels of granularity depending on business need.

### **Policies for hedging or mitigating risks and processes for monitoring effectiveness of hedges or risk mitigation**

The Bank employs a number of structures and techniques to mitigate credit risk:

- Netting of debtor and creditor balances is utilized in accordance with relevant regulatory and internal policies and requires a formal agreement with the customer to net the balances and a legal right of set-off.
- The Bank enhances its position as a lender in a range of transactions by structuring a security interest in a physical or financial asset.
- Credit derivatives including credit default swaps are used to mitigate credit risk.
- Guarantees and similar instruments (for example, credit insurance) from related and third parties are used in the management of credit portfolios. The use and approach to credit risk mitigation varies by product type, customer and business strategy.

To recognize credit mitigations, following minimum standards apply under relevant policy guidelines:

- General requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants.
- The maximum loan-to-value (LTV) percentages, minimum haircuts or other volatility adjustments applicable to each type of mitigant including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values.
- The means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights.
- Acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued.
- Actions to be taken in the event the current value of mitigation falls below required levels.

- Management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation, for example, applying a haircut or recovery value adjustment which reflects the potential correlation risk.
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants.
- Collateral management to ensure that credit risk mitigation is legally effective and enforceable.

### **Guidelines for setting credit risk limits**

- A credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. Typically, this includes both quantitative and qualitative elements including, the purpose of the credit and sources of repayment, compliance with affordability tests; repayment history, ability to repay; sensitivity to economic and market developments, and risk-adjusted return based on credit risk measures appropriate to the customer and facility type. The assessment includes assignment of risk parameter estimates (PD, LGD and EAD) using approved models.
- Credit risk limits are aggregated at the counterparty level to determine the level of credit approval required and to facilitate consolidated credit risk management. In addition, the single name concentration framework includes specific approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures.

### **Definitions of default and impaired**

A financial asset is considered impaired and an impairment Loss would be recognized as soon as it is determined that there is:

- Objective, observable evidence that one or more Loss Events have occurred after initial recognition of an asset; and
- As a result of that event(s), the amount or timing of estimated future cash flows is adversely affected resulting in the expected recoverable amount being less than the Carrying Value; and
- It is no longer expected that the principal and interest due will be recovered in full or in accordance with the original terms and conditions.

Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of

cash flows; the industry in which the counterparty operates; and the realizable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognized in financial statement.

In some cases, the impairment loss assessment will not result in the need to raise an impairment loss e.g. where the value of Credit Risk Mitigation is more than sufficient to amounts due.

### **Guidelines used to calculate general provision and specific provision**

Provisions for impairment losses are individually assessed on a case by case basis, taking into account the financial condition of the counterparty and any guarantee and other collateral held after being stressed for downside risk. This incorporates an estimate of the discounted value of any recoveries and realization of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full, transferred to the performing portfolio or written-off. The elements used in provision calculation are reviewed at least on annual basis to ensure that impairment provision is adequately provided.

For local regulatory reporting/disclosure, assets are classified according to the Bank of Thailand's Notifications on Classification and Provision of the Financial Institutions.

**Quantitative Disclosure**

**Table 19 Outstanding of on-balance sheet assets and off-balance sheet items\*\* after credit risk mitigation for each type of assets classified by risk weight under the SA approach**

Unit : Thousand Baht

Type of Assets	31.12.2010										
	Rated outstanding					Unrated outstanding					
	0	20	50	100	150	0	20	50	35	75	100
Risk weight (%)											
<b>Performing assets</b>											
1.Claims on sovereigns and central banks and multilateral development banks (MDBs)	8,454,270	-	-	-	-						
2.Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	10,699	3,553,886	6,594	1,212,602	-						
3.Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate	-	50,763	2,319	8,072,029	-						
4.Claims on retail portfolios											
5.Residential mortgage exposures											
6.Other assets											
Risk weight (%)			50	100	150						
<b>Non-performing assets 1/</b>			-	-	-						
<b>Items which BOT allows to deduct from capital of FIs</b>											

\* Apply for non-significant portfolios calculated by the SA approach of FIs that use the IRB approach as well.

\*\* After multiplying by CCF.

1/ For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

Type of Assets	31.12.2009										
	Rated outstanding					Unrated outstanding					
	0	20	50	100	150	0	20	50	35	75	100
Risk weight (%)											
<b>Performing assets</b>											
1.Claims on sovereigns and central banks and multilateral development banks (MDBs)	8,050,477	5,450,000			-						
2.Claims on banks, public sector entities (PSEs) that are treated as claims on banks and securities companies	19,161	2,911,938	2,034	1,095,006	-						
3.Claims on corporate and public sector entities (PSEs) that are treated as claims on corporate		47,281		8,396,493							
4.Claims on retail portfolios											
5.Residential mortgage exposures											
6.Other assets											
Risk weight (%)			50	100	150						
<b>Non-performing assets 1/</b>			-	158,419	-						
<b>Items which BOT allows to deduct from capital of FIs</b>											

\* Apply for non-significant portfolios calculated by the SA approach of FIs that use the IRB approach as well.

\*\* After multiplying by CCF.

<sup>1/</sup> For the part with no CRM whose risk weights depend on the ratio of provisions to total exposures.

## **Market Risk for Trading books Position**

### **Item 4.2 Market Risk Exposures**

#### ***Qualitative Disclosure***

Market risk arises from changes in interest rates, foreign currency and risk related factors such as market volatilities. The Group manages market risk centrally within its trading and treasury portfolios through a comprehensive market risk management framework. This framework includes limits based on, but not limited to: value-at-risk (VaR), stress testing, positions and sensitivity analyses.

#### **Organization and structure**

NV RCC (within guidance/restrictions set by Executive Risk Forum (ERF)) approves market risk appetite for trading and non-trading activities. The Global Head of Market & Insurance Risk is responsible for the Group Market Risk Control Framework and under delegated authority from the ERF, sets a limit framework within the context of the approved market risk appetite, which is cascaded down through legal entity, division, business and desk level market risk limits.

Trading risk limits are set in a top-down process and organised in a hierarchy representing a combination of organisational and geographical levels. The limit setting process can be summarised as follows:

- NV RCC sets risk appetite and governance and overall VaR limits for trading books and delegates the responsibility to manage the bank's market risk exposures (within these limits) to Head Market Risk GBM and RBS NV and delegates.
- GBM MR RCC (Global Market Market Risk Control Committee) oversight, review stress test and stress test scenarios, market risk policies, market risk model and back testing.
- Local representatives of the business and Market Risk Management (MRM) may agree local limits where there is a need to do so from a regulatory or management perspective.

#### **Risk measurement and control**

At the Group NV level, the risk appetite is expressed in the form of a combination of VaR, sensitivity and stress testing limits. VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, the Group NV's VaR assumes decay factor of 0.995, a time horizon of one trading day and a confident level of 99%. The Group NV's VaR model is based on a historical simulation model, utilising data set from the previous 400 non-weekend days.

The VaR model has been approved by the DNB to calculate regulatory capital for Market Risk. As the VaR model is an important market risk measurement and control tool and is used for determining a significant component of the market risk capital, it is regularly assessed. The main approach employed is the technique known as back-testing which counts the number of days when a hypothetical loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence interval.

The Group's VaR should be interpreted in light of the limitations of the methodology used, as follows:

- Historical Simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the 400 trading day time series. Therefore, events that are more severe than those in the historical data series cannot be predicted.
- The use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile.
- The use of a one-day time horizon will not fully capture the profit and loss implications of positions that cannot be liquidated or hedged within one day.
- The Group computes the VaR of trading portfolios at the close of business. Positions may change substantially during the course of the trading day and intra-day profit and losses will be incurred.

These limitations mean that the Group cannot guarantee that losses will not exceed the VaR.

A risk not in VaR framework has been developed to quantify those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place.

The main practical tools to affect hedging and mitigating risk are the delegated authorities, the limits and discussion triggers, independent model valuation, a robust and efficient risk system and timely and accurate management information.

The principal trading book market risk factors for the branch are interest rates and foreign exchange. The branch has no equity or commodity positions.

Limits form part of the dealing authorities and constitute one of the cornerstones of the market risk management framework. Their breach must be followed by appropriate action, as specified in detail in the market risk policy statement.

Upon notification of a limit breach, the appropriate body must take one of the following actions:

- instruction can be given to reduce positions to be within the agreed limits.
- a temporary increase in the limit (for instance, in order to allow orderly unwinding of positions) can be granted.
- a permanent increase in the limit can be granted.

The branch discloses market risk in VaR terms. The branch uses a historical simulation methodology with 400 time horizon, decay factor of 0.995, one day holding period and a 99% confidence level.

### **Stress testing**

#### Scenario Analysis

The branch calculates a range of market risk stress test each day. The objective of stress testing is to identify the loss that the branch's current portfolio of trading book exposure

would generate in plausible but adverse market events. This Stress test limit is set independent of VaR.

#### Sensitivity of net interest income

The branch calculates profit/loss incurred as a result of the stress testing of trading book's position exploded to interest rate risk in Baht (exclude option position) under the scenario set out by the Bank of Thailand.

The projection shows how the projected net interest income would change in response to an immediate parallel shift to all market rates.

The scenarios used which is as per Bank of Thailand's notification, are simplified in that they assume all interest rates for all currencies and maturities move at the same time and by the same amount and therefore do not reflect the potential effect on net interest income of some rates changing whilst others remain the same. The scenarios also do not incorporate actions that would be taken by the business units to mitigate the effect of this interest rate risk.

#### Currency risk

The branch calculates profit/loss incurred as a result of the stress testing of trading book's position exploded to foreign exchange risk of 7 major currencies (exclude option position) under the scenario set out by the Bank of Thailand.

The projection shows how the foreign exchange exposure would change in response to an immediate parallel shift to all 7 major currencies.

The scenarios used which is as per Bank of Thailand's notification, are simplified in that they assume foreign exchange risk of 7 major currencies and maturities move at the same time and by the same amount and therefore do not reflect the potential effect on gain/loss on one currency whilst others remain the same. The scenarios also do not incorporate actions that would be taken by the business units to mitigate the effect of this currency risk.

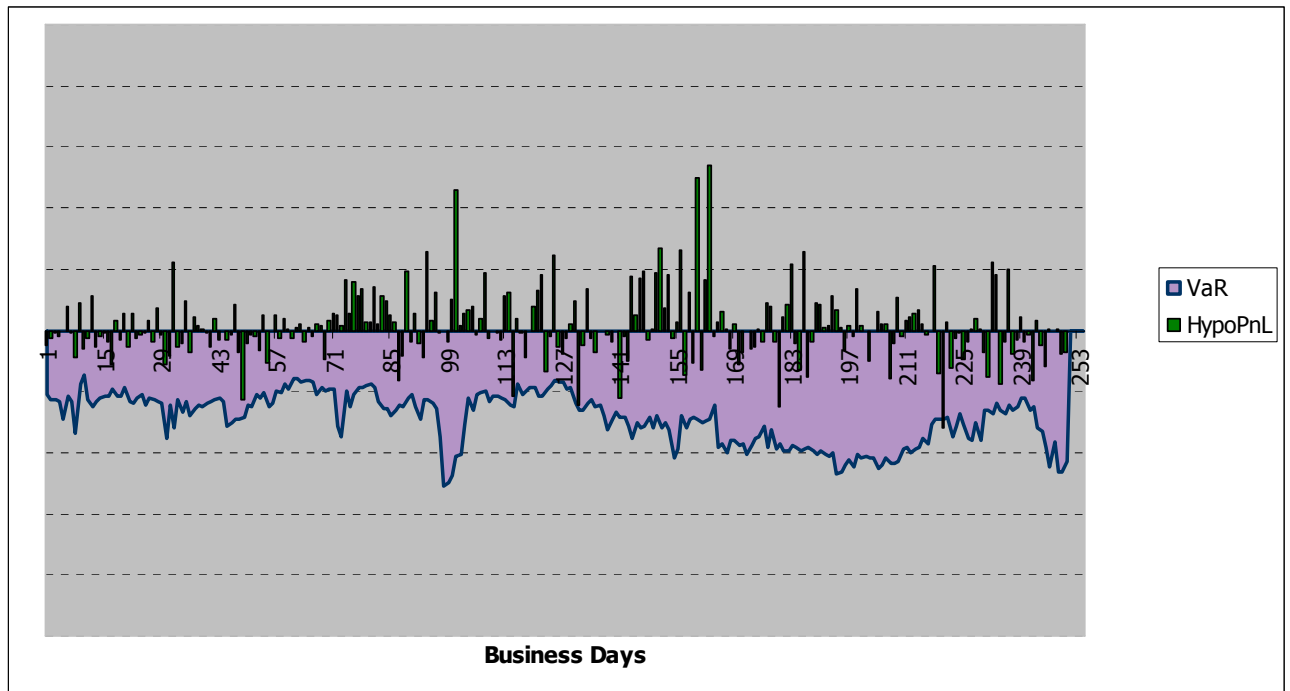
#### **Backtesting**

Hypothetical backtesting is done by multiplying the each of risk factor sensitivities positions with the daily changes to obtain the hypothetical PnL which is used to compared against VaR.

The VaR measure is backtested on a monthly basis. Days on which a hypothetical loss is greater than the 99% 1-day risk are known as 'exceptions', and the cause of such losses are investigated by the local MRM.

#### **The scope of model that BOT allows to use for minimum capital calculation**

Bank of Thailand has approved the branch to use VaR data produced by the VaR calculation engine, as inputs for the calculation of market risk regulatory capital.



### Results of Back-testing Exercise for December 2010

#### Summary of Results

The back testing exercise was conducted on The Royal Bank of Scotland N.V., Bangkok branch portfolio for 250 working days ending on 30<sup>th</sup> December 2010. The portfolio included all positions in FX, Interest Rate, Credit and Exotics.

250 days	Hypothetical P&L
	No. of outliers
The Royal Bank of Scotland N.V., Bangkok branch	1

#### Back-testing for last 250 days:

The back-testing exercise carried out on the Hypo P&L reveals 1 outlier in the 250 days period.

The details of the outliers are attached below:

	Business Date	HypoPnL over VaR	Comments
1	222	110%	<ul style="list-style-type: none"> <li>• Main volatile Risk Factor in VaR Model is Interest Rate</li> <li>• VaR Model (99%) can withstand fluctuation approximately 16.35 bps in the front end (tenor &lt;1y) or approximately 11.97 bps at the back end (&gt;5 yr) of THB IRS curve (parallel shift in rate while other risk factors having small changes) vs actual rate for tenor less than 1 yr drop by 16.45 bps and more than 5 yr drop by 12.28 bps in IRS curve.</li> <li>• Major impact is in IRS position.</li> </ul>

**Quantitative Disclosure**

**Table 31A Information on each type of market risk under the Internal Model Approach**

**For the period as of 31 December 2010 2009**

Unit : Thousand Baht

<b>Type of market risk</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Interest rate risk</b>		
Maximum VaR during the reporting period	163,821	227,883
Average VaR during the reporting period	88,932	152,228
Minimum VaR during the reporting period	45,152	65,064
VaR at the end of the period	142,079	122,819
<b>Equity position risk</b>		
Maximum VaR during the reporting period		
Average VaR during the reporting period		
Minimum VaR during the reporting period		
VaR at the end of the period		
<b>Foreign exchange rate risk</b>		
Maximum VaR during the reporting period	98,758	102,371
Average VaR during the reporting period	20,662	13,218
Minimum VaR during the reporting period	1,999	1,761
VaR at the end of the period	17,595	12,512
<b>Commodity risk</b>		
Maximum VaR during the reporting period		
Average VaR during the reporting period		
Minimum VaR during the reporting period		
VaR at the end of the period		
<b>Total Market Risk</b>		
Maximum VaR during the report period	167,131	227,029
Average VaR during the report period	92,820	153,495
Minimum VaR during the report period	46,755	67,293
Period end VaR	138,568	125,710

## **Operational Risk**

### **Item 5 Operation Risk Exposure**

#### ***Qualitative Disclosure***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from extreme events. Operational risk is an integral and unavoidable part of the RBS Group's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders. 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 minimizing the risk as against the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

#### ***Group Policy Framework (GPF)***

The GPF supports a consistent approach to how we do business and helps everyone understand their individual and collective responsibilities. It is a core component of the Group's Risk Appetite Framework; it supports the risk appetite setting process, and also underpins the control environment.

There will be ongoing reassessment of risks, risk appetite and controls within the GPF and where appropriate, potential issues will be identified and addressed to ensure the Group moves in line with the set objectives and remains constantly aligned with the 'upper quartile' objective and market practice at all times.

#### **Risk management: Operational risk**

Through the three lines of defence model the group obtains assurance that the standards in the GPF are being adhered to. GPF defines requirements for testing and gathering evidence which demonstrates that each division and function is appropriately controlled.

GPF is owned and managed by the Group's operational risk function and relies upon the operational risk framework for effective implementation and ongoing maintenance.

#### ***Three lines of defence model***

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

##### **1<sup>st</sup> line of defence**

**The Business:** Accountable for the ownership and day-to-day management and control of operational risk. Responsible for implementing processes in compliance with Group policies and for testing key controls and monitoring compliance with Group policies.

##### **2<sup>nd</sup> line of defence**

**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.

### 3<sup>rd</sup> line of defence

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

The Operational Risk Policy Standards (ORPS) are incorporated in the GPF. They provide the direction for delivering effective operational risk management and are designed to enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group.

The three lines of defence model and the ORPS apply throughout the Group and are implemented taking into account the nature and scale of the underlying business. The following key operational risk management techniques are included in the ORPS;

The standards are supported by several key operational risk management techniques of which RBS BK applies the following techniques:

- *Risk and control assessments*: business units identify and assess operational risks to ensure that they are effectively managed, prioritized, 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 opportunities to prevent or reduce the impact of recurrence, identify emerging themes, enable formal loss event reporting and inform risk and control assessments and scenario analysis. Escalation of individual events to senior management is determined by the seriousness of the event. Operational loss events are categorized 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

- *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 Group policies.

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

### **Operational risk metrics**

Reporting forms an integral part of operational risk management. The Group's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each 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 branch's finances, reputation or customers, are escalated and reported to divisional and Group executives.

RBS BKK is using the Standardized Approach for operational risk as measured according to Basel II.

As of December 31, 2010 and 2009, the operational risk –weighted assets for capital requirement was THB 1,602 million and THB 1,767 million, which was 35.6 % and 39.26 % of the total capital requirement of THB 4,500 million respectively.

### **Interest rate risk in the banking books**

#### **Item 7 Interest rate exposure in the banking book**

##### ***General Qualitative Disclosure***

###### Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) refers to the interest rate risk that a bank has to assume due to the fundamental nature of banking business viz. creation of advances (as well as other assets) by means of deposits (as well as other liabilities) etc. These assets and liabilities essentially reside in the banking book. In other words the banking book refers to the risk associated with interest rate sensitive instruments that are not held in the trading book of the Bank. Interest rate risk on trading book is covered in the Market risk section.

###### Organisation Structure

Asset and Liability Committee (ALCO) ensures compliance with regulatory and internal policies related to IRRBB and provides strategic direction, for achieving IRRBB management objectives. The ALCO focuses on building strong interest rate indicators, which positively contributes to optimising the balance sheet structure and maximises NII over time, while minimising susceptibility to interest changes.

The ALCO is convened regularly to review interest rate risk in the Bank's balance sheet and to assess the market condition.

###### Measurement

Presently the Bank uses following tools for managing interest rate risk:

- **Gap analysis:** The interest rate gap or mismatch risk is measured by calculating gaps over different time intervals as at a given date. This static analysis measures mismatches between rate sensitive liabilities (RSL) and rate sensitive assets (RSA). The report is prepared monthly by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. The difference between RSA and RSL for each time bucket signifies the gap in that time bucket. The direction of the gap indicates whether net interest income is positively or negatively impacted by a change in interest rates and the magnitude of the gap helps in evaluating impact on

net interest income for any given interest rate shift. The Bank has internal limits for the CCY interest rate risk gap statements.

- PV01: The Bank also monitors and manages the interest rate risk on its banking book through PV01 limits.

***Quantitative Disclosure***

**Table 33 The effect of changes in interest rates\* to earnings (net)**

**For the period as of 31 Dec 31 2010 and 2009**

Currency	Unit : Thousand Baht	
	31.12.2010	31.12.2009
	Shock 1 (+ 100bsp)	Shock 1 (+ 100bsp)
Baht	(13,476)	(50,634)
USD	4,178	(9,697)
EURO	0	0
Others	2,776	2,729
<b>Total</b>	<b>(6,522)</b>	<b>(57,602)</b>

\* FIs shall use the percentage changes in interest rates of 100 bps .